

TAXREP 28/99

BUDGET 2000

*Text of a letter sent in October 1999 by the Tax Faculty of the
Institute of Chartered Accountants in England and Wales
to the Chancellor of the Exchequer*

BUDGET 2000

At this time of year we normally submit to the Chancellor of the day a memorandum setting out detailed measures that we consider should be included in the forthcoming Budget. We set out below our recommendations for Budget 2000.

This year we consider that the aim should be to retain the status quo. Despite ever-increasing talk about better regulation and simplification, the nature and number of alterations to the tax regime over the last ten years mean that only the well advised are able to abide by the rules. Attempts to use the tax system to influence decisions by taxpayers have created distortions and undermined the integrity of the tax system. It is becoming increasingly difficult for employers to administer payrolls correctly. For the average person, the connection between his activities and the tax that he has to pay seems more and more tenuous.

When it is no longer possible for reasonably intelligent people to understand the basis of their tax liabilities, then it is a short step to individual taxpayers and those acting as unpaid tax collectors questioning their moral responsibility to comply. Reports suggest that public opinion is moving towards the same conclusion.

We consider therefore that Budget 2000 changes should be kept to a minimum. The system should be allowed to bed down. Any measures that are introduced in the forthcoming Budget should make the tax regime simpler and fairer, reduce distortions and help rather than place additional burdens on individuals, entrepreneurs and employers.

Over the longer term the entire tax system needs fundamental review and reform. Some argue that an increasingly sophisticated world perforce necessitates a more complicated tax system, but we do not subscribe to this view.

I attach an annex in which we comment in more detail on the matters raised above. In addition we have developed a paper setting out what we consider to be the essential tenets of a taxation system. We are launching our paper next week, at which time we will send you a copy.

In the meantime, we would be happy to discuss with you any of the issues raised in this letter.

14-8-17
SVM/PCB
15.10.99

BUDGET 2000: DETAILED COMMENTS

1. People are encountering problems in understanding the tax rules at a level as basic as calculating the amount of tax due having computed income chargeable to tax. Whilst we welcome the 10% starting rate for income tax, we are concerned about the proliferation of personal tax rates. Most people do not readily understand a system under which earned income and pensions are taxed at rates different from investment income and the rates applicable to investment income depend on whether it happens to include dividends.
2. This is quite apart from the effect of national insurance contributions (which when added to income tax rates gives rise to Schedule E marginal rates of 10%, 20%, 33%, 23%, and 40% as income increases) and the working families and other tax credits.
3. Difficulties are increased by the introduction of anti-avoidance rules covering situations where very little tax is at stake, for example the proposals in this year's Finance Bill for buses and bicycles, on which we commented in our formal representations to you (published as TAXREP 9/99). We appreciate that much complication is prompted by a desire to prevent avoidance. However, we believe that a balance needs to be struck between simplicity and anti-avoidance rules and welcome the fact that amendments were made to the Bill before enactment.
4. The tax system includes many anomalies. Many are relics of circumstances different from those of today and their elimination would simplify the system. Examples include the £8,500 benefit in kind threshold (its retention cannot be justified as an administrative *de minimis* for employers as they have to notify the Inland Revenue about benefits provided to all employees whatever their emoluments) and the dual regime for taxation of gilts (the accrued income scheme for individuals and the loan relationships regime for corporates).
5. We have commented on several proposed initiatives this year. We are sceptical as to whether those for employee share ownership, corporate venturing and enterprise management incentives go even part of the way towards achieving the stated objectives and we suggested to the Revenue in our responses that effort should be devoted instead to rationalizing and streamlining existing reliefs. Examples of proposals which are more likely to succeed, mainly because they are simple to understand, are those for intellectual property and double tax relief for companies.
6. Complex legislation creates significant practical problems. We are in the third year of self assessment for individuals and it is now on line for companies. We have expressed elsewhere our concern about the burden placed on taxpayers by the self assessment regime and the difficulties many people find in completing their tax returns and in understanding all the surrounding documentation, in particular the taxpayer's statement.
7. We are pleased that the tax law rewrite project has gathered momentum. However, the tax law rewrite project is attacking only one aspect of the problem. The intention behind the Finance Bill amendment that was enacted as section 160, Finance Act 1995 was to bring about not only less hieratic wording in the law but simplification of the provisions themselves.
8. We reiterate the suggestion that we have made to Lord Howe, but which is outside the terms of reference of the tax law rewrite, that the project team should collect for

separate consideration technical points which are not fundamental but which are too major to be accommodated within the terms of reference of the rewrite and that there should be consultation on the points with a view to their being accommodated within any rewrite Bill.

9. An example, chosen at random, of a relatively minor item that falls within this category is the Schedule E charge on the benefit-in-kind arising from employer-provided living accommodation. The basic charge requires a valuation on a basis which was abolished ten years ago. The computation could be both simplified and brought up to date by applying the beneficial loan rate to the total cost.