

TAXREP 2/06

PRE-BUDGET REPORT 2005

EVIDENCE FOR TREASURY COMMITTEE

Written evidence submitted in December 2005 by the Tax Faculty of the Institute of Chartered Accountants in England and Wales in response to an invitation issued by the House of Commons Treasury Committee in November 2005

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FOREWORD

On 25 November 2005 the House of Commons Treasury Committee invited written evidence on the Pre-Budget Report 2005 ('PBR'), to be submitted by 6 December. On 21 October, the Tax Faculty had submitted a memorandum to the Chancellor of the Exchequer setting out what we considered to be the key issues needing to be addressed in the PBR. This was published as TAXREP 52/05 (see http://www.icaew.co.uk/viewer/index.cfm?AUB=TB2I_87683).

The Pre-Budget Report was on 5 December 2005. The Tax Faculty submitted written evidence on 6 December, the text of which is reproduced below. Our evidence is also in the report published on 25 January 2006 by the Treasury Committee (for html version see <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtreasy/739/73902.htm> and for pdf version see <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtreasy/739/739.pdf>).

The first column of our evidence contains our key policy recommendations for the PBR, all of which bar that on UITF 40 were included in our submission to the Chancellor TAXREP 52/05, the second column contains a brief synopsis of the relevant measures announced in the PBR and the third column contains our comments.

Details about the Institute of Chartered Accountants in England and Wales and the Tax Faculty are set out in Annex A. Our Ten Tenets for a Better Tax System which we use as a benchmark are summarised in Annex B.

FJH/LH/PCB
25.1.06

Tax Representation

PRE-BUDGET REPORT 2005

EVIDENCE FOR TREASURY COMMITTEE

Issue	ICAEW Proposals for the PBR, submitted to the Chancellor	Summary of Relevant Measures in the PBR ¹	ICAEW Response to the Measures Announced in the PBR
<p>Corporate Taxation</p>	<p>Dialogue between tax policy makers and business needs to be improved and trust needs to be rebuilt. A conscious effort and understanding is needed from all sides. The objective should be to keep our corporate tax system relatively simple and fit for the UK to compete globally. Our recommendations on how this could be achieved are set out below.</p> <p>a. Government should move forward with a comprehensive review and tax reform programme to help ensure the long term competitive standing of the UK tax system. This should focus primarily on corporate tax but also needs to address VAT.</p> <p>b. To inform this review, rebuild trust and have consultative dialogue in advance of all key policy decisions, HM Treasury should establish a high level consultative ‘Tax Forum’ between Government, business and taxation experts.</p> <p>c. This Forum should aim to establish constructive dialogue and the development of shared solutions that would have the ‘buy-in’ of business and their advisers. The issues it should address include developing consensus on simplifying the corporate tax system, tackling tax avoidance without retrospection and undue red tape and ensuring that the system is robust enough to meet the future challenges in a global business world.</p> <p>Taken together, these measures would improve the business environment in the UK and help to ensure that the UK remains competitive in the global economy.</p>	<p>A substantial number of new measures were announced to further close down tax avoidance.</p> <p>The disclosure regime has been widened to other areas of taxation.</p> <p>It was announcement that the filters for what needs to be disclosed will change.</p> <p>Businesses will have to disclose tax avoidance schemes developed in-house.</p>	<p>The current disclosure system required a very substantial amount of consultation and debate in the summer of 2004. The ICAEW is concerned that there will not be time between now and the publication of the Finance Bill for the changes to be sufficiently well-thought through and robust.</p> <p>At a minimum, proposals for implementation of these new measures should be made public and comprehensive consultation initiated without delay.</p> <p>In relation to our proposals, the opportunity has been missed to implement the improved dialogue with business and the fundamental review of the corporate taxation system we believed necessary to both rebuild trust and help ensure long term competitive standing of the UK.</p> <p>Furthermore the Treasury Paper on ‘Globalisation and the UK’ published just before the PBR did not sufficiently consider the importance of the taxation system for the UK’s long term competitive standing.</p> <p>Fundamentally, the measures to tackle tax avoidance help to feed the complexity in the tax system which in itself is one of the drivers for the avoidance. The long term need to simplify the system to tackle avoidance at source still remains to be addressed.</p>

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Small Business Tax	<p>The Pre-Budget Report should include a number of policy proposals to tackle the costs of tax administration at the smaller end of the economy. These proposals should include the following measures.</p> <p>a. There should be a consultation on how micro businesses and individuals may operate a simpler and more straightforward system of dealing with the tax affairs of taking on their first employees, including temporary employees and those with several jobs.</p> <p>b. The tax system should encourage businesses to grow regardless of their precise legal form and it should also allow for flexibility so that businesses can adopt whatever structure is right for commercial reasons without facing punitive tax charges.</p>	<p>The taxation of small company profits will revert to the pre 2002 Budget lower rate of 19%.</p> <p>The Chancellor has asked the European Commission for a derogation to allow the government to introduce legislation to allow businesses with turnovers up to £1.35 million, rather than the current £660,000, to ‘take advantage of more flexible VAT payment options’.</p>	<p>The reduction in complexity in small company corporate taxation is of itself to be welcomed.</p> <p>However, this measure is in effect a tax increase for many small businesses and a significant number of businesses will have a major burden as a result. It is also the third change to the regime within four years and this rate of policy change creates uncertainty for business.</p> <p>The likely incorporation of small businesses to take advantage of the nil rate of corporation tax was raised by stakeholders in 2002 but was roundly rejected by the Government. The justification given for further change at this stage is questionable.</p>

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HMRC Services/ Powers	<p>a. An independent body (similar to the Electronic Tax Administration Advisory Committee in the USA), should be established to oversee the development of e-services. The body would report on HMRC's progress against its published e-strategy, encouraging the delivery of effective services to realistic timescales.</p> <p>b. A White Paper should be developed to propose a comprehensive strategy for how HMRC can improve its liaison with taxpayers and agents. This should take full account of the enquiry into e-services by Lord Carter and could incorporate the proposals of the review of HMRC powers.</p> <p>c. If the above recommendation is not accepted, there should be full consultation on all proposed changes to HMRC powers and sufficient time allowed for this process.</p> <p>d. The Government should consult on a new Taxpayers' Charter/Bill of Rights that sets out clearly taxpayers' rights and obligations. Ideally, the proposal should be included in the White Paper.</p> <p>e. The White Paper should lead towards a single draft Bill, incorporating changes to HMRC powers, and other necessary changes, rather than introducing changes in a piecemeal fashion through Finance Bills. This would then replace the Taxes Management Act 1970.</p>	<p>The PBR cites the ongoing review of the HMRC powers project, mentioning that the results will be published early next year.</p> <p>Lord Carter has finished his review but assessing progress of HMRC in online services before publishing in spring 2006.</p>	<p>The opportunity has been missed to give, in the PBR, a clear statement of how the issues we raised will be addressed over the coming months.</p> <p>However, the powers consultation is still progressing and the Institute hopes that a Taxpayers Charter will be announced as part of those measures.</p> <p>Fundamentally, given the number of different initiatives to improve HMRC's interaction with taxpayers and their agents, it would still seem appropriate that these are addressed within a comprehensive strategy, but we welcome the commitment to produce a new Taxes Management Act.</p>

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Regulation	<p>In order to bring about a sustained and demonstrable change to the UK approach to regulation of business, we propose the following:</p> <p>a. The existence and role of the Better Regulation Commission should be enshrined in statute so as to establish its independence from Government.</p> <p>b. The role of the Better Regulation Commission should be set as wide as possible such that it can investigate new proposed regulations and provide reassurance to Government and business that better regulation is being implemented.</p>	<p>Most businesses will no longer have to fill in Form 42.</p> <p>HMRC is working to simplify forms and its other interactions with small business.</p>	<p>The proposal that most companies will no longer have to fill Form 42 is welcome as are the other measures to simplify tax forms and dealings with HMRC.</p> <p>However, to be seen as a champion of reducing tax administration, the Government needs to do more than abolish the regulations and forms it has introduced. The fundamental complexities around forming a business and taking on first employees, which were documented at length in the 1998 Bath Report, remain.</p>
Families and Work	<p>a. Childcare policy and its interaction with tax and tax credits needs to be reviewed in detail and redrafted in order to simplify and remove anomalies and reduce unfairness.</p> <p>b. Tax relief for childcare should be available for the self-employed.</p> <p>c. The Government should now consult on how the design of the tax credit system could be amended to achieve finality earlier so that overpayments and underpayments are greatly reduced.</p>	<p>A package of measures was announced to improve the working of the tax credit system including the raising of income disregard from £2,500 to £25,000.</p>	<p>We broadly welcome the new measures, in particular substantial raising of the income disregard as this addresses one of the main causes of overpayments and will bring far greater certainty at the point of payment to vulnerable families. But we are concerned that the proposed requirement to notify changes of circumstance within one rather than three months will prove onerous for claimants, and we trust that HMRC staff cuts will not affect the ability of tax credits staff to provide information and support to claimants.</p> <p>The ICAEW will be considering the full package of detailed measures in our response to the Treasury Sub-Committee call for evidence for its forthcoming enquiry on tax credits.</p> <p>Neither the potential for problematic interaction between tax advantages for childcare and tax credits, nor the issues around self-employment, appear to have been addressed.</p>

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UITF 40	<p>UITF 40 is going to require many businesses to recognise income earlier and this will cause hardship.</p> <p>We have made representations re possible spreading and provided evidence of potential hardship for a wide away of different businesses.</p>	<p>The government announced that businesses will be able to spread the additional charge over a period of 3 years, extended to six years for those businesses most affected by the change.</p>	<p>The ICAEW welcomes the change which follows detailed representations made by CCAB, orchestrated by the ICAEW.</p>

¹: This column is designed to give enough detail of the measures announced needed to give relevance to the reaction of the Institute. For the full detail of measures announced, see the full Pre-Budget Report 2005 and surrounding documentation.

Tax Representation

ANNEX A

ICAEW AND THE TAX FACULTY: WHO WE ARE

The Institute of Chartered Accountants in England and Wales ('ICAEW') is the largest accountancy body in Europe, with more than 128,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.

The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy, including taxation.

The Tax Faculty is the focus for tax within the Institute. It is responsible for tax representations on behalf of the Institute as a whole and it also provides various tax services including the monthly newsletter 'TAXline' to more than 11,000 members of the ICAEW who pay an additional subscription.

To find out more about the Tax Faculty and ICAEW including how to become a member, please call us on 020 7920 8646 or email us at tdtf@icaew.co.uk or write to us at Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ.

THE TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99; see http://www.icaew.co.uk/taxfac/index.cfm?AUB=TB2I_43160,MNXI_43160.