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(ICAEW REPRESENTATION
136/15)

PENSIONS TAX RELIEF CONSULTATION

ICAEW welcomes the opportunity to comment on the consultation paper *Strengthening the incentive to save: a consultation on pensions tax relief* published by HM Treasury on 8 July 2015.

This response of 30 September 2015 has been prepared on behalf of ICAEW by the Tax Faculty. Internationally recognised as a source of expertise, the Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world. Appendix 2 sets out the ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark proposals for changes to the tax system.

We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.

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ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 144,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

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MAJOR POINTS

Key point summary

1. We are opposed to a pension system that taxes input and allows tax free withdrawals as this would require much larger contributions from savers in order to produce the same pension as the opportunity for growth on the “tax relief” is lost.

2. The biggest disincentive to save is the continually changing rules for pensions; potential savers are deterred from saving because they have no confidence in what the rules will be when the time comes for them to use their pension pot.

3. Another key disincentive is the complexity of the pension rules which also adds costs.

4. The lifetime allowance of £1.25m reducing to £1m from April 2016 supports very different pension levels depending on whether the pension is defined benefit or defined contribution, either the multiplier for the defined benefit calculation should be amended or different lifetime allowances should apply for defined benefit and defined contribution schemes. To illustrate the point, a defined benefit pension of £50,000pa is supported by a £1m pension pot. A defined contribution pension pot of £1m will currently buy an annuity of £26,000 to £27,000 at age 65, just a little over half of the defined benefit pension. This anomaly means tax relief is allowed on contributions to provide a £50,000 pension in a defined benefit scheme but only on contributions to provide a £26,000 to £27,000 pension in a defined contribution scheme. As tax relief on contributions is now capped there seems no reason for a lifetime allowance and if a lifetime cap is to remain it should be defined according to the pension it will provide rather than as an absolute figure.

5. There are particular problems with regards pensions for those employed in the NHS where recent changes to the rules do not take account of their particular circumstances, see Appendix 1 prepared by the Healthcare Group at ICAEW.

6. Lack of money after paying for general living costs, particularly housing costs is generally cited as the reason for not saving into a pension fund rather than complexity or tax issues. Auto enrolment (AE) has resulted in more people saving for pensions as it works on the basis of deduction at source and requires an action by the employee to drop out. The increase in savers may slow as the first stage for AE was with larger employers and it is now being rolled out to smaller employers.

7. The 2006 A-Day reforms made pension saving extremely complex, especially as they introduced the concept of a ‘pension input period’ not aligned to the tax year in which contributions were paid (exacerbated by the changes in FA11, which, as we pointed out in our representations on cl.66 & Sch 17 FB11 (TAXREP 33/11), made it impractical for taxpayers to align their PIPs with the tax year, and we welcome the fact that all PIPs will now be aligned with tax years by the latest Finance Bill). The previous system linked tax relief to contributions as a proportion of earnings, which was simple to understand.

8. Given that:
    - the changes that are likely to be made as a result of this review are being undertaken because the government is concerned about the cost of pensions tax relief,
    - the constant changes to occupational and private pension rules since A-Day have undermined many people’s faith in pension saving despite the introduction of auto-enrolment, and
    - under the changes to state pension entitlement with effect from 6 April 2016 those who have been ‘contracted out’ will suffer a reduction in their state pension the formula for which is not clear,

    in our view it is important that the government makes it clear that rights and tax reliefs for current pension schemes will be protected by grandfathering rules.

General comments

9. Even though pension schemes supported by the government, and thus the taxpayer, have been changed from a final salary scheme to a career average revalued earnings (CARE) scheme to save money can supporting such a superior pension scheme at the taxpayers' expense be justified if tax relief to savers in inferior defined contribution schemes is cut?

10. More education in schools and when first starting in the workplace about pensions and the need generally to save in order to support an acceptable life style at the end of ones working life is an essential factor in encouraging people to save. Encouraging people generally to take responsibility for themselves and not rely on government support is key to increasing savings for retirement.

11. Tampering with tax relieved contributions will have a negative impact on the capital market, without the tax grossing up less money flows into equities and gilts, which is not good for business or public finances, it will cause significant damage to UK industry and put our capital markets and companies at very significant international comparative disadvantage. The loss of tax relief at the time of contribution means the opportunity for growth of that tax relief is also lost.

12. There are problems in the auto enrolment (AE) supply chain; the failure of the regulator to create a clear minimum standard (Kite mark) for workplace pensions means that employers and their advisers are struggling to find what is acceptable in different circumstances. This is especially a problem for smaller employers who do not have the resources to employ specialist employee benefit consultants; the problem is an on-going one as a workforce is not a static or homogenous entity. The regulators (The Pensions Regulator and Financial Conduct Authority) and product providers need to agree basic criteria to be met to get the kite mark with the regulators monitoring on an ongoing basis. The current position is an example of poor regulation that adds to cost and leads to a dysfunctional market of no benefit to anyone; it is uneconomic to deliver advice to 80% of employers.

RESPONSES TO SPECIFIC QUESTIONS

Q1: To what extent does the complexity of the current system undermine the incentive for individuals to save into a pension?

13. The current rules are extremely complex and the minutiae are only understood by a few but there seems to be a general understanding that "for every 80 pence I save the taxman will give me 20 pence" which is as much as most people want to know. A big worry is what rules will be in place at retirement. The massive press coverage over recent years on pension changes has left people uncertain as to what rules might apply when they retire, for example will they still get the 25% tax free.

Q2: Do respondents believe that a simpler system is likely to result in greater engagement with pension saving? If so, how could the system be simplified to strengthen the incentive for individuals to save into a pension?

14. More certainty and stability in the pension rules and a commitment that the goalposts will not be moved would encourage more saving. For many, particularly the young, asking them to hand over a percentage of their earnings each month, to be placed outside of their control with no guarantee as to what they might receive in return in say 45 years' time requires a huge leap of faith and trust. We understand that giving a commitment of this kind when there are potentially eight or more different governments over this period is not practical but without some kind of security as to the rules on extraction from the pension fund there will be a reluctance to save.

15. Uncertainty and complexity fundamentally undermines trust in pensions as savings vehicles, and strong, reliable incentives are needed to rebuild a savings culture.

16. Individuals with large pension pots are discouraged from saving in case the investments in their pension do particularly well pushing them over the lifetime limit. If in fact the value of the investments falls suddenly it could be that the individual ultimately has an inadequate pension fund that could have been avoided had a crystal ball been available to foretell the investment performance. If the test on the lifetime limit was measured just by actual contributions and did not include growth in the fund it would be easier to keep contributions at an appropriate level. Alternatively as contributions are limited by the relatively low annual allowance of £40,000 the lifetime allowance could be abolished.

Q3: Would an alternative system allow individuals to take greater personal responsibility for saving an adequate amount for retirement, particularly in the context of the shift to defined contribution pensions?

17. The majority of people have no understanding of the “world of finance” and most have no desire to understand it; they want a simple solution requiring as little effort as possible on their side. They do not want to consider what investments their pension savings should be placed in they simply want to receive a pension in return for the earnings they have given up during their working life. The success of AE is based on the employee having to do something to not save for a pension. In a similar way they just want to be told on retirement how much they will be paid each month as a pension, they generally do not want the amount to fluctuate nor do they want the worry of the fund running out of money before they run out of life. For this reason despite the freedoms now available many will opt for an annuity as it is simple and certain even if it is not the best value for money. Others will be seduced by the idea of cashing in the entire pension fund with no regard to the future.

18. Saving for retirement is extremely expensive and complex drawdown plans in place of an annuity does not solve the basic problem that insufficient funds have been saved; annuities are not the cause of the problem merely a manifestation of the financial facts of life.

19. Education will be a greater incentive, the earlier the better. Education whilst still in school is essential. A simple example of how much a £100 contribution at the age of 21 will have grown to over the next 45 years and how much would need to be contributed at ages 31, 41 etc to equal it at age 66. It is also essential that pensions’ guidance is given when starting in paid employment; it is too late to get the guidance as retirement beckons.

20. Tax relief on contributions is the sweetener, the incentive for giving up the use of funds now to benefit in later life, without the sweetener saving may become unpalatable.

21. There are arguments for allowing members to “borrow” funds from their pension schemes when in times of difficulty and repay it when their circumstances improve as an incentive for tying up funds now for a future date. However, there is a danger that the individual’s circumstances will not improve and thus the repayment will never be made leaving the member in financial difficulties throughout their retirement. If funds are lent would they be restricted to actual contributions made without the tax relief? If the loan was not repaid would the tax relief be clawed back? That would be relatively easy for the basic rate tax relief but not the higher/additional rate tax relief.

22. If loans were to be allowed they should be for a restricted number of circumstances and not just to pay for, for example, a world cruise.

23. If loans were allowed there would need to be specific rules in place regarding bankrupt members.

Q4: Would an alternative system allow individuals to plan better for how they use their savings in retirement?

24. If instead of a formal pension fund individuals were simply encouraged to save into say an individual savings accounts (ISA) there is a real danger that the savings will be spent on the first rainy day and not held until retirement. If the saving was into a “locked” ISA there would need to be an incentive to use a locked account such as a contribution from the government for every £1 saved and possibly an employer contribution. This is beginning to sound like a pension scheme!

25. The freedoms introduced by government in 2014 do allow individuals to access their funds readily on reaching age 55; these reforms remove one of the barriers to pensions savings as knowing the funds can be accessed if desired helps the mind-set for saving. In addition the fact that the pot will not necessarily be lost on the death of the member after retirement removes another barrier.

Q5: Should the government consider differential treatment for defined benefit and defined contribution pensions? If so, how should each be treated?

26. Where possible the changes to pensions should be the same for defined benefit and defined contribution pensions but we recognise that it is not always possible to mirror the effects.

Q6: What administrative barriers exist to reforming the system of pensions’ tax, particularly in the context of automatic enrolment? How could these best be overcome?

27. Whilst auto enrolment (AE) has shown a big increase in the take up of pensions by individuals the roll out has only just started in the smaller businesses and the administrative costs to these employers with just a few employees is out of all proportion to the benefits. Simply trying to find an appropriate scheme and pay for the administration will be a huge cost monetarily and time wise for a small/micro business and then they will have to pay additional pension contributions. Many of these businesses operate on very small margins and AE could be the difference between a viable business and an insolvent one. At best it could influence the decision about whether to employ staff or not or perhaps just employ part timers below the earnings threshold for AE.

Q7: How should employer pension contributions be treated under any reform of pensions tax relief?

28. Employer contributions to pensions are a business expense, just like the salary and employer National Insurance contributions for the employee and as such should qualify for tax relief. Any withdrawal of tax relief for the employer would lead to smaller contributions, many employers already pay more than the maximum specified for AE but these levels could be reduced to compensate for the loss of tax relief.

29. If the model of taxing pensions withdrawn and allowing relief on contributions and growth is to continue then tax relief should continue for employers as well as employees.

Q8: How can the government make sure that any reform of pensions’ tax relief is sustainable for the future?

30. Without tax relief on contributions, or some other model to attract savings such as a £1 contribution from government for every £2 saved by the member, it is likely that savings into “locked funds” such as pensions will decrease. Those individuals who do continue to save may save into alternative saving vehicles such as an ISA but as these will be freely accessible the temptation to withdraw and spend the retirement savings may prove too much for some. As a result the government will have higher spending commitments when those individuals reach pension age and need state support to supplement their state pension. When looking at a sustainable model for pensions’ tax relief the additional potential cost of supporting those without a pension needs to be built into the model.

APPENDIX 1

PROBLEMS WITH REGARDS PENSIONS FOR THOSE EMPLOYED IN THE NHS

1. When the annual allowance limit dropped from £255k to £50k from 6 April 2011, the changes put a huge additional burden on a large number of doctors and dentists in the NHS Pension Scheme and on the government department which administers the scheme. When the changes were announced it became immediately apparent to accountants specialising in the healthcare sector that the changes would be problematic for their clients.

2. The primary care industry is currently facing many challenges, and there is a severe shortage of GPs wanting to go into General Practice. With rising workloads, reductions to income and increased costs (in particular staff wages), the NHS Pension was seen as an incentive to help attract both doctors and dentists into the industry. However, rising pension contributions and annual allowance tax charges have seen many doctors and dentists taking early retirement and those who are at an earlier stage in their career looking at other provisions for their retirement.

3. For those in defined benefit schemes it can be difficult for members to comprehend that the annual allowance charge, which is ultimately in place to restrict the amount of tax relief claimed by someone on their pension contributions, is not actually based on the contributions paid but on the growth in their pension payable. Our accountants still come across professionals who are not aware of the difference between defined contribution and defined benefit schemes for annual allowance purposes.

4. We believe that GPs have been affected disproportionately by the annual allowance tax and the further proposed amendments to pensions taxes (both the tapering of the annual allowance and the potential reform of tax relief on pension contributions) will continue in this vein.

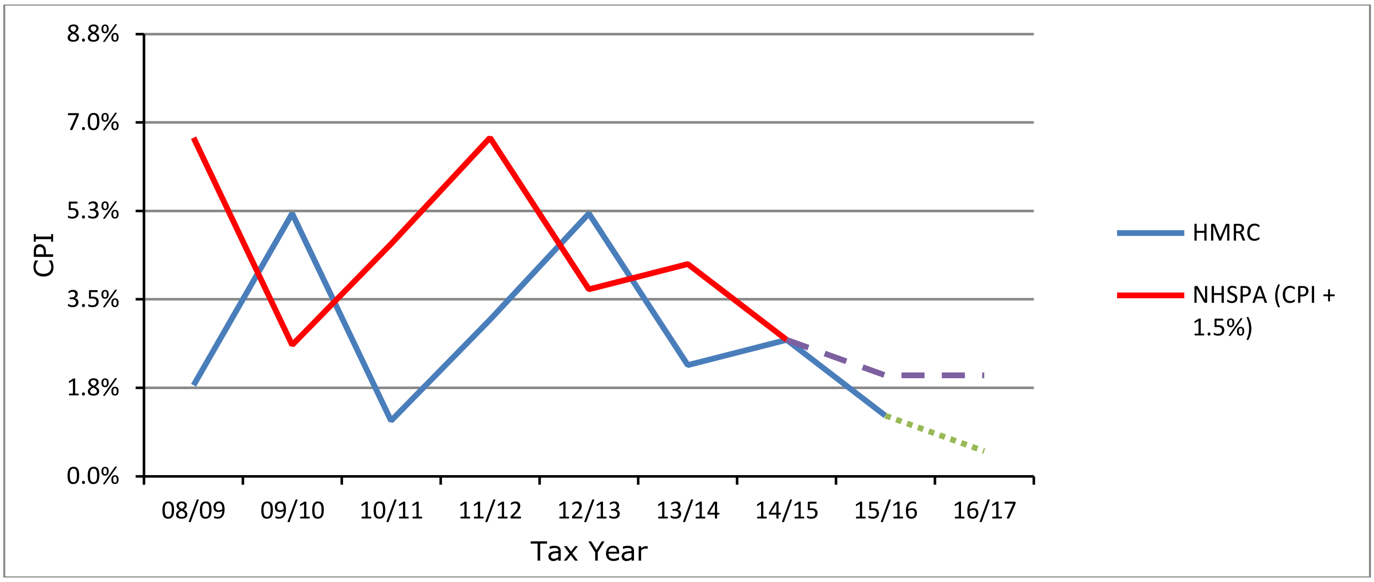
5. In some situations, individuals receiving a modest pay rise can exceed the annual allowance limit by such an extent that the resulting annual allowance tax charge is more than the pay rise awarded. It is not just high earners who have been impacted by the change. Accountants have seen newly qualified doctors become partners in a practices and have excessive growth in their first year as a result of the change to the method used to calculate their annual pension (from final salary to career average revalued earnings (CARE)), and as a result have incurred extremely substantial tax charges (in excess of £15k in some cases).

6. Those in the NHS Pension are at a disadvantage compared to those in other pension schemes because they are not able to control the level of their pension input amount. This is determined by the level of their earnings, length and type of service and inflation. For example if they earn £100,000 they cannot simply choose to pension half of this, so feel they have no control or ability to reduce pension contributions to prevent an annual allowance charge. These factors are therefore deterring doctors from working in general practice.

7. Whilst there is an argument that doctors and dentists are getting a better and safer pension than is available to many, they are also paying large contributions to build up this pension. The increase in contribution rates over recent years mean that doctors are regularly paying 28.8% or even 37.8% of their pensionable earnings in pension contributions.

8. To illustrate, a GP in practice earning £150,000 will pay nearly £37.8k in pension contributions (£49.6k with the maximum added years contract) and a further £42.2k in tax and national insurance, meaning they are taking home only 46.6% of their earnings. This is before any annual allowance tax has been paid.

9. A further reason for the lack of control of GPs over their pension input amounts and so a further illustration of the inequity of the charge is the effect of inflation. This is clearly outside the control of members of the NHS Pension Scheme but has a significant effect on their pension growth and therefore their pension input amount. They are therefore exposed to the risk of incurring an annual allowance charge due to another factor completely outside their control, rather than a conscious decision to make “excessive” pension contributions. The effect of inflation is illustrated in the graph below which charts the inflationary uplift allowed by HMRC in a member’s pension pot for each year, and the inflationary uplift applied by the NHS Pension Scheme:



10. The CPI rate to be applied under HMRC’s annual allowance regulations lags that used by the NHS Pension Scheme by one year. Therefore, simply due to timing differences, in years where the NHS Pension inflationary uplift rate (line) goes above the HMRC inflationary uplift (line) (which will generally be years in which inflation is increasing) there will be pension growth for annual allowance purposes. An annual allowance charge could therefore be triggered simply due to inflation increasing. The carry forward of unused annual allowance helps safeguard against this problem to some extent, but certainly does not prevent annual allowance charges being incurred by members simply due to increasing inflation. Allowing members of pension schemes to use the CPI rate for the period applied by their scheme administrator rather than the rate for the period stipulated by HMRC when calculating growth for annual allowance purposes would appear to be a straightforward solution to this particular problem.

11. A further problem which makes GPs unable to control or predict their pension growth for annual allowance purposes, and once again adds to the inequity of the system for them is due to the timing of the calculation and notification of their pension growth. The pensions of single handed GPs, GP partners, salaried GPs and locum doctors are calculated on a CARE basis. However, pensionable earnings and so pension growth cannot be established until after the tax return has been completed.

12. Take for example the timing of the 2014/15 tax year:
The self assessment tax return is due to be completed and submitted by 31 January 2016. Once this has been done, the member is then able to submit their certificate of pensionable earnings for 2014/15 and the deadline for doing this is 1 February 2016. The pension certificate is then processed by NHS England and submitted to NHS Pensions. The earnings are recorded on the member’s record by NHS Pensions in around June, so by July 2016 NHS Pensions should have the information available to them to enable the annual allowance statement to be prepared for the member.

13. For those members with straightforward affairs, the NHS Pensions computer system will automatically produce annual allowance statements, but for anyone else, the calculations need to be done manually so that pension flexibilities, which are an integral feature of the NHS Pension Scheme, can be checked by running through each flexibility scenario. Where manual calculations are performed, this further delays the production of the statements and in the experience of accountants in the healthcare sector it is these people who are most likely to be subject to annual allowance tax charge.

14. Therefore for a member to complete their tax return, they are faced with a choice whether to:

- Include an estimate or,
- Do nothing at all.

If they decide to include an estimate prepared by their accountant, the cost to calculate this can be in the region of £300 - £1,000 plus VAT. Once NHS Pensions provides the annual allowance statement, this then needs to be compared to the calculations the accountant has prepared to check whether there is a difference which will need to be investigated further or a correction required to the submitted tax return. The process of checking the annual allowance statements can take a considerable amount of time, particularly as the relevant department within NHS Pensions is so stretched. Furthermore, many non-specialist accountants lack the knowledge or ability to prepare such calculations, so even if the member wishes for the calculations to be undertaken, their accountant may be unable to meet this request.

15. If the member has decided not to include an annual allowance tax charge on their return an amended tax return will need to be submitted when the statement arrives and the outstanding tax paid. In addition, the member will be charged interest for the late payment of this tax. It seems inequitable that one Government Department should charge a tax payer interest purely as a result of the problems faced by another Government Department.

16. There is of course the argument that the tax payer will have had the use of the late paid tax, and that it may have been earning interest, but these days any interest that it could possibly be earning would be less than the interest charged by HMRC, and we are aware of instances where the money which was eventually used to pay the tax due was not earning any interest at all.

17. Furthermore, if for any reason the amendment falls outside of the deadline to amend the return, accountants have experienced problems getting the returns properly corrected by HMRC particularly where the member has chosen to use Scheme Pays, with demands being issued to the member for tax that is not even due by them.

18. The further difficulty for members is that the late production of the statements means that should they wish to use the Scheme Pays facility they do not have much time to consult an IFA to discuss their options. In some cases, the statements will not arrive until after the deadline has passed and therefore they are not able to use this facility.

19. The most recent changes announced in the Summer Budget add further complications to the annual allowances calculations for high earners in defined benefit schemes. Unlike many government defined benefit schemed the NHS Pension scheme has a considerable proportion of high earners. GPs are also unusual in that whilst they are self employed, they are treated as “independent contractors” and therefore are required to pay both the employee and employer pension contributions.

20. The legislation simply refers to “contributions paid by or on behalf of the individual” so doesn’t make it clear whether this includes the employer contributions or not.

21. Whilst we understand that some of the rules have been brought in to make the position fair for those not able to take advantage of salary sacrifice arrangements the rules for those in defined benefit schemes are particularly complex. As outlined above, there is already an issue for GPs due to the timing of the annual allowance calculations, but for the growth to be used when determining the level of income will further complicate their position.

22. In addition, the method of calculation used in the NHS pension scheme means that two doctors earning the same level of income can have very different growth for annual allowance purposes.

23. Take a hospital doctor earning £170k with 1 year of service. Their opening position ignoring the HMRC inflationary uplift is £2,125 (£170k x 1/80th). With the same earnings and an additional year's service, their closing position is £4,250, so the increase over the year is £2,125. Therefore the growth is £40,375 (i.e. £2,125 x 19 - 16 x pension plus lump sum which is 3 x pension).

24. Compare this to a GP who is on a CARE basis with the same level of earnings. The opening position (again ignoring the opening uplift) is £2,380 (i.e. £170k x 1.4%). The closing position sees the opening pension uplifted by dynamisation of say 2.5% plus an additional £2,380 giving a pension of £4,876. Therefore the increase over the year is £2,496, giving growth of £47,415.

25. This is a very simplistic example, but highlights the problems of the annual allowance calculations and the inequity.

26. The introduction of the 2015 NHS Pension Scheme on 1 April 2015 could have made the Scheme more straightforward, but this has not been the case. All members who became part of the 2015 Scheme have their pension calculated using CARE. However members who move over into the new Scheme have their "old" scheme pension uplifted using a very complicated formula. We are already four months into the new Scheme being in place and the Department of Health is still to decide how to treat the added years/additional pension element of the pension. The 2015 Pension Scheme legislation was silent on this issue and this therefore means that accountants are still unable to prepare estimates for the 2015/16 annual allowance position as the pension at the end of 2016 cannot yet be calculated.

27. This is a particular issue for those who exceeded the annual allowance limit in 2014/15, because if their earnings remain at the same level for 2015/16 they will have larger growth due to both the level of inflation and the better accrual rate in the new pension scheme.

28. Due to its complexity, the NHS Pension Scheme is only truly understood by specialist IFAs and specialist accountants. Doctors and dentists who do not take advice from these specialists can find themselves facing unexpected tax liabilities. Dentists in particular have invested in personal pensions in addition to their NHS pensions. Furthermore, those taking advantage of the new defined contribution flexibilities could find themselves with an annual allowance tax charge on the NHS Pension due to £10,000 reduction in the annual allowance to £40,000.

29. We understand that HMRC are also considering removing the obligation on pension schemes to provide annual allowance statements, however, some accountants with clients in the NHS Scheme rely on these to calculate the growth for them.

30. We can understand the problem for scheme providers as they will be unlikely to know the annual allowance limit for each member. However, the removal of these will simply mean that taxpayers and their accountants may be unaware of the charge.

31. It is also the experience of accountants who undertake the calculations that the Revenue staff do not appear to understand how the defined benefit calculations work and in particular the impact of inflation on the calculations.

32. Perhaps the simplest way forward would be to remove the distinction between defined benefit and contribution schemes and use the contributions actually paid. Whilst this would not reflect the preferential pension received by those with defined pension schemes, this would offset their lack of choice over the level of the contributions made.

33. Further complications arise in the way that doctors and dentists who are in partnership earn their income. It is very common for partners in practice to have other interests such as hospital clinics and work for clinical commissioning groups carried out under an employment contract. This income is paid directly into the practice bank account and is pooled between the partners. This typically happens when the employment is exercised during normal working hours and the earnings are not therefore considered to belong to the one partner, but the whole partnership.

34. From an NHS Pension point of view, the employment post is treated as pensionable earnings of the member who undertakes the work. As a result all of the income is treated as theirs for pension purposes and so too are the pension contributions which have been paid. There is the risk that a member could incur an annual allowance charge from such a pooled post because the pension growth is recorded on their pension record. This appears to be extremely inequitable because each of his partners in the practice will have shared in the remuneration from the post, and the post will have been taken up for the benefit of the practice as a whole.

APPENDIX 2

ICAEW 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 via http://www.icaew.com/en/about-icaew/what-we-do/technical-releases/tax).