



AUTUMN STATEMENT 2014: HAVE YOUR SAY

Text of response submitted on 30 October 2014 by ICAEW to the invitation [Autumn Statement 2014: Have Your Say](#) seeking views on what should be included in Autumn Statement 2014 which will take place on 3 December, published by HM Treasury on 2 September 2014

This response was 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 1 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.

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SIX PLAIN ENGLISH SUGGESTIONS TO IMPROVE THE TAX SYSTEM

ICAEW Tax Faculty welcomes the opportunity to submit suggestions for inclusion in the Autumn Statement 2014.

1 Put tax simplification at the heart of Government thinking

The problem

We have one of the longest tax codes in the world and it continues to grow considerably with each year. There is little point in simplifying some areas of tax if at the same time huge complexities are being created elsewhere, for example the high income child benefit charge, transferrable personal allowances, the loss of the personal allowance where income breaches £100,000, lower rates of tax on savings income and so on. Such changes make it very difficult for most citizens to understand and budget for their tax, especially where actual income changes late in tax year.

The solution

Government needs to commit to a real tax simplification programme and follow this through with policy. It is just too easy to add more pages to the tax code and it needs to be brought under control.

There should be a commitment that the tax code should not be increased further. If new rules are considered necessary, then a one in one out (or even better a one in two out) principle should be adopted.

New policy ideas should be subject to a pre-implementation review to assess their practicability and the impact on the administrative complexity of the tax code.

2 Give greater certainty for larger businesses entering the quarterly payments regime

The problem

Basing quarterly payments of corporation tax on in-year results causes considerable uncertainty and can result in cash flow difficulties for companies entering the system. This does not support the government's growth agenda. While the system is intended only for the largest companies, the low de minimis and the operation of the associated companies rules mean that many more companies than might be expected are subject to these rules.

The potential solutions

A number of solutions could be adopted, including:

- increasing the £10,000 de minimis;
- in the first year a company is subject to the new rules there should be a better transition; and
- allow an election for the charge to be calculated on a prior year basis.

3 Give new small businesses the right start in life

The problem

New small businesses may find themselves in cash flow difficulties in the opening years as their first tax payment is not due until 31 January after the tax year that the trade started, and a payment on account of half this amount will also be due in respect of the following tax year.

The solution

Taxpayers should be encouraged to budget for tax payments earlier. Taxpayers should be incentivised to pay tax earlier than when it is due and to budget for monthly tax payments from the

very beginning. Budget payment plans are not well publicised and a financial incentive for early payment of tax could make these more popular.

4 Remove distortions and disincentives to work in the income tax system

The problem

The method by which personal allowances are removed for income over £100,000 should be reformed. Taken together with the additional 2% NIC, this results in an effective tax rate of 62% on income between £100,000 and £120,000. Furthermore, because the threshold has not been increased since it was introduced, an increasing number of taxpayers are being affected by this measure. Those affected for the first time are usually unaware of this rule and so are caught unexpectedly. The lack of transparency and administrative complexity place an unnecessary burden on the tax system. We note too that the policy encourages behavioural changes to reduce taxable income below the threshold.

The suggested solution

The phased withdrawal of the personal allowance should be removed in favour of a transparent tax system based on progressive tax rates.

5 Remove distortions and disincentives when property is purchased

The problems

UK Stamp Duty Land Tax (SDLT) is a slab based tax rather than a progressive tax, resulting in cliff edge effects at the boundaries, and an extra £1 on the purchase price can result in a higher rate of tax being applied to the whole of the purchase price rather than just the excess. For example, an extra £1 on the price of a £250,000 property will incur an extra £5,000 in SDLT. This creates distortions and results in behavioural changes to try and ensure that the purchase price does not breach a threshold where a higher rate applies.

Rate bands have also not been increased in line with RPI let alone house price inflation. As the SDLT charge increases, this discourages transactions and potentially reduces UK tax revenue.

The solutions

The UK should adopt a progressive SDLT system. This is an approach being adopted by the Scottish Government with its Scottish Land and Buildings tax and we think it should be adopted in the UK.

Rate bands should be increased in line with inflation.

6 Remove unnecessary restrictions on the Annual Investment Allowance

The problem

Partnerships which have a limited company or a trust as a partner are prohibited from claiming the Annual Investment Allowance (AIA). Modern partnerships are now much more likely to have mixed partners and we do not know why this prohibition remains in place.

The solution

We suggest that AIAs for partnerships are extended to include limited companies and if there are concerns about tax avoidance this should be dealt with by way of specific anti avoidance provisions.

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APPENDIX 1

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 icaew.com/en/technical/tax/tax-faculty/-/media/Files/Technical/Tax/Tax%20news/TaxGuides/TAXGUIDE-4-99-Towards-a-Better-tax-system.ashx)