



SPRING 2020 BUDGET - FRANK HASKEW LETTER TO JESSE NORMAN

Issued 14 February 2020

ICAEW welcomes the opportunity to make representations on the Spring 2020 Budget. These were submitted in a letter to the Financial Secretary to the Treasury, the Rt Hon Jesse Norman MP, on 07 February 2020.

We have recommended that as the UK enters a decade of transition, the Government uses this Budget to ensure the UK remains an internationally attractive location for business to locate and invest. At the heart of this is a tax system which is internationally competitive.

We suggest that the Government prioritises work in five areas: aligning the UK tax system with policy objectives, taking time to get legislative change right first time, reviewing the costs and benefits of Making Tax Digital, resourcing HMRC, and seizing the opportunity presented by the UK leaving the European Union to reform VAT.

This response of 07 February 2020 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

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For more information, please contact: taxfac@icaew.com

7 February 2020

Rt Hon Jesse Norman MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

SPRING 2020 BUDGET

The Budget on 11 March 2020 offers the Chancellor the opportunity to lay the foundations for the UK's future success.

At ICAEW, we believe the UK has entered a decade of transition. Meeting the UK's commitments to the Sustainable Development Goals in 2030 will demand action now to prevent a cliff edge for businesses, especially SMEs. We will also be witnessing a change in our trading relationships with the European Union and the wider world.

At the heart of this transition must be ensuring that the UK remains an internationally attractive location for businesses to locate and invest. A key component of this is having a tax system which is globally competitive. ICAEW Tax Faculty has identified several policies which the Chancellor should prioritise in the coming Budget, details of which are attached to this letter.

The key themes we believe he should be pursuing to make the UK the leading destination for jobs and investment are:

- **Align UK tax system with policy objectives:** We believe this is the ideal time to undertake a strategic review of the UK tax system and ensure that it is delivering on the Government's policy objectives. It is currently too complicated and, in places, discourages growth and productivity. This exercise should also cover the Government's planned review of Entrepreneurs' Relief, and making sure that this policy is creating the intended incentives.
- **Take time to get legislative change right first time:** We urge the Government to defer the planned implementation of off payroll working reform for the private sector and the digital services tax. There is now an opportunity with a return to stable politics and a working parliamentary majority to take the time to get legislation right and agree international consensus respectively.
- **Review the costs and benefits of Making Tax Digital:** We have always actively encouraged members and businesses to adopt digital technology where there are clear benefits to do so. However, mandation is the wrong approach when the benefits to businesses are not clear. There needs to be a review of the costs and benefits to business of implementing MTD before being rolled out further. As to next steps, we recommend that MTD should be extended to all VAT registered traders, but only when the business case has been proven.

- **Resource HMRC:** We recognise the pressures the UK's departure from the European Union put on the resources of HMRC, and that this will continue through 2020. However, the impression our members have is that when HMRC moves staff around to deal with one particular problem, different problems appear elsewhere. We believe there should be a review of HMRC's responsibilities and the resources it needs to deliver an effective and efficient tax system, and what a good service to taxpayers should look like.
- **Seize opportunity to reform VAT:** The UK's departure from the European Union gives the opportunity to simplify VAT in a way that was previously unavailable. For example, simplifying the regulations around the partial exemption regime would reduce the administrative burden on businesses and also on HMRC. Further, we believe that postponed accounting for VAT on imports should be reintroduced regardless of the nature of the Free Trade Agreement with the European Union.

I hope that you will be able to relay our policy priorities to the Chancellor so we can ensure that the UK remains a globally attractive destination to invest and do business.

I would also welcome an opportunity to meet with you soon to discuss our priorities further.

Yours sincerely

Frank Haskew
Head of Tax, ICAEW

T +44 (0)20 7920 8618
E frank.haskew@icaew.com

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ICAEW TAX FACULTY PRIORITIES FOR 2020 BUDGET

A strategic review of the UK tax system

At the start of a new decade, with a new Government and fresh mandate, we believe this is the ideal time to reflect on the UK tax system and whether it is delivering on the Government's policy objectives. Our tax system is far too complicated for the ordinary person to understand and, across a range of taxes, it contains many features that discourage growth and productivity. The Government should commit to a strategic review of the tax system with the aim of relieving some of the pressure points.

Examples of these pressure points in the income tax system include the following cliff edges:

- **Personal Allowance:** The threshold for the withdrawal of the personal allowance for income above £100,000 has not changed since it was introduced. It is both complicated for taxpayers to understand and acts as a disincentive to work as more taxpayers are being drawn into paying an effective rate of 62% (income tax and NICs) on income earned between £100,000 and £125,000.
- **High Income Child Benefit Charge:** The threshold for the withdrawal of child benefit for income over £50,000 has not changed since it was introduced. It is complicated for taxpayers to understand, and the rate of withdrawal results in very high effective tax rates for taxpayers with multiple children. Also, the interaction between claiming child benefit and entitlement to the state pension leads to confusion and loss of potential benefit.

Entrepreneurs' relief from capital gains tax

There has been much speculation about the purpose and efficacy of tax reliefs in encouraging and supporting the growth agenda and, in particular, entrepreneurs' relief (ER). The Government's election manifesto included a commitment to review and reform ER, and the Chancellor has already indicated that there may be movement in the Budget.

It is clear that the Government wishes to have a tax environment which encourages entrepreneurs to start up, then scale up new business, so any review must start from a position of seeking to understand whether ER achieves its intended policy purpose within this context. We also believe that the reliefs and rewards in the UK tax system designed to encourage and reward entrepreneurship are numerous and complex, so it will be important to understand how ER interacts with all of these before any changes are considered.

Off-payroll working rules in the private sector from April 2020

We recognise that the Government has made a decision to introduce this policy on 6 April 2020 despite currently undertaking a review, although we remain of the view that it should be deferred until April 2021. However, the draft legislation which has been published is overcomplicated and will create compliance burdens for taxpayers, employers and HMRC. We believe that more time is needed to give all stakeholders – including HMRC – time to prepare and resolve operational issues on the basis of enacted legislation and final detailed guidance.

More importantly, we remain concerned that the underlying policy is merely a partial solution to the much wider problem caused by the very different tax and NIC treatments of the employed and the self-employed. The introduction of these rules does not replace the need to find a long-term solution which does not favour unduly one type of engagement status over another, and which keeps compliance burdens to a minimum.

HMRC service standards need to improve

HMRC's leadership is working hard to improve the organisation's performance, however it is being hampered by insufficient resources and conflicting priorities. We understand the recent requirement to prioritise the delivery of the UK's departure from the European Union, and support HMRC allocating the necessary resources through 2020 to support finalising our future trading relationship.

However, reports from ICAEW members indicate that there remains considerable concern about HMRC's performance when it comes to answering phone calls (not including the agent dedicated line), responding to written correspondence and, in some instances, the processing of forms. The latest published statistics on HMRC's performance measures (for November 2019) showed a welcome improvement, but some of the measures are being missed. On form processing, for example, we have received a number of disturbing reports that processing of IHT100 forms is now over a year behind – this must be improved.

As we mentioned in our previous Budget submission, the impression our members have is that HMRC moves staff around to deal with one particular problem, only for different problems to appear elsewhere. We think that there should be a review of HMRC's responsibilities and the resources it needs to deliver an effective and efficient tax system and what a good service to taxpayers should look like. In the meantime, changes to the tax system that might impact upon its performance should be kept to a minimum.

Review of the further roll-out of Making Tax Digital

MTD for VAT has now been in operation since April 2019. While we support the move to digital services, we remain opposed to mandation and we remain concerned that the benefits to businesses are not clear, while the implementation costs are much higher than was forecast in the impact assessment. We believe that before MTD is rolled out further there needs to be a cost/benefit review of MTD for VAT for businesses. We recommend that once the business case for MTD has been proven and the Government looks to roll it out, the next step should be to extend MTD to all VAT registered traders.

Defer the introduction of a Digital Services Tax (DST)

We understand the Government's policy objective of addressing the current corporation tax rules which can lead to a misalignment between the place where profits are taxed and the place where value is created within the digital economy. We also acknowledge HM Treasury has a difficult balancing act between working with international partners to achieve a comprehensive global framework and taking action now to secure the UK's tax base.

Given that the UK is committed to achieving a multi-lateral solution to this problem and that there appears to be some progress on this at the OECD level, we recommend that the Government delays implementation of the DST for at least 12 months to allow further time for the OECD work to come to a satisfactory conclusion.

Targeting of DAC 6

We appreciate that the Government has now laid the regulations implementing DAC 6. As we have stated previously, in principle we support measures to increase transparency to revenue authorities about aggressive tax avoidance arrangements. However, we remain concerned that these proposals are still too widely targeted and are likely to impose considerable extra administrative burdens and costs on the ordinarily compliant businesses not seeking to avoid tax.

We recommend that the Government keeps under review how DAC 6 is being implemented in the UK so as to ensure that the reporting requirements are kept effective but any burdens imposed on the ordinarily compliant are kept to a reasonable minimum.

CGT changes for residential property gains from April 2020

We remain concerned that this measure is not ready to be introduced on 6 April 2020 and recommend that it should be deferred for a year to ensure that the new systems are properly tested. In addition, this would give time for a thorough communications exercise to be undertaken so that all stakeholders are aware of the new requirements.

The estate agent and conveyancing sectors need to be fully engaged in helping HMRC alert vendors to the new requirements – we need to avoid taxpayers facing penalties for accidental non-reporting/payment as seen following the introduction of the non-residents' CGT charge on residential property. We are happy to work with HMRC on developing and implementing a comprehensive communication package.

Reintroduce postponed accounting for VAT

We believe, regardless of the trading arrangements the UK enters into with the European Union at the end of the transition period, consideration should be given to reintroducing postponed accounting for VAT incurred on the imports of all goods into the UK, no matter which country they are from. We believe that postponed accounting should be reintroduced by the latest at the end of the transitional period on 31 December 2020.

As a number of European Union countries use postponed accounting, we do not think that any future trading agreement should affect the UK's ability to reintroduce postponed accounting. The benefits to business of postponed accounting would then become available for all imports into the UK.

Review the VAT partial exemption rules

Leaving the European Union provides opportunities to simplify VAT that are unavailable to EU Member States. One such opportunity is the simplification of the partial exemption regime. In a recent HMRC consultation, we made numerous suggestions as to how this could be achieved. The ultimate simplification would be to remove the concept of exemption from VAT altogether, although we recognise that such a change would need careful consideration as, depending upon what solution was adopted, it could have significant financial implications for taxpayers.

As a minimum, we would hope that existing regulations can be simplified so as to reduce the administrative burden on businesses and also on HMRC.