ICAEW
REPRESENTATION 114/19

BUDGET LETTER TO JESSE NORMAN

Issued 23 October 2019

ICAEW welcomed the opportunity to make representations on Budget 2019. These were submitted in a letter to the Financial Secretary to the Treasury, Jesse Norman, on 23 October 2019.

Note. It was announced after this response had been submitted that Budget 2019 would not take place on 6 November as had been planned. A further announcement is expected following the forthcoming General Election.

We have recommended that the Government should take steps in the next Budget to ensure the UK remains a competitive place in which to invest and do business. A consistent feature of ICAEW's member surveys is that what UK businesses want most of all is certainty. This has always been the case, but was never more so than in the run up to the UK's departure from the European Union.

To ensure that businesses continue to have the confidence they need to invest and grow, we recommend minimising change in the short term, while continuing to build the road maps for future policy implementation. It is particularly important that any policy announcements are accompanied by an analysis of the IT changes which will be needed, how these will be delivered, and at what cost. Reconsidering the start date for some existing policies, would help to ensure a smoother delivery so that the measures properly achieve their objectives while keeping the UK competitive.

This response of 23 October 2019 was 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 Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
T +44 (0)20 7920 8100 **icaew.com**

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23 October 2019

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

Dear Financial Secretary,

PRIORITIES FOR THE 2019 BUDGET

The Budget scheduled for 6 November 2019 offers the Chancellor the opportunity to prioritise measures that help to ensure the UK remains a competitive place in which to invest and do business. A consistent feature of ICAEW's member surveys is that what UK businesses want most of all is certainty. This has always been the case, but was never more so than in the run up to the UK's departure from the European Union.

To ensure that businesses continue to have the confidence they need to invest and grow, we recommend minimising change in the short term, while continuing to build the road maps for future policy implementation. It is particularly important that any policy announcements are accompanied by an analysis of the IT changes which will be needed, how these will be delivered and at what cost. Reconsidering the start date for some existing policies, would help to ensure a smoother delivery so that the measures properly achieve their objectives while keeping the UK competitive.

I wanted to share with you those policy areas that ICAEW Tax Faculty believes the Chancellor should prioritise to ensure that the UK retains its position as an attractive place to invest and do business.

HMRC needs more resources

HMRC's leadership is working hard to improve the organisation's performance, however it is being hampered by insufficient resources and conflicting priorities. This is being caused partly by the necessity to divert staff on to Brexit-related matters. We understand, and support, the need to prioritise the delivery of Brexit in the short-term, but in the medium- to long-term the resourcing of HMRC needs to be put onto a sustainable footing.

Reports from ICAEW members indicate that there has been a significant deterioration in the level of HMRC performance when it comes to answering phone calls and responding to written correspondence. These concerns are borne out by HMRC's published statistics: for example, the average time taken for HMRC to answer a call increased from 5 minutes 47 seconds for January to March 2019, to 9 minutes for April to June 2019 (the last full quarter for which statistics have been published). The target for this measure is 5 minutes. Our members also suggest that many calls are being cut-off. Sometimes this happens early in the call, but sometimes after a considerable wait.

HMRC's performance in dealing with post has also deteriorated. In the period April to June 2019, HMRC handled only 55% of post within 15 working days, below both the target of 80% and the

77% performance in 2018/19. There is also a very large backlog of inheritance tax forms awaiting processing.

The impression is that HMRC is moving staff around to deal with one particular problem, only for different problems to appear elsewhere. We recommend that an urgent review is undertaken of HMRC's responsibilities to manage the UK tax system and the resources needed to deliver it. This will then allow proper consideration of the resources it needs to deliver an effective and efficient tax system. In the meantime, changes to the tax system that might impact upon its performance should be kept to a minimum.

Defer the introduction of off-payroll working rules in the private sector to April 2021

The draft legislation set out in the Finance Bill 2019-20 is overcomplicated and will create compliance burdens for taxpayers, employers and HMRC. The start date needs to be put back to 6 April 2021 to give all stakeholders – including HMRC – time to prepare on the basis of enacted legislation and resolve operational issues.

More importantly, the underlying policy is merely a partial solution to the much wider problem caused by the very different tax treatment 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 employment status over another, and which keeps compliance burdens to a minimum.

Delay the introduction of a Digital Services Tax (DST)

We understand the policy objective to address 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 HMRC's dilemma in that there is a conflict between achieving comprehensive global engagement and taking action now.

Given HMRC is committed to achieving a multi-lateral solution to this problem, we recommend that the Government delays implementing the DST for at least 12 months to allow time to ensure that the work of the OECD is fully factored in to any UK measure. This would also ensure that its introduction does not compound any problems arising following the UK's departure from the European Union.

DAC 6 needs to be better targeted

In principle, we support measures to increase transparency to revenue authorities about aggressive tax avoidance arrangements. However, we are concerned that these proposals are too widely targeted and are likely to impose considerable extra administrative burdens and costs on the ordinarily compliant tax advisers and the businesses they represent. Because this measure is too widely targeted, the number of reports submitted is likely to be far in excess of those that are the intended target.

We anticipate that there will be multiple reporting of the same transactions, not only across different jurisdictions but by multiple UK advisers. The quantity of information received by HMRC is likely to be much more than is needed and this will not help achieve the policy objective; it will make it far more difficult to identify the arrangements that really should be reportable.

Currently the UK regulations appear to largely implement the EU Directive with minimal adjustments on a domestic level. The government should review how DAC 6 is being implemented in the UK with the aim of seeing how the reporting requirements could be amended to make them more effective and less burdensome. For example, could the provisions include a ‘white list’ of agreed arrangements which do not need to be reported as they are not the target of this measure?

Delay the introduction of the CGT changes for residential property gains to April 2021

We recommend that the introduction of this measure is delayed from April 2020 to April 2021. Work on developing an online system for taxpayers and their agents to report gains and pay the tax due within 30 days of completion is, we understand, still at an early stage. Given other government and HMRC priorities, there is unlikely to be sufficient time for it to be tested properly and implemented by April 2020.

An even greater challenge is the need to communicate this policy; we understand that the estate agent and conveyancing sectors have to date shown little interest in assisting HMRC to alert vendors to the requirements – this would appear essential.

If implementation goes ahead from April 2020 without a major communication exercise, many taxpayers will be unaware of the new requirements and will miss the deadline, resulting in penalties being charged and appeals being lodged. We need to avoid a repeat of the costly experience of the introduction of the non-residents CGT charge on residential property.

Reintroduce postponed accounting for VAT

We were pleased that the Government decided to reintroduce VAT postponed accounting for imports in the event of a no deal Brexit. We believe that consideration should be given to reintroducing postponed accounting whether or not there is a Brexit deal.

Clearly, it will depend to some extent on the precise terms of any deal that may be agreed in relation to the future trading relationship between the EU and UK, but we believe that postponed accounting should be reintroduced at the end of any transition period at the latest. The cash flow benefits to business of postponed accounting would then become available for imports from outside the EU regardless of any additional benefit that may be available after the longer term arrangements with the EU have been finalised.

Review the VAT partial exemption rules

Leaving the EU provides many opportunities for the simplification of 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 the regulations can be simplified to reduce the administrative burden on businesses and also on HMRC.

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

Yours sincerely

Anita Monteith
Technical Lead & Senior Policy Adviser, ICAEW Tax Faculty

T +44 (0)20 7920 8743
E anita.monteith@icaew.com