ICAEW
REPRESENTATION 91/25

AUTUMN BUDGET 2025: NO BUSINESS TAX RISES

15 October 2025

ICAEW welcomes the opportunity to submit a representation to HM Treasury ahead of the Autumn Budget on Wednesday 26 November 2025. We hope you find our submission informative and constructive, and we would be pleased to provide additional insight wherever useful.

For clarity, we have set out an overview of our position and policy recommendations below. Please see ICAEW's own insights on the underlying economic context, including from our latest Business Confidence Monitor, on page 3, and the rationale and practical implementation considerations for each of our policy recommendations from page 8.

The UK is at an economic inflection point

- Business confidence is fragile, investment is stalling, and everyday decisions are being slowed by complexity, cost and uncertainty.
- There is a pressing need for growth, but over several years businesses trying to deliver it have been held back.

The UK economy has many global strengths but is underperforming

- Doing business in the UK is too uncertain, too difficult, and too expensive.
- The public finances are extremely fragile. The UK is on an unsustainable path.
- The way tax policy changes are developed and implemented damages the economy.

It is essential that this year's Autumn Budget unlocks economic growth by tackling the barriers that obstruct UK businesses. Therefore, ICAEW urges the Government to:

- Reduce uncertainty: **commit to not raise business taxes to the end of the Parliament**, deliver the business tax roadmap, and provide a clear path for sustainability.
- Make doing business easier: **simplify VAT**, fix HMRC service standards, streamline employment status.
- Make doing business less costly: **properly reform business rates**, cut energy costs, reduce red tape.

This must be underpinned by meaningful action to turn around the public finances and, where tax rises are absolutely necessary, a new approach should be adopted to phase them in over time.

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INTRODUCTION

1. ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its aim to enable people everywhere to do business with confidence. ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 210,000 chartered accountant members and students. 98 of the top 100 global brands employ ICAEW Chartered Accountants.
2. We understand the very difficult position the government finds itself in heading into the Autumn Budget 2025. The economy has stalled, the public finances are in a bad shape, and there is not enough fiscal headroom to meet all of the demands on the government purse.
3. We know that the last thing the government wants to do is raise taxes. Putting up taxes now is likely to inflict further damage on the economy, just at the point that the UK most needs a boost.
4. However, we also realise that the government needs to deal with the world as it is, not the world that we would all like it to be. In our recommendations, we have been mindful of the difficult situation the Chancellor finds herself and sensitive to those policy areas which both increase the prospects of growth while securing the short and mid-term stability of the public finances.
5. With this in mind, our recommendations for this Budget therefore fall into three categories:
   (i) Unlocking the attractiveness of doing business in the UK to drive economic growth.
   (ii) Reforming the management of public finances to put them on a sustainable footing.
   (iii) A new approach to tax rises that minimises their adverse impact on the economy.

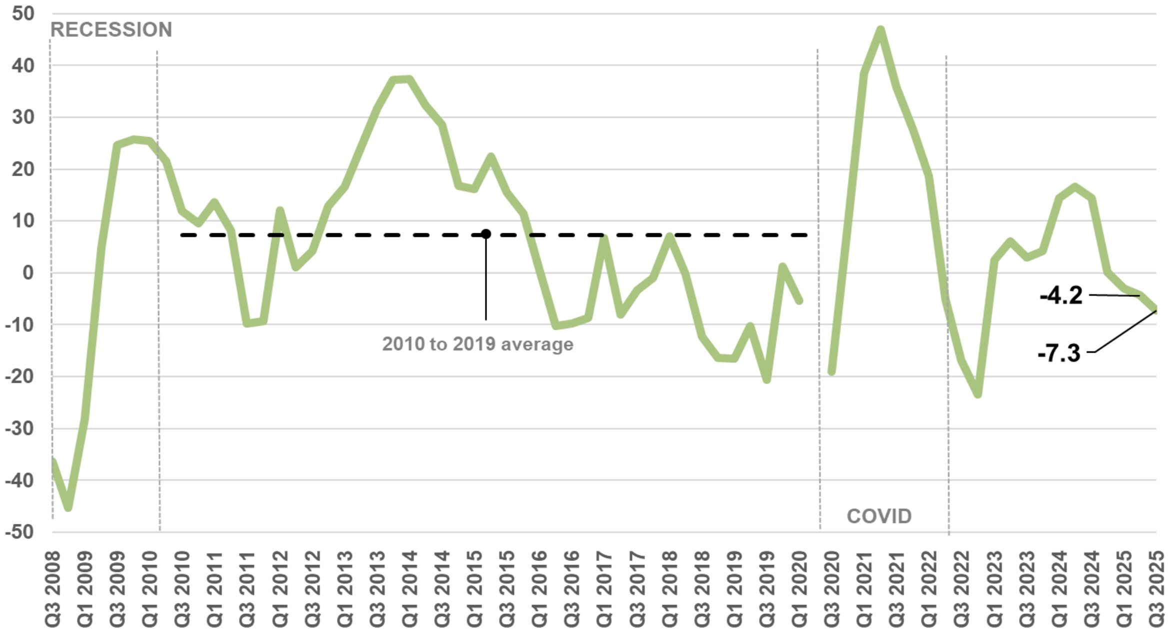
THE UK ECONOMY HAS MANY GLOBAL STRENGTHS BUT IS UNDERPERFORMING

6. There is a danger with current commentary that we talk the UK economy down and accept that we are in a spiral of unstoppable decline. This is far from the case: the UK is a great country with enviable advantages and assets, and our economy remains one of the best places in the world to start and grow a business. We are the sixth largest economy on earth, second only to Germany in Europe. We have world-leading sectors and companies, such as financial, professional and business services, life sciences, creative industries, advanced manufacturing and world-beating universities producing innovative and groundbreaking research as well as upskilling large cohorts of the population. We are a services exporting powerhouse, second only to the United States. The recent trade deals with India and the United States are genuinely impressive achievements by the UK government.
7. The Government's recent Modern Industrial Strategy provides a welcome long-term focus on the eight growth sectors in which the UK is globally competitive and have a comparative advantage, which in turn will help propel productivity, growth and rising living standards. We remain a global magnet for talent, innovation and investment, particularly in modern areas of the economy such as AI and fintech.
8. However, as the Industrial Strategy Green Paper pointed out, the UK also suffers from structural challenges, such as persistently low levels of investment; an economy focused on London and the South East with subsequent underperformance of other major city regions; weak diffusion and adoption of modern technologies, ideas and processes; and slowing market dynamism over recent decades, thereby reducing the move of capital and resource allocation to more productive elements of the economy. In addition, the UK economy has had to withstand several significant shocks to its economic and trading systems since 2008, such as the global financial crash, Brexit, Covid-19 and the war in Ukraine and subsequent high inflation, exposing the economy's limitations in resilience.
9. The UK now stands at an economic inflection point: business confidence is low, investment is stalling, and everyday decisions are being slowed by complexity, cost, and uncertainty.
10. ICAEW's quarterly Business Confidence Monitor (BCM) survey, based on 1,000 telephone interviews among ICAEW Chartered Accountants covering a wide range of UK sectors,

regions and company sizes shows that for Q3 2025 business confidence sank to its lowest level since Q4 2022 ahead of next month's Budget. It has fallen for five consecutive quarters.

11. This drop in confidence (as illustrated by Figure 1) has been driven by record concerns about the tax rises announced last year and potential tax rises expected to be announced in the Autumn Budget 2025. Tax is squeezing profits growth, deterring recruitment and chilling investment. Muted domestic sales growth also weighed on sentiment, as firms continue to lower their 2026 expectations.

Figure 1 – Business confidence deteriorates further into negative territory



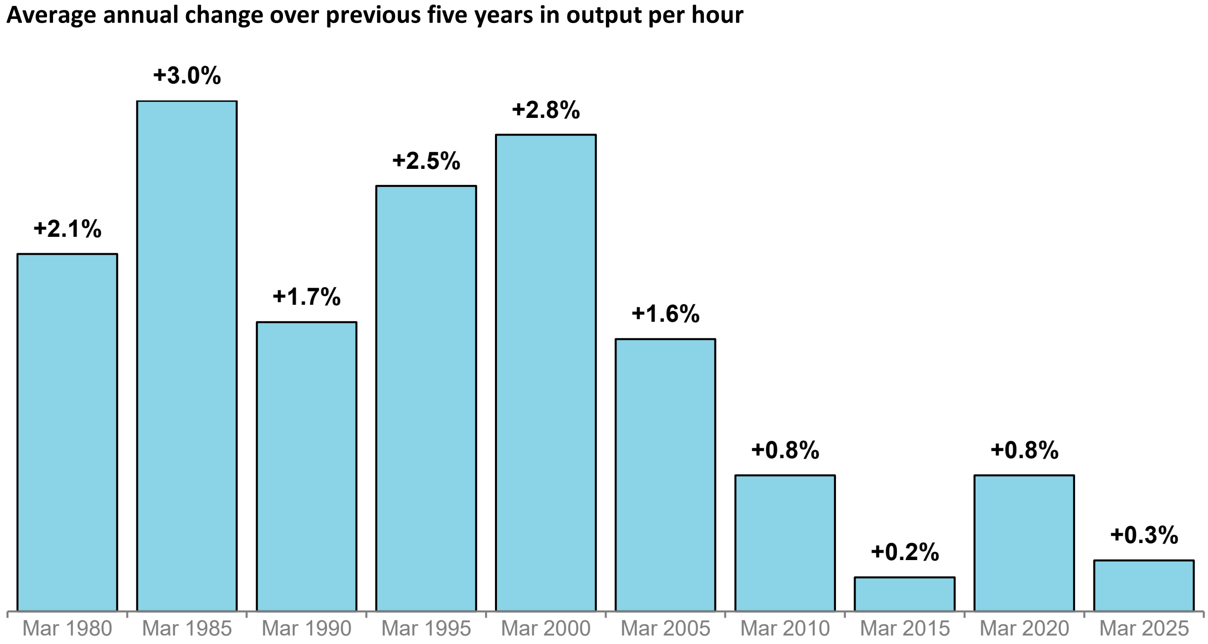
Source: ICAEW, *Business Confidence Monitor, Q3 2025*.

12. The latest BCM results saw annual profits growth in Q3 2025 slow to its lowest since Q4 2023. Growth expectations for the year ahead have dropped to a two-and-a-half year low.

13. UK productivity growth has slowed dramatically, averaging just 0.5% per year over the past decade and 0.3% over the last five years (as illustrated by Figure 2), compared to 2% or more in the decades prior to the financial crisis.

14. The BCM found that growth in staff training budgets is expected to fall to the lowest level since Q3 2021. That will hinder productivity. This persistent stagnation limits wage growth, constrains public revenues, and undermines long-term economic resilience.

Figure 2 – Productivity growth



Source: ONS, *Quarterly output per hour worked: whole economy, chained volume measure: 14 Aug 2025.*

15. Capital investment growth in Q3 declined to its weakest level since Q4 2023. Firms plan to slow the rate at which they increase their expenditure over the coming year. Employment growth dropped from 1.4% in Q2 to 0.9% in Q3, the lowest point since Q2 2021, while expectations for employment growth in the year ahead at its lowest level for five years.

16. The tax burden was cited in the BCM as a growing challenge by 60% of businesses in Q3 (as illustrated by Figure 3), a historic high for the survey, a ten-fold rise over the past five years, from just 6% in Q3 2020.

17. Regulatory requirements are the second biggest challenge to performance. 47% of companies cite this as an issue, the highest proportion since Q4 2018.

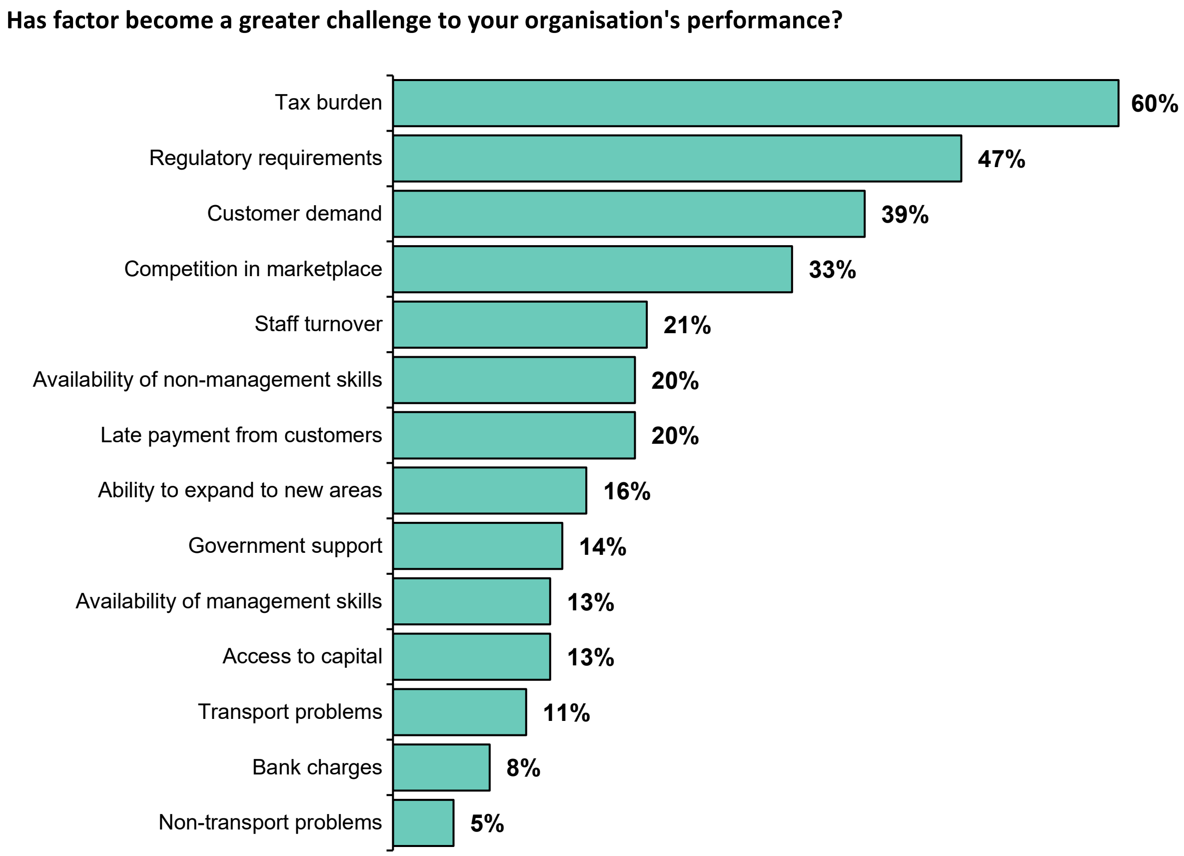
18. Separate ICAEW research of 659 businesses released to coincide with ICAEW's 2025 Annual Conference taking place this week in October 2025 found that:

    (i) 80% of businesses said they've been negatively impacted by April's major rise in business costs (notably the employer national insurance increase) with nearly a quarter of firms (24%) saying that the impact on their business was 'very negative'.

    (ii) While the majority (60%) of businesses said they partly absorbed these higher costs through accepting lower profit margins, 46% of businesses also responded by cutting jobs or freezing recruitment. In addition, over one-third (34%) of firms increased prices in response, and over 1 in 5 firms (23%) said that they had reacted by reducing investment.

    (iii) If more tax rises were announced in next month's Budget, while just under two-thirds (64%) of firms would look to partly absorb higher costs through taking lower profit margins, more than half (56%) businesses said they would cut headcount or freeze recruitment in response to more tax rises. Firms within construction (63%) and retail and wholesale (62%) were most likely to shrink their workforce in response to further tax increases. Nearly half (45%) of firms said they will also expect to raise their prices if taxes rise and over one in three (39%) firms say they would reduce investment.

Figure 3 – Concerns over tax burden at record high



Source: ICAEW, *Business Confidence Monitor, Q3 2025*.

DOING BUSINESS IN THE UK IS TOO UNCERTAIN, TOO DIFFICULT, AND TOO EXPENSIVE

It's too uncertain to do business in the UK

19. Businesses are facing continued uncertainty, driven in large part by a tax system that no longer meets the demands of a modern, digital, and globally competitive economy.

20. Frequent rule changes, mid-year reversals, and inconsistent communication make long-term planning nearly impossible, especially for firms making investment or hiring decisions. The absence of a stable fiscal calendar forces businesses to react with little notice, diverting resources from growth to compliance and risk management. This volatility hits SMEs hardest, as they often lack the capacity to absorb rapid policy shifts.

21. Meanwhile, global headwinds from volatile geopolitics and cyber threats to climate risks add further instability. The result is a business environment where trust is eroding, confidence is falling, and firms are increasingly hesitant to invest for the future.

Practice, East of England Business Confidence Monitor event:
"Government policy changes and delays are causing both risks and opportunities, with some sectors benefiting from increased support and others experiencing operational pauses."

It's too difficult to do business in the UK

22. Doing business in the UK is simply too difficult. A byzantine VAT system drains entrepreneurs' time and resources, with outdated rules creating costly disputes and threshold cliff-edges acting as hidden taxes on innovation and growth. Years of underinvestment in HMRC have left service standards lagging, forcing businesses to waste valuable hours on the phone instead of driving growth. The planning system makes it hard, sometimes impossible, to expand.

Manufacturing, East of England*: "Persistent difficulties in recruiting technical talent, lingering administrative burdens from post-Brexit export processes and concerns about the impact of potential tax increases ahead of the Autumn Budget. While supply chain issues have eased, caution remains about regulatory changes"*

It's too expensive to do business in the UK

23. The rigidity of the business rates system punishes investment, with bills that don't flex alongside performance. Energy costs for business are amongst the highest in the world. The VAT threshold creates a barrier to growth. Overlapping and duplicative regulations drive up compliance costs and slow innovation, adding to the financial strain on businesses. The sharp rise in employer national insurance has driven up staff costs.

Business, Northern Ireland: *"Employers' national insurance and national living wage changes are affecting staffing budgets. Businesses can pass on some costs but not all. There is recruitment pressure as employers are expected to hire more but face challenges including salary expectations, especially for skilled roles."*

24. This results in businesses hesitating to invest, hire, or innovate. They don't believe government 'has their back'. If this continues, the UK will increasingly lose competitiveness, jobs, and growth.

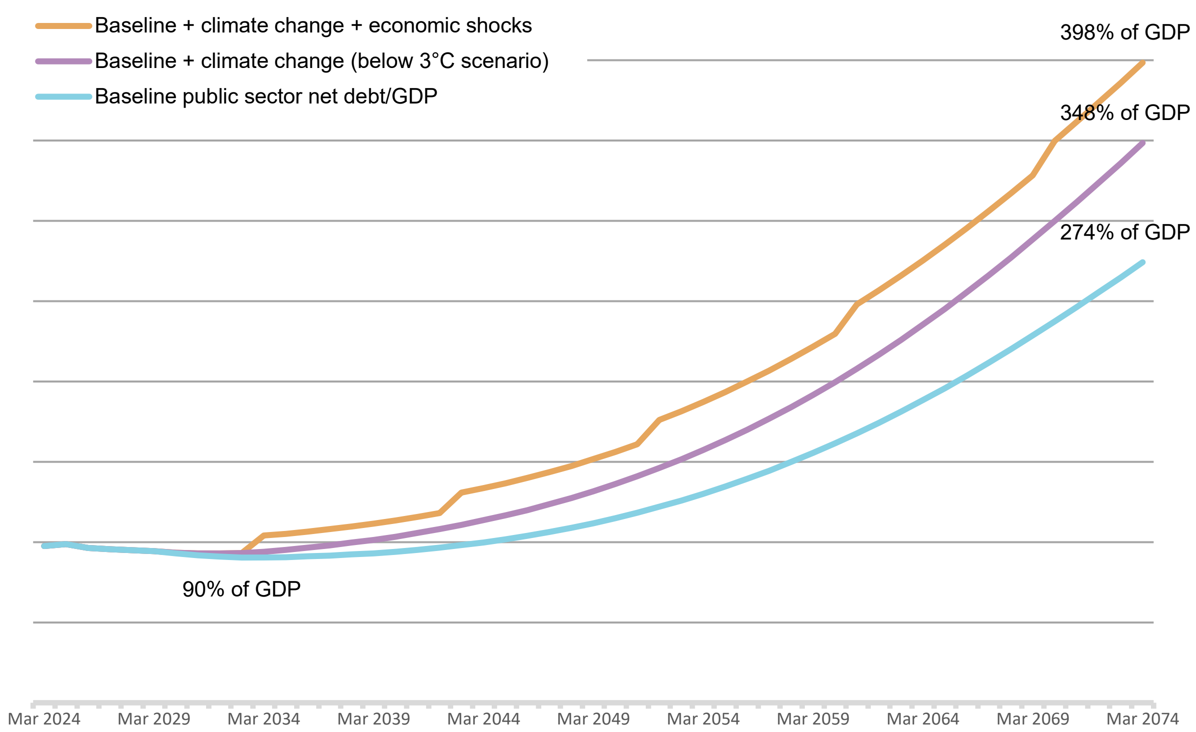
Unlock UK growth by removing business barriers

25. Although the fiscal position is tight, it is more important than ever to stop tinkering and start fixing the structural blockers that hold the UK back. Our three themes for unlocking business growth reflect this conviction: to ensure the UK economy is on the path to sustainable economic growth, the government must remove the obstacles that prevent businesses from doing what they need to make it happen.

THE PUBLIC FINANCES ARE EXTREMELY FRAGILE AND ON AN UNSUSTAINABLE PATH

26. The latest Office for Budget Responsibility (OBR) Fiscal risks and sustainability report published in July 2025 reports that without action the UK public finances are on an unsustainable path.

Figure 4 – OBR long-term projections for public sector net debt/GDP



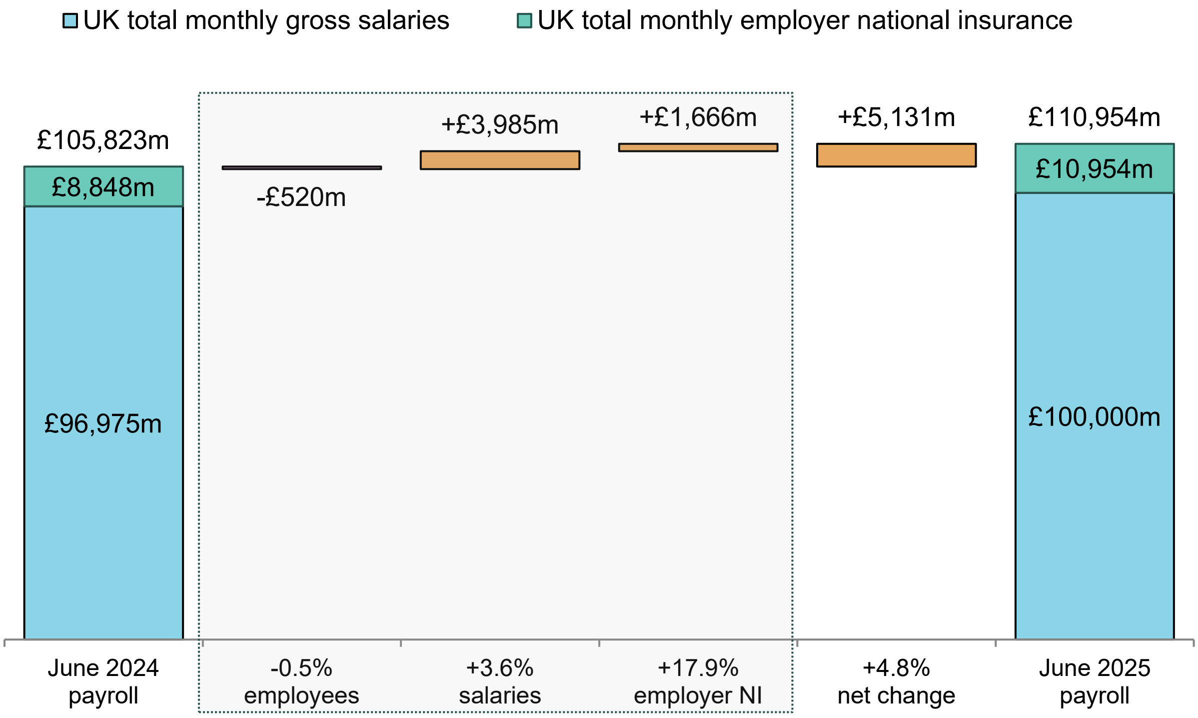
Sources: OBR, *Fiscal risks and sustainability,* September 2024 and July 2025 reports.

27. The OBR projects that public sector net debt could reach 274% of GDP by 2074, while the costs of climate change and potential economic shocks could take it to 398% of GDP.
28. The OBR also projected that the tax burden would increase to 37.7% of GDP in 2027/28, which would be its highest level since 1948. As high public debt persists, investment is low and the tax burden is ever increasing, individuals, business and investor confidence weakens.
29. Demographic pressures are also intensifying. The UK is projected to see a 34% increase in the population aged 65 or more over the next 25 years, compared to just 11% growth in the working-age population. This shift will place growing strain on public services, pensions and the tax base, raising urgent questions about the sustainability of current fiscal arrangements.

HOW TAX CHANGES ARE DEVELOPED AND IMPLEMENTED DAMAGES THE ECONOMY

30. The way the rise in employer national contributions was implemented in April 2025 demonstrates how sharp changes in tax policy can have a significant impact on the economy. ICAEW research including the BCM confirms that this tax rise has had a significant adverse impact on hiring, investment and inflation, with many businesses cutting staff, deferring expansion plans, and/or passing on higher costs to their customers. 80% of businesses polled by ICAEW said they've been negatively impacted by April's major rise in business costs (notably the employer national insurance increase). The increase coupled with rising National Minimum Wage has also made it increasingly harder for businesses to justify creating entry-level roles, contributing to a marked decline in opportunities at the lower end of the labour market.
31. This is supported by administrative data (Figure 3), which illustrates how the national workforce shrank between June 2024 and June 2025 despite an increasing population.

Figure 5 – Employer national insurance and minimum wage increase



Sources: ONS, *PAYE real time information, non-seasonally adjusted*; HMRC, *Monthly tax receipts*.

32. Our view is that the way that this and other tax rises have been developed and implemented has exacerbated the adverse economic impact. In particular, implementing a large tax rise all in one go is likely to cause the maximum damage to business growth.

33. We, and many others, also believe that the uncertainty caused by the expectation of tax rises in the run up to fiscal events results in businesses pausing business development, hiring and investment decisions pending clarity. We think this has been a key factor in the weak economic conditions seen in 2024 in the run up to the Autumn Budget 2024 and in the current year in the run up to the Autumn Budget 2025.

1. REDUCE UNCERTAINTY

34. Businesses need a stable, long-term framework without continually moving goalposts. **Persistent economic uncertainty destroys the appetite to invest for the future.** Volatility and fragmented, sometimes contradictory, signals scatter effort across departments and blunt otherwise good ideas.

35. That said, there is a need for tax reform to address the complexities and inequities inherent in the current tax system that hold businesses back. We need a systematic and consultative approach to reform the tax system over the next quarter of a century, simplifying and optimising the tax system to drive growth. There is a huge opportunity to make the UK one of the best places in the world to do business, taking the next two years to design and consult on legislation for comprehensive tax reform to be phased in from 2030 onwards.

POLICY RECOMMENDATION 1A: NO MORE BUSINESS TAX INCREASES TO THE END OF THE PARLIAMENT

36. Business confidence and the economy would benefit significantly from a guarantee of no business tax hikes this Parliament. Growing businesses would feel more confident to invest, employers would feel more confident to hire, and entrepreneurs would feel more confident to take risks. Foreign investors would feel more confident to put their money and talent into the UK.

37. Businesses need stability to plan, invest, and grow, but tax policy is too unpredictable. Businesses can't plan confidently if they fear tax hikes will make them unprofitable.

> Small practice, Midlands: *"Companies have taken enough. There isn't bandwidth for companies to accept more tax rises"*

38. Frequent mid-year rule changes, policy reversals, and inconsistent communication make long-term planning difficult. SMEs are hit hardest, often lacking the capacity to respond quickly. Instead of focusing on growth, businesses are forced to spend time managing compliance and risk.
39. Although the government has committed to a single fiscal event each year, speculation around tax rises especially ahead of spring statements and during spending reviews undermines confidence and creates uncertainty.

> Farming practice, East of England: *"The Budget is creating rumour and worry as it did last year. I'm concerned over the timing as it's followed by the Christmas period. It means we need to manage client expectations."*

40. Developing tax policy in secrecy ahead of Budgets adds to the problem. It breeds distrust and fuels speculation. Businesses need a more transparent and consultative approach to tax reform, one that supports resilience and ensures public services are sustainably funded.

POLICY RECOMMENDATION 1B: CLARITY ON TAX REFORM

41. The publication of a corporate tax roadmap in October 2024 was helpful in providing greater clarity about corporation tax for the rest of the Parliament. However, what businesses really need is a commitment to reform the business and other taxes that are obstacles to growth.
42. In addition to committing to no more unexpected business tax rises during this Parliament, government needs to open the 'too difficult' box and address three long-standing barriers to growth that can also broaden the tax base:
    - Business rates: a tax on premises expansion and productivity investment.
    - VAT rules: byzantine complexity and cliff edges deterring innovation and willingness to grow.
    - Employment status: stifling complexity around status deters hiring for temporary contracts.
43. We think there is a significant opportunity to use the next two to three years to develop tax reforms that meet the needs of a dynamic and growing economy. This should be a collaborative project, working with business, professional bodies and tax advisers to develop a simpler and more coherent tax system that generates the revenue the nation needs to pay for better and improving public services while at the same minimising complexity, perverse incentives and excessive compliance costs for both taxpayers and government.

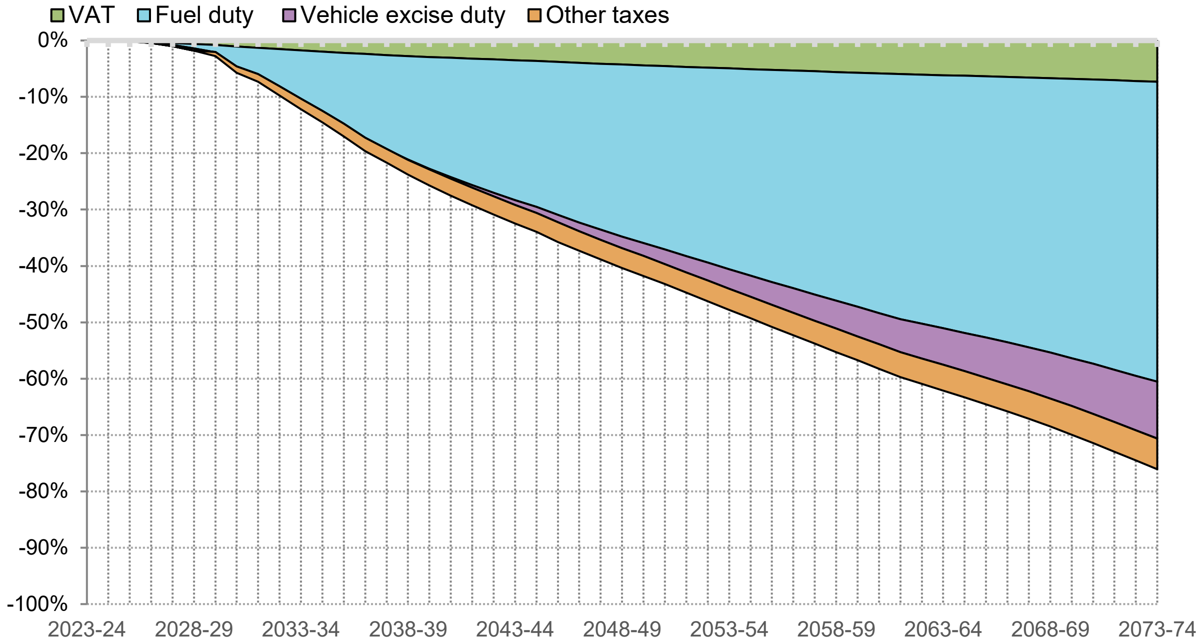
POLICY RECOMMENDATION 1C: PROVIDE A CLEAR PATH FOR SUSTAINABILITY

44. The UK needs a clear, whole-economy transition plan to unlock business investment and accelerate progress towards net zero. This Budget is a critical opportunity to set out that plan. Aligning fiscal strategy with the UK's 2050 net zero target and other environmental goals such as the Global Biodiversity Framework will reduce climate and nature-related risks while driving long-term growth, resilience, and competitiveness.

    Businesses, particularly SMEs which make up 99% of UK firms, will be central to delivering the transition. But they cannot act without clarity. A successful transition plan must be backed by practical support that helps firms understand what's expected, when, and how to respond. Climate and nature risks are already affecting productivity and resilience, and the fiscal risks are growing: the OBR projects that a 2–3°C rise in global temperatures could increase UK public sector net debt by 74% by 2074.
45. Fuel duty generated £24bn in 2024/25, just under 3% of total tax receipts collected by HMRC. This is expected to decline to close to zero as petrol and diesel vehicles are phased out and replaced by electric vehicles.

46. While this gap in tax revenues has been known about for some time, there is still no clarity on what the plan is for motoring taxes in the coming decade.
47. The nature of any new motoring tax is likely to have significant implications for business, for example in guiding investments in transportation and logistics, and in the business case for electric vehicles.
48. Even if some of the practical details need to be fleshed out over the next few years, it would still be extremely helpful for planning ahead for there to be clarity around the tax revenues that are expected to be generated from any fuel duty replacement and from other motoring taxes such as vehicle excise duty.

Figure 6 – Total revenue loss due to the net zero transition, as a percentage of GDP



Source: OBR, Fiscal risks and sustainability, July 2025.

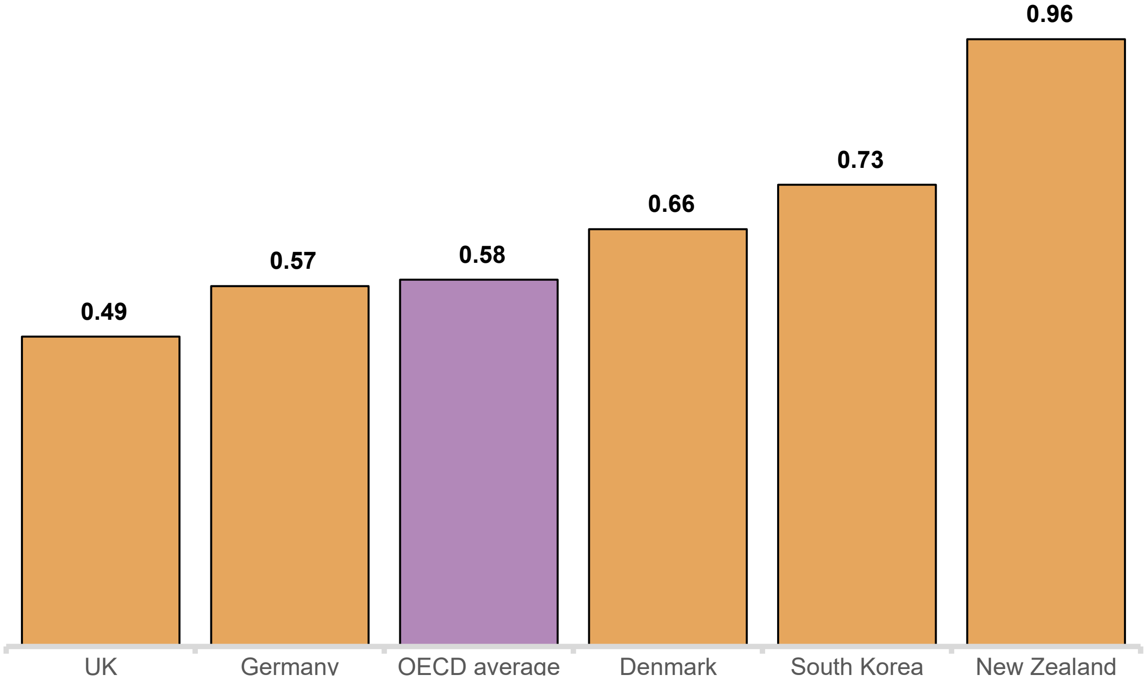
2. MAKE DOING BUSINESS EASIER

POLICY RECOMMENDATION 2A: SIMPLIFY VAT

49. VAT is the UK's second largest source of tax revenue, generating £202bn in 2024/25, around 21% of total tax receipts collected by HMRC. As a major pillar of the UK's fiscal framework, it is essential that the system operates efficiently.
50. Yet the system is outdated and overly complex, with multiple rates, numerous exemptions and a registration threshold and cliff edge that discourages growth. Many small businesses deliberately limit turnover to avoid the administrative burden of registration.
51. Complexity also drives costly disputes, as illustrated by *HMRC v Innovative Bites Ltd [2025] EWCA Civ 293 – a* £500,000 case about whether 'Mega Marshmallows' are zero-rated food or standard-rated confectionery.
52. The government should use this Budget to begin consulting on a path towards a single rate of VAT with minimal exemptions.
53. A broader tax base could generate equivalent revenue at a lower standard rate, reducing both the compliance burden and the distortions created by multiple rates. This would create a fairer, more predictable system for businesses of all types and sizes.
54. This consultation should form part of a broader VAT reform programme to support growth and reduce complexity. ICAEW recommends the following**:**
    - **A comprehensive review of the VAT system.** The Office of Tax Simplification carried out a major review in 2017, identifying structural complexity and recommending simplification measures. While some progress has been made, many issues remain unresolved. Now that the UK is no longer bound by EU harmonisation rules, there is an opportunity to revisit those recommendations and go further, designing a system that is simpler, fairer and more aligned with domestic priorities.
    - **Commit to e-invoicing by 2030 with a clear roadmap to real-time reporting**. This will help to narrow the VAT gap and reduce fraud, while reducing the compliance burden for businesses.
    - **Coordinate with international initiatives**. This includes the EU's ViDA package, to ensure interoperability and minimise friction for cross-border trade.
    - **Improve the user experience and agent capabilities**. Expand what agents can do and provide clearer, tailored guidance for different taxpayer types.
55. Multiple rates and exemptions add complexity without strong evidence of delivering fairness or targeted support. Reforming VAT offers a chance to simplify the system, reduce administrative burdens, and create a stable foundation for growth. This Budget should mark the start of that process.
56. It is estimated that a VAT system as efficient as the OECD average could raise in the order of £30bn more a year, while a more extensive VAT that covered almost all goods and services like New Zealand (with a VAT revenue ratio of 0.96 compared with the UK's 0.49) might in theory raise around £80bn even with a lower standard rate of 15%.
57. HMRC's own estimates for non-structural reliefs are that reduced- and zero-rate items excluding new dwellings reduced VAT receipts in 2024/25 by approximately £50bn, including food (£26bn), domestic fuel (£6bn), transport (£5bn), prescription drugs (£4bn), water utilities (£3bn), children's clothing (£2bn), books (£2bn) and other (£2bn).
58. Removing these reliefs in a phased-in approach over three or four years (or even longer) would permit the government to raise more money to pay for public services. This will entail hard political choices, but the effect could be mitigated by using some of the revenues raised from base broadening to target financial support to the lower income households who need it most. Potentially, these reforms could also enable a reduction in the standard rate of VAT to benefit all consumers which could stimulate economic growth, with one calculation estimating that the poorest 40% of households could have their total annual VAT payable of a broad-based VAT of 18% offset by the additional revenue that it would generate. Instead of speculation that the government may have to raise VAT rates, this Budget could be an

opportunity to undertake meaningful and comprehensive reform to broaden the base and lower VAT.

Figure 7 – VAT revenue ratio



Source: OECD, *Consumption Tax Trends 2024*.

POLICY RECOMMENDATION 2B: FIX HMRC SERVICE STANDARDS

59. Poor service from HMRC is costing businesses time, money, and confidence. ICAEW members consistently report long delays, particularly in receiving repayments, unanswered queries, and inconsistent advice, especially for small and mid-sized firms. Resolving even basic tax issues can take weeks or months, forcing businesses to divert resources away from growth and towards compliance. This inefficiency increases reliance on external advisers, adds to administrative costs, and undermines productivity. Despite the Government's push to cut regulatory burdens, HMRC is not included in its red tape reform programme, leaving a critical blocker untouched.

ICAEW member in business, South West:
"It has been that bad for that long, you don't notice it anymore.''

60. HMRC's customer service performance has declined in recent years. Digital services, particularly for agents, remain patchy and underdeveloped, falling short of HMRC's own digital-first ambitions. ICAEW supports the goal of modernising tax administration, but this must be underpinned by sustained investment, a realistic delivery plan, and a commitment to restoring service quality.

61. Service challenges at HMRC are more than frustrating – they have economic consequences. While HMRC estimates that it collected 94.7% of tax due in 2023/24, the remaining 5.3% (£47 billion)[1] represents a significant tax gap. Although this gap arises from a range of factors, improving HMRC's customer service could support better voluntary compliance by making it easier for taxpayers to meet their obligations accurately and on time.

Fast-Moving Consumer Goods, UK: *"Discussions with HMRC are difficult - feels like they are trying to exploit any opportunity. Allowing less time for responses and going after more random things."*

[1] Performance report 2025 to 2026: August 2025 and quarter 1 - GOV.UK

62. Furthermore, HMRC's interest rate disparity is placing an unfair burden on businesses. When businesses owe tax to HMRC, they are charged late-payment interest at the Bank Rate plus 4 percentage points (currently 8.0%), while repayment interest from HMRC is set at the Bank Rate minus 1 percentage point, with a 0.5% floor (currently 3.0% as of 27 August 2025). This gap widened further following a 1.5 percentage point increase in late-payment interest from April 2025. While we recognise HMRC's need to address the persistent tax debt built up during the pandemic, increasing interest charges does not help businesses that are already struggling to pay. At the same time, firms report growing frustration with delays in receiving tax refunds. Although fraud checks are necessary, HMRC should be financially incentivised to process repayments promptly. Reducing the disparity in interest rates would help rebalance incentives and support fairer treatment for taxpayers.

63. To address these barriers, this Budget should commit to improving HMRC's service delivery. ICAEW recommends that HMRC:
   - Introduce an external tracking mechanism for correspondence,
   - Ensure there are appropriate routes to escalate complex cases to help resolve problems more effectively without prolonged and repeated interaction with HMRC customer service.
   - Improve individual ownership of work to improve resolution rates,
   - Improve education and training of HMRC staff to increase consistency and resolution rates.
   - Invest in customer service staffing to reduce backlogs and delays,
   - Maintain investment in legacy systems to ensure that taxpayers and agents who have no choice but to use legacy systems receive a sufficient level of customer service and functionality.
   - Identify and plug gaps in digital services,
   - Increase the use of secure email for agent communication to help meet agent demand for digital communications.
   - Work collaboratively with taxpayers and agents to better inform design and testing and make vital changes post-implementation to ensure digital systems work.

POLICY RECOMMENDATION 2C: STREAMLINE EMPLOYMENT STATUS

64. ICAEW supports the government on the need to reform employment status.

65. The current system for determining employment status is a minefield for both businesses and workers. With three employment types in employment law and two in tax law, the resulting misalignment creates excessive compliance costs, perverse incentives, and confusion. In some cases, individuals are taxed as employees but receive none of the associated rights.

66. This complexity hits start-ups and scale-ups particularly hard. Many rely on flexible or fractional workers, but current rules make these arrangements harder to manage. Some firms are now looking abroad for talent, where labour markets are more agile. The Public Accounts Committee has warned that this complexity is already changing behaviour and leading to costly tribunal cases.

67. The inconsistencies between tax and employment law have led, and continue to lead, to extensive legal disputes and confusion, making it harder for businesses and workers to navigate a patchwork of overlapping and sometimes conflicting rules including IR35, off-payroll working rules, agency and umbrella company legislation, complicating hiring and increasing risk. This deters engagement, inhibits labour market flexibility, and creates barriers to growth.

68. We believe there is a need to streamline employment status by aligning tax and employment law, reducing the economic incentives to change status, simplifying the rules, and reducing compliance burdens. The current system is overly complex, with differing definitions and tests across legal and tax frameworks.

69. This creates opportunities for arbitrage, where individuals and businesses may shift status to minimise tax or regulatory burdens, rather than based on the nature of work. We call for a

clearer statutory framework that reduces ambiguity and ensures fair treatment across all employment types.

70. We also believe there is a need for a broader discussion on the value of the self-employed in the economy as contributors to growth and resilience. Reform should strike a balance between ensuring the tax system does not disincentivise taking on employees or increases the risk of exploitation of vulnerable workers, while also avoiding measures that discourage entrepreneurial risk-taking. This is particularly important in sectors such as construction, creative industries, and professional services, where flexible work is integral to business models.

71. The proposal in the Employment Rights Bill to reduce from three to two types of employment and a subsequent consultation on simplifying the employment status framework due by the end of the year is a welcome step, but failing to extend this to also consider employment status for tax would be a missed opportunity.

72. Effective reform will involve reducing or eliminating the differences in the effective tax paid on different types of employment status and providing much greater clarity on how to determine employment status. This will help reduce the economic incentives to change status for tax purposes, ensuring employment status is selected for genuine commercial reasons.

POLICY RECOMMENDATION 2D: ACCELERATE PLANNING REFORM

73. One of the most important improvements the government can do to make it easier to do business in the UK is to reform the planning regime. Obtaining planning consent often takes years, tying up capital and delaying business expansion, while the uncertainty caused by the risk of unwarranted rejection or legal challenges even after permission has been granted means that businesses are often reluctant to expand, or choose to do so in other countries.

74. ICAEW therefore strongly supports the government’s proposals to reform the planning laws to make it easier to obtain planning consent and to increase certainty around legal challenges. We believe that it is possible to improve the planning system to speed up consents, reduce the compliance burden on straightforward proposals, and provide greater legal certainty while at the same time protecting both nature and democratic oversight. To be successful this may require further investment in planning departments beyond that already announced in the Autumn Budget 2024.

75. We believe that it is critical that planning reform is delivered sooner rather than later to unlock the potential of UK business.

POLICY RECOMMENDATION 2E: STREAMLINE DATA REQUIREMENTS

76. In this Budget the government should commit to streamlining regulatory data requirements across the financial services sector. We call on the government to lead a coordinated effort to reduce duplication, improve oversight, and ease the compliance burden on firms.

77. While this issue is particularly acute in financial services, where firms face overlapping demands from the FCA, PRA, Bank of England, and PSR, the need for coordinated data governance applies across sectors.

78. ICAEW continues to advocate for greater coordination and simplification of data requirements across the financial services regulatory landscape. With multiple regulators operating in the sector including the FCA, PRA, Bank of England, and Payment Systems Regulator, firms are frequently asked to submit the same or similar data to different bodies, often with no clear coordination or shared purpose. This fragmented approach creates unnecessary administrative burdens, increases compliance costs, and undermines regulatory efficiency.

79. Once data collection requirements are introduced, they are rarely reviewed or retired, even when their original purpose has been fulfilled. ICAEW recommends that all regulatory data requirements be subject to a sunset clause, with a triannual review to assess whether the data is still being used and whether collection remains justified. The default position should be to cease collection unless a clear rationale is provided.

80. We welcome the PRA's recent commitment to reviewing its data collection practices and encourage other regulators to follow suit. ICAEW also urges government to take a more strategic approach to data governance one that recognises interdependencies across regulators and aligns oversight to reduce duplication.

81. This is particularly important for smaller firms and start-ups, which often lack the resources to navigate complex and overlapping reporting obligations.

3. MAKE IT LESS COSTLY TO DO BUSINESS

82. Longstanding structural barriers from business rates to fragmented employment status rules and duplicative regulation are holding back investment, innovation, and productivity. ICAEW urges government to tackle these issues head-on, modernising outdated systems and creating a fairer, more agile environment for growth.

POLICY RECOMMENDATION 3A: REFORM BUSINESS RATES

83. ICAEW believes that the business rates system is poorly designed.

84. It is a major obstacle to delivering a level playing field for businesses, with successive governments revisiting business rates reliefs for specific industry sectors or sizes of business to adjust for a tax that is too high and hampers business expansion.

> Fast-Moving Consumer Goods, South West: *"Government is not willing to 'grab the nettle' and fundamentally reform business rates. I'm struggling to see any opportunity coming out of this Budget*."

85. Business rates should ideally be abolished and replaced with an alternative non-residential property tax and a new funding arrangement for local government that distributes money fairly while at the same time incentivising regional and local authorities to encourage and support business growth in their areas.

86. However, we accept that such a radical reform is unlikely to be politically possible or practical in the near-term. A move to a profits-based system of calculation would reduce certainty for local authorities, many of which are facing a funding crisis of their own.

87. The government's interim report on business rates reform is a step in the right direction and shows how the government can incentivise growth through simplifying reliefs and calculations. However, we believe that the government can go further than the proposed measures set out in the report.

88. Business rates don't fall when trade does and rise when businesses invest in property improvements. They remain a major fixed cost for businesses. Unlike corporation tax or VAT, they do not flex with performance. Valuation lags, limited appeal options, and poorly publicised reliefs further increase risk. Investing in plant and machinery can increase rateable value (RV), discouraging productivity-enhancing upgrades. For example, a £185m furnace upgrade at Tata Steel Port Talbot led to a £400k annual rates increase.

89. The government's *Business Rates Interim Report* acknowledges many of these issues, with a commitment to permanently lower multipliers for smaller retail, hospitality, and leisure properties with rateable values below £500,000, and the introduction of a new 'growth incentive' for local authorities. These measures show recognition of the system's shortcomings and the importance of supporting high street businesses.

90. ICAEW supports these improvements and the broader ambition to create a fairer, more responsive system. In particular, we agree that moving from a 'slab' to a 'slice' basis in calculating business rates would result in fairer liabilities and smoother transitions as a business expands. We also agree that a shorter period between the valuation date and revaluations coming into force would ensure that rates liabilities are calculated based on more accurate and up to date valuations.

91. In addition, we think there are opportunities to support business growth in other areas.

92. When businesses move to new premises, they often need to retain their previous property while improvements and other works are carried out or in the course of transferring operations and getting up to speed in the new location. Providing a ‘rates break’ in respect of the new property would remove the disincentive this causes to expand and move into new premises.

93. The introduction of a further rates-free period (or reduced rates) would further assist whilst a business increases in size as there is often a lag between taking on increased costs and generating incremental revenue.

94. Where a small business occupies more than one property, its ability to access small business rates relief is severely restricted. It retains relief on its main property for up to 12 months, or indefinitely if none of its other properties have a rateable value above £2,899 and the total rateable value of all its properties is less than £20,000 (£28,000 in London). We would like to see these limits increased to £12,000 and £36,000 respectively.

95. The government may also consider reducing the percentages by which rates liabilities can increase year-on-year under transitional relief. In 2025/26, rates bills can increase by up to the percentages included in the table below. We’d like to see these percentages reduced by half.

Rateable value	2025 to 2026
Up to £20,000 (£28,000 in London)	25% plus inflation
£20,001 (£28,001 in London) to £100,000	40% plus inflation
Over £100,000	55% plus inflation

96. Business rates raised £29bn in 2024/25 and remain an important source of revenue for local government across the UK. But the system must evolve to support a modern, dynamic economy that provides a more stable platform for businesses and for both central and local government. ICAEW urges the government to explore options for a more strategic, long-term reform.

POLICY RECOMMENDATION 3B: CUT ENERGY COSTS TO RESTORE COMPETITIVENESS

97. Energy costs in the UK are among the highest in the developed world, making it a challenging and often uncompetitive place to do business.

98. Rising and volatile prices are eroding margins for many businesses. SMEs are particularly exposed due to limited negotiating power and a lack of reliable incentives to invest in efficiency.

99. ICAEW members from rural boutiques to urban pubs report energy bills rising faster than they can absorb, with some unable to even secure supplier quotes. UK business electricity prices nearly doubled between 2021 and 2023 and, despite some easing, remain around 75% higher than early-2021 levels. Short-term relief schemes and market volatility are deterring investment in energy efficiency, while unclear frameworks around renewables especially rooftop solar leave SMEs without a viable pathway.

100. We recognise that the government has acknowledged this issue and has stated in its Modern Industrial Strategy that it will make electricity cheaper for manufacturing industries in the eight growth sectors and foundational industries, ensuring competitive prices to attract and retain investments. We welcome this.

101. ICAEW recommends that in addition to this the government:

- Explore collective buying power for SMEs by piloting a “SME cohort” to access Crown Commercial Service (CCS) public sector energy buying frameworks and risk-managed trading arrangements.

- Make non-domestic energy quotes truly comparable with a standardised one-page tariff format.
- Ensure SMEs have access to suitable tariffs, including at least one smart-meter time-of-use tariff, and one with a capped standing charge so low-usage or seasonal SMEs aren't penalised.
- Encourage rooftop solar and onsite generation by providing business rates certainty, removing residual planning friction, and better promoting existing capital-allowance rules.
- Explore options to reduce energy costs for all businesses by addressing legacy environmental charges, increasing storage so that excess wind power can be utilised instead of paying generators to turn themselves off, and by improving energy security to reduce the UK's exposure to volatile international energy prices.

POLICY RECOMMENDATION 3C: REDUCE RED TAPE

102. Regulatory overlap and duplication are wasting time, money, and opportunity.

Energy sector, London: *"Managing the regulatory environment while trying to grow is locking up capital."*

103. Businesses face too many overlapping rules, with no permanent mechanism to report inefficiencies or barriers. Regulators often default to risk aversion, stifling innovation and experimentation.
104. In construction ICAEW members report needing to obtain planning consent from multiple bodies, including local authorities, environmental agencies, and heritage regulators, even for straightforward proposals. This duplication delays projects, ties up capital, and deters expansion.
105. Government itself acknowledges the scale of the problem: "Over time, billions of pounds of regulatory cost have contributed to our economy being less competitive and less attractive for new investment than it could be." Some studies estimate red tape costs at 3–4% of GDP around £70 billion. ICAEW's Business Confidence Monitor (Q3 2025) shows that 47% of businesses report regulation as a rising challenge, the highest proportion since Q4 2018.
106. ICAEW welcomes the government's recognition of regulation as a driver of economic growth and supports the Better Regulation Action Plan as a meaningful evolution of the Smarter Regulation initiative. However, further action is needed to reduce complexity and improve coordination.
107. At an ICAEW-led roundtable, participants highlighted the volume of rulemaking, lack of post-implementation review, and absence of early evaluation. Businesses want regulation that is predictable, proportionate, and stable.

Mid-market practice, Scotland: *"We feel disproportionately impacted by regulatory reform. There's widespread concern about the lack of discretion from regulators and the negative tone affecting the accountancy profession's attractiveness."*

108. This is especially critical in fast-evolving sectors like AI and financial services, where fragmented rules risk deterring investment. Regulation should enable responsible experimentation and productivity.
109. ICAEW recommends practical reforms to improve regulatory design:
    - **Set expectations** with formal guidance or legislation that defines "regulator" and embeds both conduct and design principles for use in new or reformed regulators.
    - **Ensure accountability** with a standardised KPI taxonomy covering timeliness, clarity, innovation, compliance burden, and stakeholder satisfaction. Enable independent body review.
    - **Surface duplication and barriers faster** by establishing a 'Report a Regulation' portal – a single-entry point for firms to flag duplications, unclear guidance, or process delays.

Auto-route cases to the right regulator; publish a triage status board with SLAs. Link to KPI taxonomy. Enable the public to see who regulates what.

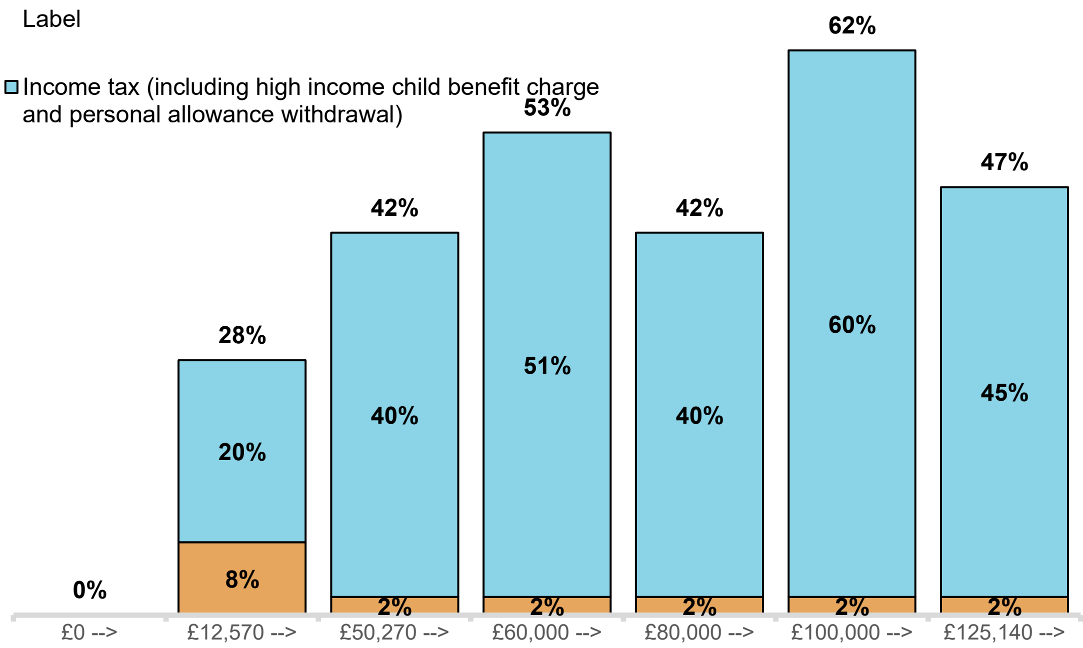
- **Shift from default risk aversion to smart experimentation** by supporting the Regulatory Innovation Office to encourage system-wide adoption of risk appetite/innovation statements, and a common sandbox playbook. Enable independent assessment of how effectively regulators encourage innovation.
- **A shift toward a more service-oriented regulatory mindset** one that treats firms as customers needing support, rather than wrongdoers to be constrained. This would promote a more collaborative and growth-friendly regulatory environment.
- **A reduction in the volume of "soft guidance,"** which is overloading businesses and making regulatory navigation especially difficult for start-ups.

POLICY RECOMMENDATION 3D: INCOME TAX REFORM

110. We acknowledge that the government may decide to increase income tax in the Autumn Budget 2025, particularly for higher and top rate taxpayers. However, we believe that, while the government may be looking to increase tax revenue in this Budget, it should be used as an opportunity to reduce the complexity of income tax and remove cliff edges that provide perverse economic incentives not to grow as well as excessive compliance costs for businesses.

111. For example, it is difficult to justify the design of an income tax system with up to seven different tax bands (0%, 20%, 40%, 40% + high income child benefit charge, 40%, 60%, and 45%) and even more when combined with the welfare system and benefit withdrawal taper rates for those on low incomes

Figure 7 – Personal tax marginal rates



Sources: HMRC, *Personal tax rates 2025/26*; ICAEW calculations. Based on a higher earning parent with two children living in England.

112. This complexity, especially the effective 62% marginal personal tax rate from £100,000, which can exceed 100% when combined with the loss of childcare entitlements, encourages both unincorporated businesses and employees to avoid increasing income, hampering the ability of the businesses concerned to grow. The growing impact of the multiplicity of marginal rates and cliff edge effects in the income tax and welfare systems are discouraging employees from working harder and exacerbating the marked decline in productivity as discussed earlier in this submission.

113. While it may not be possible or desirable to fix all of these problems in one go, we believe that it is possible to move towards a simpler and more pro-growth income tax system,

especially if changes that result in significant tax rises for groups of taxpayers are phased in over several years to minimise the adverse impact.

114. We are also concerned about the loss of both tax revenue and entrepreneurial talent as consequence of the reform of the non-domicile tax regime for foreign residents in the UK. While the full effect of the changes in tax treatment on the rate of non-domicile departures is unlikely to be known for some time, there is a case for reviewing the effect of the changes sooner rather than later in order to minimise losses to the exchequer while at the same time meeting the government's wider policy objectives.

TURN AROUND THE PUBLIC FINANCES

A LONG-TERM FISCAL STRATEGY

115. This Budget is an opportunity to set a clearer long-term direction for the UK's public finances. Too often, short-term priorities dominate decision-making, undermining economic stability.

116. **A long-term fiscal strategy to put the public finances onto a sustainable path** offers the opportunity to simplify and improve the UK's framework through a phased, coherent approach. Past reform efforts have often faltered due to political caution, practical complexity, and fears of economic disruption. By adopting a strategic framework, the government can sequence reforms such as those to income tax, employer national insurance, VAT, employee and self-employed national insurance, business rates, and employment status ensuring they are well-designed, properly tested, and aligned with broader fiscal goals. ICAEW believes this bold, forward-looking approach is essential to restore fiscal sustainability and support a more productive, fair, and resilient economy.

117. For businesses, the lack of long-term fiscal clarity creates uncertainty, discourages investment, and complicates strategic planning. A long-term strategy would give firms the confidence to invest, hire, and innovate knowing that tax and spending decisions are guided by a clear framework, not short-term pressures. Denmark has transformed its public finances in recent years by having clear, enforceable multi-year spending ceilings and medium-term fiscal planning cycles. Although the two economies are not completely comparable – the UK is ten times the size of Denmark's - the principles of multi-year and medium-term disciplines could benefit the UK's public finances.

118. ICAEW believes this Budget should lay the foundations for a long-term fiscal strategy rooted in demographic insight and gradual reform. We believe that small incremental changes over time in line with such a strategy can deliver meaningful, lasting impact. A forward-looking approach would improve decision-making across government, support business confidence, and help restore public trust in the UK's economic direction.

119. A long-term strategy would also allow for better contingency planning including scenarios where debt levels rise further. This would improve preparedness, reduce future costs, and ensure there is a credible plan to manage and reduce the debt burden over time. Crucially, it must include a funding plan to meet the rising costs of pensions, health, and social care. Without it, these pressures risk crowding out other essential spending and weakening fiscal resilience.

A MORE RESILIENT PUBLIC BALANCE SHEET

120. The UK has very high levels of public debt, no significant sovereign wealth funds, an unfunded state pension, unfunded pension schemes for most public sector employees, unfunded health and social care provision in retirement, unfunded unemployment, illness and disability benefits, and unfunded nuclear decommissioning and clinical negligence liabilities.

121. Each decision to defer costs onto future taxpayers may have made sense given the economic and fiscal conditions at the time, but the result has been ever weaker public finances and a poorer nation.

122. Combined with three successive economic shocks (the financial crisis, the pandemic, and the energy and cost-of-living crisis) that has seen the state borrow heavily each time, the consequence is public finances that are now in an extremely fragile position.

123. Fiscal headroom is small. Debt interest costs are at historically highs. Effective interest rates on new government borrowing are at levels significantly higher than those of comparable developed countries. Investment is constrained.

124. Improving the resilience of the public balance sheet is therefore essential if the public finances are going to be able support the government's ambitions to growth the economy while also being able to cope with the anticipated costs of climate change and the potential costs of future economic shocks.

125. One idea we think that might be worth debate would be the possibility of modifying the fiscal rules to adopt a 'growth dividend' policy. This would earmark a proportion of the proceeds of growth to paying down debt or investing in sovereign wealth funds, establishing an automatic corrective mechanism to bring down debt gradually when economic growth exceeds a base level, over and above the existing fiscal rules that aim (but don't guarantee) for debt to start falling within the medium-term in all circumstances.

126. We also believe there is a need to strengthen private and public sector pension saving to reduce the pressures on the public finances as more people live longer. With a projected 34% increase in the number of individuals aged 65 or more over the next 25 years, raising the retirement age as planned will not be sufficient to offset the full impact on the costs of the state pension, health and social care of more people living longer sometimes less healthy lives.

STRENGTHEN NON-TAX INCOME STREAMS

127. Most of the focus of Budgets is on taxation, but around 10% of public sector receipts come from non-tax income streams. These include investment income, the profits of public corporations, council housing rents, rail fares, interest on student loans, parking charges, and numerous other fees and levies charged by central and local government bodies.

128. While some of these income streams are relatively self-contained or provide useful ancillary receipts to support public services, others can have a significant effect on the public finances.

129. For example, universities have in recent years become increasingly underfunded as student tuition fees and maintenance loans have not kept pace with inflation. This has increased the exposure of taxpayers to the potential need to rescue universities that fall into financial difficulty, caused volatility in the level of subsidy to cover the cost of student loans that will never be repaid, and distorted other government priorities.

130. Another example is railway fares. Although these do at least rise each year to cover inflation, taxpayer subsidies have risen significantly as working patterns have changed following the pandemic. This has highlighted how exposed the public finances are to variations in the number of passenger journeys when costs are predominantly fixed.

131. The reliance of both the university and railway systems on taxpayer subsidy is both an issue for those systems (and the people they serve and employ) and for the public finances, especially where those systems struggle through insufficient income at the same time as the cost of providing those subsidies takes away funding from other public services.

132. We believe that the there is a need for a review of student loans, railway fares, and other non-tax income streams to ensure public services funded in this way are adequately resourced while minimising the exposure to the public purse.

A NEW APPROACH TO TAX RISES

133. Nobody wants tax rises, but if they have to be enacted then a new approach is needed.
134. The lesson of last year's announcement of a large rise in employer national insurance is that large tax rises implemented all in one go can have major adverse business and economic consequences.
135. We therefore believe that a new approach is necessary, not only to avoid economically damaging and counter-productive consequences in the future, but also to improve the quality of tax design and the effectiveness of the tax system.

PHASE-IN MAJOR TAX RISES OVER TIME

136. In addition to reasonable advance notice of a major tax change taking place, we recommend that any major tax rises are phased in over several years to mitigate the adverse economic consequences.
137. Doing so would minimise the effect of such changes on businesses and individuals and hence on the economy, in particular where tax changes are going up.
138. For example, a decision to charge the standard rate of VAT on items that are currently zero rated could be implemented over four years using intermediate VAT rates of 5%, 10% and 15% before reaching 20%. This would both minimise the impact on inflation but also enable consumers to adjust their spending habits.
139. Similarly, if (as is rumoured) there is a reduction in the threshold for the top rate of income tax combined with a widening of the personal tax allowance withdrawal band, this could be phased in over three to four years to minimise the adverse impact on higher and top rate taxpayers between tax years. It would also reduce the incentive for high-earning taxpayers to leave the UK by avoiding a large tax increase in any one tax year.

ADOPT A STEP-BY-STEP APPROACH TO SIMPLIFY AND OPTIMISE TAXES

140. We believe a long-term fiscal strategy provides an opportunity to simplify and improve the currently poorly designed tax and welfare systems by adopting an evolutionary step-by-step approach to simplify and optimise their design to drive economic growth.
141. Efforts to reform taxes and welfare benefits have often foundered in the face of both practical obstacles, political difficulties, and caution about the potential economic impact of major one-off changes.
142. 'Now' just never seems to be the right time to address issues such as the cliff edges that disincentivise businesses from growing and individuals from investing, the extreme complexity of taxes such as VAT and income tax, or the many poverty traps in the benefit system.
143. What is likely to be more effective is an evolutionary step-by-step approach to phase-in tax and welfare changes over years or even decades, providing predictability and stability to taxpayers and welfare recipients while gradually improving the effectiveness of the tax and welfare systems.
144. This should include developing a clear vision on a more optimal structure for the income tax system, enabling a plan to be developed to move towards that structure.
145. Similarly, there should be plans to tackle the complexities of VAT, the design of property taxation (including council tax, business rates and stamp duty on property transactions) and work incentives in the benefit system amongst many others. In each case, a gradual change to phase-in newly designed tax or welfare benefit and phase-out the current one over several years or potentially longer would provide stability in how the tax and welfare systems evolve.
146. Such an evolutionary approach should also minimise any adverse impact on the economy and on taxpayers and welfare recipients that large one-off changes in taxation or welfare benefits can have.

END THE SECRECY THAT LEADS TO UNCERTAINTY AND POOR TAX DESIGN

147. In addition to optimising the tax system over time, there is a real need to improve how changes to the tax system are made. We have seen taxes become ever more complicated as governments have sought to boost tax receipts in ever more convoluted ways, with more than 2,000 different tax measures implemented in the last 25 years.[2]
148. This has been bad for both taxpayers and the economy, as businesses and individuals deal with large numbers of complex changes and the uncertainty that comes with a constantly changing tax system.
149. However, it is also bad for the government itself as it seeks to administer an unstable tax system, plug the many undesirable features that arise from developing taxes in secret during the weeks running up to a Budget, and struggle to deliver the level of economic growth needed to adequately fund public services.
150. We can understand why many Budget measures have operated in secret, namely to minimise or avoid market manipulation. However, in recent years it is becoming increasingly clear that secrecy and lack of suitable scrutiny in tax and fiscal policy before a Budget leads to problems and failures.
151. To support a change in approach, ICAEW is updating its 10 Tenets for Better Tax System. These describe how the tax system should be set out in statute; certain; simple; easy to administer; properly targeted; stable; subject to proper consultation; regularly reviewed; fair, reasonable and acceptable; and competitive.
152. For example, one way to improve the way taxes are designed would be for HM Treasury and HMRC to develop a library of potential tax proposals that have been worked through and their impacts properly analysed. This would enable the government to evaluate potential changes and consult on potential flaws before they are adopted as formal policies.
153. Managed sensibly, such an approach would enable HM Treasury to develop more rigorous tax proposals that can more accurately be scored by the OBR, avoiding the embarrassment (for example) of the Spring Statement 2025 where the government had to make a last-minute change to its spending plans to stick within the Chancellor's fiscal rules.

[2] OBR, *Policy Measures Database*, March 2025.