ICAEW
REPRESENTATION 75/26

AUTUMN BUDGET 2026: GIVE BUSINESS BREATHING SPACE TO DELIVER GROWTH

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ICAEW's priorities and recommendations for Autumn Budget 2026 focus on reducing the cost and complexity of doing business, simplifying tax and regulation, improving certainty to drive investment and strengthening the public finances.

The Budget, the first of a new Prime Minister, Chancellor and government, provides an opportunity to give business the breathing space they need to deliver jobs, prosperity and growth throughout the UK. Our members tell us these practical reforms are essential if businesses are to invest, hire, become more productive and plan with confidence.

ICAEW would welcome the opportunity to work constructively with government on policies that give firms the confidence to grow.

We believe Autumn Budget 2026 should focus on practical action to:

Start turning around the public finances

- Stabilise the fiscal situation in the near-term.
- Deliver a credible medium-term fiscal forecast to improve market and business confidence.
- Develop a long-term fiscal strategy to put the public finances onto a sustainable path.
- Fix tax administration and the foundations for a successful rollout of MTD for income tax.

Kickstart economic growth

- Reform tax to promote growth starting with business rates, VAT and income tax cliff edges.
- Cut the cost of doing business in the UK, including an immediate one-year freeze in the business rates multiplier to ease cost pressures on business in 2027.
- Rule out further increases in employment taxes during this Parliament.
- Make it easier to hire workers and put professional skills at the heart of the skills agenda.

Unlock and drive investment

- Provide policy certainty to give businesses the confidence they need to invest.
- Accelerate the delivery of planned public investment.
- Give tax relief on pre-development costs to encourage investment in infrastructure.
- Expand the advance tax certainty service to benefit many more projects.
- Make it easier for SMEs to navigate and access government grants and finance.

Empower places to drive growth in every postcode

- Put governance and accountability at the heart of devolution.
- Ensure any new systems of regional and local taxation are as simple as possible.
- Improve local government finance, audit and accountability to support local growth.

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INTRODUCTION

AN OPPORTUNITY TO TURN AMBITION INTO ACTION

The Budget on 28 October 2026 provides an opportunity for the government to turn its ambition for growth into practical action.

- With limited fiscal headroom and competing pressures on households, businesses and public services, we recognise that the Chancellor will need to make difficult choices and trade-offs.
- We do not underestimate these constraints, but the Budget must still provide a clear signal that government is determined to tackle the barriers holding back business confidence, investment and growth.
- While government cannot control every pressure facing businesses, it can reduce avoidable uncertainty, simplify the policy environment and lower the cost and complexity of doing business in the UK. Our members' practical insight can help identify where government has the greatest ability to influence business confidence, investment and growth.

Our members tell us that businesses are reaching the limit of what they can absorb from rising costs, higher taxes, regulatory change, and wider economic uncertainty.

> *"Business is overburdened by regulation and taxation. It makes the UK uncompetitive and is an impediment to new business startup, scale up and economic growth."*

If the government wants firms to invest, hire and grow, Budget 2026 needs to show that it understands the cumulative burden on business and is prepared to take practical action to give businesses the breathing space they need to grow, both in the short term and over the longer term.

- ICAEW is ready to work constructively with government to turn member insight into practical reforms that strengthen the foundations for sustainable public finances.
- ICAEW represents more than 211,000 members and students worldwide. Our members advise, lead and work in organisations at every level of the economy, including at board level in 82% of FTSE 100 companies and in businesses of all sizes across the UK. Their roles as finance leaders, advisers, business owners and trusted professionals give ICAEW a distinctive, evidence-based view of the pressures facing businesses and the practical conditions they need to invest, develop skills and grow. Our global membership also provides insight into how the UK compares with other major economies as a place to do business, raise capital and support sustainable growth.
- A Budget focused on reducing business costs, improving tax certainty, supporting skills and investment, and strengthening public financial management would give businesses the breathing space they need to invest and grow. In turn, this would drive productivity, protect and create jobs, support higher wages and improve living standards. It would also support the government's wider fiscal objectives, because, as one ICAEW member put it:

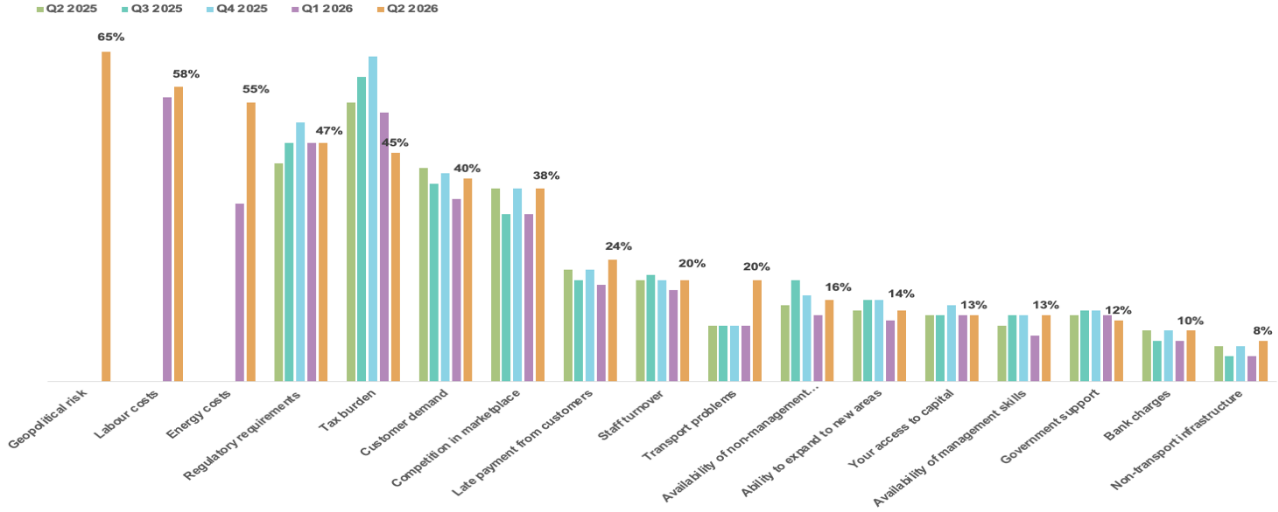
> *"Business growth is the only way to generate the revenues to afford the things the government wants to do."*

ICAEW MEMBER INSIGHTS ON BUSINESS CONDITIONS AND THE ECONOMY

ICAEW's UK Business Confidence Monitor™ (BCM) is one of the largest and most comprehensive quarterly surveys of business conditions and the health of the UK economy, based on more than 1,000 telephone interviews each quarter.

The latest BCM shows that confidence has now been in negative territory for six consecutive quarters and has fallen to -14.6, the lowest score since Q4 2022, with significant cost pressures and geopolitical risk continuing to hold back growth, as illustrated by Figure 1.

Figure 1 – ICAEW BCM Q2 2025 – Q2 2026: Which factor has become a greater challenge to your organisation's performance? *



* Labour costs and energy costs were added as new challenges in Q1 2026, and geopolitical risks were added in Q2 2026.
Source: ICAEW, *Business Confidence Monitor Q3 2026*.

Separately, ICAEW asked our members in a survey, what the Chancellor should prioritise in this year's Budget. They told us that reducing cost pressures on business, simplifying tax and regulation, and kickstarting economic growth should be the top priorities.

- Over half of respondents agreed there is a need for a long-term vision for tax, while over two-thirds said greater certainty over tax and business regulation would make their or their clients' businesses more likely to invest over the next three years.
- Taken together, the BCM and our Budget polling show that businesses are under sustained pressure from costs, complexity and uncertainty, and that practical action to ease that burden would make a real difference to confidence and investment.
- The member comments quoted throughout this submission are drawn from ICAEW's Budget 2026 member polling, BCM evidence, SME regulatory burden roundtables and direct feedback from members advising and leading businesses across the UK. One member captured the link between uncertainty and investment clearly:

> *"You can't invest what you don't have or when you are unsure what extra tax or regulatory burden is around the corner."*

FISCAL STABILITY, ECONOMIC REFORM AND A STEP-CHANGE IN INVESTMENT

Our recommendations for Budget 2026 set out practical steps the government can take to stabilise the fiscal position, begin turning around the public finances, remove blockages to business growth and boost investment.

We welcome the Chancellor's emphasis, in his speech on 7 September, on the need to strengthen fiscal credibility and address the UK's persistently low investment rate. Budget 2026 should build on that diagnosis by using the levers government can control to rebuild business confidence: reducing avoidable costs, cutting unnecessary administration and regulation, providing greater tax certainty and accelerating decisions that unlock private investment.

This means acting to:

- Stabilise the fiscal position in the near term, while starting to put the public finances on a sustainable path, reducing pressure on future generations and lowering interest costs.
- Remove the practical blockages to economic growth that the government has rightly identified, including high business costs, barriers to hiring and training, lifelong skills development and tax rules that discourage enterprise, investment and growth.
- Provide policy and tax certainty to give businesses and investors the confidence to invest in the UK, alongside clearer guidance and support with access to finance to help SMEs expand.

KEY POINTS

ACTIONS TO TURN AROUND THE PUBLIC FINANCES

Stabilise the financial situation in the near-term

1. We recommend that Budget 2026 stabilises the public finances in the short term by taking clear decisions on tax and spending, explaining how immediate pressures will be funded, and avoiding measures that weaken business confidence or growth.

2. The key challenge is not just to stabilise the public finances in the near-term, but to do so in a way that gives the public and debt markets confidence that further major tax rises will not be needed over the rest of this Parliament.

Deliver a credible fiscal forecast to improve market and business confidence

3. We recommend that Budget 2026 improves the credibility of the official economic and fiscal forecast by acting to:

   - Confirm – ahead of the Budget – the definition of "current budget balance" in the government's stability fiscal rule.
   - Provide the OBR with the ability to make realistic policy assumptions where repeated decisions, such as fuel duty freezes, make legislated receipts unlikely.
   - Use the opportunity of 10-year fiscal forecasts to provide clarity on how the government plans to keep debt under control in the medium-term.
   - Set an envelope for the 2027 Spending Review that includes realistic assumptions about the deliverability of efficiency savings, including the upfront funding needed to achieve them.

4. Credible fiscal forecasts are essential for market confidence, debt sustainability and business certainty. While no forecast will be completely accurate, investors and businesses need confidence that the assumptions underpinning the public finances are transparent, realistic and clearly explained.

5. This is particularly important where fiscal rules are open to different interpretations. The Charter for Budget Responsibility Autumn 2025 refers to a current budget that is "in balance or in surplus" but did not repeat the Autumn 2024 detailed definition of "balance" as a surplus or deficit within plus or minus 0.5% of GDP. Clarifying the definition ahead of the Budget would reduce the risk of market surprise or adverse comment on the day of the Budget.

6. Forecasts should also avoid relying on tax receipts that are unlikely to be collected in practice. Fuel duty is a clear example: repeated freezes mean the legislated path may not provide a realistic basis for forecasting unless ministers explicitly indicate a change in approach.

7. Unfunded or uncertain spending commitments can create uncertainty about future tax decisions. The Budget should therefore explain how higher defence and security spending will be funded.

8. By strengthening the credibility of the fiscal forecast, the Budget would reduce speculation about future tax rises and support market confidence, giving businesses a firmer basis on which to plan, invest and grow and reducing the effective rates of interest payable on government debt.

> *"In order to have the confidence to invest, businesses need some certainty in the business environment. Government can do very little about global developments, but it can make the fiscal environment more certain."*

> *"We need tax and fiscal stability for the medium/long term to allow investment – too much 'moving the goalposts' post investment decisions make the UK very unattractive for investment."*
>
> *"We know that business confidence comes in part from stability in government, including in both industrial and fiscal policy. Setting an enduring fiscal framework for business and ending the constant speculation of changes that may or may not happen would go some way to improving business investment confidence - along with a track record of then sticking to it."*

Develop a long-term fiscal strategy to put the public finances on a sustainable path

9. We recommend that the Budget begins work on a long-term fiscal strategy to put the public finances on a sustainable path.

10. We welcome suggestions that the Budget might extend its medium-term time horizon from five to ten years. This would be a significant improvement over the current approach and allow the government to think more strategically about the fiscal challenges facing the UK.

11. However, we believe that there is a need to go beyond the medium-term and start putting together a long-term fiscal strategy to put the public finances on a sustainable path.
    - According to the Office for Budget Responsibility (OBR) the public finances are on an unsustainable path, with public sector net debt projected to reach or exceed 300% of GDP by 2076 if action is not taken. Turning this around will require more than short-term fiscal measures.
    - The government needs a credible plan that sets out how the UK will fund rising pension, health and social care costs as the population ages and the tax base comes under increasing pressure.

12. The Budget should therefore combine credible fiscal discipline with practical reforms to improve how public money is raised, managed and spent. This should include simplifying the tax system, tackling cliff edges that discourage work and enterprise, improving public sector productivity, and strengthening the efficiency, effectiveness and accountability of public services.

13. Resilient public finances are essential for economic stability, business confidence and investment. A credible plan for debt, tax and spending would reduce uncertainty and reduce the cost of borrowing, giving businesses greater confidence to invest, hire and plan for growth.

Fix tax administration

14. We recommend that the Budget acts to prioritise improvements in the quality of tax administration and the tax dispute resolution system.

15. Improving the tax system to turn around the public finances and to support growth is not just about reform and simplification; it also requires HMRC to provide an accessible, reliable and effective service to taxpayers and agents. Poor tax administration undermines voluntary compliance and trust in the system. It also adds unnecessary cost and uncertainty for businesses, making the UK a less attractive place to invest and grow.

> *"The tax system and dealing with HMRC is becoming more complicated and difficult as time passes. The agents' helpline takes too long to get through and then you are often faced with bureaucracy on the other end."*

16. The business case for investment is compelling given that 72% of all contacts with HMRC are "failure demand" caused by process failures, delays or taxpayer confusion rather than a genuine need for advice[1]. Even a modest improvement in service quality combined with addressing the root causes of these issues would not only reduce the £900m annual cost of customer service but also generate incremental tax receipts by shrinking the estimated £5.9bn element of the small business tax gap that is attributable to errors[2].

17. HMRC's governance, skills and technology need to be improved, with service design focused on reducing avoidable contact, improving accuracy and building trust. Every interaction should be used to understand where the system is creating confusion, delay or unnecessary burden for taxpayers, agents and HMRC itself.

18. Tax dispute resolution is also a significant issue. When disputes drag on, businesses can delay investment and remain uncertain about their tax position for too long. For example, the Supreme Court decision [2026] UKSC 12 on Orsted West issued on 15 April 2026 related to investment decisions taken by the companies concerned between December 2006 and June 2011 and tax returns from 31 December 2009 to 31 December 2015.

19. Tax tribunals play a vital role by providing an independent way of resolving disputes with HMRC, but too many cases are ending up before a tribunal when they could and should have been resolved much earlier. Better HMRC decision-making, stronger internal reviews and more effective dispute resolution could prevent many disputes from escalating and free up tribunals to focus on the cases where the law needs judicial clarification.

20. The UK tax system is becoming increasingly digital, but it is also increasingly fragmented. Taxpayers, agents and businesses are too often required to use separate systems for closely related tasks. For example, employers can use software to submit P11D forms reporting employee benefits but must use a separate HMRC online form to make corrections. Similarly, VAT and MTD submissions can draw on the same digital accounting records but are subject to different reporting obligations. The in-year reporting requirements for capital gains tax on property are separate to self-assessment (where the gains have to be reported again). HMRC's digital strategy should focus on connecting systems, collecting data once and designing services around the people who actually use them.

"The current tax regime is killing entrepreneurship."

"[A] complete review of the UK tax system, don't keep adding layers of complexity. A rethink is needed on why we tax, who should be taxed and who should benefit!"

"The total tax paid is not necessarily the issue – the number of taxes and the admin required is."

Fix the foundations for a successful rollout of MTD for income tax

21. We recommend the Budget includes measures to:

- Provide a late filing 'soft landing' for each population of mandated taxpayers, not just the first cohort who are adopting Making Tax Digital (MTD) for income tax in 2026/27.
- Initiate a post-implementation review of the first cohort's experience in adopting MTD.
- Delay the rollout of the £30,000 cohort pending the conclusion of that review.

22. ICAEW members are playing a key role in the rollout of MTD for income tax and therefore have a unique insight about how systems and software are performing and how taxpayers are adapting.

[1] NAO, *HRMC customer service, May 2024*
[2] This estimate of £5.9bn is based on multiplying the 16% proportion of the economy-wide tax gap estimated by HMRC to be attributable to error by HMRC's June 2026 provisional estimate for the small business tax gap of £36.7bn in 2024/25.

23. The first cohort to adopt MTD for income tax from April 2026 is estimated to comprise 864,000 taxpayers with qualifying income in 2024/25 over £50,000 and ICAEW members have worked hard to ensure that their clients are ready for this significant change in reporting. However, there have been several problems in the rollout to date:

- Only 436,000 taxpayers, approximately 50% of the total, met the first deadline for submitting quarterly updates on 7 August. By 25 August, the total number who had signed up had risen to only 580,000, or 67%, demonstrating that awareness of MTD for income tax remains low.
- There are significant issues with technology, and it has been challenging for many taxpayers to adapt to more frequent reporting. The additional administrative burden has been accompanied by higher costs, even for those with relatively straightforward tax affairs.
- There are also questions about whether the objective of more accurate record keeping will be met. ICAEW members have reported seeing bookkeeping errors as taxpayers are required to computerise their records or change accounting systems, problems with software double counting income and expenses by not matching entries in automated bank feeds, and misclassifications such as treating drawings as wages. The risk is that unless these errors are addressed the accuracy of tax returns could deteriorate rather than improve.

24. The second cohort of taxpayers (with qualifying incomes above £30,000) scheduled to join MTD income tax from April 2027 is bigger than the first with an estimated 1,077,000 taxpayers. Concerns about the rollout to this cohort include:

- Fewer taxpayers in the second cohort are supported by agents (63% compared with 75% in the current phase) and less than half currently use tax software.
- There is no penalty point soft landing for late filing of quarterly updates for the second cohort, which assumes that teething problems will be resolved before they are required to comply in 2027. Based on the experience of our members in supporting the rollout so far, we think this is too optimistic. MTD for income tax requires taxpayers to change how they keep records, interact with software, work with agents and meet reporting deadlines throughout the year. It is therefore not enough for HMRC systems and software products to be technically ready; taxpayers also need time, support and practical guidance to adapt to what is the biggest change to the personal tax system for a generation.
- There have only been a limited number of year-end returns filed successfully for the 2025/26 testing year which means that the 2026/27 cohort will be the first time the year-end return is properly tested at volume.
- The first cohort's reporting cycle ends on 31 January 2028 when the year-end return is due. This means that the first reporting cycle will not have ended before the second cohort starts in April 2027.

25. HMRC should undertake a post-implementation review of the full reporting cycle for the first MTD income tax cohort to assess whether the policy objectives are being met and whether the impact of costs and increased reporting burdens on taxpayers are proportionate. Representatives from the tax agent community should be included as they are best placed to provide first-hand experience.

26. We recommend deferring the lowering of the threshold until that review is complete to increase the likelihood of a successful roll-out to the second cohort. ICAEW stands ready to help government make a success of MTD for income tax.

> *"The new MTD reporting requirements have added so much additional administration to clients who are literally just making ends meet. They are spending more time filling in forms rather than generating new leads."*

> *"The introduction of MTD will kill small business with its administration and control approach."*

ACTIONS TO DRIVE ECONOMIC GROWTH

Reform tax to promote growth and take a new approach to tax policymaking

27. We recommend the government uses this Budget to start a process of major tax reform, beginning with:

- Radical reform of business rates to reduce costs for businesses and facilitate growth (see 'prioritise business rates reform' below).
- Moving towards a simplified VAT system with a wider base and a lower single rate, reducing complexity while raising revenue more efficiently (see 'simplify VAT').
- Addressing cliff edges in the income tax system that discourage people from working more, increasing productivity or growing their businesses (see 'tackle cliff edges that act as a barrier to productivity').

> *"Tax simplification is such a logical move - government needs to stop micromanaging who wins and loses from tax law and focus on good tax regulation (wide base, low rates, minimal exemptions)."*

28. We also recommend that the government adopts a new approach to how tax policy is developed:

- Tax proposals should be tested against clear policy objectives before they are announced, with government drawing on the technical expertise needed to design workable legislation.
- An annual tax simplification review should identify areas for consolidation and reform.
- Establish a more systematic process for developing fully costed and technically assessed policy options.

29. A pro-growth tax system needs to be stable, coherent and easy to navigate. Our members tell us the UK tax system too often falls short of that test, adding cost for businesses and weakening confidence.

> *"The tax system is too complicated for businesses to understand how it will affect their business decisions."*

30. This is not the result of any single decision, but of decades of incremental change. Successive reliefs, thresholds and policy changes have created a system that is increasingly hard to understand and administer. Marginal tax rates can spike to 60% or higher, reliefs taper in complex ways which even experienced advisers find difficult to follow, and new measures are sometimes announced without enough consultation or practical consideration of how they will work in practice.

31. Recent changes to inheritance tax reliefs for agricultural and business property show why significant tax reforms need proper consultation, evidence and practical testing before implementation. Where changes are introduced without that process, the result can be added complexity, uncertainty and unintended consequences for businesses and families. A more comprehensive approach to tax reform would allow government to raise the revenue it needs while protecting the incentives to invest, plan for succession and grow.

32. We believe that substantive tax reform has the potential to improve business productivity and support economic growth. That is why ICAEW has launched a major programme of work to

reassess what the UK tax system should look like through our campaign for how to build a better tax system.

33. The scale of the challenge requires more than isolated tax changes. There is a need for a long-term framework and vision for national taxation: a clear destination for the UK tax system that can guide reform over time. Independent input, technical expertise and business insight will be essential to ensuring that framework is credible, practical and capable of being delivered.

34. While reforming the entire tax system is likely to take a generation, there is an opportunity to reform key parts of the system radically over a period of 10 years, phasing in changes to minimise adverse economic impacts while providing the certainty businesses need to plan ahead with confidence.

> *"[We need a] complete review of the UK tax system, don't keep adding layers of complexity. A rethink is needed on why we tax, who should be taxed and who should benefit."*
>
> *"The tax system has needed simplification for a long time."*
>
> *"Tax simplification is key for business planning: not only a handbrake on growth in terms of cost/time spent on compliance but also lack of up-front certainty means any relevant fiscal incentives that do exist are far too uncertain to drive investment behaviours."*
>
> *"Simplification saves money and time for government and business."*

Prioritise business rates reform

35. We recommend the Budget sets out a plan to radically reform or replace business rates.

36. Our members consistently point to business rates as a priority for reform, citing their adverse impact on business costs, investment decisions, and on firms that rely on physical premises. The current system creates high fixed costs, adds uncertainty, and actively discourages investment in premises, expansion and growth.

37. Business rates are particularly challenging for retail, hospitality and other 'bricks and mortar' businesses, especially those with tight margins as business rates are unrelated to profitability.

38. Successive governments have made changes to the business rates system to respond to specific pressures. While such measures can provide welcome short-term relief, they do not resolve the underlying design issues and add further complexity for businesses, advisers, government and local authorities.

39. Recent changes to business rate valuations for pubs and music venues illustrate the challenge. Targeted adjustments such as these may help specific sectors and are welcome, but they also underline the need for a more coherent and long-term approach to reform.

40. We believe that business rates should be a priority for fundamental reform, not only because of the adverse impact they have for existing businesses looking to grow but also because of the major obstacle business rates pose to reindustrialisation.

41. Any reform should aim to create a system of new local, regional and shared national taxes to fund regional and local government that is simpler to administer, easier for businesses to understand, better reflects ability to pay, supports investment in premises and avoids placing disproportionate costs on firms that rely on physical locations.

42. As the design of a fundamental reform of business rates will take some time, we recommend that the Budget includes an immediate one-year freeze in the business rates multiplier to ease cost pressures on business in 2027. Our view is that not making the situation worse combined with a clear commitment to reform will give businesses hope that the constraints that business rates place on growth can finally be alleviated.

43. ICAEW stands ready to work with the government as it takes forward business rates reform, drawing on our members' experience of leading and advising businesses across the UK. We can help ensure any redesigned system supports investment, provides certainty and builds affordability in from the outset, without the continual need for emergency reliefs and short-term fixes.

> *"The current rules around business rates allows certain limited businesses to prosper, e.g., large warehouse distribution but the small to medium retail/hospitality business is struggling."*
>
> *"Business rates are far too significant a cost to businesses in the UK."*
>
> *"Reforming business rates would help as it is often a disproportionate cost for smaller businesses."*

Simplify VAT

44. We recommend that the government uses this Budget to start a process of VAT reform, with the aim of moving towards a broader base, fewer exemptions and a lower single rate.

45. VAT is another tax where complexity constrains economic growth.

46. Only around half of consumption is covered by VAT, remarkably low by international standards, while exemptions and different rates make the system needlessly complex and much less efficient than it could be.

47. As of 31 March 2026, HMRC's annual snapshot of tax under consideration by its Large Business Directorate contained £6bn related to VAT legal interpretation and boundary pushing. This highlights how rate differentials and definitions in the current VAT system do not reflect modern products and services.

48. We would welcome the opportunity to support the government in designing a path from the current system to a new simplified VAT, for example in ensuring that low-income households are not disadvantaged by any base-broadening measures while minimising the impact on the economy and affected sectors.

49. A better design for VAT will not only help to eliminate the £6bn of VAT disputes that are clogging up the tax disputes system, but it would increase the tax take even with a lower rate of VAT, providing the fiscal capacity the government needs to engage in wider tax reform and the breathing space business needs to allow them to comply with law and regulation and pay the correct amount of tax.

Tackle cliff edges that act as a barrier to productivity

50. We recommend the Budget sets out a plan to reform cliff edges as a first step towards a simpler and more pro-growth income tax system that encourages people to enter the workplace and seek promotion and in turn create growth.

51. Our members tell us that cliff edges in income tax and national insurance act to disincentivise economic activity. The combination of the high-income child benefit charge, benefit withdrawal taper rates, student loan deductions, and the withdrawal of the personal allowance, tax-free childcare and other tax reliefs lead to a multiplicity of marginal rates and

cliff edges in the income tax and welfare systems that apply differently depending on the taxpayer's circumstances or, in some cases, the circumstances of others in their household.

52. High marginal rates at cliff edges can deter employees and the self-employed from increasing their hours, returning to work, taking on more work or growing their business, reducing productivity and holding back growth across the economy.

> *"Tax and NI is far too complicated, has too many cliff edges, and changes far too often…"*

Clarify employment status

53. We recommend that the Budget acts to clarify employment status so that business can engage sole traders and the self-employed with confidence.

54. In addition to the difficulties in taking on new staff, employers are reluctant to engage sole traders and self-employed contractors given the severe penalties that can be incurred if they cannot navigate successfully the complexities of the rules around employment status.

55. The current framework for determining employment status is complex and uncertain for both businesses and workers. The misalignment between employment law and tax law increases compliance costs, creates uncertainty, and can lead to outcomes where individuals are taxed in a way that does not align with their employment rights. This makes it harder for businesses to engage the skills they need with confidence.

56. In the longer term, these disparities should be addressed through tax reform to reduce or eliminate the differences in taxation between employment and self-employment, meaning the IR35 rules could be simplified or dropped.

57. In the meantime, businesses and workers need clearer rules on employment status within the current tax system. This would help businesses comply with both tax and employment law when engaging workers and reduce the level of disputes. Where disputes do arise, they need to be resolved much more quickly.

Cut the cost of doing business in the UK

58. While many of the pressures facing businesses stem from factors beyond the government's control, the Budget presents an important opportunity to provide certainty, set a clear strategic direction, and make policy decisions to create the conditions for growth by reducing the cost of doing business in the UK:

- Cut energy costs for more businesses (see 'tackle energy costs' below).
- Cut compliance costs through deregulation and fixing tax administration (see 'Smarter regulation' below and 'fix tax administration' above).
- Cut business rates (see 'prioritise business rates reform' above).
- Cut the cost of hiring (see 'make it easier to hire workers' below).

59. Our members tell us that businesses of all sizes across the whole of the UK are reluctant to recruit new staff or invest for growth given the high costs and complexity of doing business in the UK.

> *"Employer NIC costs are stopping business employing people and seeking growth… [business is] being suffocated by costs and red tape."*

60. The Budget should therefore prioritise practical measures that reduce avoidable costs, simplify compliance, and give businesses the breathing space to invest and grow.

Tackle energy costs

61. We recommend that the Chancellor uses the Budget to:

- Provide businesses with additional support with energy costs to the extent possible within fiscal constraints.
- Pilot a 'SME cohort' to access Crown Commercial Services public sector energy buying frameworks and risk-managed trading arrangements.

> *"High energy costs are putting significant pressure on businesses and are a barrier to investment, competitiveness and growth."*
>
> *"Growth is critical and industry must see a path to profitable expansion. Energy costs and costs of employing people should be targeted."*

62. High energy prices continue to place significant pressure on firms, particularly in manufacturing and other energy-intensive sectors, reducing their ability to invest, grow and compete internationally. We therefore welcome the steps the government has taken to make electricity cheaper for manufacturing industries in eight growth sectors and in foundational industries through the British Industrial Competitiveness Scheme.

63. We also welcome the government's plans to increase storage so that excess wind power can be utilised instead of paying generators to turn themselves off, improving energy security to reduce the UK's exposure to volatile international energy prices.

64. We believe the government should take additional short-term steps to help businesses mitigate rising energy costs within fiscal constraints. While we recognise that this might be difficult, even a relatively small amount of targeted support could play an important role in protecting the competitiveness of UK businesses.

> *"Energy costs in the UK are the single biggest drag on our economy. We have lost good jobs overseas, particularly in manufacturing over the last decade because of how uncompetitive it makes us."*

65. In the longer term, the government should revisit the allocation of policy and other network costs between electricity and gas, and between domestic and business users, to ensure that businesses in the UK are as competitive as possible while delivering on net zero targets.

> *"The UK does have to consider what incentives businesses have to invest here. At the moment there is very little, with the highest energy costs in the West and very high taxes."*

Smarter regulation

66. We recommend that the government use the Budget to announce further reforms to reduce the UK's regulatory burden and remove unnecessary planning barriers to business growth. This should include regular, transparent reporting on progress against its commitment to cut businesses' administrative burden from regulation by 25% over the course of this Parliament. We are already represented on the Small Business Regulatory Taskforce, which is considering how to reduce red tape for SMEs, and would welcome the opportunity to share insights from members across other sectors.

- Our members tell us that complexity, duplication, unclear guidance and inconsistent approaches across departments and regulators are barriers to growth.
- Businesses are often required to submit similar information to multiple bodies, including Companies House, HMRC and sector regulators, while overlapping regulatory responsibilities can create a fragmented and confusing compliance landscape.

- Members also report that regulatory guidance is often lengthy, fragmented and open to interpretation. Firms that seek clarification can receive stricter interpretations than those that do not, leading to inconsistency, uncertainty and unnecessary compliance costs.

67. Accelerate delivery of a ‘tell government once’ system, enabling businesses to submit core information once and allowing regulators and government departments to share data securely.

> *“Businesses are tied up in admin and complex legislation. Good ideas are stifled by red tape and inflexible rules before they even get a chance.”*

68. These concerns were particularly evident in ICAEW's SME Regulatory Burden Roundtables. Feedback gathered through a series of discussions with SME members across Wales, the East Midlands, the East of England, Northern Ireland and Scotland identified a consistent message: businesses are not necessarily constrained by any single regulation, but by the cumulative impact of multiple regulatory, reporting and compliance requirements.

69. Participants reported that increasing regulatory obligations consume significant management time, raise operating costs, and divert resources away from growth, recruitment and investment. Many SMEs lack dedicated HR, legal, compliance or finance functions and therefore find it particularly difficult to absorb growing administrative demands.

70. Participants also highlighted that regulatory requirements are often designed with larger organisations in mind and applied without sufficient regard to the size, resources and risk profile of smaller firms.

> *“We need to enable business folk to focus on their business, not the ever-growing onerous mountain of compliance and regulation we impose upon those businesses.”*
>
> *“Time spent on compliance is vastly disproportionate.”*

71. On planning, we believe there is scope to go further. Extending the presumption in favour of sustainable development to a wider range of suitable sites alongside introducing time limits on legal challenges would help reduce delays, increase certainty, and accelerate investment.

72. An efficient planning system is essential to growth. Members consistently identify planning as an area where complex processes, inconsistent local interpretation and slow decision-making increase costs and deter investment. Further reforms should focus on creating a faster, more predictable and more consistent planning framework that gives businesses the breathing room to invest and expand.

> *“Planning approvals take so long and often we are converting buildings no longer being used into premises that provide needed services to local communities.”*

73. ICAEW is ready to support this work and to share the experiences and expertise of our members who face this challenge on a daily basis.

> *“There is far too much red tape when looking to expand.”*

Rule out further increases in employment taxes during this Parliament

74. Budget 2026 should provide businesses with the certainty they need to create jobs and support workforce participation by ruling out further increases in employment taxes during this Parliament.

75. Rising employment costs are acting as a brake on hiring and investment. Ruling out further increases in employment taxes would help allay worries that are causing businesses to hold back from creating new jobs.

76. Set out a longer-term plan for tax reform that phases in tax changes to deliver a more optimal tax system (see tax reform below).

> *"Uncertainty and expectations of tax rises increasing costs holds businesses back from committing to investment in capital or people."*

Make it easier to hire, develop and retain workers and put professional skills at the heart of the skills agenda

77. We believe that there is an opportunity to use the Budget not only to make it easier for businesses to hire workers but also help employers build the skills and capabilities they will need as work changes. This includes acting to:

- Give employers greater confidence to recruit young people entering the workforce and people returning after a break, including by supporting businesses, particularly SMEs, to provide meaningful work experience, practical preparation for work and structured entry routes into employment.
- Put professional and transferable capabilities at the heart of the government's skills agenda, supporting lifelong development and giving employers, especially SMEs, greater flexibility to invest in the digital, AI, management and professional skills needed as jobs evolve.

  Take a broader view of apprenticeships as structured learning through work, and revisit Level 7 funding restrictions where they limit access to strategically important professional careers or undermine social mobility, particularly for disadvantaged young people, returners and career changers.

78. Businesses continue to face widespread and persistent cost pressures, with two-thirds expecting costs to rise further over the next six months. Labour costs remain the most significant driver of these pressures, while skills shortages and difficulties attracting and retaining talent are seen as key barriers to growth.

79. These findings are consistent with the ICAEW member poll, which identified reducing business cost pressures, as the key priorities for businesses. Our members report that the cumulative impact of the Employment Rights Act, higher employer national insurance contributions, National Minimum Wage increases and rising costs (including energy) are deterring hiring. Similarly, the ICAEW Q2 2026 BCM found that 53% of businesses cited labour costs as a growing challenge, making it the second most commonly reported concern for businesses (see Figure 1).

> *"National Minimum Wage and new employment rights are a massive disincentive of recruitment…. costs and risks are simply too high."*

80. The result is that many employers now see recruitment as too costly and risky. They are hiring only where absolutely necessary, creating fewer new roles and becoming less willing to take a chance on people entering or returning to the workforce. This is a particular issue for young people entering the workforce for the first time, as well as people returning to work after a break and those who have been on benefits for extended periods. There is a longer-term risk too: if employers recruit fewer people at entry level today, the UK will have a smaller pipeline of experienced professionals and business leaders tomorrow.

> *"The cost of doing business… in a complex environment makes being an entrepreneur less appealing… recruiting graduates just doesn't make commercial sense."*

81. We believe that employers will be much more willing to take a risk on young workers entering the workforce or those returning to work if they could be confident that they will arrive with the basic work skills that all employees need.

82. We also believe that professional skills have a critical role in driving economic growth, both as an important sector of the economy but also in their role supporting the wider economy and business growth. Professional qualifications and training provide clear pathways to high-skill high-wage employment, addressing skills shortages, improving social mobility, and helping improve productivity and regional growth.

83. This matters particularly as AI changes the shape of work. Technology is already beginning to automate some of the tasks traditionally undertaken by people at the start of their careers. That can improve productivity, but it also creates a new challenge: many of those tasks have historically been how people learn, build experience and develop professional judgement. Government, employers, educators and professional bodies need to think deliberately about how the next generation will develop those capabilities when the work itself changes.

84. That also means taking a broader view of apprenticeships. Today the word is often used to describe a particular government-funded programme, with associated funding rules, standards and providers. Historically, apprenticeship described something broader: learning a profession through a combination of structured education, practical experience, observation, feedback and progressively greater responsibility. We should not lose that model simply because the policy architecture around apprenticeships has become more narrowly defined.

85. Government should work with employers and professional bodies to develop modern models of apprenticeship and professional formation that reflect how work is changing. These may sit within the formal apprenticeship system, but they should not be constrained by it.

86. The skills challenge does not end once somebody enters employment. As technology changes jobs more quickly, economic growth will increasingly depend on the ability of people already in work to update their skills throughout their careers. Government should therefore treat lifelong professional development and reskilling as part of the productivity agenda, not simply focus skills policy on entry into employment.

87. There is also a need to reform the tax and welfare systems to remove disincentives to employment and make work pay as part of wider tax reform. While we recognise the difficult fiscal choices facing the government, the increase in employers' National Insurance contributions has weakened business confidence and acted as a brake on employment growth. If the government is unable to reverse the increase, it should commit to no further rises in employment taxes during this Parliament, giving businesses the certainty they need to hire, invest and grow.

> *"Young people are particularly key - the usual entry points are being eroded by technology and actively disincentivised by govt policy such as the NI increase, removal of zero hours (which suits a lot of people!)."*
>
> *"We invest in people but won't do so with the increased cost of doing so."*
>
> *"Uncertainty is impacting new roles being created, businesses simply trying to survive rather than increasing cost base that investment does which is always necessary ahead of growth."*

ACTIONS TO UNLOCK AND DRIVE INVESTMENT

Provide policy certainty

88. We recommend that the government uses Budget 2026 to provide a clear direction for government policy and reduce uncertainty about individual policies impacting business growth and confidence wherever possible.

89. Uncertainty about both the domestic and global economy has been a key factor in recent years holding back investment and business expansion.

90. Concerns about potential tax rises on businesses and shifting government priorities were a major issue ahead of the Budgets in 2024 and 2025, causing many businesses to lose confidence and hold off on hiring and investment. This is also an issue for businesses in the run up to the Budget this year, as well as for individual taxpayers.

91. This Budget therefore needs to set out a clear economic direction accompanied by a credible fiscal forecast if businesses are to regain confidence in the benefits of investing in the UK.

92. Having a clear plan and commitment to executing it would enable the government to reduce business uncertainty caused by not knowing whether and how taxes are going to change.

93. Our members consistently emphasise the importance of certainty and predictability when making investment decisions. Where significant tax, regulatory or compliance reforms are required, government should provide sufficient notice and phase in changes where practical. A more gradual approach would help businesses adapt, reduce disruption and support confidence in long-term investment.

> *“Essentially, we need stability, clarity and a clear drive for growth – we need a simple system within which we can operate that is predictable and can support real accelerated growth.”*
>
> *“Predictability is one of the most important drivers of investment. Investors and firms need confidence that the legal, regulatory and tax environment will remain stable over the lifetime of an investment.”*

Accelerate the delivery of planned public investment

94. We recommend that the Budget includes a measure to provide departments and public bodies with more budgetary flexibility to bring forward capital spending so that they can take advantage of planning reform.

95. Many infrastructure projects and other public investments in the UK take much longer than they should, or than they would in other countries. Moving from the original approval to finalising the design, gaining planning permission, and then commencing work can take years or, in some cases, decades.

96. We therefore welcome the actions the government has taken to speed up the delivery of infrastructure and other development projects through planning and regulatory reforms, at the same time reducing compliance burdens that add unnecessary cost.

97. While the main aim of these reforms is to encourage private sector investment, they should in theory help speed up and reduce the cost of public investments too. However, there is a risk that budgetary inflexibility will mean government departments and public bodies are not able to take full advantage as capital investment programmes that have been planned on the basis of the pre-reform planning processes will not accelerate automatically.

98. There is a need for positive action to bring forward planned investments already in the pipeline, so that the economic benefits that they bring can also be brought forward, including the private sector investment that new infrastructure can unlock.

Give tax relief on pre-development costs to attract more infrastructure investment

99. We recommend that the Chancellor acts to provide a targeted tax relief on pre-development costs, removing this obstacle to investing in infrastructure and renewable energy projects.

100. The Supreme Court decision in *Orsted West of Duddon Sands v HMRC* [2026] UKSC 12 confirmed that preliminary studies and surveys for offshore wind firms do not qualify for plant and machinery capital allowances. Although they are treated as capital in nature, they are considered to be too remote from the infrastructure assets they make possible to be included as part of the cost for capital allowances purposes.

101. Denying corporation tax relief on this element of the costs of major infrastructure projects acts as a disincentive to investment. It increases post-tax costs, makes it more difficult to calculate expected returns, and may cause suboptimal approaches to building infrastructure aimed at minimising any tax disallowance rather than delivering projects in the best and most efficient way.

102. Although there are several different ways to ensure that pre-development costs are allowable for tax, we suggest an explicit relief to avoid confusion or doubt and reduce the risk of further court cases that would take years to conclude. Any relief should be carefully designed to provide certainty, protect the exchequer, and avoid unnecessary boundary disputes. A clear and targeted regime would reduce tax uncertainty, support investment decisions, and help improve the delivery of projects of this nature.

"Businesses make investment decisions over multi-year periods and need confidence that the rules will not change significantly after funds have been committed."

"Beneficial tax allowances encourage investment."

"Certainty of costs and support is important for us to commit to long term projects."

Expand the advance tax certainty service to benefit many more projects

103. We recommend the Budget expands the advance tax certainty service to cover a much larger number of projects.

104. The launch by HMRC of the advance tax certainty service on 1 July 2026 has been welcomed by many large businesses planning to invest in UK infrastructure and in other major projects. The aim is to give greater confidence to investors about the tax consequences of an investment decision.

105. The current regime covers projects with at least £1bn of qualifying expenditure in the UK over their lifetime. It is estimated that this covers about a dozen projects completed each year in the UK.

106. Subject to evidence about the success of the current regime for projects in excess of £1bn, we think the government should consider expanding the system so that a wider range of businesses and investment opportunities can benefit from the tax clarity that it provides. This would reduce the uncertainty that is a barrier to long-term investment decisions.

107. We recognise that expanding the advance tax certainty service would have resource implications for HMRC. Any expansion should therefore be phased in to enable HMRC to build the capability and capacity that it will need in a controlled way.

*"Business doesn't require tax breaks to invest.
It requires certainty over tax treatment."*

*"Lower business taxes enable capital to be deployed more effectively.
However lower taxes could and should be linked to investment
in infrastructure, people, the environment etc — not just as
a means to increase profits for shareholders."*

*"Development is cost and no guarantee of success
so there needs to be incentives."*

Ensure capital taxes support long-term business investment

108. We recommend that the Budget is cautious about using capital gains tax to generate more tax receipts.

109. Recently published statistics for capital gains tax show an 89% increase in receipts for the 2024/25 tax year compared with 2023/24. While some of that increase is likely to relate to disposals ahead of Budget 2024, much of it can be attributed to the in-year rate increase for the main rates of capital gains tax.

110. While any alteration to capital gains tax rates is a policy decision for the government, there is a significant risk that further changes in the tax regime for investment could adversely affect the willingness of individuals to invest in businesses or productive assets, particularly those critical to the growth of SMEs.

111. Capital taxes are an area of significant instability in the tax system that have led to the perception from some business that the UK is not an attractive place to live, work and invest as other international competitors. While ideally capital taxes should be included in a programme of wider reform of the tax system, we think that there is a need for a coherent approach that ensures any changes made in the meantime are consistent with encouraging investment and economic growth.

Make it easier for SMEs to navigate and access government grants and finance

112. We recommend that the Budget acts to:

- Make it easier for SMEs and other businesses to navigate and access government grants and finance by creating a single, simplified gateway for government grants and business finance.
- Expand government-backed finance eligibility for the most productive SMEs, including by extending the Growth Guarantee Scheme to acquisitions and management buyouts and increasing the current £2m cap.

113. The government provides a wide range of grants, finance schemes and investment incentives to support business growth. However, many businesses, particularly SMEs, find the support landscape difficult to navigate, with information spread across multiple departments, agencies and delivery bodies.

114. As a result, businesses can be unaware of available support or lack the time and resources to identify the most appropriate schemes. Those that do engage with the system can still face barriers to accessing finance, limiting their ability to invest, innovate and grow. This means valuable opportunities for business expansion, productivity improvements and job creation are missed.

115. Government should simplify access to grants and government-backed finance through clearer signposting and a more streamlined support landscape.

116. Consideration should also be given to extending the Growth Guarantee Scheme to acquisitions and management buyouts, and increasing the current £2 million cap. While the Scheme provides valuable support for businesses seeking finance for investment and working capital, it does not adequately support ownership transitions. This can leave otherwise viable businesses struggling to secure funding for acquisitions and management buyouts, despite these transactions often being critical to business continuity, succession planning and future growth.

117. Extending eligibility for the Growth Guarantee Scheme would help preserve successful businesses, retain jobs and skills, unlock investment and support the next generation of business owners. Increasing the cap would also better reflect the financing needs of growing SMEs, enabling more businesses to access the capital required to scale up, improve productivity and contribute to economic growth.

> *"Government grants are difficult to identify and apply for."*
>
> *"Government grants are too complicated and different in every area of UK so hard for accountants to advise on."*
>
> *"Too much uncertainty has stopped businesses investing. There's a lot of hoops to jump through to receive finance – it's difficult to get good ideas off the ground*

EMPOWER PLACES TO DRIVE GROWTH IN EVERY POSTCODE

Establish strategic authorities in all parts of England to give businesses and communities the opportunity to benefit from strong local leadership

118. Our members across the UK tell us that local economies face different opportunities and constraints, and that local and regional leaders are often better placed to understand the barriers holding businesses back. Economic growth is unlikely to be achieved through national policy alone.

> *"Local authorities and regional mayors are often closer to businesses and communities and therefore better placed to identify local economic constraints."*

119. The Cabinet Office statement on rewiring the state sets out how devolution can support devolved governments, strategic authorities and local authorities to drive growth across the whole of the UK, and how this will require a shift of power, funding, and accountability from Whitehall to local and regional leaders in all four nations.

120. While institutional arrangements differ across England, Scotland, Wales and Northern Ireland, place-based growth depends on giving decision-makers the authority, resources, insight and accountability needed to respond to the specific needs of their local economies.

121. Our members point to the importance of supporting local businesses, attracting investment, improving skills and tailoring infrastructure decisions to the economic strengths of different areas. As one member put it:

> *"The cost of doing business continues to be a key issue with SMEs. Fiscal stability will help businesses plan better. Supporting local businesses may ignite regional growth that translates into UK growth as a whole."*

122. The government should therefore continue to strengthen the foundations for local growth by empowering regional mayors and local authorities with the tools, resources and flexibility they need to support investment, skills, infrastructure and business development in their

areas. A more place-based approach would help unlock regional potential, spread prosperity more evenly and ensure that growth is driven across the country. As our members noted:

> *"Economic growth is not the same everywhere in Britain. A region with strong manufacturing needs different policies from a region dominated by tourism, financial services, technology or agriculture."*
>
> *"More local decision making would help address regional inequalities and could boost investment and productivity."*
>
> *"Growth will come from placed based policies tailored to the needs for each area. A bottom-up strategy will generate innovation and economic growth."*

Put governance and accountability at the heart of devolution

123. We recommend that the Budget puts in place strong foundations to underpin devolution and give it the best chance of success.

- Provide local and regional leaders with better tools to manage public money effectively.
- Strengthen governance arrangements in strategic authorities to reflect their increased responsibilities and public money.
- Build in accountability with strong institutions such as regional public audit committees.
- Require regional and local leaders to report to their communities on the progress they have made and on their plans for the future.

124. Devolution will only be effective if the public has trust in regional and local institutions to spend public money effectively. More control, powers and money at a regional and local level must therefore be accompanied by effective governance and accountability.

125. We believe that there is a need for better tools to help local and regional leaders to manage public money effectively and providing these should be made a priority as part of the government's devolution plan. This includes providing local and regional leaders with more timely financial data and giving them a clearer line of sight to the costs of delivering each local public service.

126. Devolution will bring greater responsibilities and funding, particularly for newer combined authorities. Government should establish a national governance framework for strategic authorities that sets clear expectations while allowing local flexibility.

Ensure any new systems of regional and local taxation are as simple as possible

127. The current local government finance system is already too complex and under strain. Council tax, business rates, outdated funding formulas and multiple funding pots make it harder than it should for local leaders to plan, manage services and support growth. As devolution progresses, government should avoid layering new regional and local funding arrangements on top of these weaknesses.

128. We recommend that the government avoids recreating this complexity as it develops new regional and local funding arrangements. Any new system should be designed around clear principles: simplicity, transparency, fairness, stability for public services, and incentives to support local economic growth.

129. Where local, regional or shared national taxes are considered, they should be designed carefully, with clear accountability for how revenues are raised, how money is spent and what outcomes are delivered. There is a need to avoid complicated redistribution arrangements and funding formulas that require continual readjustment.

Improve local government finance, audit and accountability to support local growth

130. We recommend that the Budget acts to:

- Provide additional resources to resolve the local audit crisis and restore timely local financial reporting.
- Improve the financial reporting flows between each level of government so that local, regional and national leaders have the information they need to make the best decisions.

131. Local authorities and their external auditors are working hard to address the backlog of financial statements and build back assurance where audit opinions have been disclaimed. Additional resources are needed to keep this work on track, especially for authorities subject to the local government reorganisation where finances need to be handed over to new authorities in as strong a position as possible. The new Local Audit Office also needs to be adequately resourced so it can do its job effectively.

132. Clearer responsibilities between local authorities, strategic authorities and Whitehall will need to be supported by better financial information flows to avoid duplication and ensure decisions are made at the right level. Unfortunately, the current system of intra-public sector reporting is not able to support devolution, with a relatively limited financial data set shared on a monthly and quarterly basis and comprehensive annual financial data not being available until six months or more after the end of each financial year. This is part of the reason for the errors in local government financial forecasts identified by the OBR ahead of Budget 2025 and for the disclaimers that the ONS puts on local government numbers in its monthly public sector finance releases.

133. We believe the government should adopt a standardised and timely approach to financial reporting between local and regional authorities and central government. This would help local and regional leaders manage delivery, while giving HM Treasury and MHCLG a clearer and more timely view of financial pressures, risks and delivery across England.

134. Better financial information would also help the ONS improve the accuracy and transparency of the public finances, while helping central government focus on national priorities rather than detailed oversight of local decisions.

135. ICAEW recommends that the Budget supports the foundations needed for effective devolution across the UK: clear local and regional decision-making structures where they are needed, stronger local audit and accountability, simpler local government finance, and better financial information flows between local, regional and central government. This would help ensure devolution supports local growth while strengthening trust in how public money is managed.

CONTACT

136. For questions on this submission please contact our Policy and Communications team at representations@icaew.com quoting REP 75/26.