Association of Accounting Technicians (AAT) response to the Budget 2018 for the Treasury Select Committee

1. **About AAT**

1.1. Association of Accounting Technicians (AAT) is a professional accounting body with over 140,000 members, 70% are women, 60% work for, or own their own, SME and 20% of its 90,000 students are apprentices.

1.2. AAT also licenses over 4,250 accountants who provide accountancy services to more than 400,000 British businesses.

2. **Introduction**

2.1. This response utilises the numbering of items in the *Overview of Tax Legislation and Rates* (OOTLAR) 29 October 2018.

2.2. AAT has not responded to every proposed change given the time constraints of having to respond within a 72 hour timescale and hence has ignored those areas that are of limited importance or no relevance to AAT members (e.g. movement of soft drinks between the UK and the Isle of Man), where the outcome is self-evident or where the proposal is simply to consult, review or hold a call for evidence at some future point in time e.g. the Social Investment Tax Relief review, consultation on trusts, consultation on Child Trust Funds and so on.

2.3. As requested, AAT has used the recommended traffic light system of Green (pass), Amber (neutral) and Red (fail) against the Treasury Select Committee's six guiding principles of tax policy i.e. that proposals should be: 1) fair 2) support growth and competitiveness 3) certain 4) stable 5) practical 6) coherent

3. **AAT response to the 2018 Budget**

Income Tax

1.2. Personal allowance (GREEN)

3.1. Between 1997-2010 considerable erosion of the personal allowance was permitted, including the freezing of the allowance on more than one occasion. This appears to have taken place as a tax raising measure by drawing in more and more people to the tax system (basic rate) and drawing more middle-income earners into the higher rate tax band.

3.2. In contrast, since 2010 the personal allowance has risen considerably.

3.3. AAT welcomes the Budget changes announced this week but firmly believes no further increases should take place, other than in line with CPI on an annual basis.

3.4. This is because, inevitably, as fewer employees on low earnings pay income tax, so the benefit of further increases lessens. Other reasons for ensuring there are no further increases include the fact that these changes are also relatively expensive (£2.8bn) and disproportionately benefit men - approximately three quarters of higher earners benefitting from the increase are male. The changes will disproportionately benefit higher rate taxpayers – an employee earning £50,000 per annum will see a reduction in their income tax liability of £860 per year – although much of this will be clawed back by an increase in employee's NIC – compared to someone on £12,500 benefitting by £130.

1.4. Charity small trading tax exemption increase (GREEN)

3.5. AAT welcomes the commitment to increase the charities' small trading exemption limits. AAT agrees that the exemption recognises that in practice charities may engage in some small scale non-primary purpose trading without incurring a tax liability on the profits of that trade. Increasing the existing limits from £5,000 to £8,000 (turnover under £20,000) and from £50,000 to £80,000 (turnover exceeds £200,000) appears to be a reasonable increase.

Capital Allowances

1.6. Structures and Buildings Allowance (RED)

3.6. Introducing a new Structures and Buildings Allowance (SBA) providing relief for qualifying capital expenditure on new non-residential structures and buildings will doubtless be welcomed by commercial property developers although whether this 2% capital allowance is sufficient to encourage development that wouldn't have occurred anyway is highly debatable.

3.7. AAT also notes that the cost of this relief is £1.9bn over five years but that Treasury figures indicate an expectation that over £1.6bn will be saved by reducing the Special Writing Down Allowance from 8% to 6% (see 1.9 below) which will similarly affect the same developers.

1.8. Tax Relief for Electric Charge-points (GREEN)

3.8. The UK currently has less than 20,000 electric charge-points in total with an estimated 100,000 needed by 2020 for the 1m electric vehicles likely to be on UK roads.

3.9. Extending the first-year allowance for electric charge-points for four years (extending to 31 March 2023 for corporation tax and 5 April 2023 for income tax purposes) therefore appears to be a sensible means of further encouraging the introduction of these much needed charging-points.

1.9. Special Writing Down Allowance rate reduction (AMBER)

3.10. Writing down allowances for qualifying plant and machinery from 8% to 6% for businesses claiming capital allowances is unlikely to be popular with many businesses and as detailed at 1.6 above this appears to have been introduced primarily to recover the costs of introducing the SBA.

1.11. Annual Investment Allowance temporary increase (RED)

3.11. This is not the first time the Government has temporarily increased the Annual Investment Allowance – it was increased to £500,000 in 2014 before dropping to the current £200,000 in 2016. It is essential that Government provides business with certainty and provides a clear message that long-term investment is essential for the sustained growth of the British economy.

3.12. Another time limited increase, this time to £1,000,000 for less than two years (1 January 2019 to 31 December 2020) does not achieve either of these objectives. Instead it sends mixed messages to the business community. Increased investment is to be welcomed but this approach does not encourage increased investment over the long term and furthermore may encourage some businesses to invest inappropriately simply because of the time constraints imposed upon them. AAT suggests that such an approach is unlikely to be the best use of tax-payers money.

Corporation Tax

1.14. Corporation tax (UK property income of non-UK residents) (GREEN)

3.13. AAT agrees that this measure will deliver more equal tax treatment for UK and non-UK resident companies in receipt of similar income and welcomes any steps that prevent those that use this difference to reduce their tax bill on UK property through offshore ownership.

1.19. Permanent establishment: anti- fragmentation rule (GREEN)

3.14. Preventing foreign businesses from fragmenting business functions from what would otherwise form part of a cohesive entity is a very welcome development.

1.23. Diverted Profits Tax (GREEN)

3.15. The proposed amendments to Diverted Profits Tax rules are needed, and AAT welcomes moves to close tax planning opportunities in this area.

Capital Gains Tax

1.24/1.25/1.26 Entrepreneurs' Relief (RED)

3.16. Requiring the claimant to have a 5% interest in both the distributable profits and the net assets of the company in addition to the existing eligibility tests will make very little difference to the billions of pounds that the taxpayer is giving to mostly men in their late 50's based in London and the southeast via the misnamed "Entrepreneurs Relief".

3.17. During the Budget, the Chancellor stated he would not scrap Entrepreneurs Relief because, "…*encouraging entrepreneurs must be at the heart of our strategy."* This demonstrates a fundamental misunderstanding of the way in which this relief operates.

3.18. Back in 2014 the National Audit Office highlighted that the relief had risen by over 500% since it was introduced in 2008-09 and that costs have continually exceeded forecasts. Its £2.9bn cost in 2013-14 was 3 times greater than published forecasts predicted. Today the cost is more than £4bn.

3.19. More recently, think-tanks such as IPPR and the Resolution Foundation have called for entrepreneur's relief to be abolished but they are not alone. The Office for Tax Simplification (OTS) 2018 Lifecycle Report recently highlighted that entrepreneurs' relief does not achieve its original objective. Likewise, AAT focus groups have consistently found that our members' clients are completely unaware of the relief until the time comes to consider a sale – demonstrating that it does nothing to initially encourage entrepreneurialism but instead unnecessarily rewards those who would have sold their businesses anyway.

3.20. AAT recommends that this expensive, misguided, ineffective relief be scrapped and that to meet the Chancellor's admirable objective of "*encouraging entrepreneurs"* the savings be invested in other entrepreneurial activity, for example, measures that encourage small businesses to scale up rather than sell up.

1.27. Taxing gains made by non-residents on UK immovable property (GREEN)

3.21. AAT believed that this reform should have occurred in April 2015 when rules relating to non-residents' disposals of residential UK land were introduced. This reform will correct that omission and should succeed in broadening the UK's tax base.

Inheritance Tax

1.29. Inheritance Tax: changes to residence nil rate band (AMBER)

3.22. These two technical changes to amend the residence nil-rate band (RNRB) relating to downsizing provisions and the definition of 'inherited' for RNRB purposes may be sensible but this is being done without consultation. Furthermore, with the OTS report (commissioned by the Chancellor) being published in just a few weeks' time, it would probably have been more sensible to put through any amendments in one go rather than repeatedly tinkering with the legislation.

Value Added Tax

1.30. VAT reverse charge: building and construction services and amendments to related anti-avoidance provisions (GREEN)

3.23. Legislating to amend the avoidance provisions contained in primary legislation for a VAT reverse charge is most welcome. This should help to raise additional money for the Exchequer, discourage VAT fraud and help reduce administrative burdens on SMEs.

Stamp Taxes

1.45. Stamp Duty Land Tax: first-time buyers relief - extension of relief to all purchasers of qualifying shared ownership property (RED)

3.24. Backdating this change to 22 November 2017 makes sense given this is when the original exemption for other first-time buyers came into force and the exclusion of shared ownership properties appears to have been an oversight.

3.25. However, this extension adds additional unnecessary costs to the taxpayer of approximately £5m a year, which is in addition to the substantial, and in AAT's view unnecessary, £670m a year that the general First Time Buyers exemption introduced in November 2017 is anticipated to cost the taxpayer by 2021-2022.

3.26. A simpler, more effective, fairer and free alternative exists and that would be to switch Stamp Duty liability from the buyer to the seller. This would remove all first-time buyers from Stamp Duty liability at no cost to the taxpayer, would protect the £10bn in annual tax receipts (as the duty is still being paid but by different people) and introduces greater fairness as it would better reflect the ability to pay, not just for first time buyers but for subsequent movers.

1.46. Stamp duty relief for Share Incentive Plans (GREEN)

3.27. This change is effectively a tidying up exercise, it corrects legislation so that it is now on the basis already operated by HMRC and will have no cost. AAT therefore welcomes the change.

1.48. SDLT Higher Rates - minor amendments (GREEN)

3.28. AAT agrees that it is eminently sensible to extend from 3 months to 12 months the time allowed to amend a tax return relating to Higher Rates for Additional Dwellings (HRAD) for those who sell their old home more than 12 months after they buy a new one.

Tax Administration

1.55. Extension of Offshore Time Limits (RED)

3.29. Increasing the assessment time limit for offshore tax non-compliance to 12 years for Income Tax, Capital Gains Tax and Inheritance Tax is not supported by AAT.

3.30. The OOTLAR states there was a public consultation on this issue but interestingly does not state whether most respondents supported this change.

3.31. 75% of AAT members who responded to a survey on this issue were opposed to an extension to 12 years which was deemed excessive and far from reasonable. AAT members' primary concern appeared to be the burden of additional record keeping requirements and this being viewed as a disproportionate response to the problem.

Measures Not in the Finance Bill 2018-19

2.4. Gift Aid Small Donations Scheme - Small Donations Scheme (GREEN)

3.32. AAT welcomes the increase in the Gift Aid Small Donations Scheme individual donation limit from £20 to £30. This will especially benefit small charities and has an additional benefit of bringing the donation limit into line with the contactless payment limit.

2.5. Legislating the existing tax treatment of expenses for unpaid officeholders (GREEN)

3.33. Ensuring that expenses paid or reimbursed to unpaid office-holders are exempt from income tax when incurred because of those office holder's voluntary duties is an important change that will undoubtedly provide certainty given the concessionary nature of existing arrangements. Likewise, the intention to pass corresponding legislation to mirror the income tax exemption for National Insurance Contributions is welcome.

2.6. Retail Gift Aid reducing the frequency of letters to donors (AMBER)

3.34. Relaxing the requirement to issue letters annually to donors is a sensible means of reducing unnecessary bureaucracy and costs for charities although it seems somewhat odd that this should only be where a donor's total donations in a tax year are worth less than £20.

3.35. Given changes in the same legislation that will increase the Gift Aid small donations limit from £20 to £30 it would make sense to increase this limit to £30 too.

2.7. Shared occupancy test for rent-a-room relief (GREEN)

3.36. AAT campaigned strongly against the “shared occupancy” test and is therefore pleased that the government has decided to scrap this proposed test.

3.37. This is the best solution for landlords, tenants, policymakers and the economy was to drop these plans and allow rent-a-room relief to continue as it has for over 25 years as a simple to administer, easy to understand tax relief that’s available to all.

2.8. Address non-compliance with the off-payroll working rules (RED)

3.38. AAT has responded to previous consultations on this complex issue and most recently, in July 2018, stated that businesses must be given sufficient time to prepare for any proposed changes. AAT therefore welcomes the one-year delay for changes to come into effect from April 2019 to April 2020 instead.

3.39. A one-year delay aside, there remains an absence of robust, independent evidence to evaluate the effectiveness of off-payroll working in the public sector. However, there is a plethora of anecdotal evidence from a wide range of sources that suggests it is not operating effectively. It should therefore not be extended to the private sector until there is robust, independent evidence of its effectiveness.

2.9. Individual Savings Accounts and Child Trust Funds (RED)

3.40. In March 2018, an AAT Working Group including MPs from the Conservative, SNP and Labour parties, together with tax, accounting and savings industry professionals published a report, “Time for Change: A review of the ISA regime” which concluded that the current ISA regime is in desperate need of reform.

3.41. There is now an ISA for every day of the week, offering unnecessary complexity, bureaucracy and confusion for consumers. They interact poorly with each other, have a variety of different savings limits as well as different rules and requirements which has made the ISA savings landscape far from clear. It is now difficult for many to understand and thus acts as a disincentive rather than an incentive to save.

3.42. The AAT Working Group recommended that the Junior, Cash, Stocks & Shares and Innovative Finance ISAs should be folded into a new ISA wrapper - the *Everything ISA*.

3.43. AAT therefore suggests that instead of fiddling with subscription limits, the government should instead give serious consideration to adopting the proposals contained within this 2018 report to encourage more people to save and to save more money.

Lifetime allowance: ongoing CPI increase (AMBER)

3.44. Increasing the lifetime allowance for pension savings in line with CPI so that it rises to £1,055,000 for the tax year 2019-20 is welcome.

3.45. However, AAT is becoming increasingly concerned by some of the reported unintended consequences of the lifetime allowance. For example, that the allowance is a contributory factor to many GPs and Headteachers taking early retirement because they have reached the maximum allowance. As a result, AAT would favour the Treasury undertaking some research in this area to inform the decision-making process in determining any future increases.

Employment Taxes and Benefits

2.12. Response to the consultation on taxation of self-funded work-related training costs (RED)

3.46. This disappointing decision is far from surprising because the consultation on this subject very heavily implied that the Government was not committed to taking positive action in this area.

3.47. AAT strongly believes that training costs for individuals, employees and the self-employed should be an allowable deduction for income tax.

3.48. The government should introduce this progressive proposal, joining more than two thirds of OECD nations who already allow training to be deducted from taxable income.

2.15. Tax and administrative treatment of short term business visitors (GREEN)

3.49. Extending the PAYE special arrangement limit for UK workdays in the tax year from 30 days or less to 60 days or less is a welcome measure that better reflects the practicalities of the increased internationalisation of business.

Corporation Tax

2.17. Preventing abuse of the Research and Development(R&D) tax relief for small and medium- sized enterprises (SME) (AMBER)

3.50. Research and Development (R&D) tax relief can be a very important means of helping businesses, especially SMEs (HMRC statistics show 83% of all R&D tax credit claims are made using the SME scheme) but nine out of ten companies eligible to claim it fail to do so.

3.51. Further restricting its availability by imposing a limit on the amount of payable tax credit that can be claimed by a company under the R&D SME tax relief therefore seems somewhat curious.

3.52. AAT appreciates the need to prevent any abuse of the relief but was not aware this has been a significant problem. The commitment to further consult on this change is therefore welcome.

2.19. Digital Services Tax (AMBER)

3.53. This narrowly defined tax which will only apply to digital businesses with revenues of more than £500m, who only provide particular services, appears to be a step in the right direction to ensure global technology giants pay a fair share of tax on their UK activities.

3.54. However, the exemptions and allowances and the fact this is likely to raise comparatively little revenue is cause for concern.

3.55. AAT is therefore pleased that the government has committed to consulting on the detailed design of the Digital Services Tax and hopes that improvements are subsequently made.

Capital Gains Tax

2.20. Capital Gains Tax private residence relief: reform of ancillary reliefs (GREEN)

3.56. The final period exemption has previously been 36 months, 24 months and now 18 months so the further reduction to 9 months is perhaps understandable. The impact on “accidental landlords” may be considerable but these do not account for a significant percentage of landlords, are likely to only have been landlords for a short period of time and given the benefits of this reform include the raising of much needed additional tax revenue and the encouragement of the sale of more homes, more speedily, AAT supports such a change.

3.57. It should however be noted that AAT very much welcomes the maintenance of the 36-month exemption for the disabled and those who go into a care home.

Inheritance Tax

2.21. Inheritance tax - trusts settlement definition (AMBER)

3.58. As with changes to the residence nil rate band (1.29, OOTLAR) these changes, with the OTS report (commissioned by the Chancellor) being published in just a few weeks’ time, it would probably have been more sensible to include these changes in a single go rather than repeated tinkering.

Value Added Tax

2.22. The VAT (Input Tax) (Specified Supplies) (GREEN)

3.59. AAT commends efforts to end offshore looping.

2.25. VAT- registration threshold (AMBER)

3.60. Maintaining the VAT registration threshold at £85,000 (and the deregistration threshold at £83,000) until 31 March 2022 provides SMEs with much needed certainty and is very much welcomed by AAT.

3.61. However, the future of the VAT threshold must be resolved not just to provide certainty to British businesses but to address the problems for the economy created by a cliff edge as well as the implications for tax revenue.

3.62. AAT appreciates this is a very difficult issue, as demonstrated by the even split of its members views. In 2017 the *AAT VAT Survey* showed that 36% of AAT members favoured a substantial increase in the VAT threshold to something like Singapore (£500,000) whereas 32% wanted the status quo maintained, and 31% favoured some form of reduction.

2.26. Alternative method of VAT collection - split payment (AMBER)

3.63. AAT responded to the 2018 consultation on this issue and broadly supports the idea of split payments because of the potential to reduce fraud and improve collection. AAT therefore looks forward to publication of the government response document on 7 November 2018 but is unable to provide further comment until then.

Indirect Tax

2.30. Plastics tax (AMBER)

3.64. AAT responded to the 2018 public consultation on this issue and called for a tax on packaging providing this could be done by imposing lower taxes on bioplastics than those made from petrochemicals.

3.65. AAT therefore welcomes the government intention to introduce a tax on plastic packaging from April 2022 but reiterates that any such tax must distinguish between bioplastics and those made from petrochemicals.

2.32. Landfill Tax rates-2020 to 2021 (GREEN)

3.66. Increasing the standard and lower rates of Landfill Tax in line with the Retail Prices Index, rounded to the nearest 5p, helps to ensure that the Landfill Tax can continue to help meet environmental objectives by encouraging the use of alternatives and is therefore to be welcomed.

Excise

2.37. Fuel Duty-main rates and alternative fuels rates (AMBER)

3.67. AAT understands and agrees with the reasoning behind its decision to extend the current differential between alternative and main road fuel duty rates until 2032 i.e. to support the decarbonisation of the UK transport sector.

3.68. However, the OBR suggests revenue from car usage could be up to £23bn less by 2030 based on the switch to electric vehicles.

3.69. Replacing fuel duty, VAT on fuel and Vehicle Excise Duty with a tax on usage modelled on existing pay as you drive (PAYD) insurance systems, as suggested in AAT's "Alternative to tax rises" report published in September 2018, would therefore appear worthy of consideration.

3.70. PAYD currently bases insurance costs on the distances travelled, the time of travel and the type of roads used e.g. a motorway vs quiet country roads. The technology already exists, was trialled by thousands of Aviva customers between 2005-2008 and is now being offered by several start-up insurance companies such as *Just Miles* who provide drivers with a free onboard telematics box.

3.71. There would be costs involved in providing telematics boxes, although this is something Government could require car manufacturers to provide in the future, but PAYD is likely to be a good way of protecting this much needed revenue whilst also being fairer than the existing blanket approach.

3.72. The Department for Transport and HM Treasury would need to undertake detailed analysis but PAYD could be set at a level that protects however much is likely to be lost from changing driving habits and would thus save £9-£23bn.

Stamp Tax

2.45. Stamp Duty Land Tax for non-residents (GREEN)

3.73. AAT wholeheartedly supports this proposed reform although is disappointed to note that the 1% surcharge is at the lower end of the Prime Minister's September 2018 announcement of a 1-3% surcharge being imposed.

3.74. In 2017 AAT surveyed its members on the subject, asking, *"Should an additional tax be paid on property purchases by overseas investors?"* In reply, 78% of respondents said "*Yes*" compared to just 14% who said "*No*". AAT has subsequently campaigned on this issue for the past 18 months.

3.75. It is worth noting that other EU nations already impose restrictions on overseas property investors (Poland, Denmark, Hungary) and that Iceland, Australia, New Zealand and Singapore prevent, restrict or tax overseas property investment, demonstrating that such measures can be successful.

3.76. In summary, AAT welcomes the decision to impose an additional Stamp Duty charge on overseas residential property investors.

3.77. AAT recognises that this is measure is not going to solve the housing supply problem but it is a sensible and measured response to an increasing problem that will also raise £40-£120m and add a degree of previously absent fairness to the system.

Avoidance and Evasion

2.48. Conditionality: Hidden economy (AMBER)

3.78. AAT responded to the consultation, 'Tackling the hidden economy: public sector licensing', published in December 2017 and stated that it agrees that evidence of tax registration should be required before licences are approved by public sector licensing authorities.

3.79. However, AAT also stressed that such evidence should not substantially add to the administrative process of licensing. The process for the licensing authority should simply be to obtain the required form of evidence, not to require additional checks, verification or the application of judgement by the person processing the licence application.

2.49. Tax Abuse and Insolvency (GREEN)

3.80. Allowing HMRC to make directors and other persons involved in tax avoidance, evasion or phoenixism jointly and severally liable for company tax liabilities (where there is a risk that the company may deliberately enter insolvency) could act as a powerful deterrent and is therefore welcome.

Tax Administration

2.51. Protecting Your Taxes in Insolvency (RED)

3.81. AAT understands the rationale behind this proposed reform but is concerned that this has the potential to have some very negative unintended consequences. These include forcing many small businesses who act as suppliers to an insolvent company to lose out in favour of HMRC thus increasing their business risk and potentially increasing their costs of borrowing.

3.82. Furthermore, given that HMRC is often the creditor that pushes for a company to be placed into bankruptcy, giving them preferred status is likely to make them even more proactive in doing so. This is particularly unhelpful where the underlying business is financially sound but may be suffering temporary cash flow problems.

4. About AAT

4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.

4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

5.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy:

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