



Association of Accounting Technicians response to the Spring Budget 2017

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Association of Accounting Technicians (AAT)

AAT awards around 90% of all technical qualifications in accounting and has over 140,000 members. These members include over 4,250 AAT licensed accountants who provide accountancy services to more than 400,000 businesses across the UK.

Comments on Spring Budget 2017

AAT is submitting this response on behalf of our membership and from the perspective of wider public benefit.

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) be certain 4) stable 5) practical and 6) coherent.

[Overview of Tax Legislation and Rates March 2017 \(OOTLAR\)](#)

1.2 **Dividend allowance reduction**

AAT does not agree with the TIIN that reducing the tax free allowance from £5,000 to £2,000 will not have any significant macro-economic impact given that it is expected to affect 2.27 million individuals in 2018-19 with an average loss of around £315 and is anticipated to generate over £870 million in additional tax revenue.

It will partially reduce the tax difference between the self-employed and those working through a company. However, this argument only partially mitigates the wider negative impact on individual investors.

1.6 **Alignment of dates for making good on benefits in kind (BiKs)**

Alignment of the date of making good with the date by which P11Ds must be issued is a common sense measure that acts as an aid to simplification.

1.7 **Optional remuneration arrangements (salary sacrifice)**

AAT is disappointed to find that many salary sacrifice arrangements, instigated for legitimate purposes, will lose their attractiveness for what, in the absence of any figures appears to be a limited reduction in the purported income tax and national insurance contribution losses to the Treasury. AAT supports the decision to leave certain BiKs untouched.

1.8 **Reform of tax treatment of termination payments**

AAT's response to the consultation on this issue expressed concern that the treatment of Payments in Lieu of Notice as 'earnings' for the purpose of National Insurance would adversely affect employees during a time when they may be feeling particularly vulnerable.

1.9 **Off-payroll working in the public sector**

AAT remains concerned that the consultation activity on this issue concentrated too heavily on the concerns HMRC has about loss of revenue and perceived abuse rather than on the disadvantages accruing to owners of Personal Service Companies e.g. loss of employment rights, pension and employment benefits.

1.10 **Tackling disguised remuneration avoidance schemes**

AAT supports government action to legislate against contrived arrangements to avoid tax, including artificial arrangements in disguised remuneration.

AAT is pleased to note the following statement of intent contained in the foreword of the consultation document, "The government wants to ensure that this legislation works as

intended and does not penalise any innocent arrangements that are not motivated by tax avoidance.”

1.12 Reducing the money purchase annual allowance (MPAA)

AAT supported a reduced MPAA of £4,000 in responding to the consultation on this issue, as long as provision was made for it to increase in line with inflation. AAT also agreed that the number of people likely to be negatively impacted is small.

AAT is disappointed to note there does not appear to be any provision for an inflationary increase.

1.21 Corporation Tax deductions for contributions to grassroots sport

AAT was supportive of the proposals in last year’s consultation “*Corporate contributions to grassroots sports*” and as such supports these proposals.

1.22 Corporation Tax: Patent Box - cost sharing arrangements

AAT supports the proposed specific provisions to be added to the Finance Act 2016 patent box rules where the new measures will cover situations whereby research and development (R&D) is undertaken collaboratively by two or more companies under a cost sharing arrangement. It is considered that the provisions will achieve the objective of ensuring that companies are neither penalised nor able to gain an advantage under these rules by organising their R&D in this way.

1.27 Insurance Premium Tax

A further increase to the standard rate of IPT to 12% appears to be a revenue-raising policy decision for which no rationale has been provided. During the 2016 Autumn Statement it was suggested that because IPT is an insurance tax “...any impact on premiums depends on insurers’ commercial decisions” which ignores economic reality. The increase will simply be passed on to consumers. Furthermore, for those who are VAT registered there is no scope to recover the tax in the way that they can offset VAT input tax against output tax charged.

1.38 Disclosure of indirect tax avoidance schemes

AAT’s response to the 2016 consultation on “*Strengthening the Tax Avoidance Disclosure Regimes for Indirect Taxes and Inheritance Tax*” agreed that promoters of VAT avoidance schemes should be required to provide HMRC with quarterly information in respect of each client to whom they have provided a scheme, thus providing a more-timely picture of the nature and extent of avoidance. Placing reporting responsibility on the smaller numbers of promoters, rather than on the larger number of users, would reduce the administrative burden overall.

1.39 VAT: penalty changes in fraud cases

AAT does not support the “knew or should have known” principle as this brings HMRC and the system of tax administration into disrepute. As AAT has repeatedly said, establishing a distinction between “deliberate” or “careless” actions may be administratively inconvenient for HMRC but nevertheless the principle remains sound.

1.40 Promoters of Tax Avoidance Schemes

AAT supports the principle that promoters of tax avoidance schemes should not be able to circumvent the POTAS regime by re-organising their business so that they either share control of a promoting business or put a person or persons between themselves and the promoting business. AAT believes that these proposals adequately deal with this problem.

1.41 Strengthening tax avoidance sanctions and deterrents

In response to the 2016 consultation “*Strengthening tax avoidance sanctions and deterrents*” AAT agreed with the proposals relating to sanctions for designers, marketers and facilitators and those offering advice on implementation.

However, AAT did not agree with proposals to restrict legal interpretations which have been general law since the mid-nineteenth century. HMRC should rely on more robust arguments and evidence to win.

AAT also opposed the proposal to switch the onus of proof from HMRC to the taxpayers in certain appeals to the Tribunal.

1.42 Offshore evasion: requirement to correct previous non-compliance

In response to last year's consultation on "*Tackling offshore tax evasion: a requirement to correct*" AAT agreed with the Requirement-To-Correct window given that the covering legislation is proposed for Finance Bill 2017 and the end date of 30 September 2018 corresponds with the date by which all countries have to commit to the Common Reporting Standard. AAT also agreed with the proposals for a single, simplified and tougher set of sanctions for offshore tax evasion as it will be a simplification measure that addresses HMRC's concern that some taxpayers may delay in order to allow years to pass out of assessment by waiting to the end of the window to disclose.

1.44 Increasing the cash basis entry threshold

In AAT's response to last year's Making Tax Digital consultations AAT was in favour of an increase in the entry threshold for the cash-basis method of computing taxable profits from the VAT registration threshold to £150,000, effective from 6 April 2017 provided that it is optional.

1.45 Simplified cash basis for unincorporated businesses

AAT's response to last year's consultation supported the concept of a reduced reporting framework because this offers the prospect of simplification, without the drawbacks associated with cash. Nevertheless, while AAT is not averse to the government proposal to provide a simple list of disallowed expenditure it would be necessary to have sight of the list before giving a green light to such proposals.

1.46 Simplified cash basis for unincorporated property businesses

AAT supports the proposal to allow most unincorporated property businesses with receipts up to £150,000 to calculate their taxable profits using a cash basis of accounting. It is a common sense action that will legitimise what many smaller unincorporated landlords are already doing due to a lack of awareness around current legislation.

1.47 Making Tax Digital for business (MTDfb)

AAT has always supported the concept of Making Tax Digital despite concerns about both costs and implementation.

AAT was the first to recommend the MTD threshold be raised from £10,000 to £83,000 and whilst many other organisations and individuals subsequently repeated these calls, AAT was alone in recommending the threshold reduce over time to the personal allowance (currently £11,000).

AAT therefore welcomes the decision to increase the threshold to £83,000 but would like it to reduce over a three year period (April 2021) rather than a one year period (April 2019) and to reduce to the personal allowance not back to £10,000.

According to a 2016 MTD AAT member survey, less than 5% of AAT members support a £10,000 threshold where as 65% support the threshold mirroring the personal allowance. By linking the threshold to the personal allowance, the need to regularly revisit the limit is avoided and fiscal drag will not be an issue. The £10,000 figure also means many businesses whose profits are less than the personal allowance and currently pay no tax would still need to go through the MTD process.

2.2 Rent-a-Room relief

AAT welcomes the announcement that the government will consult on proposals to rent-a-room relief to ensure it is better targeted to support longer-term lettings. However, without further detail it is not possible to provide a positive "pass" rating.

2.3 Partnership taxation: proposals to clarify tax treatment

AAT notes that the government will be publishing a response document and draft legislation to clarify and improve aspects of partnership taxation. Again, without further detail it is not possible to provide a positive "pass" rating.

2.6 Increase the rate of Class 4 National Insurance contributions (NICs)

The decision to increase the main rate of Class 4 NICs by 1% to 10% from April 2018, and by a further 1% in April 2019 will see millions of self-employed workers pay an average of £240 a year more.

If the large differential in NICs for employed and self-employed workers is no longer justified and undermines the fairness of the tax system as suggested, AAT considers that any action adopted to address this imbalance should be revenue neutral.

If this was genuinely about moving towards a level playing field as has also been suggested, then at the same time as increasing NICs for the self-employed they should be reduced for the employed to further narrow or even eliminate the discrepancy between the employed and self-employed. AAT welcomes delay on this issue until the outcome of reviews into the Gig Economy are known. In January 2017 AAT published a detailed response to the OTS focus paper on this issue which made a number of recommendations to address the problem. These focused primarily on employer NICs and gig allowances.

2.7 Removing NICs from the effects of Limitation Act and aligning recovery of debts

AAT welcomes the fact that the government is planning to remove NICs from the effects of the Limitation Act 1980 and will align the recovery time limits with those for income tax. It is noted that, to allow more time for a full consultation on the draft legislation, the government will be deferring this and will introduce the measure in a future NICs Bill.

If income tax and national insurance were completely aligned then it would remove the need for this type of piecemeal legislation.

2.13 Research and development (R&D) tax review

In response to the 2015 consultation on "*Improving access to Research and Development tax credits for small business*" AAT observed that, "*Awareness and publicity of the R&D credits is the key factor in SMEs accessing the relief...*". It is also encouraging that the government will make administrative changes to R&D tax credits, aimed at increasing certainty and simplicity around claims, and will take action to improve awareness amongst SMEs.

2.27 VAT: revalorisation of registration and deregistration thresholds

AAT supports the revalorisation of the registration and deregistration thresholds for VAT and for or EU acquisitions broadly in line with inflation.

2.28 VAT: 'split payments' model

AAT welcomes this announcement. This is potentially an innovative use of technology that would allow VAT to be extracted directly from transactions at the point of purchase, something AAT has previously supported.

2.29 VAT: use and enjoyment provisions for business to consumer mobile phone services

While AAT supports government measures to stop aggressive avoidance of UK VAT, AAT considers that to bring services used outside the EU within the scope of the tax may result in double taxation.

2.32 Hidden economy – sanctions and conditionality

In response to last year's consultation, AAT stated that conditionality would be a significant bureaucratic change in business and commercial conduct but agreed that a requirement to show proof of tax registration as a condition of access to some services or obtaining certain licences could make it more difficult for businesses to continue trading in the hidden economy.

2.33 National Insurance Employment Allowance

AAT notes that HMRC is actively monitoring compliance with the National Insurance Employment Allowance following reports of some businesses using avoidance schemes to avoid paying the correct amount of National Insurance contributions.

It is worth noting that in response to the Technical consultation on the exclusion of certain companies from the National Insurance Contributions 'Employment Allowance' AAT advised that there is, *"...a danger that the regulations might make taxpayers act in a different way to achieve their objectives, in other words, represent a driver for further avoidance."*