



# Association of Accounting Technicians (AAT) response to the Autumn 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 including over 4,250 AAT licensed accountants who provide accountancy services to more than 400,000 British businesses.

## Autumn Budget 2017: Introduction

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.

It should be noted that amber (neutral) is often used where insufficient information has been provided for AAT to make either a green (pass) or red (fail) rating.

In total AAT has given twenty measures a pass rating, twelve are neutral and seven are red. As a result, AAT considers that the 2017 Autumn Budget overall should be considered as broadly meeting the Committee's six guiding principles of tax policy, with some notable exceptions.

All previous AAT consultation documents referred to in this document can be found online at: [www.aat.org.uk/about-aat/aat-policy-work](http://www.aat.org.uk/about-aat/aat-policy-work)

## Autumn Budget 2017: AAT Response

The following items (1.1 – 1.46) are included in Finance Bill 2017-18:

### 1.2 **Marriage Allowance: allowing claims on behalf of deceased partners**

AAT welcomes this measure which allows Marriage Allowance claims on behalf of deceased spouses and civil partners, and the backdating of these claims by up to four years. The policy objective is to make the allowance more widely available. AAT recommends that Government uses this new measure as an opportunity to publicise the allowance more generally in order to address the ongoing problem of low take-up due to a lack of general awareness.

### 1.3 **Income tax: mileage rates for landlords**

AAT supports this simplification measure as it makes the tax computations of these businesses, individuals and partnerships (made up only of individuals) carrying on a property business more consistent with trading businesses that already have this choice. Previously landlords were able to deduct fixed mileage rates under an Extra Statutory Concession until 2013. The re-introduction on a legislative footing was requested by stakeholders, including AAT during the *Simplified cash basis for unincorporated property business* consultation (November 2016).

### 1.4 **Offshore trusts: anti-avoidance rules**

AAT always supports measures to curb tax evasion and aggressive tax avoidance. This measure seeks to ensure that payments from an offshore trust intended for a UK resident individual do not escape tax when they are made via an overseas beneficiary or a remittance basis user. However, the tax information & impact note (TIIN) states that, "*The measure will be monitored through information collected from tax returns*" which will not identify evasion and is therefore a cause for concern.

### 1.5 **Partnership taxation: proposals to clarify tax treatment**

AAT reviewed the earlier policy paper (published 13 September 2017) and did not identify any concerns.

### 1.9 **Enterprise Investment Scheme and Venture Capital Trusts: increased limits for investments in knowledge-intensive companies**

Appropriately targeted, this change should encourage greater private investment in innovation which could have many knock-on benefits for UK plc, for example, in terms of increased tax take, increased productivity and a consequent increase in GDP. Perhaps most importantly, this is a welcome sign of government commitment to help maintain a competitive advantage in what is increasingly becoming a knowledge based economy.

#### 1.14 Tackling disguised remuneration

AAT's response to HMRC's technical consultation supported government action to legislate against tax avoidance using artificial arrangements in disguised remuneration and so AAT is therefore supportive of this legislation which intends to, "*..put beyond doubt with effect from 22 November 2017, that Part 7A of Income Tax (Earnings and Pensions) Act 2003 applies regardless of whether contributions to disguised remuneration avoidance schemes should previously have been taxed as employment income*".

#### 1.15 Off-payroll working reform: extension to the private sector

AAT welcomes the government decision to consult on how to best tackle non-compliance in the private sector, rather than automatically extending public sector reforms around off-payroll working. AAT has previously suggested that HMRC is too concerned about loss of revenue/perceived abuse and too little on the disadvantages accruing to owners of Personal Service Companies such as a loss of employment rights and reduced employment benefits. It is also worth noting the various well documented problems with the public-sector reforms e.g. delayed and cancelled projects in the NHS and at HMRC and the fact that the reforms have created a significant incentive for clients and agencies to assess contractors as caught by IR35 even if they are not.

A thorough impact assessment of how the rules have worked in the public sector is essential as is a further consultation as referenced in OOTLAR. AAT looks forward to contributing to this consultation and trusts that this will take the form of a more holistic approach to the loss of employment rights and benefits as well as tax.

#### 1.19 Lifetime allowance: Consumer Prices Index increase

AAT notes that this is the first increase since 2010, that even with this increase the lifetime allowance has reduced by 43% (from £1.8m) over this period and that increases in line with CPI mean that the this change simply means that the £1m allowance will simply be maintained rather than eroded year on year.

AAT is also pleased that this increase honours a 2015 Budget commitment to increase the allowance in line with inflation from 2018 onwards, thus providing a degree of certainty and stability for savers.

#### 1.26 Increasing the rate of the Research and Development expenditure credit

The policy objective in the TIIN asserts that, "*A rate increase of the R&D Expenditure Credit from 11% to 12%...*" will result in "*increasing the incentive to undertake R&D*". This measure will help support innovative industries in the UK, help increase low rates of productivity and boost GDP. It is therefore welcome.

#### 1.29 Capital Gains Tax: taxation of carried interest

It is reasonable to amend the limited transitional exceptions that had not been foreseen in order to prevent the carried interest rules from being manipulated. Manipulation reduces the tax payable in a way that was not intended by the original legislation and it is therefore right and proper that it be addressed.

#### 1.30 Corporation Tax: Capital Gains depreciatory transactions

It is reasonable to remove the time limit of 6 years that a company needs to look back and adjust for depreciatory transactions when making a capital loss claim. However, this measure may affect the behaviour of companies that grow by acquisition as their capital loss claims could be significantly curtailed.

#### 1.31 Corporation tax: Corporate Capital Gains indexation allowance

Government plans to freeze the indexation allowance on corporate Capital Gains for disposals on and after 1 January 2018 will have a significant financial impact.

The TIIN states that the policy objective is to align the treatment of capital gains by companies with that for individuals and non-incorporated businesses for whom indexation allowance was abolished in 2008 but ignores the fact individuals are entitled to a tax free annual exemption for chargeable gains which is not available to companies. The TIIN policy objectives also state the freeze will simplify tax computations and remove a source of potential errors, which whilst true ignores the impact created by freezing the allowance so that companies will not receive relief for any inflationary increase in an asset's value that accrues after 1 January 2018.

A more obvious policy rationale, which is not directly acknowledged, is the fact that the Treasury anticipates this freeze will save the Exchequer £1.7bn over the five-year period from 2018-2023.

#### 1.33 Extension of joint and several liability on the online marketplaces and displaying VAT numbers online

According to the TIIN there has been no prior consultation. AAT recommends that a proper consultation is carried out before this measure is implemented. The application of the principle of "*known or should have known*" requires robust safeguards to ensure that an innocent person is not held jointly and severally responsible for the unlawful actions of another.

#### 1.41 **Stamp Duty Land Tax: relief for first-time buyers 2017**

Providing relief for all first-time buyer house purchases up to £300,000 and at the existing rate of 5% between £300,000 and £500,000 will cost approximately £600m a year and means there will be no Stamp Duty liability for 80% of first time buyers.

AAT's alternative recommendation (made in our September 2017 Budget submission) to simply switch liability from the buyer to the seller would have helped 100% of first time buyers, not 80% and would save the taxpayer approximately £600m per annum because stamp duty would continue to be paid simply by different people (sellers not buyers).

AAT's recommendation would protect the £8.6bn of much needed revenue that residential Stamp Duty generates and would neatly fit with policymaker's desire for greater generational fairness - it would immediately remove 100% of first-time buyers from the tax whilst ensuring downsizers, typically the elderly, might pay a little bit more as they'd be paying duty on the home they are selling rather than buying.

The following items in the OOTLAR relate to future tax changes:

#### 2.5 **Simplification of Gift Aid donor benefit rules for charities**

AAT responded to the consultation on Gift Aid (January 2017) and welcomes the simplification especially as *"...the vast majority of gift aid administrators are volunteers who are unlikely to be aware of all aspects of Gift Aid"* and so struggle to comply with the requirements.

#### 2.8 **Call for evidence on rent-a-room relief**

AAT notes that a call for evidence will be published on 1 December 2017 to build the evidence base around the usage of rent-a-room relief and to establish whether it is consistent with the original policy rationale to support longer-term lettings. This indicates a desire to end the rapidly growing market in short term room lettings using sites such as Airbnb and SpareRoom.co.uk which are utilised by hundreds of thousands of UK residents. Perhaps it would be wise not only to establish if reality fits with the policy rationale but also vice versa.

Ending the relief for Airbnb type lettings would likely add complexity to the tax system, reduce accommodation availability and choice (as many "landlords" would simply choose not to rent out their spare rooms) and reduce the incomes of many people who find this one of the few ways in which they can supplement their annual earnings. AAT looks forward to contributing to this forthcoming Call for Evidence.

#### 2.12 **Individual Savings Account (ISA) and Child Trust Funds annual subscription limits**

Increasing the subscription limits Junior ISAs and Child Trust Funds for the tax year 2018-19 in line with CPI but not increasing the Cash and Stocks & Shares ISA subscription limit appears to be an inconsistency that is hard to justify. Given the decreasing attractiveness of the ISA genre at a time of very low savings rates, AAT recommends a wholesale review of ISAs and to pre-empt this has established its own ISA Working Group with industry figures, MPs from the Labour, Conservative and SNP parties and a number of personal finance journalists. The Working Group is due to report its findings in January 2018

#### 2.13 **National Insurance Contributions (NICs) Bill**

AAT had responded to the consultation on Class 2 NICs and was broadly supportive of the proposals. It is understood that the delay is to ensure that there are no unintended consequences which appears sensible.

#### 2.16 **Van Benefit Charge and van and car fuel benefit charges**

It is difficult to justify the use of RPI instead of CPI given the widespread applicability of CPI elsewhere in the Budget and increasing government moves to this more credible measure. Maintaining the RPI measure here will unfairly increase the taxable benefit on "white van man (or woman)".

#### 2.17 **Legislate existing overseas scale rates for accommodation and subsistence**

This will provide clarity and certainty for the existing concessionary travel and subsistence overseas scale rates on and after 6 April 2019. However, given an obvious willingness to do this, it raises the question as to why the measure cannot be introduced from 6 April 2018?

#### 2.18 **Abolition of receipt checking for subsistence benchmark scale rates**

AAT supports this simplification measure but only if there is no obligation for employers or employees to retain the receipts, otherwise there will be little or no administrative benefit to doing so.

#### 2.19 **Improve guidance on taxation of employee expenses and online processes for claiming tax relief on non-reimbursed expenses**

AAT welcomes the commitment for HMRC to work with external stakeholders to explore improvements to the guidance on employee expenses and will be happy to do so.

## 2.20 **Consultation on extending the scope for employees and the self-employed to claim tax relief on self-funded training**

AAT strongly supports this long overdue proposal, which will help individuals, their employers and the wider economy. The cost of this education or training should be 100% deductible from income tax and facilitated through the PAYE system.

## 2.21 **Employment status consultation**

See “Off-payroll working reform: extension to the private sector” (OOTLAR 1.15) above.

## 2.23 **Disincorporation relief**

Disincorporation Relief could enable many micro-entities, previously encouraged into a corporate shell, to transition back to a less administratively burdensome environment as currently occupied by the self-employed. AAT recommends that Disincorporation Relief is enhanced so that more people can access the relief and also that it HMRC takes steps to raise general awareness of the relief.

## 2.24 **Research and Development Tax Credit increasing certainty for large businesses and increasing awareness amongst small and medium-sized enterprises**

The proposal to pilot a new Advanced Clearance service is welcome but is unclear as to what the issues are with the existing clearance system. Nevertheless, AAT will be happy to support the proposed government campaign to increase awareness of eligibility for R&D tax credits among SMEs.

## 2.25 **Securing debt in insolvency: extension of security deposit legislation**

HMRC provides an important function in petitioning the winding up of companies. By winding up these insolvent companies HMRC often limits the damage that these companies can do to their creditors. However, if HMRC is put in the position of preferential creditor then these insolvent companies will be able to continue to trade, potentially causing much greater damage to their creditors. AAT therefore opposes this legislation which seeks to put HMRC in the position of preferential creditor.

## 2.36 **Capital Gains Tax: Entrepreneurs’ Relief— relief after dilution of holdings**

AAT welcomes the announcement of a consultation on this subject in Spring 2018 so that government can better determine how access to the relief might be given to entrepreneurs whose holding in their company is reduced below the normal 5% qualifying level as a result of the issues of new shares.

## 2.38 & 2.39 **VAT**

The Budget announcement very much ties in with AAT’s member views. The AAT 2017 VAT Survey demonstrated that 36% of AAT members would like to see a substantial increase in the threshold, 32% want the status quo maintained and just 13% would like to see it lowered.

AAT undertook focus group activity with the OTS to help inform their review and looks forward to taking part in the promised further consultation on this issue in the next few months.

## 2.40 **VAT fraud in labour provision in the construction sector**

AAT responded to the earlier consultation and notes that a Summary of Responses will be published on 1 December 2017. AAT will likely respond to the draft legislation and guidance that is due to be published in October 2018.

## 2.41 **VAT: split payment for online payments**

AAT responded to the earlier consultation on VAT split payment for online payments and was supportive of the concept. However, AAT did express concern about the complexities of implementation. It appears from the OOTLAR that other respondents held similar views. The OOTLAR mentions that there are plans for further stakeholder engagement in preparation for a full consultation in 2018 and AAT intends to continue participating in the development of these measures.

## 2.51 **Call for evidence on single-use plastics waste**

AAT notes some scepticism about the potential for multilateral action on such issues but also acknowledges such scepticism existed prior to a ban on plastic carrier bags. The tax on plastic bags has had a considerably positive impact with the number of bags being distributed by retailers falling by 80%. There is no reason to suggest that a similarly well considered approach might do the same for single use plastics. Clear labelling is likely to be the primary driver in changing consumer behaviour whilst tax may have more an impact on producers. AAT looks forward to contributing towards the future Call for Evidence on this important issue.

## 2.63 **Stamp Duty Land Tax: changes to the filing and payment process**

A further delay in implementing a 14-day filing and payment window until 1 March 2019 is disappointing but it is clearly better to have a system that works rather than introducing a system earlier that then goes on to create significant compliance problems.

## 2.66 Requirement to notify HMRC of offshore structures

AAT responded to the consultation document relating to offshore structures and awaits the Summary of Responses due to be published on 1 December 2017. In its response, AAT supported the general principle of targeting any promoters, marketers and intermediaries who create arrangements in order to facilitate tax evasion. However, AAT did express concern over the scope of the measure which sought to extend it beyond “...intermediaries creating or promoting certain complex offshore financial arrangements.”

## 2.67 Extending time limits for offshore non-compliance

The OOTLAR states, “...the government will extend the time limits for assessing all offshore cases to at least 12 years where non-compliant behaviour is involved, with a consultation on this in Spring 2018”. It then states, “...for offshore non-compliance, the time limit will be extended to at least 12 years, whatever the behaviour...”. If the decision has already been made then there would appear to be no reason to undertake a consultation exercise that will only delay implementation.

## 2.68 Hidden economy: conditionality

AAT responded to and supported the proposals in the earlier consultation document and is likely to respond to a second consultation on this subject to be published in December 2017.

## 2.71 Certificates of Tax Deposit closure

The OOTLAR does not explain why the certificates of tax deposit are effectively being closed as no new certificates can be purchased on or after 23 November 2017. The certificates could have been used to finance government borrowing. The OOTLAR mentions that HMRC will make ‘reasonable effort’ to contact the current certificate holder, otherwise the balance will be regarded as forfeit. AAT recommends that these balances are donated to charities.

## 2.72 Making Tax Digital: changing the scope and pace

AAT welcomes the changes announced to HMRC’s Making Tax Digital (MTD) programme in March and July this year but fear that the Government may continue with the deeply unpopular and wholly inappropriate £10,000 threshold first announced in August 2016.

The £10,000 figure was deemed unacceptable by a clear majority of MTD consultation respondents (including AAT) last year. An AAT member survey found that less than 5% of our licensed accountants support the £10,000 limit. In contrast 65% supported the limit being at the personal allowance (currently £11,500).

An eventual threshold that mirrors the personal allowance from 2020 onwards would seem to be a much more sensible means of progressing MTD. 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.

A threshold of £10,000 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. Something that the Treasury Select Committee report rightly described as being “*palpably absurd*.”

AAT would therefore like to see the Government commit to having an MTD threshold no lower than the personal allowance from 2020 onwards.

## Miscellaneous – Business Rates

The Business rates changes announced during the Autumn Budget 2017 are not covered by the OOTLAR.

AAT has long called for a switch in the inflation measure from RPI to CPI and welcomes the Governments previous commitment to doing this in 2020. Moving this forward two years to 2018, as announced by the Chancellor this month, will cost the Treasury £2.3bn but its money that many businesses, especially SMEs, desperately need.

AAT has also long called for more frequent revaluations – at least every three years – so welcome this Budget commitment too. However, waiting until 2022 to do so is somewhat frustrating and will cause problems for many SMEs.

Whilst these have been the two key “short-term” reforms to business rates that AAT has sought, AAT members would also like to see more wholesale reform of the business rates system i.e. replacing the rates system with a new system that adequately takes into account the growth of online competition.

