Autumn Budget 2024 / Spending Review - Stakeholder Representation

A call for representations issued by HM Treasury

Comments from ACCA to HM Treasury ahead of the Budget 2024

10 September 2024

About ACCA:

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **252,500** members and **526,000** future members based in **180** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance, and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business, and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital in helping economies, organisations, and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation. Find out more at accaglobal.com

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ACCA response summary:

- In the UK ACCA has over 100,000 members working in finance and accountancy roles up and down the country, across all sectors, public and private, from micro businesses to large firms, helping individuals, organisations, and businesses to thrive. As a chartered professional body, we operate in the public interest; ensuring our members operate to the highest technical and ethical standards and we conduct independent research globally to advance the profession for the public good.
- The accounting profession makes a significant contribution to the UK economy. In 2022, it is estimated that the profession directly contributed £80.7 billion to UK GDP and was responsible for an estimated tax contribution of approximately £10.1 billion to the UK Exchequer.
- As trusted advisors to business, our members are well-placed to provide early and unique insight into business confidence and economic circumstances. They tell use businesses are fighting against uncertainty and instability in a number of contexts and this makes planning and forecasting challenging. In Q2 2024, our UK SME data from the ACCA Global Economic Conditions Survey (GECs) shows uncertainty. While SME confidence rose, the capital expenditure experienced a sharp fall and there was a second successive quarter fall in the new orders index.
- ACCA believes that in order to nurture that growth, action is needed to strengthen and simplify the regulatory framework. We believe that this could be achieved through a programme of tax simplification and providing transparency and certainty on the future treatment of major taxes.

Insight from the Global Economic Conditions Survey (GECS)

As trusted advisors to business, our members are well-placed to provide early and unique insight into business confidence and the impact of challenging economic circumstances. They tell us that businesses are fighting against uncertainty caused both by the impact of current and recent geopolitical circumstances but also by economic constraints. The impact of these circumstances mean that it is challenging for businesses to plan and forecast with any certainty, given concern about the impact of high interest rates, instability in energy and financial markets, lack of investment and an often-inaccessible funding landscape.

ACCA conducts the Global Economic Conditions Survey (GECS), jointly with the Institute of Management Accountants (IMA), and it is the world's largest regular survey of accountants, both in terms of the number of respondents and the range of economic variables monitored. The survey looks at global conditions and regional comparisons. The survey has been running for more than a decade, so we are able to give both a current picture and a historical analysis of the data we are seeing.

In Q2 2024, confidence rose strongly among UK SMEs for the second consecutive quarter, consistent with an improving economic backdrop. The Confidence Index is now above its historical average. The Employment Index also rose strongly and is now close to its average.

The picture from the other key activity indicators was less positive though, suggesting the recovery may not be on particularly firm ground at present. There was a second consecutive decline in the New Orders Index, and a particularly sharp fall in the Capital Expenditure index. The latter may have been heavily impacted by increased caution among businesses related to the election. Encouragingly, concerns about increased operating costs eased again.

Looking at our early indicators of corporate stress, the picture was generally quite positive. Concerns about customers going out of business declined quite sharply and are now below their historical average. Concerns about suppliers rose slightly, but don't look particularly alarming by historical standards. Meanwhile, problems securing prompt payment fell sharply. One area to keep an eye on though is problems accessing finance. The index only rose modestly but is now at its highest since 2014.

Creating a framework for growth: nurturing a transparent and trustworthy business ecosystem

ACCA believes that in order to nurture that growth, action is needed to strengthen and simplify the regulatory framework. We believe that this could be achieved through engagement with the business ecosystem, ensuring that employment law is fit for purpose for businesses of all sizes; corporate governance reform; a commitment to international cooperation on the regulation of artificial intelligence and a programme of tax simplification including providing transparency and certainty on the future treatment of major taxes. You have inherited a complex fiscal picture, but following OBR assessments any commitments to future tax treatments over the parliamentary term would be welcomed. Clear guidance from strong regulators will not only reduce the burden on smaller businesses, but also allow the government to put its tax revenue to better use.

Prioritise audit and corporate governance reform

Reform is necessary to restore the UK's reputation and credibility and provide certainty to investors, following well-publicised corporate failures. ACCA has supported the reform process, from the Kingman review and subsequent consultations. We therefore welcome the inclusion of a bill to introduce audit reform legislation in the King's Speech.

The legislation should establish the new regulator, the Audit, Reporting and Governance Authority (ARGA) on a statutory footing, with a statutory levy. However, the Bill should also ensure a focus on the responsibilities of all directors. Pushing forward with audit reform will highlight the importance of the UK being a good place to do business and finally making real progress on audit and corporate governance policy.

Tax System

Through our strong body of research, ACCA believes that the three foundations for a good tax system are: simplicity, certainty, and stability.

Building on these principles we believe the government needs to commit to a programme of tax simplification to encourage innovation, economic growth and support robust tax take by removing barriers to compliance. This should include the development, delivery, and measurement of tax simplification actions.

Frequently, changes to the tax system are introduced piecemeal to respond to one policy initiative or another. Fundamental to reform is a more systemic approach to taxation, including the impact of challenges including increased digitalisation, demographic shifts and climate change, which all have implications for current and future revenue. In the same way that the OBR makes an assessment of the impact of Budgets, the tax system needs to take account of and make predictions over the impact of shifts in patterns of employment, production and consumption and to guide the shape of the tax system accordingly. We are also conscious that assessing taxpayer behaviour effectively is becoming increasingly important as tax reforms are undertaken.

As the government considers future changes to, for example, taxation of pensions and employment legislation, it is possible to anticipate some unintended consequences arising from taxpayer behaviour. On pensions, the mechanics of how employee and employer contributions are dealt with are complex. There is a risk that the addition to basic rate and restriction on higher rate may fail, due (in part) to potentially increased use of salary sacrifice and incorporation options for those at higher rates and use of increased employee contributions at the lower rates, with a knock-on impact on monies raised and thus, the policy intention of the proposal.

Similarly, in the context of proposed changes to employment legislation to improve the UK's labour market, it is worth considering the fiscal environment and how this can support, or antagonise efforts to boost fair, well-paid employment. For example, for some employers, the threshold for Employers NICs can incentivise part-time/low hours contracts.

Existing incentives to encourage business investment have had limited success, particularly for SMEs, in times of instability and stretched resources. Innovation can be incentivised by tax reliefs and, in particular, research and development-based tax reliefs (R&D). We strongly support the UK R&D initiatives to encourage investment, however, to ensure businesses make best use of them and to ensure robust return on investment for the exchequer, improvements are needed to the system. It is clear that HMRC's compliance methodology has not worked. The risk to the exchequer of fraud and tax loss is significant. We also see risk to UK business investment and growth and a significant drain on HMRC resources which further negatively impacts on their service. We believe that where these challenges exist, professionally qualified accountants could support a more effective approach. For example, making this a reserved area and improving procedures, as well as providing HMRC with additional resources, would help better engage business and their advisors.

We respond to the upcoming spending reviews with our feedback and research on how the tax system could evolve over the next two parliamentary terms. Our most recent research was published this week suggesting that governments need to look beyond profit as the basis of taxing companies and consider their impacts on the environment and society if we want businesses to support a sustainable future. The report is available here: *Where next for tax and ethics in the 21st century?*

Public Sector Finances

Effective and robust management of our public finances will be needed to underpin the modernisation and investment in public services to meet citizens' expectations while delivering accountability for public spending. Cuts to the public sector funding over successive years and budgetary instability has led to poor productivity, planning and performance.

We support calls for greater funding certainty through multi-year budgets for the public sector as a whole, including local government, to provide stability for innovation and transformation in service delivery. This should allow for renewed investment in technology, skills and training in our Public Financial Management (PFM) to improve productivity, improved service delivery and deliver value for money for public investment.

HMRC Service Standards

Poor service standards provided by HM Revenue and Customs continue to be unacceptable. This creates significant issues for businesses, their agents, for HMRC itself and more critically for the UK tax system and the economy.

Despite raising concerns directly with HMRC, standards are not improving. You will have noted in the recent HMRC Charter report, service levels at HMRC continue to be poor. We have repeatedly highlighted the need for investment in HMRC to tackle this area. A recent survey of our members, gathered in recent days, shows the following:

<table>
<tr><td rowspan="5">To what extent, if any, have HMRC services levels impacted on productivity and efficiency for your organisation and/or your clients' organisations?</td><td></td><td>Oct 2023</td><td>Mar 2024</td><td>Aug 2024</td></tr>
<tr><td>Positive impact</td><td>4%</td><td>2%</td><td>1%</td></tr>
<tr><td>No impact</td><td>33%</td><td>25%</td><td>7%</td></tr>
<tr><td>Negative impact</td><td>52%</td><td>66%</td><td>89%</td></tr>
<tr><td>N/A</td><td>10%</td><td>7%</td><td>3%</td></tr>
</table>

It is difficult to overstate levels of concern and frustration being experienced by a substantial proportion of our members in their contact with HMRC and the impact this has on their clients' businesses. This includes significant delays by HMRC which cost tax payers, agents and HMRC time as well as failures from HMRC in dealing with basic processing requests, like VAT registration, through to more complex areas like dealing with R&D tax credit enquiries. This and the poor communication significantly impacts productivity in the professional services sector. Appropriate access to agent support should be prioritised.

In a recent survey, ACCA members highlighted communication as the priority for HMRC improvements, with 91% calling for action to reduce call waiting times, and 80% seeking improved communication, for example, greater use of email.

We value the role ACCA plays in supporting the operation and development of the HMRC Charter. It is a useful tool to ensure continuous improvement, with independent scrutiny a key part of its success. While we recognise the improvement plans in place, we are not confident about progress without additional measures:

- Value of professionally regulated agents – government and HMRC should recognise the value of timesaving and trust offered by professionally regulated agents. We believe there would be benefit to the exchequer and HMRC in restricting areas of tax to professionally qualified agents. HMRC should seek to enable professionally regulated agents to provide services which can provide time and resource savings for HMRC, for example, restricting the R&D tax relief claims to professional agents or areas such as altering information such as tax codes. Too often, agents report being treated poorly by HMRC representatives and are frustrated that improvement measures which would enable them to 'self-serve' more efficiently, are not being prioritised.

- Thresholds - we are concerned about the potentially unintended consequences brought about by freezing certain allowances and thresholds, for example PAYE thresholds, corporation tax rates, VAT thresholds and the Dividend Allowance (which has not been uplifted for inflation since it was introduced). These frozen thresholds bring previously non-taxpayers into the net without an appropriate channel to deal with their particular circumstances. We recognise the current challenge to public finances but would encourage you to commit to reviewing these thresholds when public finances permit.

- Fraud, error and debt – despite record tax collections by HMRC, these levels could be increased further if the amounts lost to fraud and error was reduced.
    - Requiring certain areas of tax to be dealt with only by professionally regulated agents would reduce the overall level of fraud and error in tax submissions given the professional and ethical standards that agents are required to uphold.
    - We remain concerned that recommendations highlighted in the January 2023 Public Accounts Committee report have still not been fully addressed. We suggest this should be made a matter of priority and communicated to accountants and tax agents to ensure that tax debts can be recovered, and further government revenue is not lost.

- Making Tax Digital (MTD) – we recently wrote to the Exchequer Secretary to the Treasury to highlight our concerns about the impact of introducing MTD for Income Tax and Self-Assessment in 2026. We are concerned the proposed approach to gathering quarterly information is overly-complex, with knock-on cost implications for small businesses and the self-employed, as well as for HMRC's workload. We propose a revised, simpler, approach to the information provided on a quarterly basis to increase the chance of successful implementation.

While we acknowledge the challenges around investment, should there be any spending flexibility, we would urge you to consider additional investment in HMRC, ensuring a focus on improving customer service and effectiveness to give us the modern, efficient tax system we need, ultimately improving public sector finances and boosting productivity in the UK as a whole.

Support for businesses, particularly small businesses

We were pleased to see your commitments both to economic growth and support for small businesses. Supporting sustained, inclusive and sustainable economic growth will be key to meeting the UK's potential. Yet in a fast-changing world businesses, especially small businesses, need support and encouragement to invest, innovate, expand their workforce and trade globally, as never before. Looking across a range of measures to support finance, investment and growth of our small business sector, our priority recommendations are:

- Ensuring a more certain, long-term approach to support and incentives will be key to encouraging firms to succeed. Short term incentives have limited success, we therefore welcome the commitment to full expensing for the lifetime of the parliament. However, to allow businesses to plan effectively you should consider fixing other thresholds, like corporation tax rates.

  We strongly support the UK R&D initiatives to encourage investment, however, to ensure businesses make best use of them and to ensure robust return on investment for the exchequer, improvements are needed to the system. Restricting this activity to professionally qualified accountants could support a more effective approach.
- One important route to encourage investment would be to incorporate leasing into the full expensing capital allowance regime. Leasing is a common investment method for small businesses and allowing them to claim 100% capital allowances on qualifying plant and machinery would be helpful, including the benefits that could arise from incentivising investment in more efficient 'green' plant.

- To boost small business investment in skills and training that will help drive productivity in the economy, we have recommended the introduction of a Skills Tax Credit Pilot, which would incentivise training in key areas such as AI and sustainability. This should build on proposed reforms to the Apprenticeship Levy, where there is consensus that the scheme is not working for employers. We have suggested repurposing the levy into a growth levy which also provides support for shorter-term accredited training programmes.

- As highlighted above, concerns about access to finance rose in both Q1 and Q2, although the rise in Q2 was quite modest, the index is now at its highest level since 2014. Due to this concern, we think that action is needed to secure improve access to finance, particularly for small businesses. While we welcome the announcement of the National Wealth Fund, we are keen to see a secure future for funding schemes to give businesses the confidence to invest when the time is right for them. We welcome the initiative to align the work of the British Business Bank, including the existing Growth Guarantee Scheme and regional funds, with the UK Infrastructure Bank. Similarly, we welcome the prospect of additional funding to be allocated through the UK Infrastructure Bank to boost business investment, including in green and growth industries. We would welcome some early open consultation on the governance arrangements and safeguards to open up this important access to finance area and consideration of its impact on all size of business.

- Late payment continues to blight small businesses across the UK. We would strongly encourage the urgent implementation of proposed improvements to tackle late payment problems, including expansion of prompt payment reporting and the proposed expansion of powers for the Small Business Commissioner.

- We have heard feedback from members across the UK that small businesses in the tourism and hospitality sector continues to face a number of challenges. While we recognise the financial constraints facing the government, we would recommend consideration of fiscal measures to support this sector - for example the continuation of non-domestic rates discounts or VAT treatment.

- To maximise the UK's international trade opportunities government needs to invest in improved advice for businesses, especially in key sectors, on the opportunities provided by and the operational requirements of new and existing FTAs (such as CPTPP) as well as exploring how a pooled arrangement for small business trade credit insurance could be more effective for small firms.