Written evidence submitted by the Association of Accounting Technicians (AAT)

1. Introduction

1.1. The Coronavirus pandemic has wreaked almost unprecedented havoc on the British economy.

1.2. As recently as June 2020, the Office for Budget Responsibility (OBR) suggested that the best case scenario is a £263.4bn cost to the British taxpayer and the worst case scenario is a £391.2bn debt[1].

1.3. Earlier this month, the National Audit Office (NAO) Coronavirus Cost Tracker indicated that the 200 or so measures Government has already taken to deal with the economic impact of Coronavirus cost £210bn in the first 6 months of the pandemic.[2] This suggests that the true cost of the pandemic will likely be at the upper end of the OBR forecasts and may even exceed this.

1.4. This would have been a major challenge for any Government even if the economy was in a healthy state prior to the pandemic. The reality is that the British economy was already heavily indebted and so the impact of Coronavirus will be even more acutely felt. Indeed, the debt accumulated due to Coronavirus has pushed national debt beyond 100% of GDP for the first time since 1961[3] and it now stands at more than £2 trillion for the first time in British history.

1.5. Against this backdrop, the need for action is clear. Policymakers will likely favour higher taxes or lower spending or perhaps increased borrowing depending on their political ideology, but the harsh reality is that irrespective of political persuasion, a combination of the three is necessary to deal with the enormous scale of debt. A measured combination of each of these three approaches will also help to offset the harshest consequences of focusing too heavily on one of these trio.

1.6. AAT supports increased borrowing for job and wealth creating investment such as education and training, improved broadband connectivity and other much needed infrastructure, especially in light of historically low interest rates.

1.7. AAT also supports reduced spending as previously set out in its “Alternatives to Tax Rises” report published in 2018[4].

1.8. However, the main focus of this submission is with regard to taxation given this is the primary focus of this inquiry.

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[1] OBR, June 2020:
http://obr.uk/coronavirus-analysis/
[2] National Audit Office, Coronavirus Cost Tracker, September 2020:
https://www.nao.org.uk/covid-19/cost-tracker/
[3] Office of National Statistics, July 2020:
https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance
[4] AAT Alternatives to Tax Rises, 2018:
https://www.aat.org.uk/prod/s3fs-public/assets/Time-for-change-AAT-alternatives-to-tax%20rises.pdf

2. Executive summary

2.1. **AAT believes that a temporary increase in the basic rate of income tax in the medium term is essential.**
AAT also believes that the base for NICs should be broadened to include currently exempt pensioners and that the NIC rate for employees and the self-employed should be equalised.

2.2. **Capital Gains Tax (CGT) is ripe for reform.**
Effective CGT reform will improve both fairness and simplicity as well as raising more money to tackle the deficit. Business Asset Disposals Relief, the chattels exemption and gift relief should all be scrapped. Similarly, the exemption for company takeovers and mergers where less than £3,000 or an amount less than 5% of the value of an individual's shares in the company are received should also be removed.

2.3. **A radical simplification of Inheritance Tax (IHT) is long overdue.**
AAT has previously recommended halving the headline rate of IHT from 40% to 20% and scrapping the numerous exemptions and reliefs. This would likely raise a little more revenue whilst delivering considerably greater certainty and fairness.

2.4. **The introduction of a wealth tax which excludes pensions and property and has a very high threshold is not supported by AAT.**
This is not simply because structuring it in this way is unlikely to raise substantial funds or because existing taxes could be better refined to achieve a more effective result e.g. CGT and IHT but because AAT notes very few countries have a wealth tax as they are understandably keen to attract the wealthy, the investment they bring and the jobs they often create. Risking that does not appear either politically or economically sensible, especially in the current economic climate.

2.5. **As AAT recommended to the Treasury Select Committee in 2018, the Treasury should consider abolishing the 5% reduced VAT rate, the zero-rate and VAT exemptions (including obscure exemptions such as the 4% agricultural rate).**
AAT also suggests policymakers carefully consider scrapping the existing £85,000 VAT threshold and having a £0 threshold. In other words, requiring all businesses to register for VAT as happens quite successfully in Sweden and Spain. It is worth noting that 44% of VAT registered businesses in the UK are already below the existing threshold but have decided to register voluntarily.

2.6. **Despite increasing calls for the imposition of Windfall Taxes and acknowledging their superficial appeal, on balance AAT would not support their introduction.**
AAT recognises the attraction of windfall taxes, and especially their attractiveness to a financially hard pressed electorate but does not believe they are in the long term best interests of consumers given windfall taxes are likely to be passed on either directly or indirectly to the very same hard pressed consumers in the form of higher prices.

2.7. **AAT urges policymakers to scrap the pensions triple lock**
This should be replaced with a more predictable, established and reputable measure, the Consumer Price Index (CPI) which would continue to provide annual increases that ensure older people are able to live with dignity and the respect they rightly deserve whilst simultaneously saving £6bn for British taxpayers by 2024-25.

2.8. **The Coronavirus pandemic has brought the issue of late payments into sharper focus and AAT recommends meaningful reform in this area**.
This means halving maximum payment terms under the Prompt Payment Code from 60 to 30 days for all businesses, making the Code compulsory for all organisations with more than 250 employees and giving the Small Business Commissioner the power to impose substantial fines on persistent late payers.

2.9. **If government is serious about tackling the ongoing problems of tax evasion, money laundering and economic crime then it needs to seriously consider regulating the third of the accountancy and tax advice market that remains unregulated.**
The simplest and most effective means of doing so would be to oblige anyone giving paid-for tax or accountancy advice to be a member of a recognised professional body.

2.10. **Policymakers should consider introducing a new Data Asset Tax**.
For many companies, data is undoubtedly an asset. As with any assets, it therefore needs to be accounted for and by publicly accounting for it, it can be taxed.

3. AAT response to the consultation document

3.1. Income Tax & NICs

3.2. Increases to income tax are a sensitive issue, not least because of manifesto commitments not to increase them, but they raise substantial sums of money quickly and are difficult to evade.

3.3. Increases on the higher tax rates of 40% and 45% will raise only minimal sums of money so increasing the basic rate (which is of course paid by all higher rate taxpayers too) is probably the most economically efficient option[5].

3.4. Rather than a permanent increase, a temporary increase that reduces over time has the attraction of providing taxpayer certainty; reassurance that any relative pain will be short lived and that the tax raised is for a specific reason – helping to pay for Coronavirus impacts.

3.5. In light of the above, AAT proposes;

- Increasing income tax to 22% for 2022-2023, 2023-2024 and 2024-2025 raising £28.2bn (£9.4bn per annum)[6]
- Reducing income tax to 21% in 2025-2026 and 2026-2027 raising an extra £9.4bn (£4.7bn per annum) compared to current levels[7]
- Returning income tax levels to 20% in 2026-2027

3.6. In relation to National Insurance Contributions (NICs) AAT proposes permanently ending the NICs exemption for those in receipt of the state pension (1.2m pensioners are in employment and paying no NICs), which would raise over £1.5bn annually. There is little justification for maintaining this exemption.

3.7. With regard to the so-called “three-person problem” AAT firmly believes that if someone is undertaking similar, sometimes identical work, then whether that person is employed, self-employed or employed through a company, there is no reason why each of those individuals should not pay the same rate of tax and NICs.

3.8. The same is true of work that varies because there is no real justification for a different tax burden on the same money earned. For example, why should a self-employed plumber earning £30,000 per annum pay less tax/NICs overall than an administrative employee earning the same sum?

3.9. One defence often put forward for the current gap in NIC rates between the employed and self-employed, relates to state benefit entitlement. Yet the introduction of the flat-rate, single-tier state pension in 2016 ended the only sizeable difference in benefit eligibility between the employed and self-employed. Besides, employment rights from holiday pay to the minimum wage, are paid for in full by the employer, not by the state to whom tax is paid, a point often missed by defenders of the status quo.

3.10. As a result, AAT recommends that NICs for the self-employed (currently 9%) should be increased to the same rate as that paid by the employed (12%). As well as solving the so called three-person problem, this would raise £3bn+ per annum.

3.11. These proposed changes to income tax and NICs would raise over £60bn in total for the five year period 2021-2026, approximately 15% of the likely £400bn Coronavirus bill for the UK taxpayer.

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[5] **HMRC, Direct effects of illustrative tax changes, May 2020:**
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/881034/May20__Direct_effects_of_illustrative_tax_changes_BULLETIN_FINAL.odt

[6] **HMRC, Direct effects of illustrative tax changes, May 2020:**
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/881034/May20__Direct_effects_of_illustrative_tax_changes_BULLETIN_FINAL.odt

[7] **HMRC, Direct effects of illustrative tax changes, May 2020:**
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/881034/May20__Direct_effects_of_illustrative_tax_changes_BULLETIN_FINAL.odt

3.12. **<u>Capital Gains Tax (CGT)</u>**

3.13. AAT notes that the most recently available figures (2018-19) show a record amount of capital gains and a record sum of CGT was recorded, with CGT liability totalling £9.5 billion, a 6% increase on the previous year.[8]

3.14. However, there were just 276,000 CGT taxpayers in 2018-19, less than 1% of the number who pay Income Tax.

3.15. Simplification of the CGT regime is therefore likely to benefit the majority of individual taxpayers as well as wider society and is therefore supported by AAT.

3.16. Firstly, AAT repeats its long standing commitment for the cessation of what is now called Business Asset Disposals Relief (formerly Entrepreneurs Relief) because there is an overwhelming body of evidence to suggest that the relief is not achieving its policy objectives, that it's extremely expensive, misguided and ultimately ineffective. It should therefore be scrapped from April 2021.

3.17. No CGT is payable on company takeovers and mergers if less than £3,000 or an amount less than 5% of the value of an individual's shares in the company are received. AAT proposes that this exemption be scrapped.

3.18. AAT also suggests that both the chattels exemption and gift relief, which largely benefits the wealthiest in society, also be removed.

3.19. In addition, AAT recommends that the CGT rate for investment property be brought into line with other asset classes. The higher rate for investment property was introduced to stifle a property investment bubble but has resulted in many reluctant landlords now being unwilling to sell their property, contributing to wider house price inflation by limiting the number of properties for sale.

3.20. The National Residential Landlords Association produce a regular "Landlords Confidence Index"[9] which in recent months has consistently shown most landlords are unconfident about the future. For more than a year, this Index has shown that approximately a third have expressed a wish to sell their properties. However, the desire to sell has not translated into action, in large part due to the prohibitive CGT charge this would incur.

3.21. Given the above, any proposals to further increase CGT on residential property will not be well received by the UK's 2.6m[10] landlord sector whereas a reduction would likely result in many properties entering the market, helping all house buyers but particularly first time buyers and the associated economy – removal companies, DIY stores, tradesmen etc.

3.22. In seeking to find a balance, some may argue for the general CGT rate to be increased to mirror investment property (18% or 28%) whilst landlords would doubtless prefer a reduction to match the present general rate of 10% or 20%.

3.23. An arguably fairer change than either of these two options, which would also raise revenue, would be for the rate for investment property to be permanently reduced and the general rate permanently increased. This would mean effectively splitting the difference by charging 14% or 24% on all gains irrespective of their nature.

3.24. Finally, AAT acknowledges the increasing calls to scrap Private Residence Relief (PRR) because doing so would raise much needed funds for the Exchequer.

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[8] **HMRC CGT Statistics 2018-19, published August 2020:**
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/908667/CGT_National_Statistics_Commentary.pdf

[9] **National Residential Landlords Association, Landlords Confidence Index" May 2020:**
https://research.rla.org.uk/research-reports/landlord-confidence-index-lci-no-5-2020-q1/

[10] **My deposits, Millie Wickens, 2019:**
https://www.mydeposits.co.uk/blogcat/how-many-buy-to-let-landlords-are-there-in-the-uk/#:~:text=The%20number%20of%20landlords%20totals,Western%20Isles%20(both%20905).

3.25. From an economic perspective this may be worth considering. However, this would also severely stunt house mobility as many people would be further discouraged from moving. As a result, AAT believes PRR should be maintained.

3.26. **Wealth Tax**

3.27. Although a much heralded YouGov poll suggested 61% of adults in the UK would support the introduction of a wealth tax[11], that was on the basis of excluding pensions and the main home. This would inevitably create distortions that would see increased wealth invested in homes and pensions.

3.28. It is also worth highlighting that between July 2019 and July 2020 YouGov asked the public every two months if they thought a wealth tax or a tax on income was fairer. The response has been consistently in favour of income tax over a wealth tax . It has barely changed throughout that 12 month period, starting at 62% in July 2019 and ending at 61% in July 2020. In contrast, only 25% believe a wealth tax is fairer than taxing income[12]. These findings have received almost no media coverage.

3.29. Today, Spain appears to be the only EU country with a wealth tax. That has not happened by accident. No other EU country has a wealth tax because they are understandably keen to attract the wealthy, the investment they bring and the jobs they often create. Risking that does not appear either politically or economically sensible, especially when seeking to recover from a global pandemic.

3.30. Wealth is already taxed through income tax, CGT, inheritance tax and various other taxes.

3.31. Any increased calls for a wealth tax should compel policy makers to examine the effectiveness of existing taxes and reform them accordingly before imposing a new, untried, untested and potentially damaging wealth tax.

3.32. If there is a strong political desire to ensure the wealthiest in society contribute more to the costs of Coronavirus, it may be worth re-examining the concept of an executive pay ratio.

3.33. According to the *AAT Corporate Governance Survey 2017,* more than 90 per cent of AAT members believed executive pay would be better controlled by the introduction of pay ratios rather than pay reporting requirements*.*

3.34. This survey also revealed that 21% of AAT members believed Government plans to introduce a legal requirement to publish pay ratios would have any impact. This compared to 0% who felt the average FTSE 100 pay ratio was appropriate and a mere 7% who felt there should be no pay ratio at all.

3.35. So, instead of the simple publication of information, most AAT members wanted to see a legally binding pay ratio requirement. The preferred ratio was 20:1, that favoured by both David Cameron and Jeremy Corbyn in recent years.

3.36. The view appears to be supported by wider society with a survey commissioned by *The Independent* newspaper in January 2017 suggesting 57% of the public would support an executive pay ratio of 20:1[13].

3.37. In addition to UK frontrunners like the John Lewis Group, which has operated a maximum pay ratio of 75:1 for many years, there are various international examples too. For instance, Mondragon which has almost 80,000 employees across 250 companies has a maximum wage ratio of just 6:1 and appears to operate very well without unrestricted executive pay. Prior to acquisition by Amazon in 2017, Whole Foods Group had successfully operated a maximum pay ratio of 20:1.

3.38. There also appears to be support amongst politicians. In January 2019 AAT published YouGov polling which found more than two thirds of MPs (69%) believe new executive pay reporting (and gender and ethnicity pay reporting) requirements, whilst a good start, didn't go far enough.

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[11] **YouGov, May 2020:**
https://docs.cdn.yougov.com/p54plx0gh9/NEON_PostCovidPolicy_200508_w4.pdf
[12] **YouGov, Tax on wealth v tax on income, July 2020:**
https://yougov.co.uk/topics/philosophy/trackers/tax-on-wealth-vs-tax-on-income
[13] **The Independent, 14 January 2017:**
https://www.independent.co.uk/news/uk/politics/majority-public-support-jeremy-corbyn-s-plans-cap-bosses-salaries-poll-finds-a7527381.html

3.39. AAT has been publishing its own Executive Pay Ratio for several years, before it was a legal requirement to do so, and our Chief Executive has had a pay ratio of 5:1 in each of the last three financial years.

3.40. **Inheritance Tax (IHT)**

3.41. AAT recommends that the headline rate of IHT be reduced from 40% to 20% effective from April 2021.

3.42. In addition, the vast majority of exemptions and reliefs should be ended. For example,

i) Remove the preferential treatment for charitable giving which adds complexity and adds no value (there is little evidence to suggest the reduced rate has led to an increase in charitable giving since it was introduced eight years ago but clear evidence that it has cost the taxpayer substantial sums in lost revenue).
ii) Scrap both Agricultural Property Relief and Business Property relief (which includes relief for AIM listed shares)
iii) Scrap the £3,000 annual gifts exemption
iv) There would be no need for the reservation of benefit rules or the POAT code with this reduction & simplification
v) The only exemptions allowed should be for spouses (up to a value of £500,000, including property, with 20% tax payable on any amount thereafter)
vi) All pension funds left at death would be taxed at the flat rate of 20% unless passing to the spouse
vii) IHT would also be payable on death at 20% on the worldwide estate unless exempt due to the spouse exemption

3.43. Although only 4% of estates are liable for IHT, more than 50% of the electorate are concerned about this tax, perhaps contributing to its label as "the most hated tax"[14] amongst the general public.

3.44. By halving the very high headline rate, incentives for avoidance or evasion will be removed, which is likely to increase the likely tax take. Halving the headline rate is also likely to make this much more acceptable to the electorate, both to those paying it and those who may not have to but worry about it, nevertheless.

3.45. By removing reliefs and exemptions, many more of the 500,000+ who die each year will be brought into the IHT tax base, which is also likely to increase the tax take.

3.46. Finally, given the regime will be simple enough for all to understand and low enough for people to voluntarily pay, there will be substantial savings for individuals who will no longer have to employ solicitors or financial advisers large sums of money to reduce their liability (note this also means some in the legal and financial industries will likely oppose these changes as they seriously undermine their business model of charging for advice that enables avoidance).

3.47. Halving the headline rate should not lead to a reduction in tax take providing the numerous exemptions and reliefs highlighted above are ended.

3.48. This means the tax will be fairer and more effective whilst still delivering significant sums of money to invest in public services or deficit reduction.

[14] **Love Money, March 2016: https://www.lovemoney.com/news/51146/inheritance-tax-unfair-changes-family-allowance-estate-child-grandchild-copy**

3.49. **VAT**

3.50. AAT's 2018 submission to the Treasury Select Committee inquiry into VAT stated;

"AAT would like to see HMRC thoroughly explore the implications of applying the standard rate of VAT to all Vatable items as a radical simplification measure. In other words, abolishing the 5% reduced rate, the zero-rate and exemptions (including obscure ones such as the 4% agricultural rate). To ensure fiscal neutrality, this would also require a reduction in the standard 20% rate."[15]

3.51. In light of the immensely challenging financial situation the country now finds itself in, the only change that should be made to this proposal is whether or not a reduction in the standard 20% rate would still be justified given the need to raise revenue rather than operate on a revenue neutral basis.

3.52. The other significant issue relating to VAT, is the threshold. This is currently frozen at £85,000.

3.53. Whilst some have suggested reducing the threshold to raise revenue none have gone so far as to suggest reducing the threshold to such an extent that all must register but this is an idea that has increasing merit.

3.54. This would produce various benefits. First, it would eliminate competition challenges between VAT registered and non-registered businesses. Secondly, it would remove the significant "cliff edge" problem that greatly impacts many small businesses behaviour and productivity i.e. ceasing to work when close to the threshold. As a result, there would likely be increased productivity amongst an already productive sector of the economy.

3.55. There is also successful international precedent for such an approach, with several countries, including Spain and Sweden, already requiring all businesses to register for VAT/GST.

3.56. Critics will complain about the bureaucracy involved but MTD has already demonstrated much of this can be done quickly, easily and cheaply. Furthermore, it is worth noting that 44% of VAT registered businesses are already below the existing threshold but have decided to register voluntarily, which they clearly would not do if they found the process unduly burdensome[16].

3.57. AAT's 2017 VAT Survey indicated that just under 10% of AAT licensed accountants supported such a move, suggesting the measure may not have widespread support. However, that was three years ago, and the British economy is now in a very different position.

3.58. **Corporation Tax**

3.59. Earlier this year, AAT publicly welcomed the retention of the main rate of Corporation Tax at 19% because the planned reduction to 17% would have meant losing £6bn of much needed revenue for no discernible gain[17].

3.60. The 19% rate remains the lowest in the G20 and whilst there is no longer any need for further reductions, calls for an increase should similarly be ignored.

3.61. Corporation tax is only payable by those that make a profit and whilst this could be seen as a positive in the current climate, where many will make losses due to Coronavirus, being seen to punish the few successful companies that remain is likely to have a negative impact internationally at a time when most of our international competitors are similarly struggling. An increase would also act as a strong disincentive to invest, at a time when investment is needed more than ever.

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[15] AAT submission to the Treasury Select Committee inquiry into VAT, 2018:
https://www.aat.org.uk/prod/s3fs-public/assets/Consultation-response-to-Treasury-Select-Committee-VAT-inquiry.pdf

[16] HMRC VAT factsheet 2.7 (2015-16)

[17] AAT response to the Treasury Select Committee inquiry into Budget 2020, March 2020
https://www.aat.org.uk/prod/s3fs-public/assets/aat-response-treasury-select-committee-spring-budget-2020.pdf

3.62. **<u>Windfall Taxes</u>**

3.63. The inherent unfairness of supermarkets receiving a £3bn business rates holiday, despite remaining open and recording big increases in like-for-like sales, undoubtedly strengthened the case for a Windfall tax on those who have benefitted from the pandemic.

3.64. For Tesco, the business rates holiday of £585m was worth almost half their annual pre-tax profits and paying £635m payments to shareholders at the same time appeared to be very insensitive. Other supermarkets have benefitted equally well, with Sainsburys saving £500m for example.

3.65. However, these supermarkets would doubtless counter that they had to invest hundreds of millions of pounds to respond to the pandemic i.e. in technology and staff costs as well as general running costs to protect staff and customers too.

3.66. Supermarkets serve as just one example, there are others who have excelled during the pandemic, such as Amazon and other online retailers, technology platforms such as Zoom and of course the pharmaceutical industry.

3.67. Irrespective of sector, it is imperative that taxpayers and policymakers realise that any windfall tax will inevitably be passed on to consumers in the form of increased prices rather than absorbed by shareholders.

3.68. The £5.2bn windfall tax imposed on utility companies by the new Labour Government in 1997 was very popular with the public but much less so when they realised it simply meant higher gas and electricity bills for years to come.

3.69. A second note of caution relates to the temporary nature of such taxes and begs the question as to whether longer term structural reform is preferable to one-off windfall taxes.

3.70. It is also important not to signal that any business that is successful may face punishment for this success further down the line. Similarly, it does little to engender tax certainty for the business community.

3.71. On balance, although AAT recognises the attraction of windfall taxes, and especially their attractiveness to a financially hard pressed electorate, it does not believe they are in the long term best interests of consumers, let alone business.

3.72. **<u>The pensions triple lock</u>**

3.73. The triple lock has long been considered unsustainable and by many commentators, irrational given its arbitrary nature. However, the Coronavirus crisis has rapidly escalated the need for reform.

3.74. This is not simply because of the general need to save and recover money in response to the Coronavirus crisis but for very specific legislative reasons.

3.75. The triple lock means that the state pension must be increased by the highest of earnings growth, price inflation or 2.5% a year.

3.76. Yet according to the OBR, post Coronavirus earnings are predicted to grow by almost 20% in 2021 following their collapse during the Coronavirus crisis this year. No Government will increase the state pension by 20% no matter what manifesto commitments may have been made. So, there is an immediate urgency dictating change. This situation must be taken advantage of for the sake of the wider economy and in the interests of fairness to all taxpayers.

3.77. AAT's preferred option would be to scrap the triple lock in favour of annual increases in line with Consumer Prices Index (CPI) inflation.

3.78. CPI is the measure of inflation that has been used by the Government for almost a decade for both public and private sector occupational pension schemes, so it is already a well-established, reputable and widely understood measure for calculating pension increases in the UK. It is also the measure used to calculate increases in working age tax credits and disability benefits.

3.79. AAT would not support the use of RPI as an inflation measure for all the reasons previously set out in its 2018 response to the House of Lords Economic Affairs Committee inquiry into the use of RPI[18].

3.80. Scrapping the triple lock in favour of a more predictable, established and reputable measure (CPI) would continue to provide annual increases that ensure older people are able to live with dignity and the respect they rightly deserve whilst simultaneously saving £6bn for British taxpayers by 2024-25[19].

3.81. **Additional pensioner reform**

3.82. In 2018, AAT published a report titled "Alternatives to Tax Rises" which detailed a number of money saving recommendations that have now become more pressing in light of the current financial climate.

3.83. These included various pensioner related savings.

3.84. For example, raising the age of eligibility for certain pensioner benefits such as free eye tests and free prescriptions to match the state pension age (and ensuring they rise with any future rises in the state pension age), as well as removing the Winter Fuel Allowance. These recommendations would save a substantial sum of money for the taxpayer, continue to ensure all pensioners enjoy free eye tests and prescriptions, provide greater clarity to all as to when eligibility begins and help address the issue of intergenerational fairness[20].

3.85. The AAT Alternatives to Tax Rises report also addressed the increasingly controversial issue of pensions tax relief. Unlike various other organisations, AAT did not favour a single rate of 25%, 28% or 30% but instead proposed scrapping the higher rates and having a single 20% rate for all. This would mean a reduction for higher earners, protection for basic rate payers (as they will continue to receive the same level of relief as now) and a £13bn annual dividend for the taxpayer[21].

3.86. **Prompt Payment**

3.87. Although not an issue of taxation, a significant financial challenge impacting British businesses is that of late payments.

3.88. Since 2017, AAT has campaigned for simple yet effective reform of the prompt payment landscape in the UK in the form of three basic changes:

i) Halving the maximum prompt payment term under the Prompt Payment Code from 60 to 30 days for all organisations large and small
ii) Making the Prompt Payment Code compulsory for all organisations employing more than 250 staff and
iii) Giving the Small Business Commissioner the power to fine persistent late payers who breach a new compulsory Prompt Payment Code

3.89. These three simple steps gained the support of various industries including construction, fashion, recruitment, accountancy and finance.

3.90. The AAT recommendations also secured the support of senior Conservative, Labour, Liberal Democrat, SNP and Green Party politicians[22]

[18] AAT submission to House of Lords Economic Affairs Committee Call for Evidence into the use of RPI, July 2018:
https://www.aat.org.uk/prod/s3fs-public/assets/Retail-price-index-call-for-evidence.pdf
[19] OBR, Fiscal Sustainability Report, July 2020:
https://cdn.obr.uk/OBR_FSR_July_2020.pdf
[20] AAT Alternatives to Tax Rises, 2018:
https://www.aat.org.uk/prod/s3fs-public/assets/Time-for-change-AAT-alternatives-to-tax%20rises.pdf
[21] AAT Alternatives to Tax Rises, 2018:
https://www.aat.org.uk/prod/s3fs-public/assets/Time-for-change-AAT-alternatives-to-tax%20rises.pdf
[22] Late payment campaign secures cross party support, 2018:

3.91. YouGov polling published in January 2019 also demonstrated that 73% of MPs supported all three AAT proposals with none opposing the recommendations[23].

3.92. Regrettably, government ignored this widely supported campaign and instead added further layers of unnecessary and largely ineffective bureaucracy on businesses in the form of yet more reporting requirements. These latest attempts at reform were ridiculed by small business[24]

3.93. As a result of the Coronavirus crisis, the late payment scandal has dramatically worsened.

3.94. Despite widely publicised, high profile promises from the likes of Morrisons Supermarkets to pay its small suppliers within 48 hours[25] these proved the exception rather than the rule.

3.95. In July 2020, research from Close Brothers Asset Finance indicated that more than half (57%) of businesses had seen an increase in late payments because of the pandemic whilst almost a third (32%) had felt compelled to delay payment. Worryingly, 7% said they were unable to make any payments at all.

3.96. Likewise, earlier this month, it was suggested that 84% of the UK's top 100 construction and engineering firms fail to meet the already generous 60 day payment targets of the current Prompt Payment Code[26].

3.97. Prior to the pandemic, almost a quarter of insolvencies (23%) were caused by late payment issues. This figure is likely to rise considerably over the coming months without effective government action.

3.98. As AAT has repeatedly stated, even for those companies that manage to absorb late payment, the loss of income can stop small businesses from investing and growing, it can also damage productivity and generally has a very negative impact. Of course, that's to say nothing of the often severe mental health implications that late payment can have on business owners and often their staff.

3.99. AAT therefore recommends Government makes the Prompt Payment Code compulsory for all organisations employing more than 250 employees, whether public, private or third sector and that the maximum payment terms be halved from 60 to 30 days. If signatories are unable to pay at least 95% of their invoices within 30 days on a regular basis, then they should face severe financial penalties, imposed by a strengthened Small Business Commissioner.

3.100. **Business rates**

3.101. AAT has long recognised that the current business rates system is not fit for purpose but that alternatives offer varying degrees of imperfection. These imperfections were briefly set out in AAT's response to the Treasury Select Committee inquiry into this issue last year.

3.102. As such, AAT was pleased to see that HM Treasury has recently concluded a call for evidence on a fundamental review of business rates and looks forward to proposals for change.

3.103. It is imperative that wholesale reform occurs rather than further policy tweaks. As AAT highlighted in its 2019 response to the Treasury Select Committee inquiry,

"The current Business Rates system is negatively impacting business, the taxpayer and the economy as a whole. The retail sector is suffering significant problems with ever increasing rates in a highly competitive and shrinking physical market. Successive years of tweaks and tinkering at the edges of the existing system will be costing the taxpayer £13bn during the five-year period 2019-20 to 2023-2024[27]

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https://dailybusinessgroup.co.uk/2018/10/late-payment-campaign-secures-cross-party-support/
[23] **MPs back calls to fine firms for late payments to suppliers, The Daily Telegraph, January 2019:**
https://www.telegraph.co.uk/business/2019/01/06/mps-back-calls-fine-firms-late-payments-suppliers/
[24] **Small business unhappy with new government proposals to tackle late payments, CPA, June 2019:**
https://cpa.co.uk/small-business-unhappy-with-new-government-proposals-to-tackle-late-payments/
[25] **UK's Morrisons speeds-up supplier payments during coronavirus outbreak, Reuters, 13 March 2020:**
https://www.reuters.com/article/us-health-coronavirus-morrisons/uks-morrisons-speeds-up-supplier-payments-during-coronavirus-outbreak-idUSKBN2101I6
[26] **New Civil Engineer, 2 September 2020:**
https://www.newcivilengineer.com/latest/uk-contractors-are-failing-to-meet-prompt-payment-requirements-02-09-2020/
[27] **Hansard, 11 February 2019:**
https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2019-02-

3.104. Given the impact of Coronavirus, this 2019 observation is now likely to be magnified.

3.105. Unlike many other professional bodies, business groups and media commentators, AAT does not have a preferred solution to offer here but instead, having highlighted the many problems with suggested alternatives, would like to see any HM Treasury proposals go through an extensive and genuine consultation process that maximises the chances of success rather than simply presenting final proposals for comment.

3.106. **Council Tax**

3.107. Council Tax payments are based on the extremely outdated house price values (the value of residential property in April 1991) which does not make for sound policy, fairness or equity.

3.108. Perhaps most importantly, the failure to keep pace with house price increases means substantial revenue has been lost for both local authorities and central government.

3.109. There has always been a strong case for reform but coupling the urgent need for additional funds with the governments oft stated commitment to "levelling up" the case for reforming in line with current house prices is perhaps stronger than at any point in the last 30 years.

3.110. Analysis from the Institute for Fiscal Studies earlier this year[28], suggested that if council tax had kept pace with house price inflation over the last 30 years, average bills across the Midlands and northern regions would fall by over 20%, with some very pronounced changes in towns such as Blackpool (-56%) and Kingston-Upon-Hull (-60%) compared to a 400%+ increase in Westminster.

3.111. Any policymaking concern about extreme changes at either end of the spectrum could be addressed by having a maximum increase of 200% and a maximum decrease of 50% to provide some certainty to local authorities.

3.112. In summary, it is very difficult to disagree with the IFS assessment that Council tax is, "…out of date, regressive and distortionary" and that it therefore needs to be revalued and reformed.[29]

3.113. The likes of the IFS, ippr, Resolution Foundation and Onward have called for revaluation to take place urgently. Likewise politicians from all parties are increasingly making the same case, from Conservatives such as Kevin Hollinrake MP[30], Lord Young of Cookham[31] and Lord Marlseford[32] to Labour politicians including Jim McMahon MP[33], Lord Kennedy of Southwark[34] and Mike Hill MP[35]

3.114. AAT similarly believes it would be sensible to revalue properties as soon as possible.

3.115. This could be based on their value on 6th April 2021 at the start of the new tax year and after the current Stamp Duty holiday has ended. Reform should also include a commitment to revaluations "at least" every five years to avoid this cumulative problem arising again in the future.

06/217583/

[28] **IFS, Revaluation and reform: bringing council tax in England into the 21st century, March 2020:** https://www.ifs.org.uk/uploads/R168-Revaluation-and-reform-bringing-council-tax-in-England-into-the-21st-century-updated.pdf

[29] **IFS, Revaluation and reform: bringing council tax in England into the 21st century, March 2020:** https://www.ifs.org.uk/uploads/R168-Revaluation-and-reform-bringing-council-tax-in-England-into-the-21st-century-updated.pdf

[30] **Kevin Hollinrake MP, July 2020:** https://hansard.parliament.uk/Commons/2020-07-13/debates/BA45BE2B-F5B8-40A2-8996-7C0007E869D9/StampDutyLandTax(TemporaryRelief)Bill

[31] **Lord Young of Cookham, May 2020:** https://hansard.parliament.uk/lords/2020-05-06/debates/FA9D8C72-B304-4E02-8369-9840AA636EBB/IncomeEqualityAndSustainability

[32] **Lord Marlesford, March 2015:** https://publications.parliament.uk/pa/ld201516/ldhansrd/text/150911-0001.htm#st_1

[33] **Jim McMahon MP, February 2020:** https://hansard.parliament.uk/Commons/2020-02-24/debates/312222CB-8437-46E1-ADBA-28C73421DE49/LocalGovernmentFinance(England)

[34] **Lord Kennedy of Southwark, June 2018:** https://questions-statements.parliament.uk/written-questions/detail/2018-06-29/HL9112

[35] **Mike Hill MP, March 2018:** https://questions-statements.parliament.uk/written-questions/detail/2018-03-12/131923

3.116. Of course, revaluation alone is far from sufficient to make Council Tax a modern, fair and effective means of taxation.

3.117. Several additional bands are required for the highest valued properties to improve fairness and increase revenue. Likewise, several additional bands are required for the lowest valued properties to increase fairness and to improve low income earners ability to pay. The application of additional bands at both ends of the property spectrum is likely to make this tax more effective than its current narrow focus.

3.118. In 2019-20, over £3.5bn of Council Tax owed went uncollected and a further £175m was completely written-off[36]. It may therefore be worth considering the possibility of allowing those in retirement, and therefore on fixed incomes, who are struggling to repay sums owed, to carry liabilities over until death when a charge would be made on their estate.

3.119. The whole system of reliefs and exemptions needs to be overhauled too. Noting that an independent review took place in 2016[37] but that much was out of scope for this review and Government nevertheless rejected several of its recommendations, AAT believes that a more comprehensive, wide ranging review is now justified.

3.120. **Regulation**

3.121. AAT has long felt that increased regulation of the tax and accountancy profession is vital to reduce tax evasion, money laundering and economic crime.

3.122. Regulating the tax advice and accountancy professions is also likely to reduce poor advice and easily avoidable mistakes that can cost both individual taxpayers and businesses, especially small businesses, as well as the Exchequer.

3.123. AAT has therefore repeatedly urged the Government to require anyone providing paid for tax and accountancy services to the public, to be a member of a recognised, relevant professional body.

3.124. Most policymakers, and the public at large, are completely unaware that anyone can trade as an accountant or tax adviser. There is currently no need for formal qualifications, evidence of continuing professional development (CPD), membership of a relevant professional body or private indemnity insurance. As a result, approximately one third of the accountancy sector is unregulated.

3.125. This is important for myriad reasons but as highlighted in our recent submissions to HMRC and HM Treasury consultations on raising standards in the tax advice market, tackling promoters of tax avoidance and tackling disguised remuneration – many of these problems are created by unregulated practitioners.

3.126. Indeed, the Sir Amyas Morse review published in December 2019 made specific reference to the fact that problems relating to the Contractor Loan Charge were largely driven by unregulated tax and accountancy practitioners.

3.127. Likewise HMRC stated in their consultation Tackling Promoters of Tax Avoidance[38] which closed in September 2020, that, "*Promoters of tax avoidance schemes are rarely members of professional bodies.*"

3.128. So, to reduce tax avoidance and therefore increase tax take, requiring practitioners to join a recognised professional body would certainly help.

3.129. This would also help reduce the billions lost in economic crime and money laundering. As the Treasury Select Committee has already noted, the FinCEN files leaked this month showed that over 3,000 British companies were named in leaked Suspicious Activity Reports (SARs) more than any other country. These activities have already damaged the UK's international reputation as evidenced by a leaked US Treasury report describing the UK as a "higher-risk jurisdiction."[39]

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[36] **Collection rates and receipts of council tax and non-domestic rates in England 2019-20, August 2020:**
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/908532/Collection_Rate_Statistics_Release_update.pdf

37 **Three years on: an independent review of local Council Tax support schemes, 2016:**
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/514767/Local_Council_Tax_support_schemes_-_review_report.pdf

[38] **HMRC, Tackling Promoters of Tax Avoidance, 2020:**
https://www.gov.uk/government/consultations/tackling-promoters-of-tax-avoidance

3.130. Financial crime is not always of an international nature as Commander Karen Baxter, Head of Economic Crime, City of London Police, recently said;
"Another big problem we have in the finance sector is that anyone can turn up on the high street and say they're an accountant or tax adviser. We have cases where people use this loophole as an opportunity to defraud people. We need to look at disqualifying them from setting up a business and engaging in financial advice in the first place. Strong regulations have to be part of this for prevention." [40]

3.131. Requiring professional body membership would mean that anyone giving paid for advice would have to have appropriate qualifications and insurance, undertake regular CPD to ensure their knowledge remains up-to date, be regulated for AML purposes, comply with PCRT (Professional Conduct in Relation to Taxation) and be subject to practice assurance reviews and robust disciplinary and complaints procedures.

3.132. HMRC have also indicated that two thirds of complaints relating to advisers are about the one third of the sector that is unregulated.

3.133. The new requirement of professional body membership being suggested by AAT will likely reduce tax avoidance and evasion, money laundering and economic crime, increase compliance and reduce error whilst also reducing the workload for HMRC. All benefits that are attractive at any time but especially so against the backdrop of Coronavirus and the financial difficulties faced by the country including the additional burdens being placed on HMRC.

3.134. **Taxing Data**

3.135. The growing carbon footprint of data collection, storage and processing makes the possibility of a new data tax attractive on both environmental and revenue raising grounds. However, this could likely be covered by a targeted carbon or other environmental tax that would apply to many more activities than those relating to data.

3.136. AAT therefore suggests that a more refined approach is needed if governments are to consider taxing data.

3.137. Some have suggested that data is the new oil, gold or currency. Such metaphors may be appropriate in some contexts and it therefore follows that if there is an inherent value in data, it could and perhaps should be taxed.

3.138. The Treasury Select Committee should urge HM Treasury to examine the possibility of a new "Data Asset Tax" based on the level of data mining undertaken as well as the degree of data manipulation and control.

3.139. Attributing a value to data can be challenging. Personal data whether observed or freely volunteered is a case in point but the fact it is often stolen and sold demonstrates it has a worth. For example, stolen Netflix logins are currently sold for £8 and bank details £350[41].

3.140. To many companies, data is undoubtedly an asset. As with any asset, it therefore needs to be accounted for and by publicly accounting for it, it can be taxed. At the same time, for other companies, data may be considered a liability and so this needs to be given much thought by policymakers.

3.141. Taxing data not only has implications for business but for Government too. For example, a recent EY report concluded;

3.142. *"The curated NHS data set is an intangible asset with a current valuation of several billion pounds and a realisation of £9.6bn per annum in benefits (i.e., the NHS benefits worth £5bn per annum and the patient benefits worth £4.6bn per annum)…* [42]

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[39] **UK Parliament, 23 September 2020:**
https://committees.parliament.uk/committee/158/treasury-committee/news/119406/treasury-committee-seeks-answers-from-ministers-hmrc-and-fca-on-fincen-papers/
[40] **AAT Comment, November 2019:**
https://www.aatcomment.org.uk/audience/members/police-chief-says-accountants-turning-a-blind-eye-to-money-laundering/
[41] **Daily Record, 21 September 2020:**
https://www.dailyrecord.co.uk/lifestyle/money/stolen-netflix-logins-being-sold-22715460
[42] **EY, Realising the value of health care data, 2019:**
https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/life-sciences/life-sciences-pdfs/ey-value-of-health-care-data-v20-final.pdf

3.143. So legitimate questions around the taxing of Government held data must also be considered.

3.144. AAT recognises the many challenges of taxing data but does not believe they are insurmountable. It also recognises that the financial contribution to clearing the deficit and generating much needed public finances could be considerable and therefore makes the need to consider imposing such a tax essential.

3.145. **Consultation**

3.146. The Treasury Select Committee has asked how the Government should consult with stakeholders and Parliament.

3.147. Put simply, AAT believes consultation should be held at an earlier stage and more frequently.

3.148. AAT would also like to see the Government publish a clear tax strategy and as far as possible, stick to it. In 2017, a survey of AAT licensed members found that this was their number one ask.

3.149. By setting out Government priorities and its approach to tax at the beginning of each Parliament, the public, politicians and other stakeholders could better hold Government to account.

3.150. It would also provide greater certainty for tax and accountancy professionals and their 12 million clients, whilst assisting Government and the Treasury in providing an agreed direction of travel.

3.151. This is not a new idea. In 2014 the House of Lords Economic Affairs Committee said, "*We continue to believe that tax policy would be developed more coherently if, at the beginning of every government, clear statements were to be published, similar to the 2010 company tax road map. These would give details of the government's overall strategic aims for different parts of the tax system. We recommend this for the future."*

3.152. Although it is not a new idea, in light of the current crisis, it is one whose time may have come.

4. About AAT

4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 80,000 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.

September 2020