

Written evidence submitted anonymously

In response to the above call for evidence I wish to make a submission as follows.

Background

I am a qualified accountant and I have worked both in industry and in practice, so I am able to appreciate tax issues from both sides of the fence. I have also spent several years working in the North of the country, as well as many years in the South East, so I like to think I also am able to navigate across any North/South divide.

I would like to submit the following comments:

In general, for those of us who work in industry it can be exasperating to have constant tinkering with thresholds and allowances merely to score political capital. Whilst the intent is often good in nature, the administration of these incentives can sometimes add significant administrative burdens, create confusion, and increase cost, whilst never achieving their intended benefit.

Tax and National Insurance alignment for all workers and Directors.

This has been muted in the past and there was something of a rebellion against raising the level of Class 4 NICs for the self-employed from 9% to the employee level of 12%.

The reasoning is often given that the self-employed do not get sick pay, but this ignores the other benefits that are open to them if they are unable to work.

Now that the self-employed have been supported within the coronavirus pandemic, the government must now stand firm and align both Class 1 and Class 4 NIC rates. For avoidance of doubt the thresholds for both should also be aligned.

This should also be seen as a holistic approach with the ongoing efforts to stop off-payroll working by making the fee-payer determine the employment status of workers.

I have written to the Treasury in the past regarding company Directors evading National Insurance by paying themselves up to the Primary Threshold and then taking the rest of their "pay" in dividends. I am pleased that the Treasury has acted to create a dividend tax, but the issue of National Insurance for company directors still remains.

Perhaps the Treasury could investigate if there is a way that Directors pay both dividend tax (effectively income tax) and National Insurance on dividends, with a tax deduction for National Insurance already paid via any salary received.

Employment Allowance

This is a classic example of my comment above regarding tinkering. It was brought in to offer an incentive to employers to take people on, but has quickly just become a tick in the box cash back for business owners who from my experience have never considered it at all when deciding whether to hire new staff. First designed as a blanket allowance, it then has had a large employer limit attached, then a de minimis State aid cap, all adding confusion and admin burden, and it should be scrapped.

It would be substantially more sensible to simply raise the secondary threshold for employer's national insurance, or find a way that payroll software could apply a lower rate of Er's NI for payrolls who were below a certain level, and a higher rate for large scale employers.

Note that there are incentives already regarding NI and young workers, which is much more sensible and targeted than using an employment allowance.

Pensions

Previous Conservative governments have already done much to clamp down on tax avoidance using pensions by reducing the lifetime allowance and annual allowance limits, although auto-enrolment has been one of the biggest headaches small employers have faced of recent times, with those that employ casual workers particularly affected.

As pensions by nature require long term planning, any changes can be retrospectively damaging, as arrangements may have been made based on rules that then change.

I do not believe that withdrawing higher rates tax relief on pension contributions would be sensible as many employees are under no illusion that they may not be earning at the higher rate for long, so wish to make pension contributions from what they consider to be "excess" earnings, knowing full well that their pension pots will only afford them an income in the basic rate band when they retire. They would simply pay more tax now, save less now and be poorer and pay less tax later.

Business Asset Disposals Relief / Entrepreneurs Relief

This has never really achieved its desired objectives, yet has required clarifications and debate and should be scrapped accordingly.

Inheritance Tax (IHT)

It never ceases to amaze me how much attention this tax receives when it is something of a voluntary tax. By that I mean to say that if you give away enough of your estate, early enough, then no IHT need be paid.

I do not agree with those who say that most exemptions and reliefs should be scrapped as I think this would simply put stress and pressure on those with small estates, as well as creating a political furore over those who die from Covid-19 only to now see their estates left to their loved ones suddenly taxed because of it.

However I do question whether Agricultural Property Relief is still required as most family farms are held permanently in trust for the future farming generation and would not fall to be assessed for IHT. However the rich and famous are zealously buying and living on farms as a way to get the relief and avoid IHT.

This can be seen by the way prices of agricultural land with no development potential are still so strong despite the income yields being relatively low.

Corporation Tax

There was a populist movement under the previous Labour leader to increase the rate of corporation tax and I have some sympathy for this given that at 19% we have the lowest in the G20.

However in line with my comments above regarding simplification and tinkering, the previous regime of the small profits rate up to one threshold, and then complicated marginal relief up to another, should not be re-introduced.

A further complication is how any changes would then affect the rates applied to the dividend taxes introduced to clamp down on those taking dividend instead of salary to avoid NI. A multi-tier rate of corporation tax would mean complicated dividend taxation rates to avoid over or under taxing.

It should not be forgotten that Limited Company status offers huge advantages and protection to entrepreneurs, and despite protestations to the contrary it is at little extra cost to being self-employed.

If the corporation tax is increased for small businesses, then the corresponding dividend tax rates could be decreased accordingly such that the Director-shareholder still pays tax *pari passu* with income tax rates.

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As such I would be content to see corporation tax increased to the 2016 rate of 20%, but with no differing rates between small or large as before for the reasons given.

VAT

I completely disagree with the AAT's suggestions on VAT, i.e. to scrap the VAT threshold and abolish zero rating of items such as food. I am a member of the AAT (as well as the ACCA) and as stated in the AAT's submission this had little support amongst members (which makes me wonder why they suggested it!).

The biggest issue with VAT is that of exempted supplies, and my suggestion would be to remove the VAT exemption on many of these supplies and make them zero-rated instead. This would then alleviate the partial exemption issues faced by many charities and property businesses, who have necessarily struggled with the making tax digital for VAT due to the extra calculations required.

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