**Written evidence submitted by the Institute of Chartered Accountants of Scotland**

## Introduction

1. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants and we represent over 22,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors.

2. The ICAS Tax Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community; it does this with the active input and support of over 60 board and committee members.

3. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. From a public interest perspective, our role is to share insights from ICAS members into the many complex issues and decisions involved in tax and financial system design, and to point out operational practicalities.

4. As a matter of policy, ICAS does not comment on specific rates of any tax; although we do comment on the operational and behavioural effects that different rates may have, for example, the introduction of additional complexity through re-introducing two corporation tax rates and a tapering calculation in between these two rates.

5. ICAS welcomes the opportunity to give its views and to respond to this inquiry into the 'March 2021 Budget' tax measures – those measures announced on 3 March and provided for in the Finance Bill issued on 11 March, and those included in consultation documents issued on 23 March.

6. We would be happy to discuss any of our comments below in further detail.

## Overall analysis of budget tax measures

7. The Treasury Committee has asked us to analyse the Budget and measures proposed in consultations in relation to the key areas it considered in its recent report, 'Tax After Coronavirus', which we have set out below. Our assessment may be refined when we have studied the proposed measures, the consultation documents published on 23 March and the Finance Bill in more detail.

8. This year is abnormal, and we appreciate that fiscal planning is made difficult by the demands of the pandemic. In 2020 – 21 there has been a series of tax announcements as follows:
   - 21 July 2020 – 'L' Day 1
   - 12 November 2020 'L' Day 2
   - 28 January 2021 – Scottish Budget
   - 3 March – UK Budget
   - 11 March – Finance Bill published
   - 23 March – 'Tax' Day consultations published.

   There have also been separate spending announcements.

9. We consider that the Autumn Budget and associated timetable for consultation, draft legislation and Finance Bill should be returned to. ICAS supports the principles set out in the 2017 policy paper 'The new Budget timetable and the tax policy making process' which were designed to increase predictability, stability and simplicity in the UK tax system and to address concerns that tax policy making was often piecemeal and reactive. A single autumn fiscal event is also essential to support the devolved nations in making effective tax policy.

10. Introducing the separate 'tax' day to issue consultation papers is helpful in separating the political and economic aspects of the Budget from the detail of future tax

proposals. We support this change and would encourage its use within 'The new Budget timetable and the tax policy making process'.

11. We welcome the fact that a significant proportion of the Finance Bill, and virtually all of the measures that are outwith the more 'political' arena relating to tax rates and allowances, have already been subject to earlier consultation with interested stakeholders. ICAS contributed its members' views. In our view it is important that prospective tax measures are consulted on – and using the five stage approach to consultation set out in the 2011 'Tax Consultation Framework'. This is effective when adopted in full because it provides an opportunity for valuable stakeholder input in clarifying the objectives, identifying the options for implementing them and developing a framework for implementation.

12. There are a large number of consultation documents issued on 23 March. We note that a number of these are not unexpected (for instance on tax administration and on PII and the definition of 'tax advice') and, indeed, we have already had a number of 'pre-consultation' conversations with HMRC about these. Such discussions have been helpful in giving us an opportunity to give early input and also a feel for what might be coming. We will continue to contribute to these consultations.

13. We consider the key tax raising measures announced in the Budget are the raising of the corporation tax rate and the freezing of personal tax allowances and thresholds.

14. The other significant measures aimed at assisting the economy to recover - loss relief carry back extension and the super deduction - primarily affect cash flow. In the case of the loss reliefs, the measures offer an accelerated repayment of tax, although for corporates this is at 19% now, rather than future repayment at 25%. The super deduction appears to be aimed at preventing the delay of capital investment by companies – we note that a 130% super deduction now when the CT rate is 19% is worth much the same as 100% tax relief for the expenditure when the CT rate is 25%.

## Analysis in relation to the key areas in the Treasury Committee report 'Tax After Coronavirus'

### The public finances challenge

15. The Chancellor's speech had significant commitments for additional spending to address the costs of coronavirus and, as recognised in the Treasury Report 'Tax after Coronavirus', there will need to be a rebalancing of fiscal measures.

16. Spending needs to be paid for, and we note that the Government has committed to not increasing the main revenue-raising taxes. Nevertheless, the freezing of allowances and income tax thresholds will result in 'fiscal drag' thereby increasing the Government's tax revenues over the next five years. As noted in the Treasury report, income tax is one of the three main revenue raisers, and we consider this a more transparent way of raising funds than other less direct measures, such as changing the income tax base (for example, by restricting certain reliefs) or increasing more marginal taxes, such as insurance premium tax.

17. The other main source of additional future tax revenue will be the increase in the corporation tax rate to 25% for all but small companies (with taxable profits of less than £50,000). We discuss this further in paragraphs 23 - 25 below.

### The impact of coronavirus

18. Our members and their clients welcome the extension of coronavirus support measures, including the furlough scheme and the SEISS scheme. This comes with the reservation however, that SEISS keeps changing, with versions 4 and 5 being announced on Budget day. The eligibility conditions have changed from SEISS 1 and 2 – 'adversely affected'; SEISS 3 and 4 – 'reduced demand'; to SEISS 5 – a turnover test. Whilst the changes may be due to a desire for better targeting of resources and preventing fraud, the repeated changes may lead to inadvertent mistakes and cause concern to claimants. Of particular concern is the change to SEISS 5 where lower

turnover has become an eligibility condition; this seems inappropriate for a scheme which is intended to compensate for lost profit because turnover and profit are not the same thing.

19. The main business measures in this Finance Bill – corporation tax rates, super deductions, and loss relief carry backs, are clearly intended to address the impact of coronavirus on the economy. We have commented on these further below.

20. There are a number of other tax related coronavirus measures in the Finance Bill, which are quite specific and aimed at extending deadlines or removing tax charges that would be unduly onerous in pandemic circumstances. These include:
    - Clause 17 – extensions of plant and machinery leases for reasons related to coronavirus
    - Clause 24 – enterprise management incentives
    - Clause 25 - cycles and cyclist's safety equipment
    - Clause 26 – exemption for coronavirus test
    - Clause 31 – Covid -19 support scheme: working households receiving tax credits
    - Clause 32 – Self-employment income support scheme
    - Clause 33 – deduction when business rates etc repaid
    - Clause 95 – deferring VAT payments by reason of the coronavirus emergency.

    Most of these have been discussed with stakeholders prior to the Finance Bill and are broadly welcomed.

**The major contributors to tax revenues – income tax, NIC and VAT**

21. As many commentators have noted, freezing the personal allowance and various thresholds is a way of collecting more tax and, no doubt, the main way to extract more from the major contributors to tax revenues given that the Government has said it will not raise the rates or thresholds.

22. We note that the Committee's report touches on whether to recommend a wholesale merger of national insurance contributions and income tax but says that the Government should consider what can be done to remove the distortions gradually through time. With the Budget proposal to freeze personal allowances until April 2026, we hope the opportunity will be taken to level up the NIC lower earnings threshold to align with the income tax personal allowance again. A lack of alignment across two payroll levies makes for unnecessary complication.

**Corporation tax**

23. We note in our introduction that as a matter of principle we do not comment on specific rates of tax, although we do comment on the operational and behavioural effects of some rates or changes in rates.

24. Clearly, two rates of corporation tax and a taper relief applicable where profits fall between two thresholds make for a more complicated tax system. With the small company threshold set at £50,000, many companies may be pulled into marginal relief.

25. We note too that over the last few years the lowering of the corporation tax rate has gone hand in hand with broadening the base (for example, through restriction of loss set offs). It would be helpful to have another corporate tax roadmap with an indicator of whether both elements of the past policy will be reversed, or whether the focus is purely on rate increases, in which case more tax will be paid by some companies.

26. In our view, the 2010 'Corporate tax roadmap' should be taken as a model for setting tax policy for the future. It set out the Government's long-term approach to the corporate tax regime and for several years there was welcome clarity and consistency around the direction of corporate tax policy.

**Carry back of trading losses**

27. The temporary extension of loss carry back reliefs for trading companies (and also unincorporated businesses) is welcome, given the economic difficulties many

companies are currently in. This primarily has a cash flow impact which will assist businesses that are currently struggling by providing a more immediate relief against past profits rather than waiting for relief in future. The cost of this cash flow support will be borne by the Government but if it assists businesses in their recovery, more tax should be payable in the nearer future.

28. In the case of companies, carry back relief is worth 19% of the losses, whereas carry forward relief could be worth 25%, which may form part of a company's tax planning decisions.

29. The carry back provisions have a cap on the amount of unused trading losses that can be relieved. Understandably, there is a desire to restrict the cost of this measure but any provisions with caps (£2m) add to the complications of calculation and tax compliance.

30. We note that the extended carry back of losses is restricted to trading losses. However, many landlords have incurred losses and it is not clear to us why loss carry back is not being introduced to property losses.

**Super deduction**

31. Feedback from our members suggests that this measure is aimed at preventing delays in investment. As noted in paragraph 14 above the super deduction offers a cash flow incentive to invest whilst the deduction is available with corporation tax at 19% rather than deferring investment until the tax rate is 25%.

32. If this measure is solely intended to prevent the delay of investment until corporation tax is at 25% then it is understandable that the super deduction is restricted to those businesses liable to corporation tax. However – and in our view a significant 'however' – tax measures should not favour certain commercial structures. In broad terms, capital allowances - and any super deduction – should be available to both incorporated and unincorporated businesses. This is of particular relevance to farming and rural operations which are frequently conducted through family partnerships.

33. If this policy of restricting a relief to companies only is considered appropriate, we suggest that HMT should always be required to explain why this is so.

**Annual Investment Allowances**

34. We note the extension of the Annual Investment Allowance (AIA) for another year at £1m; this allowance has had a mixed history with the amounts regularly being changed:
    - April 2008 - introduced in its present form at £50,000
    - April 2010 - increased to £100,000
    - April 2012 – reduced to £25,000
    - Autumn 2012 - increased to £250,000 for two years from January 2013 (moving to a calendar year basis)
    - April 2014 - increased to £500,000 until December 2015
    - January 2016 – reduced to £200,000
    - January 2019 - increased to £1 million from January 2019 until December 2020
    - due to revert to £200,000, it was then confirmed in November 2020 for another year at £1 million, reverting to £200,000 for 2022.

35. It is not helpful to have the AIA changed frequently, and often with short notice. Changes in the AIA can lead to some unexpected problems – and the amount of allowance has been the subject of many an exam question because of the way in which it is calculated when the thresholds change. The answer is not always what one might expect. In our view, tax reliefs for capital expenditure should be more consistent, to assist businesses in planning their capital investment, which by its nature is longer term.

**Investment in HMRC**

36. As we have raised in our paper 'Future of Tax in the UK', it is crucial to have an efficient tax administration and a well-funded, properly resourced HMRC. The further £180 million investment in 2021-22 for additional resources and new technology for HMRC is welcome.

37. Some of the expenditure should be put into making sure agent access is properly designed into new HMRC systems from the start – not added as an afterthought. We note that the HMRC Charter states that a taxpayer can appoint someone to represent them. However, in two recently introduced HMRC systems, the new Trust Registration Service and the 30-day CGT reporting service – it has been made incredibly onerous for taxpayers to appoint an agent to act for them, due to the cumbersome agent authorisation process which involves a digital handshake and setting up a government gateway account. It is important that this process is improved and not extended in its current form to other HMRC systems.

38. Agents are also currently excluded from viewing data in their clients Personal Tax Accounts because data within PTAs cannot currently be segregated, so that agents could only see data authorised for the service they are providing. This needs to be addressed when new taxpayer digital accounts are introduced.

39. The systems need to be properly joined up – with one agent authorisation process – there should be a proper digital replacement for the 64-8 and a process for dealing with digitally excluded or challenged taxpayers who cannot set up government gateway accounts or give digital handshakes.

**Taxes and pensions**

40. There is a need for consistency of policy over the long term. Given that a pension involves long term planning, it needs a long-term stable tax policy to go with it. We believe it is unhelpful to keep tinkering with the Lifetime Allowance on a piece-meal basis by reducing the limit or, as in this Budget, by freezing it.

**Taxation of different forms of work**

41. The new corporation tax rates may prompt the question, from a public policy perspective, of why the Government has chosen to retain 19% for small companies. There has long been a call to address the differences in tax outcomes for individuals who can chose to work either on their own or via a company. This may be considered by some to be a missed opportunity to charge all companies more – and hence remove the attractiveness of incorporating. It also seems at odds with the Finance Bill measures to address off payroll working, the Good Work Plan, and the comments by the Chancellor about levelling up NICs etc.

**Stamp duty land tax – and measures that may impact on devolved taxes**

42. Clearly, stamp duty land tax has become a politically sensitive matter. The Committee has said in its 'Tax after coronavirus' report that SDLT should be a priority for reform - the tax should be set at a level that optimises revenue while encouraging home ownership.

43. With the exception of stamp duty and non-domestic rates, there were surprisingly few budget announcements that only applied in England and Northern Ireland, compared to recent Budgets. Most measures in this Budget were UK wide.

**Tax strategy**

44. ICAS supports the call by the Treasury Committee in its report 'tax after coronavirus' that the Government should develop a tax strategy, setting out what it wants to achieve from the tax system and identifying high level objectives.

*April 2021*