## About AAT

Association of Accounting Technicians (AAT) is a professional accounting body with almost 140,000 members, 70% are women, 60% work for, or own their own, SME and 20% of its 90,000 students are apprentices.

AAT also licenses over 4,250 accountants who provide accountancy services to approximately 500,000 British businesses.

## Introduction

This response utilises the numbering of items in the *Overview of Tax Legislation and Rates* (OOTLAR) 3 March 2021.

AAT has not responded to every proposed change given both the time constraints of having to respond promptly and taking into account areas that are of limited importance or no relevance to AAT members, or where the outcome is self-evident.

As requested, AAT has used the recommended traffic light system of Green (pass), Amber (neutral) and Red (fail) against the Treasury Select Committee's six guiding principles of tax policy i.e. that proposals should be: 1) fair 2) support growth and competitiveness 3) certain 4) stable 5) practical 6) coherent.

The 2021 Budget has an unusually high number of Green (pass) recommendations, which is probably to be expected given the unique circumstances in which this Budget was given.

# AAT response to the 2021 Budget

Chapter 1 - Finance Bill 2021

## Personal Tax

### 1.1 Income Tax: rates and thresholds for tax year 2021 to 2022

Since 2010 the personal allowance at both the basic and higher rates has risen considerably, so much so that in response to the 2018 Budget, AAT stated that no further increases should take place. This was primarily because they are very expensive; disproportionately benefit higher earners and approximately three quarters of higher earners benefitting from an increase to the higher rate are male.

AAT was already opposed to any further increases in the thresholds, but this position has been solidified by the serious economic consequences of dealing with Covid-19. The Chancellor's announcement today that personal allowances will be frozen at £12,570 and £50,270 until April 2026 is therefore an understandable, measured, and necessary change that will bring in over £8bn a year by 2026.

### 1.3 Starting rate for savings limit

The starting rate for savings applies to a relatively small number of people, those with earnings below £17,500 who are also earning savings interest. It has certainly helped those on lower incomes since it was introduced five years ago and its maintenance, even without any inflationary uprating, is welcome.

### 1.4 Setting the standard Lifetime Allowance

Removing the annual link to the Consumer Price Index (CPI) increase for the next 5 fiscal years, which will maintain the standard Lifetime Allowance at £1,073,100 for tax years 2021 to 2026 will save the taxpayer almost £1bn by 2026.

In relation to Defined Benefit pensions, this lifetime allowance equates to an annual pension that places the recipient in the higher tax rate band i.e. over £50,000. If the wealthiest in society are to make more of a contribution to tackling Coronavirus related debts then this would appear to be a sensible measure.

However, for those with a Defined Contribution pension, current annuity rates would see an annual pension of just £22,500 a year for those with a £1m pension pot. In addition, Defined Contribution pension savers are usually younger than those in DB schemes, further eroding intergenerational fairness.

It is also worth recognising that the lifetime allowance has been substantially reduced, having stood at £1.8m less than a decade ago (2011-12).

### 1.6 Inheritance tax nil-rate band and residence nil-rate band

Maintaining the inheritance tax nil-rate bands at existing levels until April 2026 appears to be a reasonable thing to do in the current circumstances and given this is tax that is paid by the wealthiest in society and only by 4% of all estates, it will not have any significant impact on the wider economy.

Qualifying estates can continue to pass on up to £500,000 and the qualifying estate of a surviving spouse or civil partner can continue to pass on up to £1 million without an inheritance tax liability. Most neutral observers would probably agree these allowances are rather generous, not least because, despite recent rises, the average value of a property in the UK today is still below £250,000[1] and Median household net wealth in Great Britain is £286,600 according to the Office for National Statistics[2].

AAT has previously suggested halving the headline rate of IHT from 40% to 20% whilst simultaneously scrapping most IHT exemptions and reliefs[3], which would raise significantly more money than freezing the bands. AAT made this recommendation long before the Coronavirus pandemic and believes it now has more merit and relevance than ever before.

### 1.7 Venture Capital Schemes: Extension of the Social Investment Tax Relief (SITR)

In response to the 2019 consultation on the subject, AAT alerted Government to the very poor levels of awareness of this relief, both among the intended user audience and the adviser community. AAT supports the extension of SITR to 2023 providing much more is done to promote awareness and understanding of this seriously underutilised relief.

### 1.8 Easement for employer-provided cycles exemption

AAT very much supports the intention to legislate in Finance Bill 2021 to introduce a time-limited easement to the employer-provided cycle exemption to disapply the condition which states that employer-provided cycles must be used mainly for journeys to, from, or during work.

However, AAT is unclear as to the rationale for limiting this to those who have joined a scheme and have been provided with a cycle or cycling equipment on or before 20 December 2020. A relatively small change to 4 January 2021 would appear to make more sense given this is the date that the current national lockdown was announced[4].

### 1.9 Technical changes to the off-payroll working rules legislation

AAT supports the technical changes proposed as they will narrow the definition of an intermediary in the off-payroll working rules legislation, where it is a company. AAT is also pleased to note that Government intends to make it easier for parties in a contractual chain to share information relating to the off-payroll working rules by allowing an intermediary, as well as a worker, to confirm if the rules need to be considered by the client organisation.

### 1.10 Optional Remuneration Arrangements: disregard for statutory parental bereavement payments

In the interests of fairness it is very important that employees in receipt of Statutory Parental Bereavement Pay - and one of the relevant long-term benefits - do not lose entitlement to the benefit of the transitional rules for existing long-term employment related benefit arrangements, which continue to provide a tax advantage until 5 April 2021.

AAT therefore supports plans to legislate in Finance Bill 2021 to include a disregard for Statutory Parental Bereavement Pay within the 2017 Optional Remuneration Arrangements legislation.

### 1.11 Financial support payments to potential victims of modern slavery and human trafficking: exemption from income tax

AAT strongly supports plans to legislate in Finance Bill 2021 to introduce an exemption from income tax for financial support payments made by the UK Government and devolved administrations to potential victims of modern slavery and human trafficking, and notes that this will take effect retrospectively from 1 April 2009 when the financial support payments started.

However, this does raise serious questions as to why this was not done at the time of introduction or indeed in any of the 12 years that followed.

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[1] **UK House Price Index, January 2021:** https://www.gov.uk/government/news/uk-house-price-index-for-november-2020#:~:text=The%20November%20data%20shows%3A,UK%20valued%20at%20%C2%A3249%2C633

[2] **ONS, December 2019:** https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2016tomarch2018

[3] **AAT Comment, Inheritance Tax: end exemptions, scrap reliefs and halve the headline rate, 4 February 2020:** https://www.aatcomment.org.uk/accountancy-resources/tax-accountancy-resources/inheritance-tax-end-exemptions-scrap-reliefs-and-halve-the-headline-rate/

[4] **Gov.uk, 4 January 2021:** https://www.gov.uk/government/news/prime-minister-announces-national-lockdown

### 1.12 Taxation of coronavirus support payments

Ensuring that grants from the Self-Employment Income Support Scheme (SEISS) made on or after 6 April 2021 are taxed in the year of receipt is a sensible tidying up exercise that will help to ensure certainty and fairness.

### 1.13 & 1.14 Income tax exemption for employer-reimbursed COVID-19 tests for 2020 to 2021 and for 2021 to 2022

Introducing a retrospective income tax exemption for payments that an employer makes to an employee, to reimburse for the cost of a relevant coronavirus antigen test, appears prudent because it will lighten the liability and reporting requirements on employers who rightly reimburse their employees for the cost of a relevant test whilst simultaneously reducing the financial implications for employees. Given the situation is not one of employers' or employees' making but has significantly impacted them, it seems like a fair and practical step to take.

### 1.15 Charge if person is not entitled to a Self-Employment Income Support Scheme (SEISS) payment

Given the understandable need to protect taxpayers money from fraud, but also to ensure any genuine mistakes are rectified, the proposed update to Finance Bill 2021 provisions in Finance Act 2020 appear sensible because, as the Government states, this will also, *"…allow HMRC to recover payments where an individual was entitled to the grant at the time of claim but subsequently ceases to be entitled to all or part of the grant.[5]"*

### 1.17 Zero-rating zero-emission vans from the van benefit charge

The increase in line with CPI for most vans is welcome but reducing the van benefit charge to zero for vans that produce zero carbon emissions is questionable despite appearing to be an environmentally friendly measure. Electric cars and vans, like any other vehicle, still have a considerably negative impact on the environment. Indeed, research from the European Commission has concluded that non-exhaust traffic-related sources of pollution (brake, tyre, clutch, and road surface wear) are estimated to contribute almost equally to traffic-related particulate matter emissions[6]. Exempting electric vans therefore lacks coherence.

There is a further problem here in more electric vehicles being exempted from tax charges, resulting in lost revenue for the Exchequer, as it also makes it more difficult to reimpose any sort of charge in the future because vehicle use will become firmly established as a low/no tax activity.

One possible solution to this would be to introduce a Pay As You Drive (PAYD) scheme based on existing telematics technology being utilised by the insurance industry. Further details are available in AAT's 2018 "Alternatives to Tax Rises" report [7]and further expanded upon in its January 2021 response to the Transport Select Committee inquiry into the same.

### 1.19 Capital Gains Tax Annual Exempt Amount (AEA)

Maintaining the current Capital Gains Tax annual exempt amount at its present level of £12,300 until 2026 will impact less than 0.5% of the British population (300,000) and raise relatively small sums of money (£65m by 2026) but it does send a welcome message that those who are fortunate enough to enjoy a reasonable Capital Gain will contribute a little more to clearing the UK's substantial debts.

In September 2020, AAT recommended a number of much wider ranging reforms to CGT that would more fundamentally address these challenges[8]. This included scrapping the chattels exemption, gift relief and business asset disposal relief as well as removing the differential between investment property and other asset classes.

## Corporate Tax

### 1.20 Corporation tax: Main Rate

Last year AAT welcomed the retention of the main rate of Corporation Tax at 19% as the planned reduction to 17% would have meant losing £6bn of much needed revenue for no discernible gain. After a year of unprecedented economic shocks caused by Coronavirus, and to a lesser extent Brexit, the Chancellor is right to consider increases rather than reductions.

Our Corporation Tax rate will never be as low as the likes of Barbados, Hungary, or Montenegro, but these countries are not the UK's international competitors. We currently have the lowest Corporation Tax rate in the G20 and even with an increase to 25% from April 2023, we will continue to enjoy a lower than average Corporation Tax rate amongst G20 countries – and still the lowest in the G7.

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**[5] OOTLAR 2021, 3 March 2021:** **https://www.gov.uk/government/publications/budget-2021-overview-of-tax-legislation-and-rates-ootlar/budget-2021-overview-of-tax- legislation-and-rates-ootlar#chapter-2**
**[6] Theodoros Grigoratos & Giorgio Martini, European Commission, October 2014:**
**https://www.researchgate.net/publication/266974002_Brake_wear_particle_emissions_a_review**
**[7] AAT Alternatives to Tax Rises, September 2018:**
**https://www.aat.org.uk/prod/s3fs-public/assets/Time-for-change-AAT-alternatives-to-tax%20rises.pdf**
**[8] AAT, OTS CGT Review submission, September 2020:** **https://www.aat.org.uk/prod/s3fs-public/assets/aat-response-office-tax-simplification-capital-gains-tax-review.pdf**

This decision is one that strikes the right balance between raising substantial sums of money (over £17bn a year by 2026) to invest in public services and pay down debt without stifling investment and innovation.

### 1.21 Corporation tax: Increase in the rate of Diverted Profits Tax

Increasing the rate of Diverted Profits Tax (DPT) from 25% to 31% for the financial year beginning 1 April 2023 is clearly essential if wanting to maintain a 6% differential between the Diverted Profits Tax rate and the main rate of corporation tax when the main rate increases to 25%.

Given the DPT was introduced to address the odious practice of multinationals using artificial arrangements to divert profits overseas in order to avoid UK tax, it seems perfectly reasonable that such a significant differential be maintained.

### 1.22 Corporation tax: Small Profits Rate

Reintroducing a small profits rate of 19% for financial year April 2023 could be interpreted as a positive development because it will protect 90% of British businesses (the smallest) from the Corporation Tax rise to 25%, which must be welcome.

However, it does go against the principle of simplification and it will also serve as a continuing artificial tax incentive for many to work through their own limited company as a "one-man band" rather than being an employee, an issue that Government is supposedly keen to remedy (IR35, resolution of the three person problem etc.)

In addition, the way in which this is being implemented, with marginal relief for those with profits between £50,000 and £250,000 means that those earning between these sums will be paying a higher effective marginal rate of tax than small companies with profits below £50,000 or bigger companies with profits above £250,000, thus potentially acting as a perverse disincentive to create profits between these ranges.

As a result, whilst this measure at first appears welcome given the protection it seems to afford those with the smallest profits, it is far more complicated than that and so although providing a degree of certainty, fails the Treasury Select Committee tests of coherence and fairness.

### 1.23 Temporary Extension of Carry Back of Trading Losses

AAT had campaigned for a three year carry-back of trading losses, as existed in the aftermath of the financial crisis, so naturally welcomes the Chancellor's decision to legislate for this. However, given the one year carry back is extended to three years during times of crisis (1990's recession, financial crisis and now the Covid-19 pandemic), AAT suggests policymakers give serious consideration to making this a permanent rather than temporary change because of the benefits it will bring to many companies, and to save having to replicate the estimated £17m in IT and operational costs to HMRC were it to be required again in the future.

### 1.24 Preventing abuse of the R&D relief for small and medium-sized enterprises

AAT would rather this cap was not necessary but accepts there has been abuse and that this must be addressed. As a result, the £20,000 cap (plus three times the company's total PAYE and National Insurance contributions liability) appears to be a proportionate and measured response that should deter, or at the very least minimise, abuse.

### 1.26 Tax treatment of business rates repayments

Ensuring that the repayments of business rates relief by some businesses are deductible for corporation tax and income tax purposes, is an important measure that may help encourage more businesses to voluntarily repay this money if they have found it was not needed to survive the impacts of Coronavirus.

It will also ensure that those businesses who have already committed to repaying this money will not be worse off than had they never received the money in the first place – again an important consideration in ensuring both fairness and equality in the tax system and in delivering certainty for businesses who find themselves in this position.

### 1.29 Enterprise Management Incentives (EMI): Extension of time limited exception to working time requirements

Given employees who are furloughed or working reduced hours because of coronavirus (COVID-19) have very little control over the situation, it seems reasonable to ensure they are not disadvantaged by a technical failure to meet the working time requirements for EMI schemes.

However, closer to the April 2022 end of this temporary change, it seems reasonable to review the effectiveness of this measure with a view to scrapping the working time requirements on a permanent basis as a simplification measure and to ensure part-time workers, those with caring responsibilities etc. are not prevented from benefitting by virtue of a failure to work at least 25 hours or 75% of their working week.

## Capital Allowances

### 1.33 Super-deduction

Under the new "super deduction" companies will reduce their taxable profits not just by a proportion of the cost of that investment, as they do now or even by 100% of their cost, but by 130% of the cost. As the Chancellor noted in his speech, this has never been attempted in the UK before so it will be interesting to review the results of this two year, time-limited approach. If proven beyond doubt then there may be a case for extending its application, particularly given the traditional lack of investment by businesses in the UK and the OBR prediction that it will lead to a 10% increase in investment. However, there are several potential pitfalls with this super-deduction.

It is legitimate to ask whether this will just result in planned investment, that would have occurred anyway, being brought forward. If this does happen it will inevitably result in the drying up of investment in future years.

Given the unparalleled generosity of this tax give away, there are also likely to be increased attempts at fraud and abuse, particularly as multi-national companies will seek to undertake profit shifting to the UK (as opposed to the usual shift away from the UK) in order to take advantage of this scheme.

### 1.34 Annual Investment Allowance (AIA) Extension

Although extending the temporary AIA limit of £1,000,000 is welcome, AAT is unclear as to why is this not being extended to match the super-deduction i.e. until 31 March 2023 rather than until the end of 2021. Given their overlap, it would make sense to have both expiring at the same time.

### 1.35, 1.36, 1.37 1.57 Freeports: Enhanced Structures and Buildings Allowance / Enhanced Capital Allowances / Power to Designate Freeport Tax Sites / Stamp Duty Land Tax relief

The Government has said that Freeports will contain areas where businesses will benefit from more generous tax reliefs, customs benefits, and wider government support, bringing investment, trade, and jobs to regenerate regions across the country that need it most.

AAT welcomes the idea in principle but is concerned about the potential for money laundering at such sites if not introduced carefully.

Tax benefits at each of the eight Freeport sites appear generous and include five years of full relief from Stamp Duty on land and property bought for a qualifying commercial purpose, no business rates for all new, and some existing, businesses until September 2026, no employer National Insurance Contributions for eligible employees from April 2022 until 2026 (and possibly until April 2031).

Although the time limited tax concessions appear quite generous, the "customs benefits" referenced in the Budget documentation remain unclear and AAT continues to have concerns about the potential for money laundering.

In its April 2020 response to the Government consultation on Freeports[9], AAT recommended that the Government mirror the example of the Luxembourg Freeport which enjoys many benefits but is simultaneously obliged to meet all of the EU's anti-money laundering requirements, which it has proven capable of doing whilst thriving.

## Indirect Tax

### 1.40 VAT reduced rate for tourism and hospitality

Extending the temporary reduced rate of VAT of 5% for hospitality, holiday accommodation, and attractions until 30 September 2021 and then implementing a phased approach back to 20%, with the introduction of a new reduced rate of 12.5% from 1 October 2021 until 31 March 2022, will be expensive, costing over £4.7bn in lost revenue.

However, this additional cost will provide much needed assistance to two of the most severely impacted sectors of the UK economy and is therefore supported.

### 1.41 Setting Air Passenger Duty (APD) rates for 2022 to 2023

This is a very uncertain area given the near collapse of the aviation industry due to Coronavirus. In normal times, AAT would wholeheartedly agree with most proposed increases in APD due to the environmental impact of the sector but given airlines were hoping for a one or two year reprieve from APD or at the very least a reduction, to increase this duty appears to suggest the Government has little interest in maintaining a healthy aviation sector in the UK.

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[9] **AAT response to DIT consultation on Freeports, April 2020: https://www.aat.org.uk/prod/s3fs-public/assets/Freeports-consultation.pdf**

This decision also fails the Treasury Select Committee's coherence test and again demonstrates the contradictory nature of the Government's approach to environmental taxes. This Budget again froze fuel duty but increased Vehicle Excise Duty, it has proposed increases in APD for long haul flights but not for the more common and more polluting short haul flights. Were the Government at least to be consistent in taxing polluting modes of transport, it would probably gain more support, not least because to do so would be entirely consistent with its "net zero" by 2050 commitments.

AAT recommends that there be no increase in APD in 2022 and that the Government instead looks to implement a coherent transport taxation policy to be introduced from 2023 instead.

### 1.42 Landfill Tax: rates for 2021 to 2022

AAT notes that despite an initially slow start, the Landfill Tax has proved successful in encouraging greater levels of recycling and alternative, more environmentally friendly, methods of disposal and as such has delivered a significant reduction in the amount of waste sent to landfill. In 2001/02, 50 million tonnes were sent to landfill annually compared to 12 million tonnes in In 2015/16[10] and doubtless even less today.

As a result, AAT supports the decision to increase the standard and lower rates of Landfill Tax in line with RPI.

### 1.43 Gaming Duty: increase in casino gross gaming yield bands

AAT appreciates the need for consumer freedom to enjoy the occasional flutter, the financial contribution of the industry to the British economy and the ongoing need to reduce gambling related harm.

Given the substantial revenue growth within the UK gaming industry, AAT is comfortable with plans to raise the gross gaming yield bandings for gaming duty in line with inflation (based on RPI).

### 1.44 Red diesel entitlements

AAT understands the need to remove the entitlement to use red diesel and rebated biofuels from April 2022 and whilst sympathetic to the concessions granted to various sectors including agriculture, rail, non-commercial heating and power generation, travelling funfairs and circuses, amateur sports as well as golf courses, and all commercial boat operators, believes that there is a clear need to eventually end these concessions too.

Setting out a clear roadmap for ending these concessions would greatly help those respective areas plan and prepare to make necessary arrangements, given the scale of the challenge a 2030 cut off point for all users of red diesel would not appear unreasonable.

### 1.45 Vehicle Excise Duty (VED): rates for cars, vans and motorcycles

Although AAT supports the increase in Vehicle Excise Duty rates for cars, vans, motorcycles and motorcycle trade licences by RPI with effect from 1 April 2021, as already stated above, it again questions the contradictory nature of environmental taxes that see APD on long haul flights increased but not for more polluting short haul flights, VED increased but yet another freeze in fuel duty.

### 1.46 Vehicle Excise Duty and Levy rates for heavy goods vehicles (HGVs)

AAT is pleased that the Government recognises the need to "support the haulage sector and pandemic recovery efforts" and agrees that freezing HGV Vehicle Excise Duty for 2021 to 2022 and suspending the HGV levy for another 12 months from 1 August 2021 is necessary as a result.

However, this makes the decision to increase APD for long haul flights appear all the more bizarre. Is the aviation sector not equally deserving of support and a boost for the purposes of pandemic recovery efforts?

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**[10] Landfill Tax in the United Kingdom, Institute for European Environmental Policy:**
**https://ieep.eu/uploads/articles/attachments/e48ad1c2-dfe4-42a9-b51c-8fa8f6c30b1e/UK%20Landfill%20Tax%20final.pdf?v=63680923242#:~:text=The%20overall%20reduction%20in%20waste,million%20tonnes%20in%202015%2D16.&text=from%2010.2%25%20to%2010%25.**

### 1.50 Plastic Packaging Tax

AAT wholeheartedly backs the Plastic Packaging Tax due to come into force in April 2022 because it could play a very significant role in reducing plastic waste, positively changing producers' behaviour and ultimately benefit all consumers, the environment and economy. However, as AAT has highlighted on numerous occasions, most notably in its 2019 response to the Government consultation on the subject[11], global food brands such as Kraft Heinz, have committed to making 100 percent of its packaging recyclable, reusable, or compostable by 2025 on a world-wide basis; the American Chemical Council's Plastics Division is working towards 100% of plastic packaging being recyclable or recoverable by 2030; in 2017; the European Commission confirmed it would work towards the goal of ensuring that all plastic packaging is recyclable by 2030 and in September 2018 the Australian Government pledged that i) 70% of plastic packaging will be recycled or composted by 2025 ii) 30% average recycled content will be included across all packaging by 2025 and iii) problematic and unnecessary single-use plastic packaging will be phased out through design, innovation or introduction of alternatives.

Considering this international context, introducing a tax with a 30% threshold appears to lack ambition on a global scale. Government should therefore take effective action by increasing the threshold to ensure the tax is genuinely "world leading".

In 2019 AAT suggested a 40% threshold would be more appropriate to meet government's stated ambition of being both "*world leading*" and "*ambitious*" with a further increase at specific point in time to encourage ongoing innovation and commitment to increased recycling e.g. 50% by 2030 and to ensure that a roadmap for ongoing action exists. Nothing that has occurred in the past three years provides any reason to alter this original recommendation.

In considering whether or not to press Government on this issue, the Committee may be interested to note that two thirds of respondents to the original Government consultation wanted a higher threshold target than 30% recycled content, just 30% thought it ambitious enough and of course some packaging manufacturers wanted the threshold to be even lower. Again, this is another example of Government taking no notice of the majority view expressed in response to one of its consultations.

### 1.55 VAT Deferral New Payment Scheme

AAT welcomes the decision to give businesses the opportunity to make monthly payments of deferred VAT from March 2021 as this will doubtless help many businesses with cash flow problems, especially smaller ones and those impacted by Coronavirus.

## Property Tax

### 1.56 Stamp Duty Land Tax: Extension to the SDLT temporary rates

The Stamp Duty holiday was supposed to stem any Coronavirus related decline in house purchases, but it has done much more than that, boosting transactions well beyond pre-Coronavirus levels. For example, the last quarter of 2020, saw almost 380,000 transactions, a number not seen since 2007.

The decision to continue the Stamp Duty Holiday with a threshold of £500,000 until the end of June 2021 should therefore ensure continued high levels of transactions. The decision to continue the holiday with a lower threshold (£250,000) after June 2021 should help smooth the impact of its eventual withdrawal on 1 October 2021.

The success of the holiday doesn't just demonstrate the success of the policy, it further indicates that Stamp Duty can act as a serious barrier to housing mobility. Abolishing Stamp Duty would cost the Exchequer well over £8bn but the consequent increase in house purchases would lead to some of that being recouped by increased spending on taxable activities like estate agent, solicitor and conveyancing fees, removal services and of course spending on home improvements.

A less drastic alternative to scrapping Stamp Duty would be to switch liability from the buyer to the seller, as AAT has long recommended. This wouldn't be a panacea, but would be considerably fairer, simpler, more effective and cheaper to operate (as no First Time Buyers Relief would be needed) than the current Stamp Duty regime

[11] **AAT response to the Plastic Packaging Tax consultation, 3 April 2019:**
**https://www.aat.org.uk/prod/s3fs-public/assets/Consultation-response-plastic-packaging-tax.pdf**

### 1.58 Non-UK Resident SDLT

AAT has long campaigned for a non-UK resident surcharge on the purchase of residential property and although supportive of the idea in principle is very disappointed with the way in which it is being implemented.

Budget 2020 confirmed an intention to introduce a Stamp Duty Land Tax surcharge on non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021 at a rate of 2% above the existing residential rates. This was in clear breach of not only what was promised by the then Prime Minister Theresa May in September 2018 when a surcharge of 3% was announced but was also in complete contradiction of the current Chancellor's explicit 2019 General Election campaign promise to restore the surcharge to 3% [12] after Treasury officials had tried to reduce it to as little as 1%.

The reduction from 3% to 2% will mean £40m less for programmes to tackle rough sleeping and homelessness given the Government commitment that all money raised from this surcharge will be invested in such causes.

Further problems with this charge include the residency status being measured in mere days (183) rather than the years the Home Office and most neutral observers would expect for residency status to be granted. Furthermore, there appears to be an inexplicable and unnecessary avoidance opportunity created by Government plans to provide relief for those who simply state they "intend" to spend 183 days of the 12 months following their transaction in the UK.

As currently framed, AAT has little confidence that this surcharge will achieve any of its desired policy outcomes.

## Tax administration and other measures

### 1.60 Extending MTD for Value Added Tax to all VAT registered businesses from 1 April 2022

The vast majority of AAT accountants and their VAT registered clients have enjoyed a relatively seamless transition to MTD and have reported general satisfaction with the system. Even those who were previously sceptical of the merits of MTD have confirmed that whilst they may have endured some relatively minor teething trouble at the beginning of the process, the process has been nowhere near as challenging as they had feared.

With this in mind, AAT is relaxed about the further extension of MTD to all VAT registered businesses, including those below the threshold and will be working with members to ensure they are able to offer the best possible service to their clients in this respect.

### 1.61 Tackling Promoters of Tax Avoidance

AAT strongly supports action HMRC takes against those who promote and market tax avoidance schemes, particularly plans to allow HMRC to stop promoters from marketing and selling avoidance schemes at an earlier stage.

### 1.62 Follower Notices and Penalties

AAT supports changes to the penalties for avoidance schemes although as highlighted in its response to the recent HMRC consultation on the subject, favoured a reduction of the standard rate to 25% instead of 30%.

This may only be a small difference of 5% but would mean that those who proceed with vexatious claims will have their penalty doubled – a simple, easy to understand concept that as an additional 25% rather than an additional 20% would also act as a greater deterrent to some.

Conversely, this could be viewed as halving the penalty for those who comply, a simple and easy to understand incentive and a greater reward for not pursuing time and resource wasting claims.

HMRC originally suggested the figure of 30% because it is the same as the maximum penalty for a careless inaccuracy on a tax return. Of course, the Follower Notice is not issued due to a careless inaccuracy or anything similar so there is no real reason to set the penalty at the same level.

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[12] **BBC, November 2019:**
**https://www.bbc.co.uk/news/election-2019-50511007**

### 1.64 OECD Reporting Rules for Digital Platforms

Only last month AAT highlighted to Government[13] that the new OECD global tax reporting framework published in July 2020, the *Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy* ("MRDP"[14]), requires digital platforms to collect information on the income realised by those offering accommodation, transport and personal services through platforms and to report the information to tax authorities.

Although Government has acknowledged the existence of these new rules and positively described the MRDP, "*The benefit of this global approach for the platforms is that it sets out clearly what data is required and ensures a consistent international approach and a level playing field.*" It had not provided any detail as to how or by when the UK would sign up to these rules (a handful of countries have already done so and as MRDP was approved by the G20/OECD Inclusive Framework (IF) on BEPS, there is little reason for any of the current 137 IF member countries and jurisdictions, including the UK, not to adopt them but some will inevitably be quicker to do so than others.

AAT is pleased that the Budget confirms that Government will consult this Summer but is unclear what the timetable will be for a) the Government to publish a response to that consultation and b) when it will finally implement these important rules. It would appear that the UK could have acted more quickly here if it had wanted to and given the likely benefits that would be derived for the tax authorities, AAT is unclear as to why it is taking so long to adopt such rules.

### 1.67 Amendments to HMRC Civil Information Powers

Introducing the new Financial Institution Notice, which can be used under certain circumstances to require financial institutions to provide information to HMRC about a specific taxpayer, without the need for approval from the independent tax tribunal, is not supported by AAT.

AAT made clear in its response to the 2018 consultation on this subject that it, *"…is strongly opposed to the proposed new Financial Institution Notice, which would not have to be approved by an independent tribunal and has no right of appeal, it is unnecessary for the working of HMRC enquiries and dilutes the rights of citizens."*[15]

Interestingly, the HMRC summary of consultation responses revealed that most consultation respondents felt the same way i.e. that this was not an appropriate way forward[16]. Despite the views of respondents, the Government appears to have decided to proceed anyway, which itself undermines the legitimacy of the consultation process.

### 1.68 Interest harmonisation and reform of penalties for late submission and late payment of tax

AAT has provided considerable feedback to HMRC over the issue of a new points based late submission regime and whilst the new system is not entirely reflective of AAT's recommendations, it is an improvement on the current system and should help deter late payments.

## Chapter 2 - Measures announced at Budget but not in Finance Bill 2021

**<u>Personal Tax</u>**

### 2.1 Individual Savings Account (ISA) annual subscription limit & 2.2 Junior ISA limit & 2.3 Child Trust Funds

The original savings limits of £3,000 for a cash ISA and £7,000 for a stocks and shares ISA have risen to £20,000 today, well above a simple year on year inflationary increase and so freezing the £20,000 savings limit is unlikely to be a problem for most, not least when you consider that even though 42% of the adult population has an ISA, the average subscription to an adult ISA is just over £6,000[17]

Likewise, given the Junior ISA limit was more than doubled to £9,000 in 2020, freezing it at this level is unlikely to cause any savings related problems and the same applies to Child Trust Funds for which the maximum subscription will also remain unchanged at £9,000.

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[13] **VAT and the Sharing Economy, February 2021: https://www.aat.org.uk/about-aat/aat-policy-work**
[14] **OECD, July 2020: https://www.oecd.org/tax/exchange-of-tax-information/model-rules-for-reporting-by-platform-operators-with-respect-to-sellers-in-the-sharing-and-gig-economy.htm**
[15] **AAT Consultation response – Amending HMRC Civil Information Powers, September 2018: https://www.aat.org.uk/prod/s3fs-public/assets/Amending-HMRC-Civil-Information-Powers.pdf**
[16] **Amending HMRC Civil Information Powers, Summary of responses, July 2020: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/902294/Amending_HMRC_s_Civil_Information_Powers_-_summary_of_responses.pdf**
[17] **ISA Statistics, June 2020: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/894771/ISA_Statistics_Release_June_2020.pdf**

**2.4 Extension of income tax exemption for COVID-19 related home office expenses to 2021 to 2022 tax year**
Extending the temporary income tax exemption and Class 1 National Insurance contributions disregard for employer reimbursed expenses that cover the cost of relevant home office equipment is an essential measure in the current circumstances.

**2.5 Van benefit charge and fuel benefit charges for cars and vans from 6 April 2021**
As stated above at 1.17, whilst increasing the van benefit charge and the car and van fuel benefit charges by the September 2020 Consumer Price Index is a welcome measure that demonstrates a clear commitment to reducing pollution, AAT questions the coherence and long term value in exempting electric vans from this charge given research from the European Commission has concluded that non-exhaust traffic-related sources of pollution (brake, tyre, clutch and road surface wear) are estimated to contribute almost equally to traffic-related particulate matter emissions[18] and continued exemption helps establish driving vehicles as low/no tax activity, which has serious future policy implications.

**Indirect Tax**

**2.6 VAT: No change in registration and deregistration thresholds**
Freezing the VAT registration (£85,000) and deregistration (£83,000) thresholds until April 2024 at least provides businesses with certainty but it does very little to support growth and competitiveness.

However, reducing the VAT threshold to £0 as in Sweden, Italy and Spain would eliminate competition challenges between VAT registered and non-registered businesses and would also remove the significant "cliff edge" problem that greatly impacts many small businesses' behaviour and productivity i.e. ceasing to work or reducing work when close to the threshold.

As a result, removing the VAT threshold would likely increase economic output amongst an already productive sector of the economy, benefitting individuals and employers and in turn providing an increased tax yield for the Exchequer. It would likely result in much higher levels of compliance too.

In addition, requiring all businesses to become VAT registered would likely result in a significant reduction in VAT evasion and fraud.

It is worth considering the February 2021 AAT member survey results on this issue[19].

The results of this survey, which attracted responses from more than 800 AAT members, were as follows:

- 37.5% favoured a reduction to the personal allowance (£12,500) or £0
- 33% support the current threshold of £85,000
- 24% would like to see a substantially higher threshold like that in Singapore
- 5.5% were unsure

AAT believes that this is certainly an area worthy of investigation.

**2.7 Landfill Tax: rates for 2022 to 2023**
As stated at 1.42, AAT supports an increase to Landfill Tax in line with RPI,

**2.11 Setting Fuel Duty rate for 2021 to 2022**
Freezing fuel duty until at least 2022 means not only has £50bn been foregone in revenue since the freeze came into effect in 2011[20], it also undermines the Government's supposed commitment to reaching net zero by 2050 or sooner as the freeze is estimated to have caused carbon emissions to be 5% higher than they otherwise would have been.[21] This decision fails the Treasury Select Committee's test on coherence.

As AAT has already outlined above, the Treasury should give serious consideration to scrapping road duty, vehicle excise duty and VAT on fuel in favour of Pay As You Drive (PAYD) taxation based on existing telematics technology utilised by the insurance industry as detailed in AAT's 2018 "Alternatives to Tax Rises" report [22]and more recently in response to the 2021 Transport Committee inquiry into Road Pricing.

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[18] **Theodoros Grigoratos & Giorgio Martini, European Commission, October 2014:** https://www.researchgate.net/publication/266974002_Brake_wear_particle_emissions_a_review
[19] **819 AAT members surveyed in February 2021**
[20] **Government Business, March 2020:** https://governmentbusiness.co.uk/news/10032020/ending-fuel-duty-freeze-could-treble-nhs-budget
[21] **Carbon Brief, 2020:** https://www.carbonbrief.org/analysis-fuel-duty-freeze-has-increased-uk-co2-emissions-by-up-to-5-per-cent
[22] **AAT Alternatives to Tax Rises, September 2018:** https://www.aat.org.uk/prod/s3fs-public/assets/Time-for-change-AAT-alternatives-to-tax%20rises.pdf

## Tax Administration

### 2.14 OECD Mandatory Disclosure Rules

AAT supports measures to combat offshore tax evasion and looks forward to responding to the promised government consultation relating to the implementation of the OECD's Mandatory Disclosure Rules.

### 2.15 Electronic sales suppression

AAT welcomes long overdue action to tackle electronic sales suppression and supports measures that will make the possession, manufacture, distribution and promotion of electronic sales suppression software and hardware an offence.

### 2.17 Enterprise Management Incentives: call for evidence

AAT is likely to provide a short response to the new consultation on whether and how to expand the current Enterprise Management Incentives scheme to ensure it offers effective support for high-growth companies seeking to recruit and retain key employees. A key suggestion is likely to be that already made above, that the temporary removal of working time requirements (25 hours a week or 75% of the individuals working week) be made permanent.

### 2.18 R&D Tax Reliefs: Review

AAT has responded to a number of R&D related reviews and consultations in recent years, most recently in September 2020,[23] noting the effectiveness of R&D Tax Credits and is likely to respond to this consultation in much the same way.

### 2.19 Corporation tax: Review of the surcharge on banking companies

The additional bank surcharge of 8% was a sensible and warranted measure to reign in rapidly increasing bank profits post the financial crisis but as the Chancellor has highlighted, an 8% surcharge on top of an increase in Corporation Tax to 25% makes banks in the UK uncompetitive. This is particularly important in the post Brexit environment that had already seen well over one trillion pounds worth of assets relocated to other European capitals in the months leading up to Brexit[24]. Furthermore, the bank levy introduced in 2011 separately raises over £2bn annually in the form of a 0.1% charge on UK balance sheets. If London is to remain a truly competitive financial centre, these charges need to be a reviewed in a global context.

[23] **HM Treasury & HM Revenue & Customs consultation on the scope of qualifying expenditures for R&D Tax Credits, September 2020:** **https://www.aat.org.uk/prod/s3fs-public/assets/aat-response-qualifiying-expenditures-r-and-d-tax-credits.pdf**

[24] **Bloomberg, September 2020: https://www.bloomberg.com/news/articles/2020-09-30/brexit-prompts-7-500-finance-jobs-1-6-trillion-to-leave-u-k**

# AAT response to the 2021 "Tax Day" publications

AAT will respond to several of the new calls for evidence published today but until it has done so, will not comment on those particular issues here. Similarly, there are some areas of today's announcement that are not relevant or are of little relevance to AAT members and so again, we have not commented on these aspects of "Tax Day".

## Delivering the Tax Administration Strategy

### Raising standards in the tax advice market

At present anyone can call themselves a tax adviser or accountant. No qualifications are required, no commitment to Continuing Professional Development is needed either and likewise no commitment to PCRT, no professional indemnity insurance (PII) is necessary, no requirements to abide by any form of disciplinary process and so on.

A third of the accountancy sector falls into this category. In contrast, all of the above and more are required by anyone seeking to be a member of a professional tax or accountancy body.

This failing is all the more profound when you consider legislative proposals to make the audit sector one of the most tightly regulated in the world.

The proposal today, to do nothing more than make PII compulsory for unregulated tax advisers (it is already compulsory for all those who are members of a professional body), with a view to improving tax advice, may arguably address some of the symptoms of unregulated advice but will have no impact on the causes. This recommendation, as AAT has repeatedly advised, is wholly inadequate.

HMRC state that two thirds of agent related complaints are in connection with the one third of advisers who are unregulated i.e. who are not members of any professional body.

There are also serious tax evasion and money laundering consequences of having so many unregulated accountants and tax advisers; and there are frequent horror stories of mistakes and poor advice that can leave taxpayers with unnecessary fines, penalties and tax liabilities. The unregulated are also costing the Exchequer hundreds of millions of pounds a year.

The Government does not appear to be serious about tackling this problem. If it were, it would make professional body membership compulsory for anyone providing paid for tax and accountancy services. Doctors, nurses and solicitors have long been required by law to belong to a professional body, why not accountants and tax advisers?

AAT has long argued that compulsory membership of a professional body would solve many of these problems and provided a comprehensive explanation as to why in its August 2020 response[25] to the Government consultation on this issue.

### Reducing inheritance tax reporting requirements

AAT has previously backed OTS recommendations in this area and very much supports measures that will see over 90% of non-taxpaying estates each year no longer having to complete inheritance tax forms for deaths when probate or confirmation is required. The ultimate ambition should be to achieve exemption from form filling for 100% of non-taxpaying estates.

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[25] **Raising Standards in the Tax Advice Market, August 2020:**
**https://www.aat.org.uk/prod/s3fs-public/assets/aat-response-raising-standards-tax-advice.pdf**

## Tackling non-compliance

### Clamping down on promoters of tax avoidance

AAT wholeheartedly backs Government proposals to tackle promoters of tax avoidance.

Whilst the measures announced should help clamp down on promoters and are welcome. AAT is unclear as to whether plans for penalties to be applied retrospectively have been dropped as this is not mentioned within the consultation document.

In AAT's response to the 2020 consultation[26] on this issue, it stated;

*"AAT has great sympathy with HMRC's desire to apply these measures retrospectively from the introduction of the penalty regime in 2017, not least because the type of behaviour that it is seeking to penalise is abhorrent and wholly without justification and frustrates the original intention of the legislation.*

*However, given the strength of criticism that HMRC has received in the past for seeking to take retrospective action, no matter how well intentioned (for example in relation to the Contractor Loan Charge) it must also take into consideration the damage to its credibility and authority that such a step would inevitably bring, to say nothing of the likely time, costs and resources that any legal challenge would bring.*

*On that basis, AAT suggests that HMRC abandon any plans for retrospective action and instead focus on the new penalty regime taking effect only after Royal Assent for this legislation has been given in the usual way."*

If this retrospective aspect has been dropped then this tax change would be deemed "green" rather than "amber".

### Tackling disguised remuneration tax avoidance

AAT supports any effective measures to combat disguised remuneration and welcomes much of the Government's response to the previous consultation on the topic.

However, AAT is disappointed that the more radical proposals to introduce joint liability, which AAT stated in its original response would, *"…better reflect the reality of many tax advice situations, [and] would discourage promoters of such schemes who currently recognise the likelihood of incurring substantial costs are low because the taxpayer, not the promoter, is currently liable*."[27]

This is particularly frustrating given the Government today acknowledged, *"Many respondents supported increasing the financial risk for promoters. A number of respondents proposed making promoters and enablers jointly and severally liable for any tax lost under these schemes that HMRC was unable to recover, with some wanting personal liability to be applied to the individuals behind the companies that promote these schemes.*[28]*"*

Despite this finding, today's response went on to state; *"Government is keen to ensure that promoters are sanctioned effectively, it is not attracted to ideas involving the transfer of tax liabilities away from the individuals who use the schemes, to the promoters themselves."*

### Off-payroll working rules

The government commitment to publish the findings of public sector research relating to off-payroll working rules ahead of the introduction of the reform in the private and voluntary sectors next month has been met by the narrowest of margins and does not enable sufficient time for any of the findings, whether positive or negative, to influence the effective operation of the reforms being introduced in the private sector.

The delay in publication of public sector research until just a few days before implementation in the private sector is further compounded by the admission that Covid-19 related issues mean responses from some parts of the public sector were too low to produce robust quantitative results – an entirely predictable outcome, meaning that the publication is incomplete but has been published nevertheless simply to meet the commitment of publication.

This is clearly a far from desirable outcome and one that the Treasury Select Committee may wish to pursue further.

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**[26] AAT response to HMRC consultation Tackling Promoters of Tax Avoidance, September 2020:**
**https://www.aat.org.uk/prod/s3fs-public/assets/aat-response-hmrc-consultation-tackling-promoters-tax-avoidance.pdf**
**[27] AAT response to HMRC consultation on Tackling Disguised Remuneration Tax Avoidance, September 2020:**
**https://www.aat.org.uk/prod/s3fs-public/assets/aat-response-tackling-disguised-remuneration-tax-avoidance_0.pdf**
**[28] Tackling Disguised Remuneration Tax Avoidance summary of responses, 23 March 2021:**
**https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/972074/Call_for_evidence_tackling_disguised_remuneration_tax_avoidance_-_summary_of_responses_open_document_format_.odt**

### Sanctions for illicit tobacco
AAT welcomes tougher and more effective sanctions to tackle tobacco duty evasion and steps to disincentivise the sale of illicit tobacco.

**Further tax policy announcements**

### Fundamental review of business rates
AAT responded to the Treasury Select Committee inquiry into Business Rates in 2019[29], highlighting that it has long believed that the current business rates system is not fit for purpose. AAT therefore welcomes this interim report and very much hopes the fundamental review concluding in the autumn will contain proposals for an alternative system that is more effective, can secure broad support and can be implemented within a reasonably short and clearly specified timescale.

### Aviation tax
AAT's above response to the 2021 Budget highlighted the contradictory nature of Government policy in this area i.e. proposing increases in APD for long haul flights but not for the more common and more polluting short haul flights. AAT concluded that, were the Government at least to be consistent in taxing polluting modes of transport, it would probably gain more support, not least because to do so would be entirely consistent with its "net zero" by 2050 commitments.

As a result, AAT welcomes the decision to consult on how Air Passenger Duty (APD) could support Union and regional connectivity, alongside the commitment to reach net-zero emissions by 2050 but notes the Governments, *"…initial position that the effective rate of APD on domestic flights should be reduced".*

### Strengthening the self-catering accommodation criteria for business rates
AAT previously suggested that to qualify for business rates relief properties in England should also have to be "actually let" rather than simply being made "available to let". Being "actually let" is a requirement in both Wales and Scotland and should be so in England too. As a result, AAT very much welcomes today's announcement.

However, given no further details of the change and implementation were announced, and this will be confirmed by the Ministry for Housing, Communities and Local Government's (MHCLG) shortly, it is still too early to say whether or not AAT supports the change.

AAT has also previously recommended extending the 70 day requirement as it appears to be too short a time period to benefit from generous tax advantages.

Separately to the issue of Business Rates and Council Tax, various tax reliefs and allowances are available for Furnished Holiday Lettings[30] that are both available to let for at least 210 days a year and actually let for at least 105 days in the year.

It would therefore make sense to bring the Council Tax/Business Rates requirements into line with these existing tax arrangements. If 105 days of actual letting is required for tax relief and allowances, why shouldn't the same be required for designation as a genuine business?

In addition, a requirement to provide evidence of having actually rented the property would further reduce avoidance. This could be easily provided if the property is let on commonly used short letting platforms like Airbnb, Vrbo or Sonder. If rented privately then what form this evidence takes is a matter of debate but could include the financial accounts of the business, examples of property marketing e.g. online or newspaper adverts, evidence of lettings such as a guest book, calendar bookings, bank statements and so on.

Adopting AAT's recommendations here would 1) be a simplification because it would mirror existing tax arrangements for Furnished Holiday Lettings, it would also be both a practical and effective solution to the problems of 2) council tax avoidance 3) business rates avoidance and 4) the abuse of any future Coronavirus assistance schemes or similar.

### Review of the Office of Tax Simplification (OTS)
AAT believes that the OTS has undertaken some very important work that has led to a range of improvements for taxpayers but that as with any such body, it is perfectly reasonable to undertake periodic reviews to ensure its effectiveness.

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[29] **AAT response to Treasury Select Committee inquiry into the impact of Business Rates on Business, March 2019:** https://www.aat.org.uk/prod/s3fs-public/assets/Consultation-response-business-rates.pdf
[30] **HS253 Furnished Holiday Lettings:** https://www.gov.uk/government/publications/furnished-holiday-lettings-hs253-self-assessment-helpsheet/hs253-furnished-holiday- lettings-2018

### Pensions tax technical updates

AAT supports the removal of anomalies within the pensions tax rules.

### Landfill Tax review

As AAT stated in its above response to the 2021 Budget, despite an initially slow start, the Landfill Tax has proved successful in encouraging greater levels of recycling and alternative, more environmentally friendly, methods of disposal and as such has delivered a significant reduction in the amount of waste sent to landfill. In 2001/02, 50 million tonnes were sent to landfill annually compared to 12 million tonnes in In 2015/16[31] and doubtless even less today.

As a result, AAT supports the decision to increase the standard and lower rates of Landfill Tax in line with RPI and furthermore, supports further review to ensure the tax continues to support the government's environmental objectives.

### New rules to prevent value shifting for VAT

AAT welcomes action on this important issue but as stated in its recent response to the consultation on the issue[32], if Government is serious about its intention to level the playing field for **all** businesses then the abuse created by VAT value shifting in relation to mail order imports from outside the UK must also be addressed. This issue was completely ignored in the consultation document.

### Social Investment Tax Relief (SITR)

As AAT has already stated in its above response to the Budget, in response to the 2019 consultation on the subject, AAT alerted Government to the very poor levels of awareness of this relief, both among the intended user audience and the adviser community. AAT supports the extension of SITR to 2023 providing much more is done to promote awareness and understanding of this seriously underutilised relief.

***March 2021***

[31] **Landfill Tax in the United Kingdom, Institute for European Environmental Policy:**
**https://ieep.eu/uploads/articles/attachments/e48ad1c2-dfe4-42a9-b51c-8fa8f6c30b1e/UK%20Landfill%20Tax%20final.pdf?v=63680923242#:~:text=The%20overall%20reduction%20in%20waste,million%20tonnes%20in%202015%2D16.&text=from%2010.2%25%20to%2010%25.**

[32] **AAT response to VAT Shifting consultation, 18 March 2021:**
**https://www.aat.org.uk/prod/s3fs-public/assets/VAT-Shifting.pdf**