

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

### 1. Introduction

- 1.1. Association of Accounting Technicians (AAT) is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide.
- 1.2. Of the full and fellow members, there are more than 5,000 licensed accountants who provide accountancy and taxation services to over 500,000 British businesses.
- 1.3. The work of HMRC is therefore of considerable interest and highly relevant to AAT and its members.
- 1.4. AAT believes that HMRC has performed well in relation to assisting customers in need of financial support through Covid-19 support schemes although it has some concerns about subsequent error and fraud by users.
- 1.5. AAT recognises that the focus on the pandemic has undermined performance elsewhere within HMRC and that there are some areas where HMRC could perform much better in ensuring the right amount of tax is paid at the right time.

### 2. Executive summary

- 2.1. **One of the most effective means of reducing tax avoidance, evasion and error would be for Government to require anyone providing paid for tax and accountancy services to be a member of a relevant professional body.**  
At present one third of accountants and tax advisers are unregulated i.e. they are not appropriately qualified, are not obliged to undertake any Continuing Professional Development, do not hold appropriate insurance, are not subject to any monitoring, disciplinary or complaints process and are not members of a relevant professional body.
- 2.2. **AAT recognises much of the good work undertaken by HMRC in relation to avoidance and evasion but much more could be done.**  
For example, increasing the number of tax audits (see below 3.13- 3,17), taking action against online sellers who have evaded VAT (see below 3.18-3.20) and in relation to cryptocurrency investors (see below 3.20-3.23).
- 2.3. **HMRC must do more in relation to both legitimate and fraudulent debt recovery.**  
AAT welcomes the creation of a taxpayer investment protection taskforce, notes it has already recovered over £500m and is expected to recover up to £1 billion by 2023, but questions what will happen to the remaining £4.3bn of fraudulently obtained taxpayer funds. Likewise, the approach to recovering debts owed via the Bounce Back Loan scheme should be re-examined as detailed at 3.35-3.44 below.

### 3. AAT response to the consultation paper

- 3.1. **Taxes owed which are not collected through error, avoidance or evasion**
- 3.2. Unregulated accountants and tax advisers
- 3.3. AAT continues to believe that regulating the third of the accountancy and tax advice market which is currently unregulated (via compulsory membership of a relevant professional body for anyone giving paid for tax advice/accountancy services), would be one of the most effective means of reducing the amount of tax not collected through error, avoidance or evasion every year.

- 3.4. Whilst the welcome BEIS reforms of the audit sector will make the British audit regime amongst the most tightly regulated in the world, in contrast, high street accountants will continue to operate in a wild west type landscape where anyone is allowed to call themselves a tax adviser or accountant without having any relevant qualifications or indeed having the slightest experience, let alone being a member of a professional body or being subject to any form of monitoring/review/complaints and disciplinary processes etc.
- 3.5. At present, HMRC's own statistics indicate that one third of the sector is unregulated i.e. they do not belong to any professional body.
- 3.6. HMRC have also confirmed that two thirds of agent related complaints they receive are about the one third who are unregulated.
- 3.7. This has led to scandals such as the Contractor Loan Charge, plays a major role in money laundering, tax evasion and egregious avoidance as well as impacting individuals and small businesses on a daily basis through bad advice which triggers unnecessary liabilities and penalties or missing out on appropriate reliefs – for example, in the case of R&D Tax Credits, the over claiming of £600m a year by unregulated advisers costs us all as lost revenue for the Exchequer.
- 3.8. The damaging impact that unregulated accountants and tax advisers are having on the British economy, especially individuals, micro and small businesses, is substantial. However, HMRC have repeatedly refused to take any meaningful action on this issue, other than this year's wholly inadequate proposal to do no more than require unregulated agents i.e. non-professionals, to hold professional indemnity insurance - an oxymoronic approach that fails to protect consumers but will lead to a whole host of unintended consequences.
- 3.9. AAT therefore believes that Government should require anyone offering paid-for tax and accountancy services to be a member of a relevant professional body.
- 3.10. Unlike the present situation, compulsory membership of a professional body would mean any unregulated agents would have to:
  - be appropriately qualified
  - undertake and evidence regular Continuing Professional Development
  - hold professional indemnity insurance
  - be subject to ongoing monitoring and review
  - be subject to professional bodies complaints and disciplinary processes
  - be regulated by an OPBAS regulated regulator for money laundering purposes and
  - follow Professional Conduct in Relation to Taxation (PCRT) requirements
- 3.11. Professions from doctors and nurses to solicitors and architects are required to be members of a relevant professional body. In fact, there are over 200 regulated professions in the UK and it is deeply concerning that accountancy and tax services are not included. Indeed, most members of the public and even most MPs, wrongly believe accountants and tax advisers are currently required to be a member of a professional body.
- 3.12. There is overwhelming cross-party political support for regulation. Earlier this year AAT commissioned research into support for our recommendation of compulsory professional body membership, which revealed that 78% of MPs (YouGov) support compulsory professional body membership. We also surveyed our own members on the issue in 2021 and found an incredible 93% of AAT members support compulsory professional body membership.
- 3.13. Audit
- 3.14. Research published by Warwick University in April 2021 found that, "...audits raise reported tax liabilities for five years after audit, effects are longer lasting for more stable sources of income, and only individuals found to have made errors respond to audit... more resources should be devoted to audits, audit targeting should account for reporting responses, and performing audits has additional value beyond merely threatening them."<sup>1</sup>

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<sup>1</sup> The Dynamic Effects of Tax Audits, Warwick Economics (Warwick University), April 2021:  
[https://warwick.ac.uk/fac/soc/economics/research/workingpapers/2019/twerp\\_1198\\_advani.pdf](https://warwick.ac.uk/fac/soc/economics/research/workingpapers/2019/twerp_1198_advani.pdf)

- 3.15. HMRC should look closely at this research if they have not done so already given it combines confidential administrative data on 50,000+ UK tax filers over more than a decade with a randomised audit programme and finds that reported tax among audited taxpayers is “*significantly greater*” than among non-audited taxpayers for several years after the audit and does not return to zero until 8 years have passed from the date of said audit.
- 3.16. This suggests that undertaking higher levels of audit will reduce evasion, avoidance and error and thus increases tax take.
- 3.17. The Committee may also wish to note the actions of the Biden administration in the USA where significantly increased funding to audit tax returns is being made available for the IRS to help combat avoidance and evasion<sup>2</sup>.
- 3.18. VAT
- 3.19. AAT has previously alerted Government to the fact it is disappointed by the apparent lack of interest in taking any action to address widespread historic VAT fraud by sellers using online platforms<sup>3</sup>. Significant numbers of online sellers have increased their prices by 20% since January 2021<sup>4</sup>, which is when new rules making online platforms liable for VAT collection and remittance came into force. These rises strongly indicate such sellers were previously evading VAT. This provides an incredible opportunity for HMRC to reclaim very large sums of illegally avoided VAT, together with substantial additional penalties, yet no action appears to be being taken.
- 3.20. Cryptocurrency
- 3.21. The amount of tax potentially underpaid by cryptocurrency investors may be relatively low at just under half a million pounds but the fact this has tripled between 2020 and 2021 according to the latest HMRC figures, indicates a potentially growing problem that requires attention before it increases further.
- 3.22. The fact HMRC are this month sending out “nudge” letters to those who hold crypto assets for the first time is a move that AAT very much supports.
- 3.23. Although HMRC is able to obtain information from UK based cryptocurrency exchanges with relative ease, the fact so many are based overseas means HMRC must increase its work with overseas tax authorities in order to obtain data from overseas cryptocurrency exchanges and brokers and gain a clearer picture as to the scale of the problem as well as the necessary information to take appropriate action.

### **The administration of Covid support schemes and potential losses to error and fraud in those schemes**

- 3.24. Administration
- 3.25. In relation to Covid-19 support schemes, the majority of AAT members expressing views in this area have consistently stated that HMRC have performed extremely well in very difficult circumstances although a small number have taken a contrary view and believe HMRC to have been found wanting in a time of great need, primarily due to being overstretched and under resourced in dealing with the twin challenges of Brexit and the pandemic in addition to day-to-day pressures. These sentiments were echoed by AAT’s diverse range of external panel members (AAT Payroll Panel & AAT Tax Panel).
- 3.26. A typical member response to HMRC performance throughout the pandemic was that they were, “pretty decent in tough circumstances” whilst a member of AAT’s Payroll Panel said, “...the HMRC policy team deserve a medal as big as a dustbin lid” but went on to highlight other service levels had fallen considerably.

<sup>2</sup> CNBC News, May 2021:

<https://www.cnbc.com/2021/05/05/bidens-80-billion-plan-to-beef-up-irs-audits-may-target-wealthy-small-business-owners.html>

<sup>3</sup> AAT response to HM Treasury consultation on VAT and the Sharing Economy, March 2021:

<https://www.aat.org.uk/prod/s3fs-public/assets/VAT-the-sharing-economy.pdf>

<sup>4</sup> The Times, January 2021:

<https://www.thetimes.co.uk/article/amazon-prices-rise-as-chinese-sellers-vat-loophole-is-closed-j9wnplf0b>

- 3.27. Again, this has been a consistent finding. HMRC performance relating to Covid-19 support schemes has been praised but the impact of providing this new area of activity has been negative on other parts of the business.
- 3.28. Examples of service impact highlighted by AAT members has included EMI (Enterprise Management Incentive) scheme valuations that had previously taken 6-8 weeks are now taking 6-8 months and there was still no response other than an acknowledgement after this period. Likewise, something as simple as switching a VAT number from a sole trader to a Ltd. number is now taking 16 weeks.
- 3.29. Additionally, AAT members have repeatedly highlighted examples of HMRC staff lacking the necessary knowledge to sufficiently answer agent queries. This has also been highlighted by a number of AAT's external panel members, with two such members recently citing examples of staff reading from slides and having no knowledge outside the slide content and this also being something AAT staff have witnessed first-hand.
- 3.30. A lack of knowledge retention has been pinpointed as being related to the fact HMRC staff move around so frequently. Competency based recruitment means most staff have no relevant knowledge of the issues being dealt with, which severely impacts customer service as customers do not get the right help at the right time.
- 3.31. Losses
- 3.32. HMRC state that their current estimate for the amount lost to fraud and error in the schemes during 2020 to 2021 is 8.7% in CJRS, 2.5% in SEISS phases 1-3 and 8.5% in the Eat Out to Help Out scheme. This equates to £5.8 billion (the equivalent to 1p on income tax) against a spend of £81.2 billion<sup>5</sup>.
- 3.33. HMRC goes on to state that their £100m investment in a taxpayer investment protection taskforce is expected to recover up to £1 billion by 2023, in addition to the £536 million already recovered in 2020 to 2021. This naturally begs the question as to what will happen to the remaining £4.3bn.
- 3.34. It is naturally understandable that the provision of enormous sums of taxpayer's money, at pace, is going to attract fraudsters whether opportunist or organised, and likewise anything provided at great speed to many millions of people and businesses is liable to have a degree of error. However, for the official target of recovery to be only a quarter of what has been lost to fraud and error appears to be somewhat lacking in ambition.

### **Debt owed to HMRC and how it is being recovered**

- 3.35. Bounce Back Loans
- 3.36. The Bounce Back Loan Scheme, announced on 17 April 2020 was launched very speedily, for good reason, just a few weeks later on 4 May 2020. In the same month, May 2020, the Office for Budget Responsibility (OBR) forecast a likely 10% default rate on these loans.
- 3.37. However, by the end of May 2020, British banks were widely reported as predicting a 40%-50% default<sup>6</sup>.
- 3.38. By July 2020, the OBR had updated its prediction to assume 40 per cent of BBLs borrowers will ultimately default.<sup>7</sup>
- 3.39. In September, the BEIS annual report for 2019-20, went further still, revealing there will likely be, "losses estimated as at September 2020 to be in a range of 35-60%."<sup>8</sup>
- 3.40. On 1 December 2020, Meg Hillier MP, Chair of the Public Accounts Committee suggested the default rate could be as high as 80%.<sup>9</sup>

<sup>5</sup> HMRC, **Our approach to error and fraud in the COVID-19 support schemes, November 2021:**  
<https://www.gov.uk/government/publications/measuring-error-and-fraud-in-the-covid-19-schemes/our-approach-to-error-and-fraud-in-the-covid-19-support-schemes>

<sup>6</sup> Financial Times, 31 May 2020, "UK banks warn 40%-50% of 'bounce back' borrowers will default":  
<https://www.ft.com/content/8a551c37-2de8-446b-a8b8-d4a61d33ef73>

<sup>7</sup> Office for Budget Responsibility – Fiscal sustainability report – July 2020:  
<https://obr.uk/download/fiscal-sustainability-report-july-2020/>

<sup>8</sup> Department for Business Energy & Industrial Strategy Annual Report & Accounts 2019-20:  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/923597/CCS0320287242-001\\_BEIS\\_Annual\\_Report-Web\\_Accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/923597/CCS0320287242-001_BEIS_Annual_Report-Web_Accessible.pdf)

- 3.41. The Government may have lengthened the maximum repayment term from 6 years to 10 years, but far from solving the problem, this simply defers it.
- 3.42. Given the incredible and rising degree of anticipated losses and the costs and other resources involved in seeking to recover these loans over a 10 year period, AAT believes there is now a very strong argument for Government writing off all legitimate BBLs loans paid to genuine SMEs.
- 3.43. AAT accepts that writing off debt is not an easy approach to take but given up to 80% could eventually be written off anyway, writing off the money paid to genuine SMEs would appear to be a much more prudent approach than any of the alternatives – from both an economic and political perspective.
- 3.44. This recommendation has the support of former Conservative Chancellor George Osborne<sup>10</sup> as well as senior Labour Party politicians<sup>11</sup> and the Scottish National Party.<sup>12</sup> It would also meet the 2019 Conservative Party manifesto commitments to, “...keep costs down for small businesses<sup>13</sup>” and to, “...always consider the needs of small businesses”<sup>14</sup>

#### **4. About AAT**

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 5,000 licensed accountants who provide accountancy and taxation services to over 500,000 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.

#### **November 2021**

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<sup>9</sup> Hansard, 1 December 2020:

<https://hansard.parliament.uk/Commons/2020-12-01/debates/375BC8B6-D65A-4A47-8C37-B723978CD4C0/BounceBackLoanScheme>

<sup>10</sup> George Osborne, evidence to Treasury Select Committee, 3 June 2020:

<https://committees.parliament.uk/oralevidence/455/html/>

<sup>11</sup> Lord Mendelsohn:

<https://questions-statements.parliament.uk/written-questions/detail/2020-11-09/hl10085>

<sup>12</sup> Hansard, 5 November 2020:

<https://hansard.parliament.uk/Commons/2020-11-05/debates/9AE3506A-71EA-4CAF-9CCC-17E4DD85D380/CoronavirusBusinessInterruptionLoanScheme>

<sup>13</sup> Conservative Party Manifesto 2019, page 7:

[https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba\\_Conservative%202019%20Manifesto.pdf](https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba_Conservative%202019%20Manifesto.pdf)

<sup>14</sup> Conservative Party Manifesto 2019, page 33:

[https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba\\_Conservative%202019%20Manifesto.pdf](https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba_Conservative%202019%20Manifesto.pdf)