

## **Written evidence submitted by the Chartered Institute of Management Accountants (CIMA)**

### **Executive Summary**

1. CIMA welcomed the introduction of the Coronavirus Job Retention and Self-Employed Income Support Schemes.
2. CIMA welcomed the extension of the Coronavirus Job Retention Scheme.
3. HMRC could consider allowing accountants to apply on behalf of their clients for the Self-Employed Income Support Scheme.
4. HM Treasury could ensure there is parity between the Coronavirus Job Retention Scheme and the Coronavirus Self-Employed Income Support. Both schemes could be extended in line with each other. Support for self-employed workers could be prolonged alongside the same timeline as those receiving support from the Job Retention Scheme.
5. HM Treasury could explore ways more directors and owners of SMEs could access and receive support from the Job Retention and Self-Employed Income Support schemes.
6. HM Treasury could consider using the 'Close Company' definition in the Corporation Tax Act to allow directors of SMEs that fall in this definition to use dividend payment in the calculation of the level support they are able to access under the Job Retention or the Self-Employed Income Support Schemes.
7. CIMA recognised businesses have had difficulty accessing and receiving funds from the Coronavirus Business Interruption Loans.
8. CIMA welcomed the introduction of the Coronavirus Bounce Back Loans.
9. HM Treasury to consider a staggered approach to winding down the various income and loan support schemes it has put in place until normal business and demand conditions resume and consider the impact of the crisis on different sectors in shaping its approach.
10. HM Treasury and the Department for Business, Energy and Industrial Strategy to consider impact of a potential second peak or regional lockdowns on business supply chains and goods of strategic importance.
11. HM Treasury to consider an immediate cut to VAT by 5% to help aid economic recovery and give consumers confidence to spend.
12. The Department for Business, Energy and Industrial Strategy and the Department of Health to consider if two metre social distancing guidelines are proportionate to the health risk and possible economic impact of this guideline.
13. HM Treasury to consider providing businesses with certainty on upcoming tax proposals to ensure businesses have confidence to invest and support their business going forward. Any proposed changes to tax system should be based on principles of fair taxation and should seek to retain clear and competitive tax rates that allow UK to compete in a global market.

14. HM Treasury to consider introducing legislation to create a strategic national stockpile in partnership with businesses to continue delivery of key goods and services.
15. The Department for Business, Energy and Industrial Strategy and HM Treasury to look at ways to create incentives for businesses of all sizes to increase their business reserves in the long-term.
16. HM Treasury to review tax credits support for people who are working from home and explore what further ways home working can be supported and encouraged via the tax credit system.
17. HM Treasury to extended business rates holiday to SMEs across all sectors.
18. HM Treasury to extend £25,000 cash grant funding for SMEs in the hospitality, retail and leisure sector to SMEs across all sectors.

## **About CIMA**

The Chartered Institute of Management Accountants (CIMA), founded in 1919, is the world's leading and largest professional body of management accountants, with members and students operating in 179 countries, working at the heart of business. CIMA members and students work in industry, commerce, the public sector, and not-for profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure it remains the employers' choice when recruiting financially trained business leaders. Chartered Global Management Accountant (CGMA) is the most widely held management accounting designation in the world. It distinguishes more than 137,000 accounting and finance professionals who have advanced proficiency in finance, operations, strategy, and management.

CIMA is a founder member of The Association of International Certified Professional Accountants (the Association). The Association is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs (AICPA) and CIMA to power opportunity, trust and prosperity for people, businesses and economies worldwide. It represents over 650,000 members and students in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues. In the UK alone CIMA has over 80,000 members working across all sectors. With broad reach, rigor and resources, the Association advances the reputation, employability, and quality of CPAs, CIMA and CGMA designation holders and accounting and finance professionals globally.

One of the core missions of the organisation is to develop research and analytical thinking of the challenges faced by both our management accounting professional but also the wider and global finance sector.

## **Coronavirus Job Retention Scheme and Self-employment Income Support Scheme**

**How effective have these schemes been in maintaining employment and reducing job losses?**

1.0 Both the Coronavirus Job Retention Scheme and the Self-Employed Income Support scheme have been very effective at maintaining employment and we welcome the

introduction of both by the government. In fact, we called for a scheme like the Self-Employed Income Support Scheme to be introduced<sup>1</sup>.

1.1 We have seen evidence from our members that those in sectors adversely affected by this crisis in hospitality, leisure and travel have utilised these schemes to help keep their employees employed and ensure their business survives.

1.2 We think both schemes have been very effective in helping to secure employment and keep the workforce employed during this crisis.

### **Is the Government doing enough to ensure that businesses and individuals are claiming appropriately and that fraudulent claims are detected?**

1.3 Currently under the Self-Employed Income Support Scheme only the self-employed worker can claim, and their accountants cannot apply on their behalf. We feel this should change so accountants with the permission of their clients can claim on their behalf.

1.4 We feel this would mean that trusted finance professionals would be able to support applications for the scheme and accountants will have a better understanding of the scheme and evidence required to support an application than their client.

1.5 Also, this would help HMRC as there are likely to be fewer claims with incorrect evidence and consequently fewer forms filled out as they will have been done via an accountant and this would mean money gets to the self-employed claimant quicker.

1.6 Government could help ensure more of the claims made are correct by allowing accountants to submit claims on behalf of their clients for the Self-Employed Income Support Scheme.

### **Where has Government support been too generous and where has it not been generous enough?**

1.7 One area we feel the government could support businesses and workers more is around allowing better access to the Coronavirus Job Retention Scheme and Self-Employed Income Support Scheme from directors and owners of very small businesses.

1.8 Currently, nearly 2 million people are employed by limited companies in the UK. These are very small businesses often employing only a few people. Many of these companies operate in sectors that have had to close due to the virus and face the prospect of being unable to open for many months to come. They are often builders, hairdressers, small shop owners and other similar professions. They also are likely to have to implement severe social distancing measures that will harm their customer numbers and thus income and profits.

1.9 These owners take income from the business in the form of dividends, as provided for by the current taxation system. They also pay themselves in this way as it helps keep much needed capital in the business.

2.0 Dividends are unable to be included in the calculation for money claimed under both schemes. We think this should change. This is because the taxation system incentivises these SME owners to pay themselves in dividends and it helps support the business by maintaining capital in the company.

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<sup>1</sup> <https://www.cimaglobal.com/Documents/Member%20docs/Advocacy/Coronavirus%20SME%20and%20Self-Employed%20Asks%20Final.pdf>

2.1 One way these very small business owners could be supported is by using the 'Close Company' definition within the Corporation Tax Act that describes these businesses as having 5 participants or fewer. Using this definition owners of very small companies should be allowed to have their dividends included in the calculation for the Job Retention Scheme.

2.2 This would be limited to just those individuals whose sole employment is the company they are a director of and not to those who get paid employment from elsewhere too.

2.3 This would mean that only the very smallest businesses can claim for this support and mean that HMRC would not have a huge additional workload of all SME company directors trying to claim because of this change. This would go a long way to help some of the smallest businesses that have been most adversely affected by this crisis apply for support that will help their businesses survive and support family incomes.

#### **How successful has the Government been in plugging the gaps in the schemes?**

2.4 We believe both have been quite successful, but more needs to be done to support owners and directors of some of the smallest businesses as described in the answer to the question above.

#### **What gaps in coverage still remain and are changes required to increase their effectiveness?**

2.5 Gaps remain in the Job Retention and Self-Employed Income Support Schemes around supporting directors of very small businesses who pay some of their salaries via dividends as described in answers to previous questions. We believe by using the 'Close Company' definition directors of businesses who fall into this category should be allowed to have their dividends assessed and counted towards salary when applying for the Job Retention and Self-Employed Income Support Schemes.

2.6 We welcomed the extension of the Coronavirus Job Retention Scheme and think this will help a great many businesses and help keep people in employment. However, we are concerned that the Self-Employed Income Support Scheme has not been extended alongside the Job Retention Scheme. Many self-employed workers are still unable to work and will continue to be unable to work due to government restrictions imposed to deal with the coronavirus such as those who are hairdressers, work in the leisure and tourism industries. These workers deserve to be supported on parity with those on the furlough scheme. We would like to see the Self-Employed Income Support Scheme extended in line with the Job Retention Scheme. This will help support jobs and keep the small and sole trader business community afloat in the UK.

2.7 We are hearing of cases where many SME and self-employed business owners are having to apply for the Bounce Back Loan schemes just to stay afloat as they cannot access the Job Retention or Self-Employed Income Support Scheme. This means their business is taking on debt that it may be unable to pay back. This could mean their businesses no longer become viable entities.

2.8 We are also hearing many SME owners are worried to apply for the loan schemes as they do not want to take on debt and would sooner let their companies fail than be liable for debt. This means many potentially viable businesses could exit the UK economy permanently.

2.9 If more access were given to the Job Retention Scheme and the Self-Employed Income Support Scheme was extended, we believe many more businesses would survive this crisis and that would help the UK economy recover quicker.

### **How viable is it for the Job Protection Scheme and the Self-employment Income Support Scheme to be open for longer?**

3.0 As raised in answer to an earlier question we believe the Self-Employed Income Support Scheme needs to be extended in line with the Job Retention Scheme.

3.1 Long-term more thought needs to be given to how both these schemes can be wound down while helping businesses to survive and recover and support employment and family incomes. Regardless some businesses even though they have received support under these schemes will no longer be viable and fail. However, we believe the government should look at industries and sectors that have been more adversely affected by this crisis and will continue to be such as those in leisure, travel, tourism and hospitality due to continued lockdown or enforced social distancing and look to support those. In other sectors of the economy that can return to some normality the support schemes should be wound down.

### **How and when should the Government's support packages be wound up?**

3.2 This depends on how long lockdown continues, how enforced social distancing affects different sectors, if regional lockdowns come into force, if there is a second peak that requires a further lockdown and the Government's ability and willingness to finance these schemes if precautionary measures are taken for an extended period.

3.3 We believe a sector by sector approach may be needed and the government should assess what sectors can safely return to work while others need to remain closed or have severely reduced operations. Based on this they should look to see how the packages can be wound down in certain sectors, while others who need the support remain supported.

3.4 If lockdown and social distancing continue for a long-time than the government will need to start to assess the viability of businesses they are supporting and whether once a return to normality happens could the businesses pick up and survive in normal times. If the business cannot survive and be profitable in normal times, then government support should be withdrawn.

### **How should the Government prioritise which continuing sectors and groups to support as time goes on and ongoing support is needed?**

3.5 As described in the answer to the question above much depends on how the lockdown continues and what kind of social distancing is required in the medium to long-term. The government should do an analysis on what sectors are worst hit and continue to be worst hit by this crisis and the measures needed to control the virus. Based on this study they should look to implement a sector by sector approach to support going forward.

### **What actions does the Government need to undertake to pursue to support a successful exit strategy?**

3.6 The government needs to find ways to support businesses to reopen and start to recover and create profit again in a safe environment. We recognise in some sectors this will be harder to do than others.

3.7 The government also needs to give thought to restarting supply chains and to ensure businesses have resilient supply lines. The government needs to give thought about how

factories and warehouses can safely operate and supply their customers, so consumers have goods to buy. Linked to this the government needs to give thought about how supply chains going forward can be more resilient and not overly reliant on one company or nation.

3.8 If there is a second peak that requires either a further national, regional or local lockdown this could impact businesses not only in the localities affected by new restrictive measures, but also businesses further afield who rely on companies in affected regions as part of their supply chains. The government needs to give thought about how to keep supply chains open and in a national context how to make them more secure and resilient to shocks whatever they may be.

3.9 The government created a business support website for all their different support schemes: <https://www.businesssupport.gov.uk/> We welcomed this website as a good one stop shop for advice for businesses. We would like to see further advice and support for businesses continue to be posted here.

4.0 We believe the government need to look at ways to encourage consumer spending in the economy to help businesses coming back into operation. This should be done via clear advice on how businesses can reopen and start operations again, clear advice to consumers on what safety measures they should take, but also through tax incentives to encourage spending that would help kick-start the UK economy.

4.1 One tax measure that we believe is easy to introduce and will help kick start the economy by encouraging consumer spending is a reduction in VAT. We believe that the Chancellor should announce a 5% reduction in VAT to help encourage consumers to spend in re-opened businesses as the economy re-opens. VAT reductions have been used in the past to good effect to help boost economies across the world. The UK used a similar measure in the wake of the 2008 Financial Crash and this help kept many businesses afloat. We believe a similar measure now would support businesses restarting.

## **Support to businesses and Financial services**

**How effective is the Coronavirus Corporate Finance Facility, Coronavirus Business Interruption Loan Scheme, and the Coronavirus Larger Business Interruption Loan Scheme? In particular, are these measures succeeding in preventing viable businesses from potentially going under during the Coronavirus lockdown?**

4.2 We support the various loan schemes that the government have brought into effect to support businesses through this crisis.

4.3 However, from our members we have heard that CBILs are not as effective as intended and many had issues with banks getting money out quick enough. We believe government should have backed loans by 100% for loan values up to £250,000 for SMEs. This would have encouraged banks to lend quicker and they would not have needed to do their affordability checks quite as stringently. Instead they would have just needed to conduct their financial crime and fraud checks. We recognise the UK government backed the Bounce Back Loans financially by 100%.

4.4 Another issue with the loan is ensuring that loan interest rates are passed to the customer. We have heard of cases where SME owners are being given incredibly high interest rate offers on loans which means they cannot access the support and therefore are not able to continue their businesses.

4.5 The introduction of the Coronavirus Bounce Back Loans was very much welcomed by SMEs and we are glad the government backed these loans up to 100%. We feel these loans could have been introduced sooner in this crisis period.

**Is the financial sector supporting businesses enough? Are businesses getting the right advice on which grants/loans to access?**

4.6 From reports from our members we heard that banks broadly have been very slow in processing applications for the Coronavirus Business Interruption Loans. We have heard banks were much better and quicker at processing Coronavirus Bounce Back Loans.

**Economy, public finances and monetary policy**

**How long is the shock likely to last?**

4.7 This depends on how long lockdown continues and how long social distancing needs to remain in place.

4.8 One issue we are aware of that would increase the longevity of the economic crisis and shock is the two metre social distancing rules businesses need to enforce and change their models and operations to take account of.

4.9 We are hearing from many members, particularly those in the hospitality and leisure sectors that they could reopen their businesses if this were reduced to one metre, but at two metres this makes it financial unviable. These concerns are not just limited to these sectors, businesses whose main operations are in offices also are raising this issue.

5.0 Countries across the world all have different guidelines for social distancing to help slow and stop the spread of the Coronavirus. In Europe countries such as Italy have adopted a one metre rule and the World Health Organisation recommends one metre too.

5.1 We do not want to risk another rise of infections just for the sake of business, but we do feel business deserves a review into this so there is certainty going forward on what the social distance guidelines should be. This would help businesses prepare to re-open and to direct investment in changing their premises where it is most needed to ensure the safety of their staff and customers. Following this review the UK would have a confirmed distance guideline that was backed by scientific evidence and economics and this would mean businesses could invest in confidence to change their premises and business models to account for this.

5.2 It also depends on providing consumers with confidence to spend in the economy again and one way we think spending can be encouraged is via a VAT cut as we described above. Ensuring that incentives to work remain high and that the UK maintains a competitive, predictable tax and regulatory structure is also essential. The UK needs to be an attractive place for businesses to invest and for high skilled employees to perform their work.

**Which sectors are likely to be impacted by economic scarring?**

5.3 This depends on what social distancing and lockdown restrictions remain in place. Sectors such as hospitality, leisure, tourism, and travel are obvious sectors that have been impacted and may have significant economic scarring.

**What are the potential future implications for tax and spending?**

5.4 We do not believe taxes should be raised immediately to help fund the government measures. If this approach was followed it could harm recovery. Any future tax rises to fund these measures should be based on the principles of fair taxation. We have produced a guide<sup>2</sup> to what good taxation looks like and we would like to see the government follow these principles in designing any tax measures to help fund this crisis.

5.5 In answer to a prior question we have suggested a VAT reduction to help the economy recover by encouraging consumer spending and generating revenue for businesses. Using the lockdown period to invest in training and skills development will help increase UK productivity and generate higher tax revenues in the long-term while ensuring the lockdown period is not wasted.

#### **Are there international examples of economic policymaking that we can use?**

5.6 In the United States there are considerations under way to introduce Strategic National Stockpile legislation. This legislation would incentivise commercial enterprises, both public and private companies to produce products and goods in quantities that exceed the company's normal annual sales levels. The excess production (above sales levels) will result in excess inventory. Governmental agencies can then draw upon the excess inventory held by the companies at any time of need at prices agreed to in advance by contract.

5.7 The UK government may wish to consider introducing similar legislation to secure its supply chain for products and goods of strategic importance in future. This policy would only need to be linked to the most strategically important products and goods, such as oil, PPE, medical equipment, defence equipment and other similar sectors. It does not need to be for every single product or good, we are not advocating a planned economy.

#### **What are the lessons that society can learn for the future e.g. reducing carbon emissions, increased home working, business resilience?**

5.8 One of the key lessons to be learnt from this crisis is the need for more resilient businesses both big and small that can weather financial shocks with more ease. We hope that this crisis will lead to better corporate governance of both large and smaller companies.

5.9 Our members have reported that resilience is the key business theme in the current lockdown economy and in the ensuing recession. Many of our members have businesses that are completely closed, others are operating partially in scenarios of 20% - 40% capabilities, and others are operating at higher levels of capacity and capability. All believe that their original business models are being stressed, in some cases severely.

6.0 Whilst they all may have risk scenarios for terrorism, the majority never included a pandemic scenario in their risk assessments and planning. Therefore, the current pandemic influenced global economic and commerce environment was never foreseen, and the modern business model rooted in globalisation and the freedom of movement of goods and people is being challenged in many ways. In some cases, businesses face a situation where their original business model is now completely redundant.

6.1 Many businesses are likely to fail because of 'just in time' supply lines, a complete lack of enough operating reserves, and a lack of investment in new plant, machinery, or indeed technology. Failure will occur regardless of the businesses size. Small, medium, and large businesses will fail if their business model was running on a series of business foundations that lacked resilience and viability. Going forwards the nature of resilience will have to

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<sup>2</sup> <https://www.aicpa.org/advocacy/tax/downloadabledocuments/tax-policy-concept-statement-no-1-global.pdf>

change and inherently that re-assessment will require better and new portfolio management enabling better resilience and new business models which probably include higher technological capabilities.

6.2 Our research shows that portfolio management will be a key business operating factor which may include different reserve policies, different scenario planning, different talent management and learning and training requirements, different finance, forecasting and planning techniques, new appreciations of on-line commerce, different business location and daily operating perspectives, different supply chain management, and altered modes of globalisation.

6.3 One area in the long-term that may need to be looked at is the issue of business reserves. Most big businesses have around six months of reserves to help weather crisis and difficulties, but for SMEs their reserves could be as little as a week or two of cash reserves. In the long-term following this crisis, we would urge all businesses to start building their reserves again to help protect against future disruptions whether related to this virus or not. Government should also consider what good corporate behaviour for large and small businesses looks like in relation to reserves and this may be an area they wish to review post this crisis and once the economy is on a better footing and growing again.

6.4 Businesses also need to prepare for a potential second and third peak of this virus or future pandemics that could temporally change or close business operations. They can do this by investing in digital skills and ensuring that their business is as prepared as it can be for a potential long period of home working or social distancing measures.

6.5 One area that may change is increased home working. Many companies have seen their staff work at home or had to become more flexible in working practices while staff members look after children at home or change work practices while working at home. Many jobs that were deemed as not being able to be done in a home setting are now being performed at home. Post this crisis we may see home working become more commonplace with employees being used to this style of working, employers accepting of the practice more and potentially companies seeing savings to be made by reduced office space.

6.6 An area the government should look at if increased home working is needed to manage the virus is tax credits for those who work from home. There is a cost to setting up capabilities to work from home and some of these are borne on the employee. HM Treasury should look at tax credits to help pay for some of those costs to incentivise home working.

## **Additional Comments**

### **Business Rate Holiday and Cash Grant Funding**

6.7 We welcome the move to introduce business rate holidays for SMEs in the travel, tourism, leisure, and hospitality sectors. However, we feel this should apply to SMEs across all sectors.

6.8 Allowing all SMEs across all sectors to access the business rate holiday on the same conditions as businesses in leisure, retail and hospitality would help free up this cashflow and support SMEs stay in operation. We would also like to see cash grants for SMEs increased to the maximum level of funding available for hospitality, leisure and retail which is £25,000. This parity is because many SMEs are not in these sectors and they equally need support.

6.9 We recognise this move would be costly and have implications in years to come in how HM Treasury would pay for this. Yet the more businesses that survive this crisis and grow the more tax revenue will be generated to help pay for it.

7.0 It is not just SMEs in the hospitality, leisure and retail sectors that have been hit by this crisis, but companies across a range of sectors. All will be vital to bringing back economic recovery, but they can only do this if they survive this crisis and that means they need support and to have these schemes extended to them.

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