Think Ahead ACCA

The Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ

26 January 2024

Dear Chancellor,

I am writing to outline some of ACCA (the Association of Chartered Certified Accountants) members' priorities as you finalise measures ahead of the Spring Budget.

ACCA was founded in the UK in 1904 and today we are the global body for professional accountants, supporting its 247,000 members and 526,000 students in 181 countries and regions. In the UK we have over 98,000 members working up and down the country, across all sectors, public and private, from micro businesses to large firms, helping individuals, organisations, and businesses to thrive.

As a chartered professional body, we operate in the public interest; we ensure our members operate to the highest technical and ethical standards and we conduct independent research globally to advance the profession for the public good.

As trusted advisors to business, our members are well-placed to provide early and unique insight into business confidence and the impact of challenging economic circumstances. They tell us that businesses are fighting against uncertainty caused both by the impact of current and recent geopolitical circumstances but also by economic constraints. The impact of these circumstances mean that it is challenging for businesses to plan and forecast with any certainty, given concern about the impact of high interest rates, instability in energy and financial markets, lack of investment and an often-inaccessible funding landscape.

The Global Economic Conditions Survey (GECS), carried out jointly by ACCA and the Institute of Management Accountants (IMA), is the world's largest regular survey of accountants, both in terms of the number of respondents and the range of economic variables monitored. The survey looks at global conditions and regional comparisons, however, we have a decade of data to compare UK responses and in particular the impact on SMEs.

Our research shows that confidence in UK businesses (with under 1000 employees) looks relatively subdued in our Q4 2023 data, while the Employment, Capital Expenditure and Investment in Staff indices suggest that UK SMEs are in cautious mode. On a somewhat encouraging note, there has been some improvement in the New Orders Index over recent quarters, and the proportion of companies experiencing increased operating costs continues to fall.

However, recent research undertaken with members in the UK, reveals concerns affecting businesses. Over half (53%) of respondents indicated that high interest rates had negatively affected growth and investment. While just under a third (29%) felt there were positive prospects for the UK economy in the coming year, half (53%) felt the outlook was negative. The feedback from those working in, and advising, businesses across the UK repeatedly highlighted a focus on survival and putting investment on hold because of increased costs and uncertainty. Whilst we recognise the prioritisation of reducing inflation, further action will be required to restore confidence in our economy.

As we look towards the Spring Budget, we have highlighted three key areas to help create the right environment to restore business confidence and return the economy to growth:

- Creating the right framework for growth
- Incentivising investment
- HMRC service standards

Creating the right framework for growth
A strong, modern, institutional and legislative framework, responding to a changing world on trust, sustainability and AI, is key to ensure the UK meets its potential on our world-leading advantages. We should build on ongoing work by:

- Strengthening actions and accountability for tax simplification, leveraging on the principles of simplicity, certainty and stability as the foundations for a sound tax system.

    - It is crucial to emphasise simplicity in the upstream development of policies, involving taxpayers and integrating their lived experiences and data points and advancing in digitalisation efforts. A streamlined tax system not only helps in avoiding errors but also enhances compliance, reducing potential enquiries that frequently distracts HMRC from addressing serious and deliberate evasion, which can negatively impact effectiveness and trust.

    - Our concern persists regarding the advancement of tax simplification since the dissolution of the OTS. Previously, the OTS played a crucial role in offering independent external advice to the government. However, it remains uncertain how other government entities will carry forward this vital engagement work, encompassing not only the simplification of the current tax regime but the prevention of new complexities. While we acknowledge a commitment to publish a report on progress, there is immediate need for additional details on the development, delivery and measurement of tax simplification actions. It is advisable to incorporate new technology into this process for enhanced efficiency and effectiveness.

    - We are concerned about the consequences of freezing certain allowances and thresholds, for example PAYE thresholds, corporation tax rates, VAT thresholds and the Dividend Allowance (which has not been uplifted for inflation since it was introduced), as well as introducing additional complexity, for example, the Small Profits rate and marginal rate reintroduction in Corporation Tax. Such changes are likely to increase the number of new taxpayers brought into scope of these taxes, thereby further increasing the workload across HMRC. We are particularly concerned about the unintended consequences of frozen thresholds and new complexity. These could increasingly be seen as an artificial barrier to growth for smaller firms as well as harming the UK's position as a competitive place to do business on the global stage. The VAT threshold has been a particular area of concern for SMEs, especially those operating in sectors such as hospitality. Overall, there is a need to review the impact of tax thresholds and complexity on business growth, with a particular focus on key sectors.

- Prioritising swift completion of the audit reform process currently underway.

  We have supported the ongoing work of government and the FRC to reform audit and corporate governance. Reform is necessary to restore the UK's reputation and credibility and provide certainty to investors, following well-publicised corporate failures. While we were disappointed that fewer revisions than anticipated were taken forward in the recent revision of the Corporate Governance Code, nevertheless we welcome the clearer requirements for boards to report on risk management and internal control processes. However, the audit reform process has already gone on too long. Government should ensure that proposed legislation on corporate governance (which would include recently proposed changes to tackle late payment) and audit reform is introduced and progressed at the earliest opportunity.

Incentivising Investment
With many businesses focused on surviving current challenges, confidence is low, which has knock on effects on kick-starting the economy. Existing incentives to encourage business investment have had limited success, particularly for SMEs, in a time of stretched resources.

As highlighted above, a recent survey of ACCA accountants in the UK demonstrated the scale of the challenges facing small businesses, in particular. Over half (53%) of respondents believe that increased interest costs have negatively affected organisational growth or investment plans, with 49% seeing availability of finance as more difficult than the previous year.
We would urge you to consider the following measures:

- Innovation is incentivised via tax reliefs and in particular research and development-based tax reliefs (R&D). We strongly support the UK R&D initiatives to encourage investment, however improvements are needed to the system. Specifically, whilst reform has helped to drive out unscrupulous operators, we have heard feedback that it is also increasingly challenging for qualified agents to continue to support small businesses to access R&D credit. This is leading to agents exiting this market, leaving small businesses at risk of using unqualified agents. Similarly, there are clearly challenges in HMRC's approach to processing claims. Professionally qualified accountants could support a more effective approach. For example, making this a reserved area and improving procedures, as well as providing HMRC with additional resources, would help better engage business and their advisors.

- We have welcomed improvements, such as permanent expensing, designed to encourage investment and asset purchase. However we think there is more to do to further simplify the system and improve its effectiveness. Specifically, we believe that however you choose to finance your asset the treatment should be equitable and would welcome moves to include asset purchase through leasing (or similar financing) - a common approach for many small businesses - within these rules.

- Access to appropriate finance helps ensure a level playing field for all in our society and, where finance gaps are identified, we would suggest that suitable private or public funding mechanisms are supported. The British Business Bank (BBB) has a good track record on these areas, and we strongly welcome the rollout of funds around the country but feel that a suitable recovery loan scheme replacement is also required. We have also heard feedback that lack of access to trade credit insurance is a barrier to small firms trading internationally and there may be a role for UK Export Finance and the BBB to explore how a different approach, for example, a pooled arrangement for small business trade credit insurance, could be more effective.

- Persistent challenges in skills and training continue to present challenges to organisations of all sizes across the economy, with ACCA members facing significant difficulty when seeking to recruit the talent they need. Addressing these challenges must be prioritised in order to boost growth and productivity across the UK. We need to see substantial focus on improving investment in skills and training, including a commitment to the future of the apprenticeship levy, with apprenticeship funding to be consistently reviewed against inflation to ensure a continued commitment to quality teaching and learning. Apprenticeship provision quality remains a leading priority for organisations presented with continuing and growing skills recruitment challenges across a range of sectors and professions, including our profession.

HMRC Service Standards
Poor service standards provided by HM Revenue and Customs continue to be unacceptable. This creates significant issues for businesses, their agents, for HMRC itself and more critically for the UK tax system.

Despite raising concerns directly with HMRC, standards are not improving. In a recent survey of UK ACCA accountants, over half (52%) of respondents said HMRC service levels were negatively impacting productivity and efficiency, only 4% said it had a positive impact, either directly or for their clients. It is difficult to overstate levels of concern and frustration being experienced by a substantial proportion of our members in their contact with HMRC. Recently HMRC took the decision to close the self-assessment helpline, at the time when most agents and individuals are likely to need it. Our feedback suggests that the digital solution does not sufficiently meet the needs of agents and taxpayers.

We value the role we play in supporting the operation and development of the HMRC Charter. It is a useful tool to ensure continuous improvement, with independent scrutiny a key part of its success. While we recognise the improvement plans in place, we are not confident about progress without additional measures:

- Value of professionally regulated agents – government and HMRC should recognise the value of timesaving and trust offered by professionally regulated agents, particularly in targeted areas where tax gaps have been identified. HMRC should seek to enable professionally regulated agents to provide services which can provide time and resource savings for HMRC, for example, restricting the R&D tax relief claims to professional agents or areas such as altering information such as tax codes. Too often, agents report being treated poorly by HMRC representatives and are frustrated that improvement measures which would enable them to ‘self-serve’ more efficiently, are not being prioritised.

- Communications – currently much agent, and by extension business, time is wasted requesting and chasing resolutions to simple actions, like VAT registration numbers and

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authorising a tax agent. Processes which used to be completed within days are now routinely taking weeks. Accountants tell us that each time they manage to access HMRC by phone – often after extensive time on hold - they frequently have to start again with their query due to poor CRM records on existing queries. This can be compounded by a lack of technical knowledge by call handlers who are often unable to resolve the issue, causing further delays to the agent, the business and HMRC. We have frequently been told by agents that correspondence on open queries can take many months – often years – to receive a response and resolution. Improving communications both from call handling (e.g. call waiting and call-backs) to updates on open queries would significantly reduce confusion and frustration.

- Partnership – building on the work of the Charter Stakeholder Group, partnership and trust between HMRC and professional bodies should be built upon to quickly identify and address areas of concern, particularly where they waste time and resources for taxpayers, their agents and HMRC.

- Plan for managing debt – despite record tax collections by HMRC, these levels could be increased further if the amounts lost to fraud and error was reduced, and tax debt reduced by supporting legitimate taxpayers requiring additional time to pay.
  - We recommend the creation of a taskforce within HMRC's Time-to-Pay Team to develop a system for longer-term repayments for legitimate taxpayers facing reduced income or limited access to finance caused by the pandemic and the economic situation.
  - We remain concerned that recommendations highlighted in the January 2023 Public Accounts Committee report have still not been fully addressed. We suggest this should be made a matter of priority and communicated to accountants and tax agents to ensure that tax debts can be recovered, and further government revenue is not lost.

Lastly, should any spending flexibility be available at the Budget, we would urge you to consider additional investment in HMRC, ensuring a focus on improving customer service and effectiveness to give us the modern, efficient tax system we need, ultimately improving public sector finances and boosting productivity in the UK as a whole.

Please feel free to contact me on the below details should you have further questions or comments.

Yours sincerely

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