Think Ahead ACCA

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

6 March 2023

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 and to provide further detail to our budget representation.

ACCA was founded in the UK in 1904 and today we are the global body for professional accountants, supporting its 241,000 members and 542,000 students in 178 countries and regions. In the UK we have over 90,000 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 the challenging economic circumstances. They tell us businesses are fighting against a rapidly changing fiscal context with spiralling energy costs, uncertainty in supply chains, inflation, and rising interest rates, alongside an often-inaccessible funding landscape.

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

- HMRC Service Standards
- Creating the Right Framework for Growth
- Incentivising investment.

HMRC Service Standards

In your Autumn Statement you rightly said that "a strong economy depends on strong public services". This is nowhere more evident than in the services provided by HM Revenue and Customs, but despite its critical role in funding the public sector, customer service levels delivered by HMRC have fallen to an unacceptably low level.

Trust lies at the heart of a healthy relationship between a tax authority and the taxpayers and agents who interact with it. A lack of investment has, over time, damaged relationships between

HMRC, compliant taxpayers, and the agents supporting them, with service standards at HMRC falling to an unacceptably low standard. ACCA research found that:

"It's a vicious circle: the lack of trust threatens the key resource enabling any government across the world to meet today's challenges – ie tax revenues - but without effective tax systems, governments cannot fund the initiatives to build that trust." "Now more than ever, the relationship between taxpayers and governments, and between businesses, society and tax systems, will be fundamental to the success of economies in both the short and long terms."[1] *As "trust in professional accountants…remains high", "Accountants will have a vital role to play in helping to shape the changes needed, and in explaining them to the public."*[2]

We welcomed the decision to pause the extension of MTD ITSA to enable HMRC to focus on core activity. However, we are keen to see more detailed improvement plans for HMRC service standards as a matter of urgency. Closer partnership working with professional bodies, such as ACCA, could help highlight and prioritise areas for improvement including efficiencies that could be gained through improving access to certain information and functions for professionals.

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. However, notwithstanding this and the impact of Covid-19, current service standards at HMRC have fallen to an unacceptably low level. 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. 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.

- 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 (including Covid-19 schemes) 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.

[1] [Improving trust in tax to build a better world]

[2] [Public trust in tax: surveying public trust in G20 tax systems]

  - Plans to address the recommendations of the January 2023 Public Accounts Committee report should be made as 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.

The Budget presents you with an opportunity to properly invest in HMRC, with a focus on improving customer service and effectiveness, so it can help both improve public sector finances and boost productivity in the UK as a whole.

Creating the Right Framework for Growth

A strong, modern, institutional and legislative framework is key to ensure the UK meets its potential on our world-leading advantages. We should build on ongoing work by:

- Prioritising swift completion of the audit reform process currently underway.
  - We commend the FRC on its work to reform the audit market without statutory backing. Most recently with the development of draft Minimum Standards for Audit Committees to promote good baseline minimum corporate governance. However, the audit reform process has already gone on too long. Government should ensure that legislation for corporate governance and audit reform is introduced and passed quickly. Continued uncertainty affecting the UK economy but which is within the government's remit and control is hard to fathom – it creates issues in the capital markets which impacts accessibility to finance for all business and damages investor trust in the UK. Further delays risk the credibility and public perception about the importance of the audit reforms in the wake of UK corporate collapses.

- Considering the conclusions of the recently published Skidmore review on net zero to create the right legislative and fiscal environment to accelerate the transition to a net zero economy.
  - ACCA welcomes the work undertaken by the International Sustainability Standards Board (ISSB) on Sustainability and Climate-related Disclosure standards. We believe that standards are urgently needed to provide a consistent global baseline for companies reporting on sustainability-related financial information. We urge the ISSB and the UK Government to resist making disclosure requirements too voluminous, and that reporting requirements are proportionate for smaller businesses. For reporting to serve the needs of users and bring about more effective and sustainable allocation of capital, it is imperative that information is presented in a clear and concise way. Disclosure overload will make it more difficult for investors and other stakeholders to find the information that they need. Utilising a consistent and global approach will ensure the UK remains globally competitive and attractive to multinational organisations.

- Recognising the importance of simplicity, certainty, and stability as the cornerstones of a good tax system, provide more detail about actions and accountability for addressing tax simplification.
  - Now more than ever, simplicity is key and should be embedded 'upstream' in policy development with taxpayer involvement, taking on board lived experience and

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datapoints. A simpler tax system avoids the potential for mistakes and enquiries, which too often distracts HMRC from addressing serious and deliberate evasion, as well as being better suited to digitisation. From our research, "*the latest advances in digitalisation of economic activity bring challenge and opportunity for tax administrations*"[3].

- The dissolution of the OTS is worrying and will impact UK businesses. The OTS previously provided independent advice to the government externally and 'downstream'. We would have concerns about HMRC's resources being stretched further to cover this area. The government should clearly communicate how tax simplification will be considered, provided for and measured.
- The changes announced to Corporation Tax present a significant challenge for a range of stakeholders, including corporations and HMRC, and for many businesses it adds additional complexity to the tax system. We are particularly concerned about the unintended consequences of the change, including the introduction as an artificial barrier to growth for people seeking to avoid moving into a higher rate of tax, but also to the UK's position as a competitive place to do business on the global stage. We would suggest that the proposed increase in the rates is paused to allow for a better understanding of the impact the increase will have can be evaluated, including the added complexity being introduced.
- We are concerned about the potentially unintended consequences brought about by freezing of certain allowances, for example the Dividend Allowance (DA). This DA has not been uplifted for inflation since introduced and this is more evident in a period of record high inflation. This may bring previously non-taxpayers into the net without an appropriate channel to deal with their particular circumstances. It would seem to increase complexity for those with simpler tax affairs, widening the tax net in a disproportionate way and increase the already high workload for practitioners and HMRC without generating revenue in the most part.

Incentivising Investment

With many businesses focused on surviving current challenges, confidence is low, which has knock on effects on kick-starting the economy. We believe the government needs to outline their approach to incentivise business investment, particularly for SMEs, in a time of stretched resources. Businesses are further impacted by the potential removal of R&D tax relief for SMEs, delays in making a decision on the sunset clause for Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) and overall tightening of national and international monetary policy.

Additional uncertainty has been created by the Basel III Prudential Regulatory Authority proposals and we are concerned about the impact on trade, particularly for those businesses undertaking international trade, and whether these will further reduce access to finance for SMEs and impact their competitiveness internationally due to divergence in approach. Should these proposals remain unchanged we would suggest that support will be needed for these

[3] ACCA's report: Technology tools and the future of tax administration

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businesses to keep them competitive with other jurisdictions that have not implemented the suggestions.

- Introducing long term support schemes to make energy efficiency measures in small businesses practical and affordable.
  - We believe the contribution of SMEs will be paramount to achieving net zero and a more sustainable future for all.
  - SMEs can face particular challenges when it comes to keeping up with and meeting the regulatory requirements associated with net zero, the UN SDGs and ESG-related regulations more broadly.
  - Members have requested more long-term support to help them and their clients make the investment to move to more sustainable technologies, particularly around energy, rather than short term measures. More certainty would help them return to a more stable planning, forecasting and investing landscape.

- Fixing the Annual Investment Allowance at £1 million from 1st April 2023 brought some welcome stability to those making capital investment decisions. However, uncertainty remains, for those making tax-advantaged equity investment decisions (and their accountants and advisers), caused by the termination date for some of the venture capital schemes on 5th April 2025: the Venture Capital Trusts (VCT) and the Enterprise Investment Scheme (EIS). This sunset clause is beginning to influence investment and tax planning decisions, and we ask the Chancellor to consider the doubt this indecision creates to business planning, investor confidence and economic growth and innovation.

- Innovation is incentivised via tax reliefs and in particular research and development-based tax reliefs (R&D) and we note the recently concluded and open consultations which we took part in. We would like to understand how SMEs will be provided for if the proposal to merge the two existing schemes into one RDEC version. This method of 'finance' for innovation is relied upon by SMEs and decisions around innovation are R&D activity are taken with a long-term view and for this reason we recommend that any changes are phased in to give the businesses the time to make other arrangements as their access to finance is already limited as outlined above. Linked to this is the approach that HMRC is currently taking in processing the claims. We would ask that further resources are provided to HMRC or better procedures (such as those used by the Venture Capital Schemes team) are implemented to engage more with the businesses and their accountants, our members, to achieve mutually beneficial outcomes.

- Encouraging a 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.

- The Lifelong Loan Entitlement should be rolled out to ensure inclusion, integrity and innovation to improve accessibility to adult education.

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- This will form an important part of the funding mix to incentivise increased investment in lifelong learning for individuals to meet long term skills shortages across the UK.
- ACCA believes that lifelong learning is an important aspect of being a professional and our members commit to undertaking annual CPD and a formal declaration to show that they keep their skills and development up to date.
- ACCA's CPD is designed to provide members with the skills and knowledge needed to meet employer and public expectations and to help them achieve their career aspirations. CPD can take many forms including research, networking, e-learning, courses and work-based learning. The Lifelong Loan Entitlement would benefit from the experience of professional bodies in supporting skills acquisition to the benefit of employers and individuals.

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

Yours sincerely

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