TECHNICAL UPDATES

Our regular roundup of legal and regulatory change

TAX

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ICAEW GIVES EVIDENCE TO MPs ON FUTURE OF TAX SYSTEM

On 15 September, Anita Monteith, Technical Lead and Senior Policy Adviser at ICAEW's Tax Faculty, represented ICAEW in front of the Treasury Select Committee.

Appearing alongside representatives from Institute of Chartered Accountants Scotland and Chartered Institute of Taxation, Monteith gave evidence on opportunities to reform the current tax system following the impact of the coronavirus pandemic.

One of the key messages given to MPs on the committee was to look at how the recent proposal for a modern, digitalised tax system could be the trigger to move the tax year-end from 5 April to a calendar year-end. This would allow for easier alignment of quarterly reports for income tax and VAT in 2023, while also making the UK more compatible internationally as many countries favour a tax year-end of 31 December.

On the taxation of work, Monteith suggested that the current rules worked well for small unincorporated businesses such as corner shops, but not so well for self-employed workers whose activities could look very much like those of employees. Any further review of the taxation of work should focus on the employed/self-employed distinction without also seeking to change the system for small businesses.

She also recommended that policymakers focus on improving those parts of tax administration that members of the public need to interact with on a day-to-day basis so they are more manageable. When questioned on tax reliefs, she suggested that the government needed to be better at evaluating the costs and benefits of tax reliefs it introduces, and be more willing to go back and look at whether the reliefs are achieving their aimed objectives.

Other witnesses highlighted the importance of the government bringing members of the tax profession into the policymaking process at an earlier stage, rather than just when consulting on technical implementation. This would help identify and address problems at the outset. They also felt it would be helpful if the government was more willing to have a public debate on potential tax reforms, as this would lay the groundwork for change ahead of bringing forward announcements in the Budget.

EMPLOYMENT LAW

THIS SECTION IS SUMMARISED FROM THE BULLETINS OF VARIOUS LAW FIRMS AND ASSOCIATIONS. NONE OF THE INFORMATION IN THIS UPDATE SHOULD BE TREATED AS LEGAL ADVICE

PANDEMIC UNEMPLOYMENT: HOW MANY ARE OUT OF WORK?

Even as employees tentatively begin to return to their workplaces, the unemployment rate continues to rise.

According to the Office for National Statistics (ONS), the most recent rate, for May to July, is 4.1%. But the reality might be worse. From March to August, the Claimant Count measured that the number of people claiming benefits for being out of work or on very low incomes grew to 2.7 million – an increase of 120%.

The ONS says those who have suffered the worst unemployment spike have been 16- to 24-year-olds – up 76,000 compared to 2019. This is a result of sectors such as hospitality and tourism – big employers of the younger age group – being pummelled by the pandemic, with lockdown seeing restaurants and bars close their doors, and quarantine restrictions reduce tourist numbers.

As the furlough scheme winds down, employers are facing the tough decision of cutting staff whose jobs have been largely protected by the government paying their wages.

It is expected that unemployment will continue to rise for the rest of 2020, but how high could it go?

The Office for Budget Responsibility's most optimistic scenario is that unemployment will be back to pre-crisis levels by 2022, having peaked at around 9.7% this year. But its worst-case scenario predicts a peak of 13.2% in 2021, with four million people out of work and unemployment levels still well above pre-crisis levels even by the end of 2024.

UNION URGES THE GOVERNMENT TO EXTEND FURLOUGH SCHEME

The Unite trade union has warned that ending the Coronavirus Job Retention Scheme will be like opening "redundancy floodgates".

Unite General Secretary Len McCluskey says workers are facing a "miserable Christmas" as their fears of major job losses intensify.

"With our competitor nations announcing the extension or modification of their jobs retention schemes, we ask that your government recognises the need for UK businesses and workers to receive similar support," Mr McCluskey wrote in a letter to Prime Minister Boris Johnson.

The union's warning comes as plans for job cuts increase in response to the scheme winding down.

Since March, a total of nine million people have been placed on furlough for at least three weeks. But in that time, UK payrolls have lost around 695,000 employees. It is feared that many more will follow without the government's help to safeguard jobs.

The scheme has cost more than £35bn and was initially funded by the government, but firms began contributing in September.

Chancellor Rishi Sunak says that finding new ways to protect jobs is his priority. "People don't want to be at home, they want to be in work," he says. "That's why our plan for jobs is so important, because it helps provide people with new opportunities going forward."

FINANCIAL REPORTING

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IBOR – PHASE 2

The IASB has finalised its response to the ongoing reform of inter-bank offered rates (Ibor) and other interest rate benchmarks by issuing a package of amendments to IFRS Standards.

The amendments complement amendments to IFRS 9, IAS 39 and IFRS 7 – *Interest Rate Benchmark Reform* (Phase 1), issued in September 2019, and focus on the effects on financial statements when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the reform.

The amendments in this final phase relate to:

- **changes to contractual cash flows:** a company will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- **hedge accounting:** a company will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and
- **disclosures:** a company will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

The amendments are effective for accounting periods beginning on or after 1 January 2021, with earlier application permitted.

COVID-19: DISCLOSURES

The Financial Reporting Faculty has published a guide that identifies some key areas where entities might need to consider the impact of COVID-19 when preparing disclosures within their annual report and accounts. The guide is aimed at companies applying FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The guide considers the need for new or expanded notes to the accounts. For example, an accounting policy note for government grants or key sources of estimation uncertainty. It also highlights the importance of entities applying Section 1A Small Entities ensuring that the disclosures given still meet the requirement to give a true and fair view.

As well as the notes to the accounts, the guide also consider best practice when presenting at alternative performance measures in the annual report and the requirements for the strategic report.

You can access the guide at tinyurl.com/BAM-Improve

And for detailed information on the pandemic and what help there is for businesses, visit ICAEW's dedicated hub at icaew.com/coronavirus or its global recovery page at tinyurl.com/BAM-Recovery ●