

Business pulse check

INFORMING THE 2021 UK BUDGET

FEBRUARY 2021

About the survey

ICAEW conducts a regular quarterly survey the *Business Confidence Monitor*[™]. Our *Business Confidence Monitor* for Q1 2021 reveals an optimistic picture of recovered confidence despite a sharp rise in coronavirus infections and new lockdown restrictions. It seems likely that worries over infection rates have been balanced by positive news about vaccine approvals and distribution.

However, despite indications of recoveries in trading, these will only partially offset the 2020 declines, so sales in 2021 are likely to remain well below pre-pandemic levels. Considerable uncertainty remains, with possible adverse consequences for confidence.

Ahead of the 2021 UK Budget therefore, ICAEW set out to further explore this sentiment and get rapid feedback from its members on what they feel the Chancellor needs to do to help businesses cope with the continued challenges of the pandemic, while positioning the country for recovery in the longer term.

A short online pulse survey was sent to members working in businesses across every UK economic sector and region. It also went to members working in UK practice firms – of every size, asking them to answer the questions from the perspective of the majority of their clients. ICAEW members in practice advise 3m businesses.

The survey was opened from 28 January to 2 February. Nearly 300 (298) responses were received in total (153 from members in business and 145 from members in practice).

View from ICAEW

Our members are at the heart of the UK economy, leading and advising over three million businesses of every size in every sector, nation and region of the UK. They are detecting at the earliest stages, and reacting to, changes in tone, sentiment and activity from customers, suppliers and their workforce, and therefore have a great perspective as to what is needed in the Budget.

Chartered accountants have been at the forefront of the global effects of COVID-19 on businesses. They have made decisions about furloughing staff, about applying for loans to keep their cash flow operating and setting up new processes, often from scratch, to maintain business operations as much as possible. They have had to contend with whole sections of the economy shutting down, a general and abrupt fall in demand and the biggest drop in economic activity since George II was on the throne.

Our members have a great awareness of what has worked from the range of government measures over the past year, and what the Chancellor should be doing in the Budget to help business and the economy.

I have huge respect for the resilience and optimism this pulse check reveals after what has been the toughest possible year. Indicators still point to further challenges, with some sort of normality only returning in the late summer or autumn. And yet members are planning for revival and recovery as indicated by the *ICAEW Business Confidence Monitor Q1 2021*.

In our latest business pulse check survey we asked for their views on what measures could be contained in the Budget. Chartered accountants want the Chancellor to use it as an opportunity to build a bridge to economic growth by prioritising job retention and creation, with skills programmes designed to enhance the capabilities of the workforce. They have valued and appreciated the furloughing scheme for successfully maintaining the capacity of their workforce - and minimising the negativities of unemployment as much as possible; and want to see an extension of furloughing as a key foundation of the bridge to recovery.



Iain Wright
Director, ICAEW Business
and Industrial Strategy

With continuing disruption caused by the pandemic and businesses having to adjust to leaving the EU, ICAEW has been clear that the theme of the 2021 Budget should be 'steady as she goes', with any tax changes kept to a minimum.

2021 provides an opportunity for government to prioritise progress in areas that will be crucial to recovery. As activity returns, skills shortages could rapidly emerge, even while unemployment rises in certain sectors. Soft skills, badly affected by the pandemic, need particular attention and young people will need support here. Similarly, remote working offers a big opportunity for levelling up across the UK, but it's held back by inadequate digital infrastructure. Now is the time to accelerate progress and ambition in connecting rural communities.

The government's recent announcement of £2,000 vouchers for export training and advice is welcome. SMEs have been particularly badly affected by the reintroduction of border controls for trade between Great Britain and the EU. Administration costs are proportionately higher for smaller businesses and they may lack the scale to access simplifications such as AEO status or 'transit'. As the government seeks to encourage trade both with the EU and beyond, it needs to pay particular attention to SMEs, some of which may have had to turn their backs on exporting. Simplifications and incentives, such as the Freeports initiative, need to have SMEs at their heart.

It is also crucial that the 2021 Budget includes immediate action on business rates. Retail, hospitality and leisure businesses face a cliff-edge when business rates resume in April, when trading may still be restricted. The hiatus from rates for the past year has not removed underlying tensions in the system. After having risen successively since the 1990s, the multiplier used to calculate rates is now more than 50p in each £1 of rateable value. That is simply too high. Longer term, action is needed to ensure local business taxes encourage enterprise.



John Boulton
Director, ICAEW
Technical Policy

Key headlines

Avoid major tax changes in 2021

Encourage job creation and boost skills

Help SMEs to keep exporting

Accelerate digital infrastructure rollout

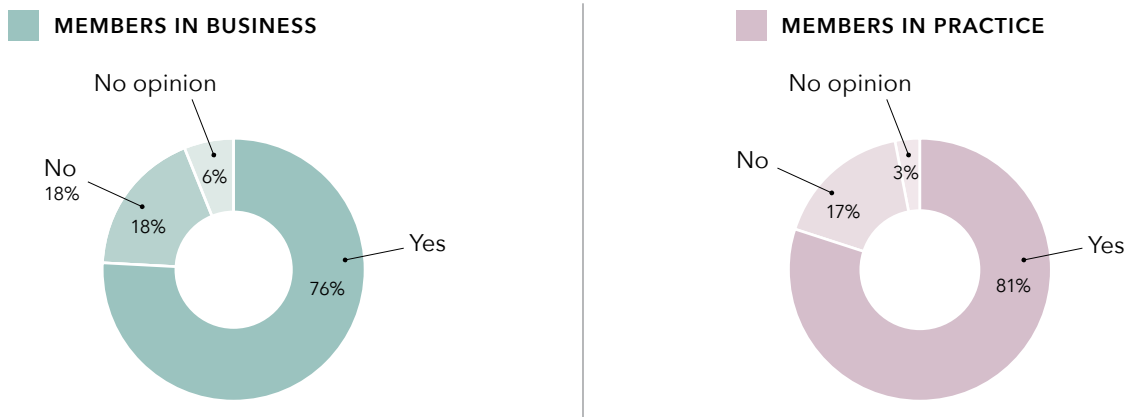
Soften the business rates cliff-edge

Findings

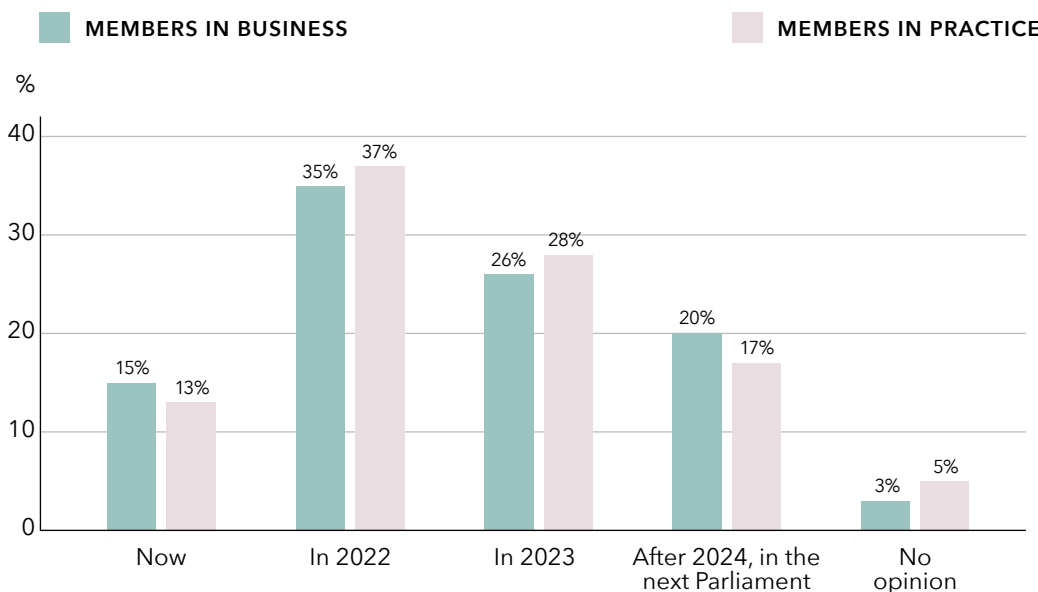
AVOID MAJOR TAX CHANGES IN 2021

Businesses do not want to see any major corporate and/or personal tax changes in the upcoming Budget in March. Those who responded to our pulse survey, feel that now is not the right time for the government to start repairing the damage to public finances caused by the pandemic, and that this should be delayed until 2022 or even 2023.

Do you think the Chancellor should leave any major corporate and personal tax changes to a future Budget in later years?



In your view, when would be the right time for the government to start repairing the damage to public finances caused by the pandemic?



*Due to rounding, some numbers may not add up to exactly 100%

Since the first lockdown businesses have heavily relied on government support to cope with the negative impact of COVID-19.

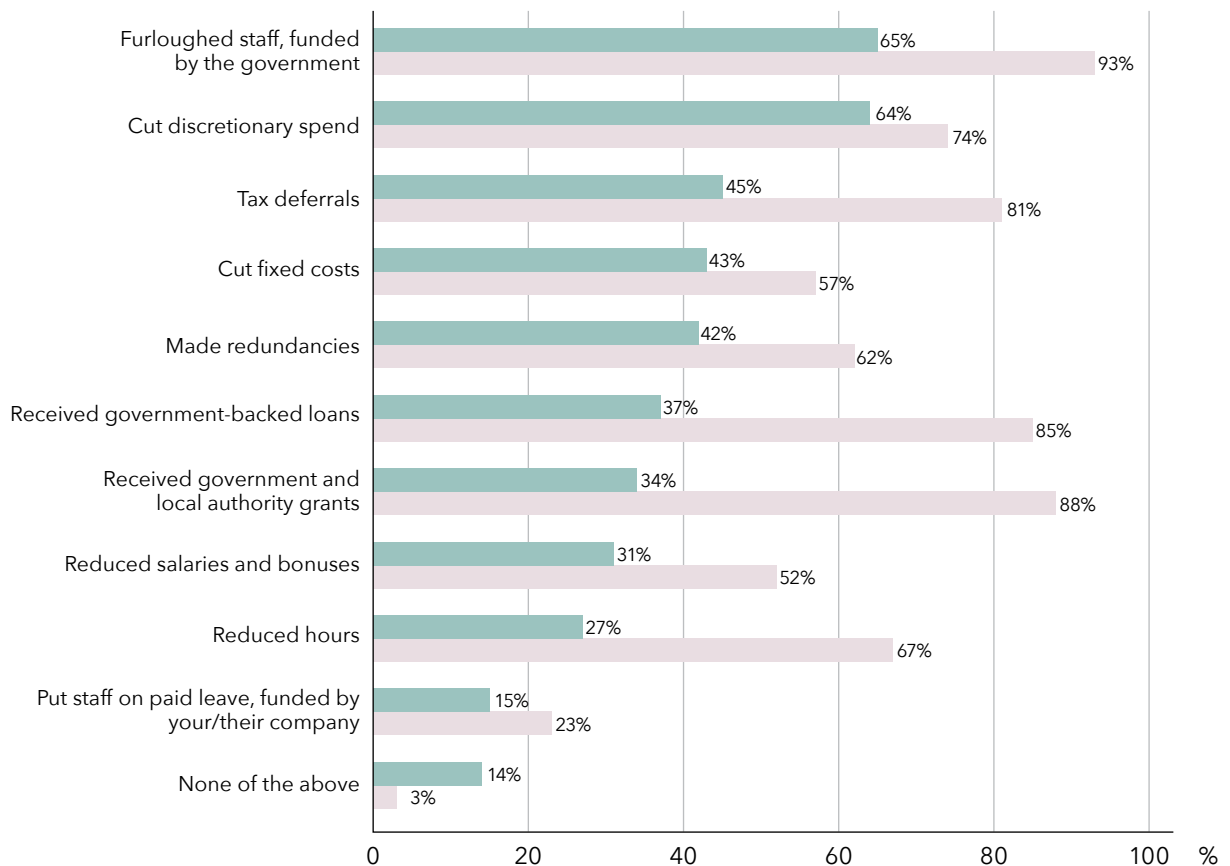
- Furloughing staff was the most common action undertaken to cope with the crisis. Businesses made extensive use of tax deferrals, received government/local authority grants and government-backed loans.
- They also cut their costs by reducing discretionary spend and fixed costs, making redundancies and reducing hours.
- Assuming lockdown eases from March 2021, there are still many businesses which are not confident that they will have the cash to survive for more than six months.
- Furthermore, when looking at the specific sectors, many businesses in the retail, hospitality and leisure sectors think that they will not be able to make payments in full in April 2021 after the business rates holiday finishes at the end of March. The majority in these sectors received coronavirus business support grants and/or had business rates holiday.

MEMBERS IN BUSINESS

MEMBERS IN PRACTICE

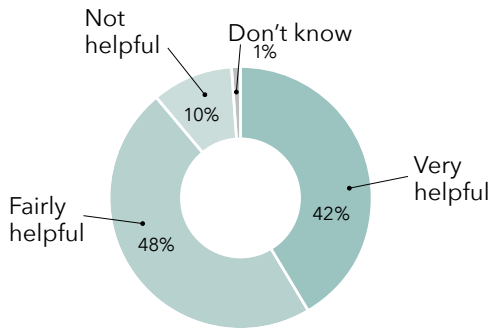
Which of the following actions has YOUR BUSINESS undertaken since the first lockdown to deal with the negative impact of COVID-19?

Which of the following actions HAVE YOUR CLIENTS undertaken since the first lockdown to deal with the negative impact of COVID-19?



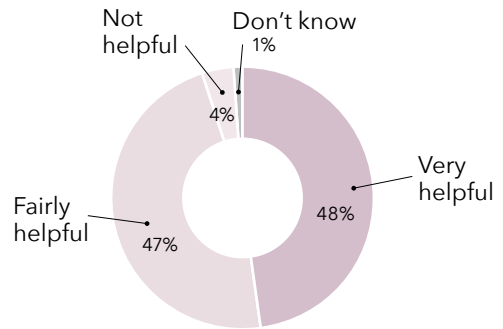
MEMBERS IN BUSINESS

How helpful would you say the government's support has been so far in helping **YOUR BUSINESS** deal with the negative impact of COVID-19?



MEMBERS IN PRACTICE

How helpful would you say the government's support has been so far in helping **YOUR CLIENTS** deal with the negative impact of COVID-19?

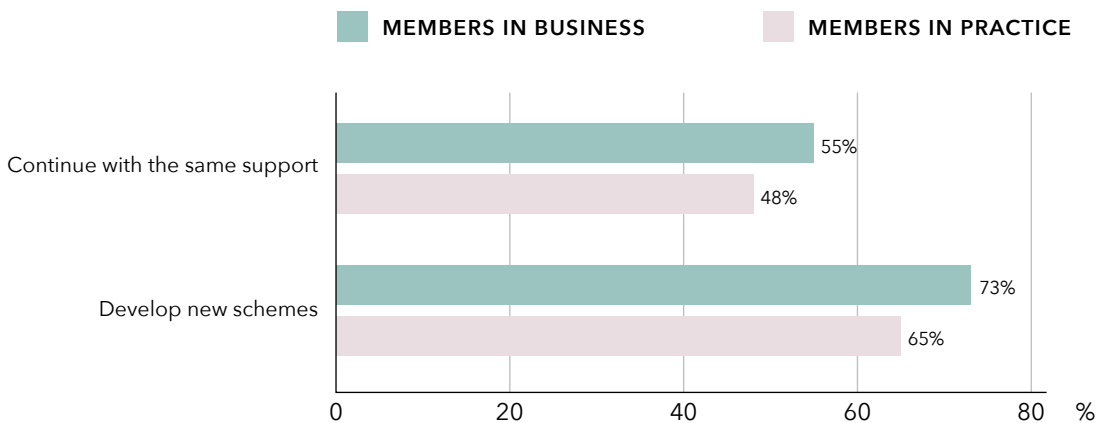


Based on those who had staff on furlough, tax deferrals, government/local authority grants or government-backed loans.

ENCOURAGE JOB CREATION AND BOOST SKILLS

Government support in relation to COVID-19 has been effective so far and has been very widely used to help employees and businesses through the crisis. While trading remains restricted, businesses have indicated the importance of the government continuing with existing schemes. Businesses also want government to consider incremental new measures, tailored to current circumstances. As government goes into the 2021 Budget and looks ahead to exit from the furlough scheme, attention will turn to encouraging job creation and building the skills that the recovering economy will need.

Should the government continue with the same support to help businesses deal with COVID-19 or develop new support schemes?



*Due to rounding, some numbers may not add up to exactly 100%

Businesses welcomed new schemes to help them with training or retraining and with the recruitment of new staff. In providing training, particular attention might be paid to soft skills – these are often highlighted as important by employers and can be expected to have been impacted negatively by extended periods of lockdown. We have seen significant growth in training delivered online and this offers very real benefits as well as potential cost savings, but there will also need to be careful attention to the effectiveness of training in building the soft skills that employers need.

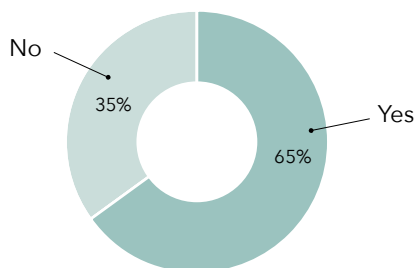
Support for job creation needs to be a holistic package. Employment taxation also needs to evolve to reflect the economy of the 2020s. Recent years have seen significant growth in the number of people working as contractors. Experience in the aftermath of the 2008 financial crisis shows the importance of flexible work to economic recovery; as the economy rebounded in the years to 2016, we saw significant growth in the numbers of new businesses being formed. With new ways of remote working now embedded across the professional services sector, there is potential for further growth in flexible forms of work. To support this, ICAEW has been calling for reforming the taxation and national insurance treatment of different types of work as well as taking forward recommendations in *The Good Work Plan*.

Given current economic conditions, government will need to keep the effect of extending the IR35 rules to medium and larger businesses in the private sector under review. Having been previously delayed, a majority of our business members responding to the pulse survey were now ready to implement IR35. However, our members in practice who represent individual contractors as well as the businesses that engage them, were concerned that a majority of their clients are still not properly prepared.

IR35 tax rules are being extended to the private sector from April 2021. That means contractors who provide their services through their own limited company (or another type of intermediary) will have to be paid through payroll with tax deducted through PAYE.

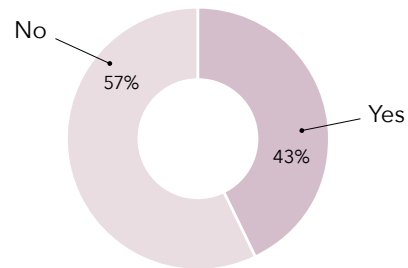
MEMBERS IN BUSINESS

Is YOUR BUSINESS ready to implement these off-payroll working changes starting in April 2021?



MEMBERS IN PRACTICE

ARE YOUR CLIENTS ready to implement these off-payroll working changes starting in April 2021?



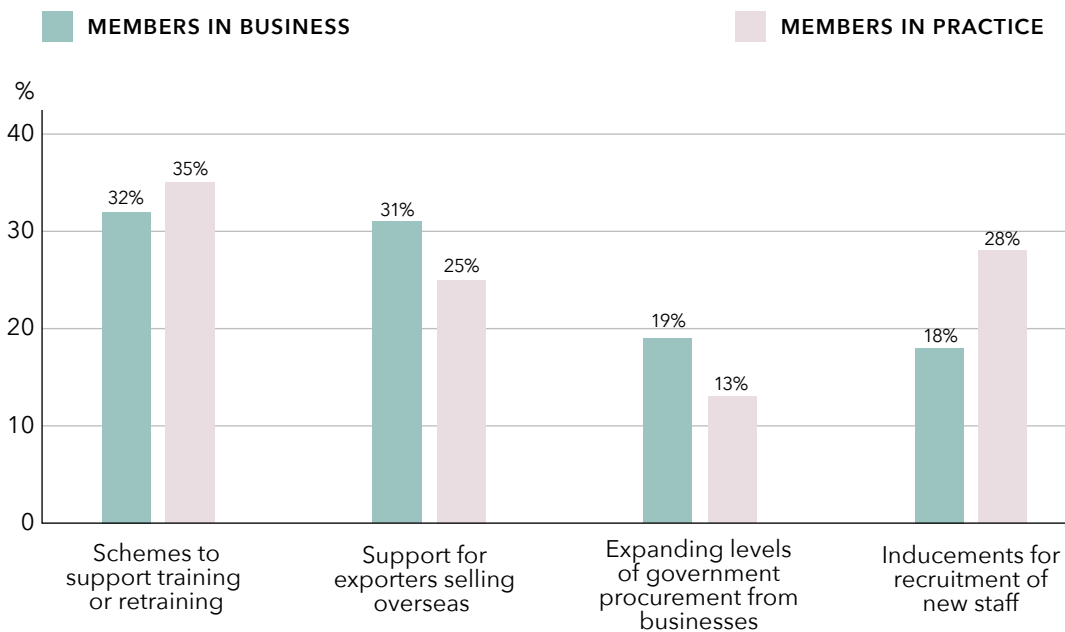
As noted above, respondents to the survey thought that 2021 is not the right time for major changes to the tax system. However, the Chancellor could use the Budget as an opportunity to lay the foundations for tax reform to support a long-term recovery and a modernised tax and benefits system for the world of work.

HELP SMEs TO KEEP EXPORTING

Businesses also asked for support with exporting. The burden of new customs controls for exports to the EU falls relatively harder on smaller businesses where the proportionate cost of customs compliance may be higher and access to customs simplifications less easy. Some members have told us that they have stopped exporting altogether due to the costs and complexity of compliance.

What kind of new schemes should the government be developing?

Based on those who think that the government should develop new support schemes



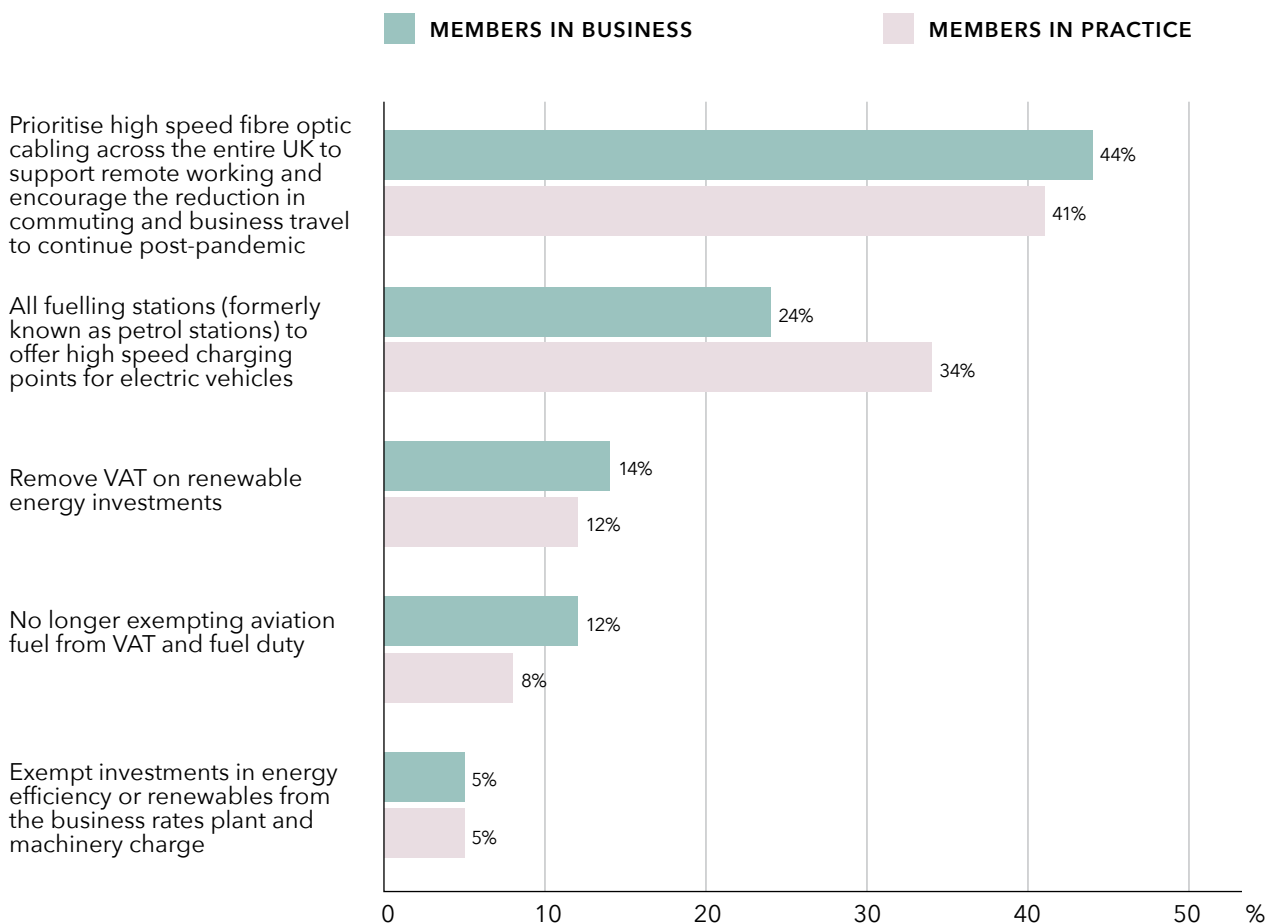
Continued effort will be necessary to help SMEs understand how to deal with customs and ensure clear information is available for key trading partners. While some export business models to the EU may no longer be viable under the Trade and Cooperation Agreement, government continues to identify where trade barriers can be reduced or simplified, both with the EU and non-EU countries.

Customs facilitations such as customs warehousing and 'transit' arrangements will help many businesses and it will be important to ensure that SMEs are aware of these options and know how they can access them. Properly designed, the development of Freeports presents particular opportunities and their availability to SMEs should be a crucial measure of their success. Careful design will be needed to ensure Freeports focus on attracting genuinely incremental activity rather than encouraging displacement from their surrounding area.

ACCELERATE DIGITAL INFRASTRUCTURE ROLLOUT

When it comes to meeting the government’s net zero targets for carbon emissions, prioritising high speed fibre optic cabling across the entire country is seen as the measure that would have the biggest impact in changing business behaviour. The government has a detailed roadmap for improving the quality of rural broadband and these issues have been under scrutiny for some time. Coming out of the pandemic with new remote working practices now well embedded, the urgency of these issues is significantly increased. With the universal service obligation now in place, there needs to be redoubled attention on the delivery of decent broadband and the government should seek to make timely use of its review powers in the Digital Economy Act 2017. There should be no doubt that time is now of the essence as gaps in coverage will hold back a recovery powered by adoption of new technology.

In seeking to meet its net zero targets for carbon emissions, the government may consider changes to the tax system. Which of these measures do you believe would have the biggest impact in changing business behaviour? Please select one.



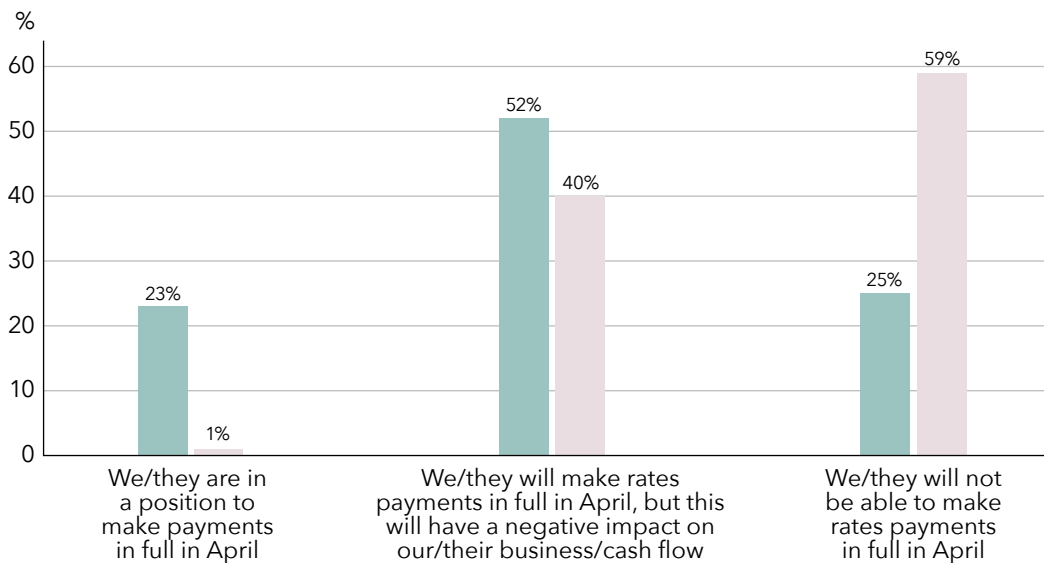
SOFTEN THE BUSINESS RATES CLIFF-EDGE

Many businesses are concerned about the April 2021 cliff-edge when business rates support ends for retail, hospitality, leisure and nursery businesses. With many such businesses currently closed there is real concern about how rates liabilities can be met in April. Some action is needed in the budget to give these businesses some breathing space until trading can resume and they are once again generating cash. In the medium term we hope the Treasury’s review of business rates can deliver much needed reform.

The business rates holiday for retail, hospitality and leisure businesses ends at the end of March 2021.



Based on those who/whose clients are in the retail, hospitality or leisure sectors.



ICAEW has called for urgent action to reduce the ‘multiplier’ that determines how much rates is paid. At more than 50p for each £1 of ‘rateable value’, it is now simply too high. Over the longer term we believe there are three areas that government could explore to make rates less problematic for businesses.

The first is the need for a clearer link between business rates and current market values. Technology could help deliver this.

Secondly, there is need for more timely data. The government has already committed to complete revaluations every three years but, with increased digital capabilities that should result from the roll-out of digital tax systems, more timely updating of valuations should be possible.

Finally, providing more information to ratepayers about the calculation of rateable values could make the system fairer. The government could investigate whether the Valuation Office Agency could share more details about assessments, including how a valuation was calculated.

Appendix

	MEMBERS IN BUSINESS	MEMBERS IN PRACTICE
Based on those who/whose clients had staff on furlough, tax deferrals, government/local authority grants or government-backed loans	Which of the following has YOUR BUSINESS received?	Which of the following have YOUR CLIENTS received?
Coronavirus Job Retention Scheme (CJRS)	79%	98%
Deferred VAT payments	61%	94%
Statutory Sick Pay to employees due to COVID-19	29%	57%
Coronavirus business support grants for small businesses and for retail, hospitality and leisure businesses – administered by local authorities. (in brackets those in the retail, hospitality and leisure sectors)	34% (67%)	84% (92%)
2020/21 business rates holiday for retail, hospitality and leisure businesses and nurseries (in brackets those in the retail, hospitality and leisure sectors)	30% (73%)	78% (89%)
Coronavirus Business Interruption Loan Scheme	27%	67%
HMRC Time To Pay Scheme	18%	77%
Bounce Back Loans	17%	85%
Coronavirus Large Business Interruption Loan Scheme	5%	6%
Kickstart scheme	2%	11%
Coronavirus Corporate Finance Facility	2%	3%
Future fund equity	2%	4%
Coronavirus Self-employment Income Support	1%	83%
Based on those who/whose clients had staff on furlough or tax deferrals	If the government were to extend COVID-19 support in the Budget, which of these would be most important for YOUR BUSINESS?	If the government were to extend COVID-19 support in the Budget, which of these would be most important for YOUR CLIENTS?
Coronavirus Job Retention Scheme (CJRS)	45%	43%
Coronavirus Self-employment Income Support	40%	22%
Kickstart scheme	31%	16%
Statutory Sick Pay to employees due to COVID-19	16%	11%
2020/21 business rates holiday for retail, hospitality and leisure businesses and nurseries	26%	21%
Coronavirus business support grants for small businesses and for retail, hospitality and leisure businesses – administered by local authorities	22%	23%
HMRC time to pay scheme	22%	15%
Deferred VAT payments	21%	11%

	MEMBERS IN BUSINESS	MEMBERS IN PRACTICE
Based on those who/whose clients had government/local authority grants or government-backed loans	Do you anticipate YOUR BUSINESS needing to borrow more in the future?	Do you anticipate YOUR CLIENTS needing to borrow more in the future?
Yes	46%	72%
No	30%	10%
Don't know	25%	18%

	Assuming lockdown eases from March 2021, are you confident YOUR BUSINESS has the cash it needs?	Assuming lockdown eases from March 2021, are you confident YOUR CLIENTS have the cash they need?
No	13%	38%
Yes - for the next 3 months	16%	38%
Yes - for the next 6 months	16%	12%
Yes - for more than 6 months	55%	12%

	Which of the following tax increases would be the most damaging to YOUR BUSINESS ?	Which of the following tax increases would be the most damaging to YOUR CLIENTS ?
Increase in VAT	50%	59%
Increase in corporation tax	43%	39%
Increase in fuel duty	7%	3%

There are more than 1.8m chartered accountants and students around the world and 186,500 of them are members and students of ICAEW. They are talented, ethical and committed professionals, which is why all of the top 100 Global Brands employ chartered accountants.*

ICAEW promotes inclusivity, diversity and fairness. We attract talented individuals into the profession and give them the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

Founded in 1880, we have a long history of serving the public interest and we continue to work with governments, regulators and business leaders around the world. And, as an improvement regulator, we supervise and monitor over 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

ICAEW is proud to be part of Chartered Accountants Worldwide, a global network of 750,000 members across 190 countries, which promotes the expertise and skills of chartered accountants on a global basis.

We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create strong economies and a sustainable future for all.

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* Source: CAW, 2020 - Interbrand, Best Global Brands 2019