**ICAEW**
REPRESENTATION 08/21

# BUDGET SPRING 2021: REPRESENTATIONS SENT TO THE FINANCIAL SECRETARY TO THE TREASURY

Issued 14 January 2021

Text of representations sent in advance of Spring Budget 2021 by ICAEW Tax Faculty to the Financial Secretary to the Treasury


In the light of the continuing pandemic and leaving the EU, the theme of the Budget needs to be ‘steady as she goes’ with any changes kept to a minimum. We therefore recommend implementing only existing pre-announced changes, with the exception of coronavirus related relaxations, simplifications to reduce Making Tax Digital reporting burdens for businesses and property landlords from April 2023, and measures to facilitate cross-border trade.


These representations submitted on 14 January 2021 in advance of Spring Budget 2021 on 3 March 2021 have been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW’s membership. The Tax Faculty’s work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business.

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## TEXT OF REPRESENTATIONS

## BUDGET SPRING 2021

In advance of the Budget due on 3 March, we wanted to highlight some key points for your consideration. We have kept these short and high level because, with the continuing disruption caused by the pandemic and the need for businesses to adjust to the leaving the EU, we think that the forthcoming theme of the Budget should be 'steady as she goes' with any changes kept to a minimum.

We therefore recommend that only existing pre-announced changes are implemented, with the exception of extending relaxations introduced to help mitigate the fiscal impact of coronavirus on businesses, simplifications to reduce Making Tax Digital reporting burdens for businesses and property landlords for self assessment (MTD ITSA) from April 2023, and any necessary further measures to enable frictionless cross-border trade.

### Coronavirus relaxations

We welcome the COVID-19 related relaxations that the government has introduced. We list in Appendix A some possible additional short-term measures for consideration, mainly relating to situations that have arisen owing to the continuing of restrictions to slow the rate of transmission of the disease. Appendix A is based on our list shared with HMRC in November and we would be happy to discuss it further.

### Making Tax Digital for income tax self assessment (MTD ITSA)

We support in principle the government's drive to modernise the tax system by making it more digital. However, expecting taxpayers to both maintain digital records and submit digital returns for their businesses and property lettings to HMRC from April 2023 – a little over two years' time – is a major change. Although we have known about the intention relating to these changes since 2017, to date there has been little detailed dialogue on them. Income tax is in need of simplification and this should be done before it is digitalised. This is a once in a generation opportunity to create a world class new system and merely digitising the existing rules will be a missed opportunity. Attention to detail will be key to successful implementation.

Our principal recommendations to make MTD ITSA work in practice without creating excessive administrative burdens for taxpayers who run businesses and/or let property are:

- Align the tax year (5 April) with the end of a calendar month. 31 March would be easiest to achieve although 31 December would make the UK more competitive internationally.
- Simplify tax rules, for example basis periods.
- Separate the need to keep digital accounting records from the need to make quarterly reports. The former could bring immediate benefits to business while the latter creates more of a burden and is where the 31 March/5 April problems are most obviously highlighted. Quarterly reporting could be mandated at a later stage once the benefits of digital recordkeeping have been established and embedded.

We provided HMRC in November with an initial list of suggested simplifications to the tax system that we believe need consideration for MTD ITSA to achieve its full potential. Over the coming months we hope to continue working with HMRC to explore these opportunities.

### HMRC resources

HMRC remains under very serious resource pressure, which has been exacerbated by COVID-19. This is affecting its existing performance levels and longer-term transformation plans. The 2020 Spending Review provided HMRC with funding for the extension of MTD and for upgrading systems but does not appear to support the full ambitions in the 10-year Tax Administration

Strategy. We urge the government to provide HMRC with the funding it needs to both restore and improve performance levels and transform the tax system administration in the medium to longer term.

### Planning for the future

We would encourage the government to start planning for longer term changes to improve the tax system. These should include harmonising the taxation and national insurance treatment of different types of earned income as well as taking forward recommendations in the The Good Work Plan. Now that the UK has left the EU, we would also encourage the Government to consider reform of areas which have hitherto been largely governed by EU law, for example in the area of VAT. For example, the UK now has an opportunity to review the scope for simplifying the VAT system which should include exemptions and reduced rates etc.

I would welcome the opportunity to meet you to discuss our recommendations further.

## APPENDIX A

## SUGGESTED SHORT TERM COVID-RELATED MEASURES

We recommend that the welcome tax easements already put in place should be continued and extended. There are a number of other circumstances where relaxations are needed.

To help employers, we would welcome reconsideration of our earlier suggestions. In brief:

- the 24-month temporary workplace travel rules clock should be stopped where an employee is prevented from working at the temporary workplace for COVID-19 related reasons (eg, lockdowns or furlough); and
- the equivalent clocks should be stopped where an ex-patriate employee is unavoidably stranded in the UK for more than the maximum number of days allowed under the various tests or establishes family or other links with the UK through having stayed in the UK longer than expected, so inadvertently becoming taxable.

For losses, we suggest extending the carry back of company trading losses to say three years rather than 12 months, similar to the changes made temporarily in 2008, to allow a greater pool of profits to be offset by losses in the current year. Similarly, unincorporated businesses could be given the option to carry back losses for up to three years or to use against other income of the current tax year, up to the current limit of the higher of £50,000 and 25% of total income.

We also recommend that HMRC streamlines processes for taxpayers to enable provisional claims to carry back losses. This might be achieved by resubmitting a prior return on a provisional basis in anticipation of a loss rather than needing to wait until the return for the loss-making year has been filed. It could then enable a claim to be made on the CTSA tax return for a refund of tax on a director’s loan account paid under s455, rather than having to be made by way of a separate claim for repayment. This would make it easier and quicker to access repayments.

Other potential COVID-19 easements that we believe need review in the light of the continuing pandemic include:

- Payment and filing deadlines
- HMRC discretion on time limits including:
  - Rolling over gains
  - Properties open to the public exemption from ATED
  - Conditional exemption tax incentive scheme
  - Reinvestment relief
  - Replacement main residences and stamp taxes
  - Business property relief (BPR) and agricultural property relief (APR)
- Other employee-related issues including:
  - Employer-provided accommodation and travel for key workers
  - Reimbursed flu vaccinations
- Extension of 31 March 2021 deadline for exemption from SDLT on properties worth up to £500,000 (given the difficulty in completing transactions by that deadline)
- VAT reduced rate for leisure, hospitality, catering etc: consider extending beyond 31 March 2021
- Furnished holiday letting rules: properties need to be let commercially as furnished holiday accommodation to the public for at least 105 days in the year. COVID-19 related restrictions on travel have made it impossible for many guests to stay. We recommend that the period of grace provisions be extended during the pandemic and/ or this test be satisfied on the basis of bookings made which were then cancelled owing to COVID-19.