



## ‘SECURING MISSION LAUNCH FOR GROWTH’

# AUTUMN BUDGET 2024 REPRESENTATION

Issued 10 September 2024

ICAEW welcomes the opportunity to submit a representation to HM Treasury ahead of the Autumn Budget on 30 October 2024 and the Spending Review in the spring of 2025.

The first Budget of a new government is a rare but welcome opportunity to secure the fiscal and economic underpinning for the next decade. This first Budget could provide the factors for a successful launch of the missions set out in the Labour Party’s manifesto to boost growth and make the UK a clean energy superpower.

Businesses are crucial to the successful delivery of those missions. This Budget needs to establish a framework to give companies stability and opportunities for growth. ICAEW members work with over three million businesses of all shapes and sizes across the country. They know first-hand how to boost business productivity, take opportunities and create growth that builds the tax base and creates employment and shared prosperity.

The challenges should not be underestimated. Addressing the fiscal and economic inheritance while incentivising growth, investment and innovation will be difficult to achieve. But action can be taken now to help achieve the government’s economic mission. This budget should:

- A. Set out a long-term fiscal strategy, fix the underlying debt measure, and invest to save.
- B. Deliver a business tax roadmap: Reform of VAT, business rates and employment status is overdue, deterring productive business activity and growth. R&D and capital investment incentives need attention to ensure businesses, especially SMEs, are encouraged to use them.
- C. Make the UK the green finance capital of the world: Require key entities to publish transition plans. Deliver the green taxonomy. Set out a UK net zero roadmap.
- D. Support the skills for growth: Introduce an AI upskilling scheme. Review apprenticeship funding bands. Protect training in the core skills needed for the industrial strategy.
- E. Make it easier to start and grow a business: introduce small business passports.

In the longer-term this Budget should lay the foundation to:

- F. Support robust institutions, public finances and reporting to underpin stability and growth.
- G. Make smarter use of data and regulation to leverage opportunities for growth.
- H. Remove barriers to improve the investment landscape. Invest more in R&D.
- I. Articulate a clear trade strategy with services at its heart.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 169,000 chartered accountant members in over 146 countries. To discuss this submission please contact us at [representations@icaew.com](mailto:representations@icaew.com) quoting REP 65/24.

## OUR RECOMMENDATIONS

1. ICAEW agrees with the government that its first mission should be growth and that all other missions should contribute to that objective. We also strongly support the analysis from the government that growth is being hampered by low investment and health issues within the workforce. As the government has itself suggested through its mission-led approach, joined-up thinking is essential; the government needs to take a long-term holistic view and ensure that industrial, trade, tax, investment and skills strategies are integrated and have aligned objectives and outcomes. It is key that investment enables private sector additionality, as part of a whole economy approach.

### ***Immediate action is required in the Budget to stimulate economic growth***

#### **A. Set out a long-term fiscal strategy, fix the underlying debt measure, and invest to save:**

- Fiscal policy should start with an objective of putting the public finances on a sustainable path, prioritising long-term stability over short-term volatility.
- Replace the flawed measure of underlying debt that excludes quantitative easing liabilities as a first step to redesigning the fiscal rules to support long-term investment.
- Investment in public services should focus on technology and transformation to deliver sustainable improvements in the quality and cost efficiency of public services.

#### **B. Deliver a business tax roadmap, focus it on growth. Fundamentally review the effectiveness of the tax system:**

- Provide clarity on how business taxation is expected to evolve over the next 5-10 years, including when changes are expected and the objectives for reform.
- Improve certainty of employment status for tax to mitigate a barrier to business growth.
- Review capital allowances and simplify the venture capital trust tax regimes.
- Set out plans for reform of business rates by the end of the year.
- Ensure R&D tax relief remains cost-effective and easy to use, especially for SMEs and smaller claimants.
- Commence a comprehensive review of VAT.
- Review reporting burdens on employers.
- Review the impact of proposed reforms to the tax rules for carried interest and non-UK domiciled individuals to assess the impact on growth and investment
- Reduce the administrative burden and cost to business of the planned rules for MTD ITSA by removing quarterly reporting requirements.
- Provide further investment in HMRC to improve customer service levels and resources to help improve compliance, particularly among small businesses.

#### **C. Make the UK the green finance capital of the world. Require key entities to publish transition plans. Deliver the green taxonomy. Set out a UK net zero roadmap:**

- Set out a plan to make the UK the green finance capital of the world, with London as the first net zero, nature-positive aligned financial centre. This should include details on plans to mandate UK-regulated financial institutions and FTSE 100 companies to develop and implement transition plans.
- Deliver the promised UK green taxonomy to help businesses and investors identify products that can deliver both environmental and economic benefits.
- Deliver a net zero investment strategy as part of a wider whole-economy National Transition Plan for the UK.

- Introduce a net zero delivery tracker which assesses the impact of Budget measures on nature and climate.

**D. Support the skills for growth: Introduce an AI upskilling scheme. Review apprenticeship funding bands. Protect training in the core skills needed for the industrial strategy.**

- Make the AI Upskilling pilot for SMEs in the professional business services sector into a regular scheme, with input from the Professional and Business Services Council into improving its effectiveness in delivery.
- Review funding bands for apprenticeships and ensure that reforms protect training provision targeted at the skills needed to support the Industrial Strategy.

**E. Make it easier to start and grow a business. Introduce a small business passport.**

- Review the financial and administrative impacts of employment rights and national minimum wage legislation to ensure they are proportionate.
- Introduce Business Start-Up Passports to streamline HMRC registrations, integrate with Companies House verification, and support banking setup.
- Reintroduce Growth Vouchers and increase the thresholds for British Business Bank start-up loans to support access to finance.
- Remove barriers to exporting for small businesses by bringing forward the Single Trade Window and improving visibility of resources.

***Enabling action is needed in the budget to secure the foundations for long term growth***

**F. Support robust institutions, public finances and reporting for growth and stability:**

- Establish a Budget Committee to scrutinise tax and spending proposals.
- Improve transparency and the quality of financial information available to make better decisions and improve accountability.
- Strengthen financial management and governance in public bodies, consolidating guidance into a Public Governance Code.
- Deliver on the timeline and framework to tackle the local audit backlog.
- Conclude the AML and Non-Financial Reporting reviews.

**G. Make smarter use of data and regulation to leverage opportunities for growth:**

- Complete the smarter regulation consultation process, providing a regulation roadmap to help the public understand the objectives, operation and performance of regulators.
- Clarify the functions, objectives and funding of the Regulatory Innovation Office.
- Set out a clearer and more detailed AI regulation strategy.

**H. Remove barriers to improve the investment landscape. Invest more in R&D:**

- Investigate barriers to infrastructure investment in pension fund risk profiles and explore ways to build demand for UK listed equities.
- Ensure use of National Wealth Fund resources is clearly articulated so that the private sector understands how it can best partner government to finance the green transition.
- Commit to a minimum target for R&D investment of 3 per cent of GDP.

**I. Articulate a clear trade strategy:**

- Support sector-specific deals on Mutual Recognition of Professional Qualifications (MRPQ) in free trade agreements and set out a vision for professional services trade.
- Engage with businesses and professional bodies ahead of EU-UK trade talks to understand the practical issues affecting businesses and consumers.

## CHARTERED ACCOUNTANTS HELP DRIVE GROWTH IN THE ECONOMY

2. Advising and running over three million businesses across the UK, ICAEW Chartered Accountants have a key role to play in helping the government take the brakes off Britain, mobilise finance and help deliver the improved prosperity for all of the UK.
3. **Trusted voice of business:** ICAEW members are running and advising millions of businesses to navigate the route to growth. They work both in business and in practice across all parts of the UK, in every sector in businesses large and small. ICAEW plays an important role as a convenor of a range of business sectors to test ideas through our communities and regional policy boards. These insights are used to help shape ICAEW content and inform policy positions and recommendations.
4. **Insights from the heart of economic activity:** ICAEW is committed to working with government in a collaborative way to harness the expertise, experience, innovation and entrepreneurship of our members. ICAEW Chartered Accountants are on a daily basis experiencing the challenges and opportunities in the economy, including the real effects of government policies. Our member network is invaluable in providing timely and responsive feedback on practical business matters as they arise and how they are dealing with various opportunities and challenges.
  - a. **Policy insights:** Member feedback was crucial in underpinning ICAEW's [pre-election manifesto](#) and this Budget submission. For example: [ICAEW's Business Committee](#), with representation from large and small businesses across multiple sectors and geographies, recently discussed priorities for a UK Industrial Strategy.
  - b. **Boardroom insights:** 87% of FTSE 100 and 81% of FTSE 250 companies headquartered in the UK have an ICAEW member in a Board role, at the heart of the decision-making process on investment and business activity.
  - c. **Sectoral insights:** [ICAEW communities](#) bring together members on a broad range of industry sectors and topics. Our business-focused communities include, Construction & Real Estate, Energy & Natural Resources, Entertainment, Sport & Media, Farming & Rural Business, Global Trade, Healthcare, Manufacturing, Retail, Small & Micro Business and Travel, Tourism & Hospitality.
  - d. **Regional perspectives:** ICAEW's regional network and Regional Policy Boards, comprising senior members working in both practice and business, provide insight on regional issues, which informs ICAEW's position on localised issues impacting the national economic outlook.
5. **Leading Business Sentiment Survey:** ICAEW's quarterly [Business Confidence Monitor \(BCM\)](#) survey is based on 1,000 telephone interviews among ICAEW Chartered Accountants covering a range of UK sectors, regions and company sizes. This ensures that BCM provides a representative picture of the economy and also makes it one of largest UK surveys of business activity and sentiment.

## THE FISCAL AND ECONOMIC INHERITANCE

6. The incoming government has entered office with one of the most challenging set of fiscal and economic circumstances in decades. The UK economic recovery from the pandemic has been slower than for other advanced economies. Falls in real wages caused by high inflation and low productivity saw in 2022 the second largest year-on-year fall in living standards since records began. Although this was caused by high energy prices resulting from the war in Ukraine, the structural challenge of relatively low productivity in the UK has held down real wage levels for much longer: real wage levels are still below what they were just before the 2008 financial crisis.
7. Public debt and the tax burden are at their highest levels since the 1960s. GDP per capita is 1.6% lower in Q4 2023 than it was Q4 2019. Consumer prices are 24% higher than they were five years ago, local government finances are in a precarious situation, and the crisis in the prison system is just one of many examples of public services that are in difficulty.

8. The economy seemingly has turned the corner. Inflation has returned to the Bank of England target range, and interest rates have started to fall from their peak, albeit slowly. Provisional GDP per capita is up 0.8% between Q4 2023 and Q2 2024. At the same time, the latest results from ICAEW's [Business Confidence Monitor \(BCM\)](#) – one of the largest and most comprehensive quarterly surveys of UK business activity – show that business sentiment rose to its highest level in over two years in Q2 2024.
9. However, the recovery remains precarious. UK productivity (measured by output per hour worked) in Q2 2024 is still 0.1% lower than the same period a year ago, while business investment fell by 0.1% in Q2 2024 and is 1.1% below the level a year ago. Annual services inflation in July 2024 was 5.2%, indicating the fight against inflation is not yet fully won. Structural challenges persist with weak productivity growth, an ageing population, and lower inactivity levels in the workplace dragging down economic performance and putting pressure on public services. The muted performance of BCM's indicators of investment activity suggests that the UK's recovery from recession is built on fragile foundations.
10. Access to the right skills remains a big challenge for businesses and the public sector across the country. After falling back over recent quarters, ICAEW's latest BCM found that the availability of non-management skills is becoming an increasingly prevalent issue in several sectors, including transport and storage and construction. Developing skills should start at school and continue throughout adult life to promote resilience and renewal in the economy and to boost productivity, embrace the opportunities of AI, support the green transition and ensure that growth is inclusive to all. The ability to upskill and retrain is vital. Action is needed to promote equality and diversity in the workplace, remove barriers to entry and widen the skills and talent pool available to employers across the whole of the UK. Access to the right labour skills should not be an obstacle to the strategic growth in the technologies of the future that the UK needs.
11. Ahead of the Budget there are signs from our members that uncertainty alleviated by the calling of the general election appears to be creeping back ahead of what will undoubtedly be an important fiscal event with key ramifications for business and personal taxation. ICAEW has consistently called for more certainty and stability. This remains a priority for our members and the businesses they work for or advise and is a cause of hesitation in many investment decisions on capital, technology and people.
12. In 1997, the incoming Labour government “committed to the proper funding of public services”, as Gordon Brown announced in his first Budget. In 2010, the incoming Coalition government resolved to deal with the large deficit and record public debt in the wake of the 2008 financial crisis. In her first Budget in the new government, the Chancellor will arguably have to do both, while focusing relentlessly on the mission-driven approach to government which pledges kickstarting economic growth to secure the highest sustained growth in the G7 and making the UK a clean energy superpower to cut energy bills and create jobs. ICAEW Chartered Accountants can assist in providing insight and using their real experiences to launch the missions to success.

## DETAILED POLICY PROPOSALS

### IMMEDIATE ACTION REQUIRED IN THE BUDGET

#### **A. Set out a long-term fiscal strategy, fix the fiscal framework, and invest to save**

13. **Long-term fiscal strategy:** We believe that fiscal policy needs to be based on a long-term fiscal strategy to put the public finances on a sustainable path. Fiscal events have historically seen a series of short-term measures at the expense of the resilience of the public finances against future economic and fiscal shocks, building the foundations needed to drive sustainable economic growth, or improving the quality and efficiency of public services. A constantly changing fiscal and policy landscape has made it more difficult for both the private and public sectors to plan ahead, leading to low levels of public and private investment, weak productivity growth, and less-than optimal tax receipts.

14. **Medium-term fiscal framework:** The Chancellor should revisit the debt rule that constrains her ability to invest more over the medium and long term. This includes replacing the flawed measure of underlying debt (public sector net debt excluding Bank of England) that understates the government’s financial liabilities by excluding quantitative easing (QE) balances that HM Treasury is liable for. This would provide a moderate amount of additional headroom for investment under the current fiscal rules, but more importantly, would avoid independent decisions of the Monetary Policy Committee on quantitative tightening (QT) inadvertently affecting fiscal choices. This would not be a ‘fudge’ to appear to massage public finances but instead could send a strong signal to international investors that the new government wanted to see investment in infrastructure over the long-term, enabling her to deliver the economic growth that is at the core of the new government’s mission.
  15. This should be a first step in reviewing the fiscal rules to permit much needed investment that will benefit the public finances and the economy in the long run, while at the same time ensuring that public debt doesn’t continue to rise. A recent [OBR report](#) on public investment estimated that investing an additional 1% of GDP would raise output by 0.5%, rising to 2.5% in long-term, but achieving such a level of investment within the current fiscal framework will be difficult.
  16. **Public services transformation:** We believe that investment in public services needs to prioritise technology, including AI, to transform how public services are delivered. Achieving sustainable improvements in the quality and cost efficiency of public services will only be possible with focused effort on redesigning and streamlining services so that they can be delivered more effectively.
- B. Deliver a business tax roadmap and focus it on growth. Fundamentally review the effectiveness of the tax system**
17. The government’s commitment to publishing a business tax roadmap is welcome. ICAEW accepts that the government will not want to constrain its ability to react to external events, but it hopes that as a broad principle, the roadmap will set out how the government might react to different scenarios. The roadmap should consider how best taxation can support the transition to net zero, support the investment landscape and boost skills and retraining. The roadmap is an opportunity to look holistically at the tax base to identify areas that are holding back business activity and growth as well as identifying potential tax policy options. The roadmap is key for delivering greater certainty and enabling businesses to undertake scenario planning of their own to invest with greater confidence.
  18. In this Budget the government should commit to a consultation and reform timetable in the following seven areas:
    - a. **Improve certainty of employment status for tax:** Employment status is difficult to determine in the UK and as such difficulty hinders growth. The Budget should announce that government will undertake a collaborative review of employment status for tax. Employment status for tax is also inextricably linked to the tax rate differentials that vary depending on both employment status and business form. The Public Accounts Committee [concluded](#) that “the complexity of the rules and perceived risk to hiring organisations of failing to comply with them could lead to changes in behaviour by both workers and hirers”. Many disputes that arise between businesses, individual workers and HMRC necessitate recourse to the tax tribunals and the courts which is stressful, expensive and time-consuming. The previous UK government [committed](#) to work with stakeholders to address the problem. However, at that time, recovering from the pandemic took priority. The Employment Status Consultative Committee of which ICAEW is a member has sent a letter to the Exchequer Secretary to the Treasury requesting that he works with stakeholders to formulate a solution that removes barriers to business growth.
    - b. **Make the VAT system more efficient:** VAT was introduced in the UK in 1973. Over half a century later, a comprehensive review of this tax is overdue and should be announced in the Budget. The Office of Tax Simplification [2017 review](#) should have been the start of

a process to simplify VAT, but far too few of its recommendations were taken forward. Committing to a review of the VAT system in this Budget could appraise opportunities for simplification to deliver administrative efficiencies which in turn could boost activity and promote growth. ICAEW has been looking at the various options for reform and would be happy to discuss further. Consideration should be given to how VAT could be made less complex to provide certainty and reduce costs for both business and HMRC.

- c. **Use capital allowances to encourage investment:** A review of this area would help to support the government's growth and net zero ambitions. Simplification and long-term certainty are key to maximising the investment incentive these allowances provide. Therefore, the commitment by the government to retaining full expensing and the £1m annual investment allowance are welcome. However, a review of the scope of the allowances (including short and long-life assets and structures and building allowances) would also be welcomed. There is, for example, an urgent need to move forward on the work on leased assets begun by the previous government, given the significant impact the leasing industry has on the UK economy. Consideration should also be given to ensuring that tax relief is available for expenditure that does not qualify for either a revenue deduction or a claim for capital allowances. Examples include expenditure on feasibility studies and land preparation. Such costs tend to be significant in implementing sustainable energy projects (e.g., wind farms as highlighted in the Upper Tribunal decision of [Gunfleet Sands Ltd & Ors v R & C Commrs \[2023\] UKUT 260 \(TCC\)](#)).
- d. **Reappraise business rates' disincentives for development:** The current business rates regime is not conducive to a mission for economic growth. It creates a distorted playing field that often penalises growth and investment in new, more productive equipment, expansion in premises or development of derelict sites. The 2019 Treasury Committee inquiry [Impact of Business Rates on Business](#) concluded that "government must explore alternatives to address their negative impacts". Although the subsequent Treasury Business Rates Review has built on this inquiry, further work is required, and this first Budget of the new government is an opportunity to announce commencement of this work. It is important that the government sets out soon its plans to provide greater certainty for businesses. In ICAEW's view, there is also a timely opportunity to optimise the system by better use of data and technology, which can improve efficiency while also mitigating disincentives for businesses to invest into local communities.
- e. **Ensuring R&D tax relief remains cost-effective for SMEs and smaller claimants:** We welcome the government's commitment to maintain the current structure of R&D tax relief over the next parliament, which we believe will provide stability and certainty, which in turn should increase the prospects of additional innovation, improved productivity and increased economic growth. We also recognise that the regime has been the target of significant levels of fraud and fully support the position that HMRC must take action against fraudulent claims. We do not want to see taxpayers' money wasted.
- f. However, members are increasingly informing us that HMRC is taking an 'adversarial and bureaucratic approach' to compliance with the R&D tax relief regime. Such an approach has included requesting information that has already been provided alongside an earlier claim, raising enquiries into companies where enquiries into prior years have been closed without amendment and appearing to ignore supporting material such as patent applications. This is disrupting compliant claims and creating a disincentive to make such a claim. This in turn hinders the possibility of innovation, improved productivity and growth, particularly from SMEs for whom dealing with the process and any risk of subsequent challenge. We have shared a detailed briefing with Treasury Ministers and HMRC to outline ICAEW's concerns about HMRC's response to fraud and error – in the form of its current 'volume-based' compliance strategy – and the disruption that approach is causing to many businesses undertaking genuine R&D activities. As a result of our briefing, we are having constructive dialogue with HMRC officials which we welcome and wish to continue. There is a need to review HMRC's approach to tackling fraud and error

in the regime as a matter of urgency and for HMRC to properly risk assess and target dubious claims for relief, while not limiting the support provided to genuine claimants.

- g. **Review reporting burdens on employers:** When making tax policy announcements there should be a proper assessment of the costs and administrative burdens transferred to businesses. In this regard, we urge the government to review the requirement for employers to report employee hours. It is welcome that implementation has been delayed from April 2025 to April 2026, but we would urge the Chancellor to give serious consideration to dropping this requirement in the Budget. ICAEW has made several [representations](#) to stress its concerns about the additional costs to employers and has questioned whether the data is relevant to the collection of tax and administration of the tax system. The proposal to mandate that all employers must report and collect tax on all employee benefits through their payroll each pay period instead of on one annual return from April 2026 is unlikely to be achievable without significant changes and simplification of the underlying tax rules. If the requirement is to be introduced, ICAEW would advocate phasing in mandation starting with easy to payroll benefits such as healthcare. Payrolling benefits is a prime example of a change where the additional cost to business needs to be properly assessed. While the measure may deliver cost savings and efficiencies for HMRC, the burden is increased and shifted onto employers. Changes to systems, real-time data capture (including from third party benefit suppliers) and more frequent reporting cost employers time and money. There is potential for the costs to the wider economy to outweigh the benefits to HMRC.
- h. **Attract investors by simplifying venture capital tax reliefs:** The Enterprise Investment Scheme (EIS), established 30 years ago, has been one of the true successes in attracting capital into the UK's businesses, making this country a more attractive destination for investment. Since its introduction in 1994, £41bn has been invested through EIS. Modest reform of venture capital tax reliefs could make them even more effective in encouraging investment by benefiting a wider range of companies, making them simpler to administer for HMRC and easier to understand by companies looking to raise funds. We welcome the recent announcement of the extension of EIS and the Venture Capital Trust (VCT) regime by 10 years to 2035. The Treasury Committee in its [Venture Capital inquiry](#) heard that *"EIS, SEIS and VCTs are internationally competitive schemes that attract investors, which in turn has provided billions in financial support to start-ups and growing businesses"*. In its evidence, HMRC noted that these reliefs *"improved business performance and bridged a funding gap that would otherwise emerge"*.
19. **Conduct a wider review of the effectiveness of the tax system:** To complement the development of the business tax roadmap, the government should undertake reviews to deliver simplification, improve HMRC service performance and processes and remove personal and business taxation cliff edges. The first Budget of the new government provides an opportunity to undertake such a review over the lifetime of this Parliament. The UK tax system has become increasingly complex. There are an increasing number of taxes, reliefs and rules that taxpayers have to navigate, increasing compliance costs for taxpayers and HMRC and increasing the risks of taxpayers making mistakes. The tax system has also developed a number of fault lines that distort behaviour and discourage growth:
- a. **Simplification before digitalisation:** The efficiencies that might be realised by digitalisation of the tax system are undermined by the fact that the tax system is too complex. While ICAEW supports digitalisation of the tax system and digital record keeping, it does not support aspects of Making Tax Digital Income Tax Self Assessment (MTD ITSA) – particularly quarterly reporting which will result in significant costs and additional administrative burden for taxpayers in return for limited benefit to HMRC.
- b. **Advance rulings and clearances:** ICAEW welcomes the government's commitment to trialling the greater use of advance rulings and clearances for major investment projects and identify areas where rulings and clearances could be beneficial. Alongside this, the government should consider whether all of the motive defence and purpose tests written into legislation are still required and are effective. When these were [last reviewed in 2009](#) as part of the anti-avoidance simplification review, the tax legislation contained over 200



such tests with a wide variation in the detailed design. ICAEW supports properly targeted anti avoidance legislation but these tests are a high cause of uncertainty for many ordinary business transactions, including the need for clearances (for example the transactions in securities rules, share exchanges, reconstructions and demergers) and can interact directly with business restructuring, refinancing and funding requirements.

- c. **Ensuring capital taxes support long-term business investment:** While any alteration of the inheritance tax regime is a political decision for the government, it should be mindful to ensure that changes do not adversely impact investment in, or the development of, SMEs. Inheritance tax also affects succession of family businesses, an important segment of the UK economy and of communities across the country. Likewise, should the government be looking to introduce greater alignment between income tax rates and capital gains tax rates, the inflationary effect of long-term investment, or indeed the impact that the recent spike in prices since 2022 has had on asset valuations should be considered to ensure that there is no disincentive to investing.
  - d. **Reviewing the pensions tax regime:** If the government is contemplating making changes to the pension tax regime, it should have in mind that millions of employees have a reasonable understanding of the current system and are incentivised by auto-enrolment and by employer contributions to contribute to their pensions. If the government is minded to make changes to the pension tax regime, it would be better to look at the whole system and take time to do it. Delivering changes to the pension regime takes time as it is not simple to adapt payroll and pension management systems and deliver employee education.
  - e. **Improve services for taxpayers and agents:** HMRC is being asked to do far more with less. We support HMRC becoming more efficient and becoming a digital first organisation but, as evidenced in its latest [annual report](#), HMRC's customer service levels are at an all-time low with key targets missed and call waiting times increasing significantly. ICAEW has been raising concerns about the decline in customer service for some time; the recent [NAO report on HMRC customer service](#) confirmed the picture that we hear from our members daily. It is not just the inability to contact HMRC to resolve issues that concerns our members; they also report a decline in the technical quality of their interactions with HMRC. In addition, HMRC's ambition for digital-first interactions by taxpayers are not matched by the digital services currently on offer. Significant gaps remain in the available services, particularly for tax agents. Such levels of customer service are undoubtedly acting as a drag on growth. Commitments to additional funding are welcome but a long-term plan is required. ICAEW is concerned that service levels have fallen to such an extent that they are harming taxpayer compliance. The Chartered Institute of Taxation (CIOT) and ICAEW are working together to produce an evidence-based report to be issued before the end of 2024 on HMRC service performance. To evidence the issues that agents face, we are currently running a real-life, real-time data gathering exercise.
20. **Compliance by small businesses:** HMRC's [Measuring tax gaps report](#) for 2024 shows that the overall tax gap is on a downward trend. However, the tax gap for small businesses is increasing and in the 2022/23 tax year now stands at £24.1bn, equal to 60% of the overall tax gap and up from 44% of the overall tax gap for 2018/19. The tax gap for small businesses corporation tax is 32.2% of the theoretical corporation tax liability for that population, or £10.9bn in the 2022/23 tax year. Of particular concern is that the corporation tax gap for small businesses has been increasing steadily since 2011/12 and is considerably higher than the equivalent tax gaps for mid-sized and large businesses. One of the policy objectives of the Making Tax Digital programme is to reduce the small business tax gap. However, as it will only apply to income tax it does not target the growing problem of the small business corporation tax gap. As a professional body with many members who advise small businesses, we would like to work with government and HMRC to better understand the components of the small business tax gap and how we might support HMRC's efforts to reduce it.
21. The government should also clarify existing tax policy announcements including:

- a. **Providing an update on tax policy consultations:** An early indication of plans for tax policy consultations that have already concluded will be helpful, in particular the consultations on the [taxation of employee ownership trusts](#), [modernising stamp taxes on shares](#) and [tax incentives for occupational health](#). We would encourage the Chancellor in her Budget and accompanying documents to provide an update on the status of these consultations.
- b. **Reviewing the carried interest regime:** The nature of carried interest, including how gains through income and / or capital should be treated and the rates applied, are political decisions; it is appropriate that ICAEW does not provide recommendations on this matter. However, our representation [ICAEW REP 64/24](#) to the call for evidence on the tax treatment of carried interest pointed out that, in its mission for growth, the government needs to be mindful of the balance between reform of the current tax rules and the effect upon the UK as a destination for private capital from around the world.
- c. **Delaying the timetable for reforming the taxation of non-UK domiciled individuals:** ICAEW considers that the proposed date for changes of 6 April 2025 for taxation of non-UK domiciled individuals is too soon to implement such a significant change – particularly as the publication of draft legislation for consultation has been delayed. There is also a need to develop sensible transitional rules to avoid double taxation, otherwise there is a risk that individuals may leave the UK if that is the only way to avoid double taxation. We would ask the Chancellor to announce a delay in the Budget.

**C. Make the UK the green finance capital of the world: Require key entities to publish transition plans. Deliver the green taxonomy. Set out a UK net zero roadmap.**

22. The transition to a decarbonised, nature-positive world brings huge business and economic opportunity. To ensure the government achieves its mission to make the UK a clean energy superpower, tangible steps are needed in this Budget to engage business behind the vision.
23. **Promote private sector led growth:** The Regional Growth Funds, now closed, demonstrate how government can deploy public funding to secure private sector investment. Commitment to a similar vehicle which can engage skilled expertise from chartered accountants and other professionals will help ensure that state investments are channelled in the most productive way, while governance and accountability are upheld. We would welcome further engagement with Ministers as the green finance strategy develops, especially ahead of COP29 to ensure that the sector plays its part in capital mobilisation.
24. **Establishment of the green finance capital of the world in the UK:** The government should use the Budget to cement its manifesto commitment to position the UK as the green finance capital of the world, with London as the first net zero, nature positive aligned financial centre. The plan should, for example, include detail on the scope of plans to mandating UK-regulated financial institutions and FTSE 100 companies to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement.
25. **Commit to a timeline for publishing the green taxonomy and adopting IFRS sustainability standards:** Delivering the promised UK green taxonomy will help businesses and investors identify products that can deliver both environmental and economic benefits. Business needs certainty to be able to be fully engaged in scaling solutions so that transition is affordable to all. Providing clarity on the timing and process for the UK's adoption of international sustainability reporting standards will also help to promote the UK as a leading player in the sustainability assurance market. Assurance over sustainability reporting adds credibility to the disclosures made; a commitment to introduce an appropriate assurance regime would help the UK keep pace with the EU, which has already introduced requirements for mandatory assurance of sustainability reports.
26. **Set out a clear roadmap for the transition to net zero:** It is essential that fiscal policy is driving and not hampering the road to net zero and a just, nature-positive transition. A whole economy approach is required, with government showing leadership in the public sector and

providing the foundations, investment and incentives for green growth and innovation in the private sector.

- a. **Net zero delivery tracker:** To support the government's mission for the UK to be a clean energy superpower, the government should introduce a net zero delivery tracker which assesses the impact of Budget measures on nature and climate.
- b. **National Transition Plan:** It is important for the delivery of its mission that the government leads the way by publishing a whole economy UK National Transition Plan, integrated with the Industrial Strategy. The plan needs to be in line with the science and UK and global commitments on net zero, a nature positive world, and the UN Sustainable Developments Goals. It should consider a range of possible future scenarios, including the future economic consequences of "business as usual" in terms of climate/nature-related risks and foregone economic growth, jobs and competitiveness. It also needs to ensure that timelines for compliance are practical, with additional resources, guidance, proportionate reporting requirements and phased transitions for elements of the plan, especially for small businesses. ICAEW's views on the implementation of the Carbon Border Adjustment Mechanism is a [good case study](#) in this respect.

**D. Support the skills for growth: Introduce an AI upskilling scheme. Review apprenticeship funding bands. Protect training in the core skills needed for the industrial strategy.**

27. Our members tell us that access to skills is one of the biggest barriers to investment and growth. It is a challenge where government can play a particularly significant role in addressing. Action is needed to promote equality and diversity in the workplace, remove barriers to entry and widen the skills and talent pool available to employers. The Immigration Salary List should be reformed to focus on the skills the economy needs with the Skilled Worker Visa reviewed to ensure it is targeted effectively.
28. Access to the right labour skills should not be an obstacle to the strategic growth in the technologies of the future that the UK needs. Skills England has a key role to play in developing and communicating a clear skills strategy. This should include action to:
  - a. **Expand the AI upskilling fund:** ICAEW was pleased to promote the AI Upskilling Fund which supports SMEs in the professional and business services sector by match-funding AI skills training for their employees. While this was a positive development with government attempting to address a key challenge and opportunity, the scheme was seen as difficult to apply into, with numbers of businesses applying to the fund being disappointing. ICAEW calls on the government to work with businesses and the Professional and Business Services Council to adapt the scheme so that it is made more compelling and easier for businesses to apply to. We also call on the government to build on its £10m investment for regulator upskilling. This investment was a welcome support, but further investment is needed to ensure regulators have the skills required to address the risks and harness the opportunities of AI. The government should also consider leveraging Skills Bootcamps, as these already receive government resources and have a proven track record.
  - b. **Review apprenticeship funding bands:** Apprenticeships play an important role in getting people into the skilled occupations and professions that drive growth and social mobility; it is important that these schemes operate effectively. In the immediate term, the apprenticeship funding bands are in need of review due to current inflationary pressures and the Budget could include such a measure. In the longer term we understand that government plans to introduce a Growth and Skills levy to replace the successful Apprenticeship Levy. We support this initiative and recognise its potential to ensure more people can benefit from transformational training at a time of technological disruption to established occupations. However, it is important to recognise that changes to the structure of the apprenticeship levy or other financial mechanisms supporting apprenticeships could impact the viability of valuable existing programmes. Adjustments to how funds are allocated or accessed could strain the resources available for higher

level apprenticeships, (such as Level 7 qualifications provided for accountancy), which are valuable in providing the skills needed to deliver the Industrial Strategy in the highly skilled areas of the future economy that boost productivity – which include the UK’s world leading professions. Therefore, the reforms should aim to be additive to extend participation while maintaining quality and the net productivity of the jobs the apprentices are trained to do. If firms are instructed to use the apprenticeship levy on other training this should focus on high quality accredited courses, by quality assured providers, that help upskill employees to adapt to technological change, the transition to net zero and other big changes in the economy and the workplace.

**E. Make it easier to start and grow a business. Introduce a small business passport**

29. We were pleased to hear the Secretary of State for Business and Trade has as one of his key policy priorities help to support small businesses. ICAEW supports efforts to modernise the labour market and tackle exploitative practices through the Employment Rights Bill. However, it is important that the financial and administrative impacts of new costs and regulatory burdens to micro and small businesses are recognised so that any changes are proportionate. It is also important to ensure that small businesses are not unduly burdened by regulation and red tape in the supply chain. Additional and disproportionate regulation takes small businesses away from looking to scale up, innovate, find new markets and therefore hinders growth.
30. Small businesses are the lifeblood of the economy. But our members tell us that starting to trade is not as easy as it should be. Vital finance does not always flow to where it is needed. Late payments reported by one in five businesses as a growing concern in ICAEW’s BCM Q2 2024. The budget should therefore announce measures to:
- a. **Support SMEs to start trading:** Concerns about banking arrangements continue to be raised by our business and charity members, with frequent reports of delays in opening accounts. We believe every nascent small business should have access to a small business passport – a simple online portal through which the business or its agent can rapidly make all the necessary registrations to get trading, including with HMRC and banks. This could be integrated with Companies House digital verification to add security. Such a system might then be expanded to get SMEs set up for exporting. This would be an effective way to harness the potential of open data but does require a long-term approach from government and investment in the relevant infrastructure. Steps toward this could be announced in the Budget.
  - b. **Help in accessing finance:** Finance is often available, but smaller businesses are not aware of how best to access it, so promoting the value of professional advice and signposting useful resources will be crucial. ICAEW’s [Business Finance Guide](#) and [Business Advice Service](#) are examples of how this can be done. Initiatives such as these could be supplemented by new government efforts to signpost finance and business advice. The government should explore a new version of the Growth Voucher Scheme that closed to new applications in March 2015. The scheme helped over 28,000 small businesses access strategic advice on areas including financing that could help them grow. Three-quarters of these businesses received a voucher that offered up to £2,000 to cover half the costs of buying strategic business advice from private sector suppliers. The government should also enable larger Start-Up Loans via the British Business Bank. The threshold of £25,000 has not changed since the start of the scheme in 2012 and is due an inflationary increase, as a minimum.
  - c. **Mitigate barriers to exporting for small businesses:** As with his priority to support small businesses, it is also pleasing that the Secretary of State for Business and Trade has the implementation of a trade strategy as a key objective. Unfortunately, many businesses involved in trade find it administratively cumbersome and difficult to access relevant information. Small businesses are put off considering exporting because of the disproportionate risk and therefore pass up the opportunities in new markets. Government should therefore help to mitigate such risks for SMEs. Several projects (including the Single Trade Window) are in development to overcome these issues and HMRC should

continue to work closely with business representatives to speed up these projects and simplify customs declarations and modernise customs authorisations. There are useful resources available from the UK Export Academy, but these are hard to find on the gov.uk website and should be made much easier to access. The [duty deferment guarantee waiver](#) from HMRC is saving some businesses a few thousand pounds a year but it is difficult to find this information.

## SECURING ECONOMIC GROWTH IN THE LONG TERM

### F. Support robust institutions, governance, financial management and reporting to provide firm foundations:

31. Better financial information, use of data, resilient institutions and strong public finances provide stability and can power business successes.
  - a. **Fiscal scrutiny:** Introducing a Budget Committee, as proposed by the House of Commons Procedural Committee, would provide a forum where government and Parliament could have a meaningful dialogue around long-term fiscal strategy as well as short-term financial priorities such as tax design and public service effectiveness. We believe this would complement the role of the Public Accounts Committee in holding the government to account for what it has done and is doing by ensuring tax and spending proposals are scrutinised before rather than after they are implemented.
  - b. **Robust institutions and governance:** A series of high-profile governance failures in both central and local government have proved costly to taxpayers, caused significant harm to individuals and families, and frustrated the ability of government to achieve its objectives. Consolidating the current complex web of corporate governance guidance within the public sector into a single Public Governance Code would provide a stronger foundation to enable elected representatives and public servants to do the right thing.
  - c. **Financial management:** We are pleased that the Chancellor has announced plans for a new Office for Value for Money to improve the quality of financial decisions. We also support the move to three-year rolling Spending Reviews every other year, providing the certainty public bodies need to plan more effectively. We believe that a Chief Financial Officer (CFO) at the Cabinet board table would improve the effectiveness of financial management across central government and better support the Prime Minister and the Chancellor in making the best financial choices for the country.
  - d. **Financial reporting and audit:** Holding departments, local authorities and other public bodies to account is a critical component of how the system should work, but it is hampered by levels of financial literacy, unclear financial reporting that makes it difficult to understand how public money is being spent, and delays in the publication of the Whole of Government Accounts and in the audited financial statements of hundreds of local authorities in England. Getting the accounting basics right with transparent financial information is essential if those involved in making financial decisions, the governance structures that oversee those decisions, and in ensuring there is accountability for those decisions, are to be able to do their jobs properly. The current delays in publishing audited local authority financial statements have led to unacceptably low levels of accountability in some councils, and we support the government's introduction of backstop dates to address the backlog of unaudited financial statements. However, this will not be sufficient to address systemic weaknesses in local financial reporting and audit in England and our [vision for local audit](#) sets out a series of actions that we believe will improve financial reporting, deliver high quality and more timely audits, strengthen financial management and governance.
  - e. **Economic crime and fraud:** The Economic Crime and Corporate Transparency (ECCT) Act should help to reduce the attractiveness and viability of the UK being used by criminals and other nefarious actors to conduct economic crime. The significant changes to Companies House especially are long overdue and, if effectively implemented and funded, should provide an effective mechanism to reduce the prevalence of bad actors

committing economic crime in this country. Enhancing the powers of the Office for Professional Body Anti-Money Laundering Supervision and increasing the effectiveness of professional body supervision (the OPBAS+ model) would preserve and build on the significant investment already made in OPBAS, maintain the UK's alignment with AML work in Europe, and reduce the risk of uncertainty posed by the upheaval which would be caused by the other options proposed.

- f. **Non-financial reporting thresholds:** The previously announced plans to increase the monetary company size thresholds as well as the intention to remove certain Directors' Report requirements are welcome as important first steps towards a refreshed and improved non-financial reporting framework. However, responding to the consultation earlier this year [ICAEW expressed concerns](#) that the proposals represent further piecemeal amendments that risk adding complexity and uncertainty rather than clarity and consistency. We strongly encourage the government to present the proposals as part of a full set of plans that covers wider and connected elements of the non-financial reporting framework, including the introduction of UK Sustainability Reporting Standards.

## G. Make smarter use of regulation and data to leverage opportunities for growth

32. Regulation is important but needs to be proportionate and should not be a barrier to success.
- a. **Smarter regulation:** The government should commit to completing the smarter regulation review, providing a regulation roadmap to help the public understand the objectives, operation and performance of each sector's regulatory regime. If the regulatory regime is to be shaped to support the twin objectives of economic growth and the transition to net zero, regulators will face challenges and government will need to help them navigate this. ICAEW has recommended that the government establish a permanent body accountable directly to Parliament to check that the regulatory regime is functioning as intended and delivering on the growth duty.
- b. **Regulatory innovation:** It is encouraging that the government is introducing legislation that will create the conditions for innovation and growth with support for models like Open Banking, and Open Finance and a pro-innovation regulatory framework in financial services. The Regulatory Innovation Office has an important role to play here. The UK should develop the sandbox approach that provides firms with a safe space to trial new products and services. Developed properly in coordination with business it can make the UK an attractive place for firms internationally to innovate and invest in.
- c. **AI regulation:** The previous government's AI regulation approach lacked detail. A clear and more detailed AI regulation strategy should be set out urgently which can encourage more tech investment into the UK and facilitate greater take-up of AI by companies to improve productivity. Such a regulatory approach needs to provide businesses with clarity on what is required of them so that they can innovate confidently and provide consumers with confidence that risks such as those related to AI safety, ethics, security and fairness have been sufficiently managed. AI assurance is a valuable tool in supporting regulation and mechanisms to deliver assurance should be established. The UK could provide a 'Goldilocks' approach to AI regulation, ensuring that we are not being restrictive like the EU and not too permissive like the US, but just right in terms of balance and proportionality to facilitate investment and growth in AI.
- d. **Smarter data:** The public sector should lead the way with new protocols and initiatives for data sharing, both to improve the responsiveness of public services to support economic growth and public wellbeing and to maximise the cost-efficiency and effectiveness of the public sector in delivering those services. It is important that businesses are providing data to government once and not duplicating data provision. Once captured, with appropriate safeguards in place, data can be shared, resulting in more efficient and effective infrastructure and public services. AI can then interrogate that data so that limited government resources are targeted and directed appropriately. Key institutions including HMRC and Companies House are major data repositories and should be equipped to

realise these capabilities by improving data sharing across government to avoid duplication and streamline processes. Companies House reform, already legislated for, has great potential to enhance data quality on the public register. Not only will this secure the register from criminal abuse, it will lay the foundation for new data products and services.

## H. Remove barriers to improve the investment landscape. Invest more in R&D

33. The government has taken a positive first step in convening an International Investment Summit, but there is more to be done to promote inward investment and make the UK an attractive destination for private capital. Infrastructure is a key determinant of productivity and investment in transport, stable energy costs (and grid connections) and flexible planning laws are all essential factors in providing a platform for growth and investment.
- a. **Encourage more companies to invest in R&D:** We welcome the government's manifesto commitment to "meaningful partnerships with industry to keep the UK at the forefront of global innovation". Government plans to scrap short funding cycles for key R&D institutions in favour of ten-year budgets is welcome. A firm commitment to ensure 3 per cent of GDP is spent on R&D is needed, as well as a roadmap for achieving this (including levers relating to regulation and taxation and support from HMRC, as we have mentioned earlier in this submission). It is important that R&D spending is more evenly distributed across the UK, to help develop local skills and industry clusters. In addition, we believe that an overhaul of the government's guidance on R&D tax relief, along with a commitment to update the guidance regularly to reflect new technologies, will help to embed the merged R&D relief rules. This guidance needs to be developed in consultation with businesses and advisers to reflect real-life examples of qualifying R&D projects across a range of industries. Incentivising R&D is inseparable with innovation. We therefore welcome the government's commitment to maintain the current structure of R&D tax relief over the next parliament, which we believe will provide stability and certainty. More attention is needed however to power an innovation-led modern economy. The Royal Society, for example, [shows](#) that R&D claims from businesses registered in the North East were, at £85m, only 7% of the £1,140m in 2015-16 in London. Given that the North East invented railways, light switches and dry photographic plates, the government should use the opportunity of its first Budget and commitment to an industrial strategy to ensure that the North East and other regions can be as innovative and world-changing in the 21<sup>st</sup> century as they were in the 19<sup>th</sup> century.
  - b. **Enable pension funds to invest in the UK's success:** In its review of the pensions landscape the government should investigate barriers to infrastructure investment in pension fund risk profiles. It is encouraging that the government is keen to ensure that British companies should be able to raise finance from UK-based investors, including pension funds, and not sell to overseas, or see investment returns flow overseas to minority investors. Resolving this issue is complex, but the answer must come from building demand for UK-listed equities. Change may be stimulated through fiscal policy and pensions reform which should extend to law and regulation impacting pension fund trustee investment policy. Minor rule changes, such as to the London Listing Rules, are unlikely to make a significant difference. The International Investment Summit is an important opportunity to champion the strengths of the UK and review the strengths and weaknesses of the UK investment landscape.
  - c. **National Wealth Fund:** A key focus for government needs to be infrastructure investment, but with a clear warning that public funds should drive additionality rather than providing cheap cost of capital to existing actors. The government should announce which sectors it intends to invest in, so that the private sector understands how it can best finance investments through public-private partnerships in a way that delivers growth opportunities. For example, there may be less merit in government funding for low-risk assets that are not short of overseas pension and sovereign wealth fund money, such as ports and gigafactories. We also recommend strict consideration of the overall

environmental impact of “clean steel”, Carbon Capture and Green Hydrogen given that these areas have been announced as a focus for the NWF.

- d. It is also important that successful regional investment funds administered by the British Business Bank continue to prosper and attract investment. Well managed investment funds are also of demonstrable value when they are administered locally and tasked with incremental investment and additionality. For example, a [report](#) on the impact of the Northern Powerhouse Investment Fund noted its impact in increasing the quantum and diversity of finance available to SMEs in the North of England." The English Devolution Bill provides a timely opportunity to consider how combined authorities can coordinate investment.

## I. Articulate a clear trade strategy with services at its heart

34. The government needs to articulate a clear trade strategy and use every lever available to get UK businesses of all sizes the access they need to international markets.
35. **Services trade:** The UK is world-beating on services and is strong on services exports. The global economy, as it grows and matures, will require more services, which places UK businesses in a strong position for the next decade. To maximise opportunities in the long term, a UK trade strategy should include a specific vision for professional and business services trade, given its value to the economy.
  - a. **EU/UK relations:** Ahead of the planned review of the EU-UK Trade and Co-operation Agreement, clarification on how dialogue with business will be structured is important.
  - b. **US/UK relations:** We are also committed to supporting growing trans-Atlantic dialogue. Our members would be interested to participate in trade missions and further dialogue with US stakeholders. We have been working to establish a mutual recognition agreement in audit and accountancy with our US counterpart bodies. This would be a much-prized agreement covering membership, practising and auditing rights between chartered accountants and US CPAs from the world’s two largest auditing economies.
36. **Build meaningful mechanisms to recognise qualifications:** ICAEW has called for sector-specific deals on mutual recognition of professional qualifications (MRPQ) to be included in new free trade agreements, and we are pleased that the government has pledged to prioritise this. To enhance these sector-specific deals, we recommend the government instructs regulators to work with professional bodies to ensure the administration and operation of agreements are proportionate and practical. FTAs should set a timeline for regulators, to ensure MRPQ is delivered and effective. There also needs to be increased use of non-FTA ways of delivering MRPQ more quickly, for instance regulator to regulator mutual audit qualification agreements under s.1221 of the Companies Act. The UK’s MRPQ positioning would benefit from FRC and DBT interpreting parts of the Companies Act 2006 differently or amending those parts where a reinterpretation is not possible, as is currently happening in Parliament with regard to para 9 (4) of Schedule 11.

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