

Spring Budget 2024 Representation

Association of Accounting Technicians (AAT)

Date of submission: 11 January 2024

About AAT

- AAT is the UK's leading qualification and professional body for technical accountants and bookkeepers. We have around 51,000 members in over 100 countries and approximately 75,000 students studying our qualifications.
- Founded in 1980, AAT is a registered charity committed to increasing the availability of high-quality accountancy education and raising professional standards. We aim to advance public education, promote the study of accountancy, prevent crime, and promote and enforce standards of professional conduct for accountants.
- Over 600,000 small businesses are supported by more than 6,000 AAT licensed members to help build the businesses' financial capabilities. AAT also helps businesses of all sizes upskill and train employees to be the business leaders of the future.
- Our suite of qualifications is highly regarded across the profession and open to all. We help school leavers take their first steps in their career as well as thousands of career changers gain and develop new skills to equip them for careers in finance.

Introduction

AAT welcomes the opportunity to submit this representation ahead of the Chancellor's Spring Budget on 6 March 2024. This submission sets out AAT's position on a number of policy areas and priorities that are important to our members and the small businesses supported by the accountancy profession, including taxation issues, professional standards, support for SMEs and late payments.

We hope that this submission is of interest to the Chancellor and Treasury officials. If HM Treasury would like any further information on the themes raised, please contact adam.harper@aat.org.uk

Tax Simplification

- **Creating a simpler, fairer and more effective tax system should be a key priority for the Government.** This would be best delivered by an arms-length body focused specifically on this purpose.
- **A simple, fair and effective tax system benefits everyone in the country.** It enables small businesses to navigate their tax affairs efficiently, businesses and individual taxpayers to pay the right amount of tax at the right time, and reduces the tax gap, resulting in greater tax revenue that can be used to improve public services.
- **The current tax system is failing to meet this objective.** Recently, tax policy has been introduced in a disjointed fashion, with not enough clear and transparent guidance, which also disproportionately affects small and medium sized businesses.
- **Failure to take reasonable care and taxpayer error represented 45% (or £16.2bn) of the tax gap in 2021-22.** Moreover, both of these trends have increased which shows the need for better standards in accountancy and bookkeeping.
- **Tax simplification does not just mean digitisation or eliminating the need for an accountant.** Indeed, accountants play an essential role, especially for small businesses. AAT would welcome independent oversight of HMRC's approach to simplification in order to ensure that genuine simplification is being delivered rather than simply digitalisation.

- **Clarity required on tax simplification priorities.** The decision to abolish the Office of Tax Simplification was taken under the previous Truss Government with the rationale that tax simplification would be “embedded into the heart of Government”. However, with the change of Government since then, and with little detail published since, it is important that further clarification is issued about what measures are being taken and how the Government is taking forward the tax simplification agenda.
- **A new arms-length body, separate from government, should be created that is dedicated to the design, administration, and delivery of tax policy.** This should not simply be a revival of the OTS but instead have a broader remit to improve tax policy in both design and implementation. Underpinning this should still be a guiding principle of delivering genuine simplification throughout the tax system.

Making Tax Digital

- **AAT has been and remains a strong and vocal supporter of Making Tax Digital (MTD).** As an organisation that takes a digital-first approach, AAT recognises the benefits that MTD can bring. If delivered effectively, it can reduce the tax gap, have a positive impact for businesses and their financial planning (e.g. quarterly reporting), and improve the efficiency of tax administration more generally.
- **The continual delays in implementing MTD demonstrates that the status quo cannot continue, and that action is needed immediately.** The extra time given by the recent delays to MTD must not be wasted. As a first step, the pilots for the next phase of MTD must start as soon as possible if the new deadline is to be reached.
- **It is essential that HMRC sticks to its revised MTD timeline, with no further delays.** Businesses need certainty and the previous delay of MTD for ITSA from 2024 to 2026 was frustrating for the accountancy profession who had invested time and resources in getting ready for the deadline. It is essential that HMRC does not deviate from its newly issued timetable.
- **The Public Accounts Committee has recently highlighted significant shortcomings in the Government’s delivery of MTD and the associated costs with regards to Income Tax for Self Assessment and VAT.** AAT urges the Government to address these concerns as a matter of priority. It is essential that MTD returns swiftly to its original objective of delivering benefits both to HMRC and taxpayers by making the tax regime more efficient and delivering a simpler, faster system that will be easier for all to use.
- **Technology could outpace MTD if delayed any further.** There is a risk that further delays could result in MTD being overtaken by new technological advances, making large elements of it redundant. This would only cause further disruption and uncertainty for businesses and waste what has been over a decade of work in developing MTD.
- **There should be added support for those who are digitally excluded.** HMRC and the Government already recognise that for some digitally excluded people, MTD will never be a realistic option. However, there is insufficient detail on how this group will be supported once MTD is implemented. AAT would urge the government to provide further details on what support will be available to this vulnerable group.
- **It is essential that HMRC invests in building greater awareness of MTD among small businesses.** Last year, 85% of AAT Licensed Accountants believed the ITSA registration process was not well understood or was only understood with the help of an accountant or other professional.
- **HMRC current resourcing needs should not be neglected in the anticipation of MTD.** MTD is still years away from full delivery. HMRC resources should not be cut because of the future promise of efficiencies that a digital approach will bring, especially when considering the delays with MTD and the poor service levels AAT members currently experience with HMRC.

Tax Reform to support SMEs

- **SMEs face disproportionate administrative burdens on tax compliance relative to their turnover¹.** The addition of taxes, complexity of the tax rules, frequency of submitting tax returns, and the number of levels of government involved in levying and collecting tax can all add greater costs to SMEs than larger businesses who can more easily absorb these compliance and administrative costs.²
- **Tax simplification for SMEs can improve compliance and productivity.** Simplifying and streamlining tax obligations for SMEs can help alleviate costs and reduce the time spent on tax issues allowing them to focus on growing their business.
- **There should be greater promotion of tax relief and clearer guidance from HMRC tailored to SMEs.** Many SMEs are not aware of the tax relief that they could take advantage of and guidance helping them to navigate the complexities of the tax system is not always clear or available.
- **AAT supports the ‘Transforming HMRC Guidance and Forms for Small Businesses’ programme but wants to see it accelerated.** Announced in the Spring Budget 2023, this two-year programme to improve guidance and forms for SMEs is very welcome. We encourage HMRC to push this programme forward so outputs from it are delivered quickly.
- **The Government should explore mandating a dedicated impact assessment on SMEs for any tax reform proposal.** Any new changes in tax policy should legally require the Government and HMRC to properly assess and consider the resource and cost impact the change will have on small businesses.

Increasing Professional Standards in the Accountancy Profession

- **HMRC does not have the resources to police tax advisers effectively.** HMRC is already struggling to provide adequate service levels and does not have the capacity to effectively oversee tax advisers. HMRC customer service staff numbers have been cut by 24 per cent in the past five years and our members spend hours on the phone and chasing letters causing additional compliance costs.
- **The Government should urgently consider compulsory membership of a recognised professional body for those offering paid-for tax advice.** This would be an effective, low-cost solution that benefits business and the taxpayer. It would take the administrative burden and cost away from taxpayers while still enabling effective oversight and sanctions of the tax advisory profession. It could also help close the more than £16bn tax gap that is lost due to error or failure to take reasonable care.
- **Unregulated accountants make up one third of the profession but account for two-thirds of complaints to HMRC.** Anyone can call themselves an accountant, without needing a qualification, and a third of tax advisers and accountants do not belong to a professional body. This poses a serious consumer protection threat, costs the taxpayer hundreds of millions of pounds a year and creates considerable administrative burdens for HMRC.
- **Membership of professional bodies is required in over 200 other professions in the UK.** For example, surveyors must be RICS-accredited to undertake certain surveying work which is also often a requirement for funding from Government housing schemes.
- **A recent small business survey showed over half of respondents had to hire a qualified accountant to correct the mistakes made by a previous unqualified accountant.** The same survey also found that 42% of respondents lost money due to poor accounting.

¹ <https://www.fsb.org.uk/resource-report/a-duty-to-reform.html>

² <https://www.oecd.org/global-relations/41873897.pdf>

- **Over three-quarters of AAT members said they had seen malpractice by unregulated agents.** A survey of AAT members in 2021 found that 77% of AAT accountants had witnessed malpractice by tax agents who were not part of a professional body in 2021.

HMRC Resourcing

- **It is essential that greater resources are provided to HMRC in order to improve customer service levels and rates of compliance.**
- **Customer service standards by HMRC have fallen to an unacceptably low level.** This has significant ramifications for taxpayers, business owners and their agents who are trying to comply with their tax obligations but need to be able to interact with the tax authority in a timely and efficient way. Providing additional resource in the short term would free up capacity for HMRC staff, and ensure that the compliance burden is relieved whilst reducing cost in the longer-term.
- **The Public Accounts Committee found last year that £42 billion in taxes have not been collected.** While there are many factors causing this, it would appear that a major underlying problem is insufficient resourcing and underinvestment in HMRC's systems and customer service.
- **Many AAT members bear these costs rather than pass them onto their frustrated clients.** Time spent waiting on phone lines and sending chasing letters creates additional compliance costs for members which they are reluctant to pass on.
- **At a time of economic hardship, this not only affects the amount we can spend on public services, but it also severely restricts economic growth.** We increasingly hear from AAT members about the severe delays, business disruption and frustration that has become a regular occurrence when dealing with HMRC. Ultimately, underinvestment in service and compliance levels comes at a cost to the taxpayer by reducing the amount of tax collected.

Clarification of the Timetable for Anti-Money Laundering Reform

- **Clarity on the Government's decision and timetable for the implementation of reform to the anti-money laundering supervisory regime is urgently required.** We urge the Government to publish the outcome of the consultation on AML reform alongside the Spring Budget, if not before.
- **There is not sufficient evidence to justify a wholesale transformation of the AML/CFT supervisory regime.** The latest OPBAS report said that technical compliance remained good (i.e. supervisors had all the necessary technical requirements in place to supervise) and while there were improvements necessary for effectiveness, the report highlighted the risk within the TCSP sector rather than the quality of supervision in it.
- **Of the models of reform the Government has set out, OPBAS+ is by far the easiest, quickest and least disruptive solution of the four proposed.** It offers a more robust regime, greater accountability for PBSs, and best meets the objective that 'structural reform be implemented swiftly'.
- **OPBAS+ also offers stability and certainty for businesses as well as retaining expertise of Professional Body Supervisors.** No other option guarantees these elements or that supervisory effectiveness will not decrease during a transition – all of which are vital to a functioning AML scheme. This should not be undervalued.

Late Payments and Cash Flow

- **AAT welcomed the announcements on late payments made at the Autumn Statement 2023, including the Payment and Cash Flow Review Report, the responses to the consultation on the Payment Practices and Performance Regulations 2017, and the statutory review of the**

role of the Small Business Commissioner. However further action is required to address the challenge that late payments present to businesses and SME's in particular.

- **Late payments are an increasing threat to SMEs during this tough economic period.** Around 50,000 firms close each year due to cash flow problems and business surveys are showing the problem of late payments is getting worse. The FSB found that on average in 2022, 52% of small businesses experienced late payments in the previous three months and 25% reported an increase in late payments.
- **The Government needs to take further action to ensure large businesses are held accountable for paying their suppliers on time.** AAT supports the FSB's call to make the audit committees of large corporates accountable for supply chain payment practices as well as the introduction of a legal requirement that payment times and conditions be published in annual reports.
- **The Prompt Payment Code should be compulsory for any organisation employing more than 250 staff.** This would have a significant benefit for suppliers as well as send a strong message to large businesses of what is expected of them. The recent announcement that signatories to the Prompt Payment Code will now need to renew every two years is a welcome development, but does not go far enough in addressing this important challenge.
- **73% of MPs support AAT's calls for making the Prompt Payment Code compulsory for large businesses.** A survey of parliamentarians conducted by AAT showed a clear cross-party support in Parliament to take such action. There is also support for this from the construction, recruitment, finance and accountancy sectors.
- **AAT reports payment statistics for all suppliers, not just small businesses covered under the Prompt Payment Code.** In 2021–22, 98.3% of supplier payments were made within 60 days of the invoice date, a 1.7% improvement on the previous year, and 91.9% of payments were made within 30 days, a 6.5% improvement on the previous year.
- **AAT welcomed the changes to the role and powers of the Small Business Commissioner announced as part of the Government's response to the Payment and Cashflow Report.** However further action is required to enable the OSBC to continue to improve its ability to improve late payment culture. The new enhanced powers of investigation are welcome, however new enforcement powers for the OSBC are needed to ensure greater progress can be made.
- **The Government should act now to improve the powers, scope and awareness of the OSBC.** These should include:
 1. Giving the OSBC powers to impose financial penalties on businesses who persistently pay more than 95% of their invoices in more than 30 days.
 2. Investing further in the OSBC to give it a dedicated staff and improved marketing capabilities to promote awareness of its support among the small business community.

Help to Grow

- **AAT is an active supporter of the Help to Grow agenda.** We supported both the Management and Digital schemes as a way to support small businesses to grow.
- **Help to Grow: Digital was initially poorly designed and not well promoted.** The eligibility criteria were too restrictive and there was not sufficient promotion of the schemes among the business community to build awareness of the support available.
- **Despite the removal of the scheme, SMEs still need support for operating in an increasingly digital world.** The demand for this kind of support still exists and the pandemic has only accelerated the need for SMEs to modernise and adopt more technology if their business is to thrive in an increasingly tough economic climate.

- **There is evidence that a digital scheme can work if delivered effectively.** Scotland's DigitalBoost digital upskilling programme has been successful in both engaging businesses and seeing a positive take-up from SMEs. This both shows the demand for such support and the difference it can make.
- **The Government should introduce a new scheme with similar aims to Help to Grow but that learns the lessons of the past.** This includes ensuring the eligibility criteria is not overly restrictive, the available software and providers is sufficiently broad, and that the Government works with industry bodies before implementation to ensure widespread promotion of the scheme.