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James Murray MP
Exchequer Secretary to the Treasury
HM Treasury

Via email: XST@hmtreasury.gov.uk

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Dear Minister

Business Tax Roadmap

The Chartered Institute of Taxation (CIOT) welcomes the government's commitment to publishing a roadmap for business taxation and to consult on this. This letter sets out some key areas for consideration and we would be pleased to contribute to any wider consultation or discuss any of the specific issues with you in more detail. We look forward to joining the roundtable on 12 September.

Roadmaps like the 2010 corporate tax roadmap and the 2016 business tax roadmap are very welcome, as they can provide the two things businesses most seek: predictability and stability. They can provide clarity as to the government's aims and the future direction of the tax system, as well as noting potential challenges and contingencies to provide agility when circumstances change. The 2010 corporate tax roadmap, in particular, was considered a success due to its focus on how policy design would be undertaken with emphasis put on transparency and consultation.

We would like to see the forthcoming roadmap replicate the success of the 2010 roadmap, and suggest that there are some important principles, outlined below, that should underpin the new roadmap, and be reflected in the detail of any proposals in it.

Firstly – the roadmap should be based on some key objectives. One approach would be to adopt what the government set out as its role in its Business Partnership for Growth (published in February 2024). These are:

1. Providing stability, integrity and certainty;

2. Setting the strategic direction;
3. Removing unnecessary barriers; and
4. Creating growth everywhere.

Secondly, policies in the roadmap should be coherent and considered in conjunction with other government priorities. That is to say, it should be clear how they fit with other government policies, including non-tax specific policies, such as climate change and growth agendas.

Thirdly, the roadmap should include some process by which to monitor and evaluate progress, as well as a commitment to following the tax policy consultation framework as much as possible.

We set out below a number of considerations, framed within the four proposed objectives. We note that the roadmap is being badged as a business tax roadmap and so have included a wider range of considerations – however we recognise that a narrower scope for the roadmap may enable it to be more focused.

1. Providing stability, integrity and certainty

The overwhelming feedback that we receive when considering changes to business taxation is that stability, predictability and certainty are more important to businesses than any rate of relief or tax. This applies to business of all sizes.

An area where the UK lags behind some countries is in providing **pre-clearances and rulings**, with HMRC generally unwilling to comment or give its view other than in a very narrow range of circumstances.

We therefore welcome the commitment outlined in the February Business Partnership publication around greater use of advanced rulings and clearances. The February publication suggests that these should be available for major investment projects, but also that the roadmap will identify areas where rulings and clearances could be beneficial. We would like to encourage you to consider whether there are circumstances where clearances or other mechanisms for greater certainty would also be of value to smaller and less complex businesses; helping them get things right and have confidence that they are doing so.

Mechanisms for giving greater certainty, including pre-clearances and rulings, are an area that could usefully be consulted on – to best understand from businesses/their accountants and tax advisers where there is most need, and to explore ideas for ways of minimising the resourcing impact on HMRC (and perhaps test whether there are cases in which taxpayers could assist with covering the costs by paying a modest fee).

The implementation of any advance rulings and clearances process will be critical to ensuring they give the desired certainty and in a way that does not impede time-sensitive transactions. There must be a clear process that sets out how and what evidence businesses would need to provide to support a clearance application; the HMRC teams dealing with them will need resource to enable timely and expert responses.

We recognise that providing an effective clearance system would place a significant additional technical resource burden on HMRC, and that this technical resource may not be easy to provide. However, it may be possible to mitigate those costs by systematically extracting and embedding agreed principles or examples from clearances in wider guidance for the benefit of all taxpayers or, as a step further, to consider publishing anonymised clearances. There may also be a freeing up of compliance staff who will no longer need to consider these complex issues with lengthy enquiries after the fact.

Wider points on certainty

In addition to where there are complex transactions, which would be candidates for specific pre-clearances, there are several features of the tax system which currently generate uncertainty for businesses, and which could be improved to provide increased clarity and certainty. These include:

- Guidance: better and accessible guidance would enable businesses and their agents to self-help. We would also welcome more thinking about how best to reach businesses giving changes in the way people access and gain awareness of issues and gather information with shifts in social media usage, for example.
- HMRC customer service: poor/inadequately resourced customer service from HMRC, including the length of enquiries and delays in responding to letters/other contact or with issuing essential documentation (for example, VAT registration numbers or certificates of residence for double tax treaty relief) hampers businesses and prevents them from focussing on core activities that drive growth.
- Compliance activity: badly targeted compliance activity is costly (for HMRC and taxpayers), undermines trust in the tax system and discourages business activity. For example, HMRC's handling of R&D claims is a current and key concern of CIOT's, on which we will be writing separately.

2. Setting the strategic direction

The roadmap is an opportunity to set out the government's strategic goals and priorities for the tax system. These might include:

- Re-establishing the UK as an attractive place to invest and do business.
- Ensuring the tax system is seen as fair and even-handed.
- Reducing compliance costs and administrative burdens – and a commitment to gaining better evidence as to the administrative and other burdens on taxpayers (for example, with an overhaul of the outdated standard cost model)
- Committing to simplifying the tax system (or at least make it easier to understand and navigate)
- Promoting compliance to close the tax gap
- Clarifying the tax system's role in achieving net zero and giving clearer strategic direction and coherence across tax and non-policy (for example, with incentives and reliefs)
- Deliver digitalisation in a way which supports both taxpayers and HMRC

Climate change / net zero

The CIOT has long advocated that the UK government should publish a roadmap setting out how it will use tax policy to support the UK's journey to net zero. In October 2021 we published a paper, Climate Change Tax Policy Roadmap[1], setting out our principles for such a roadmap, and encouraging the government to consult and engage on its plans in this area.

Following COP26, the Climate Change Committee recommended that *'The Treasury should undertake a full review of the role of the tax system in delivering Net Zero aiming for higher and more consistent carbon pricing across the economy.'* We note that in the Climate Change Committee's 2023 progress report it stated there was no progress on this key recommendation and that the government should urgently *'undertake a review of the role of tax policy in delivering Net Zero'.*

Further, there are aspects of the tax system that actively restrain investment in net zero; we would like to see the government undertake a review of such areas by industry (eg water, renewables, electricity, infrastructure) to understand the ways in which the tax system (via capital allowances, pre-trading deductibility, decommissioning,

[1] https://www.tax.org.uk/climatechangeroadmap

ability to recycle capital) creates issues and how it could be updated to remove barriers, even in a revenue neutral way. For example, some businesses would be open to incurring a higher ring-fenced tax rate later, to secure upfront tax concessions that facilitate investment and growth.

3. Removing unnecessary barriers

The tax system, and its administration, should work to support business activity. However, two current issues risk creating, rather than removing, barriers.

HMRC service levels

HMRC's service levels are widely recognised as being at an all-time low. This in turn inhibits business activity as registration for taxes, repayments of tax and related administrative tasks are taking significantly longer than necessary. In the survey we carried out last summer, 95 per cent of respondents said that poor service levels have a 'moderate' or 'significant' negative impact on both the ability to do business, and the costs of doing business. We address incentives and reliefs in 'Creating growth everywhere' below, but it is evident that poor delivery and administration of an incentive or relief can undermine the policy objective.

We were pleased to see the additional £51m investment in HMRC announced in the spring, but there is clearly more to do to improve HMRC's performance.

It is against this background that the CIOT and ICAEW have joined forces to gather evidence of members' interactions with HMRC, and produce a report outlining the findings and recommendations for improvements. We would be happy to keep you appraised of the progress of this project.

Digitalisation

A good digital tax administration system has huge potential to save businesses time, to provide easier data analysis for HMRC and to benefit all parties by reducing error. However, as we have raised with you previously (and thank you for your letter in relation to the implementation of Making Tax Digital (MTD) for Income Tax Self-Assessment (ITSA)), we have several concerns about MTD for ITSA in its current form and the future direction of MTD for Corporation Tax (CT) is even less certain.

We remain concerned that MTD will not achieve its stated objective of reducing the tax gap, but will increase businesses' costs by making them comply with reporting obligations for little or no benefit.

The business tax roadmap presents an opportunity to restate the aims and intentions around digitalisation of the tax system as it applies to businesses, including partnerships and companies. This is relevant for businesses of all sizes.

Addressing the tax gap, those figures demonstrate that most of the tax gap is attributable to small businesses; the small companies CT tax gap represents 32.3% of theoretical CT receipts from those businesses, and an absolute amount of £10.9bn, and the unincorporated business (excluding partnerships) income tax gap represents 24.3% of theoretical ITSA receipts and an absolute amount of £5.9bn.

Larger companies are already subject to stringent record keeping and reporting requirements if they are subject to the audit and/or Senior Accounting Officer requirements. Quarterly reporting for CT for these companies would deliver no additional benefits, yet would be incredibly costly and time consuming for all parties to develop and implement. Further, those registered for VAT are already obliged to keep digital records and report quarterly. We believe that measures to reduce the tax gap should be focused on where the risk lies.

We urge the government to review, in conjunction with stakeholders, its digital ambitions around tax administration. We have published what we consider to be the principles of a digitalised tax system,[2] and recommend that any projects which fail to meet them are paused and reconsidered.

4. Creating growth everywhere

We welcome the manifesto commitment to retain a permanent full expensing system for capital investment and the annual investment allowance for small businesses. The manifesto also states that a Labour government will give firms greater clarity on what qualifies for allowances to improve business investment decisions. This would be welcome as recent case law[3] has made significant areas of the capital allowances rules less clear. HMRC's approach in these cases appears contrary to a pro-investment/growth approach, and the uncertainty creates a potential disincentive for investment generally, particularly for major infrastructure schemes.

Overall, we would welcome further clarity in the roadmap as to the government's longer-term strategy in relation to business investment and for giving incentives (including capital allowances) and reliefs, focusing on the type of investment it wishes to encourage and therefore how the fiscal levers can support this, and with a goal of simplification. For incentives to be attractive, they must also be easy to access and the burden of claiming, complying with or understanding the rules must be proportionate to the benefit of the relief.

Useful questions to consider are:

- Whether the government is keen to encourage more investment by larger businesses and/or specific sectors?
- Is the government aiming to incentivise and accelerate spend that would occur anyway? Or is the principal policy aim to attract and stimulate new investment, including from other jurisdictions?

The roadmap also provides an opportunity for the government to ensure that capital allowances are applied with a more strategic and longer term view that aligns to government's over-arching policy objectives and strategy for business growth, whether that is reduction in CO2 and energy efficiency (net zero), promoting innovation and high tech (high productivity) R&D industries, or improved and increased house building.

Capital allowances are also a case in point on simplification:

Before the general election, HMT and HMRC were consulting on technical changes to the capital allowances regime, following the introduction of permanent full expensing, with a focus on simplification which was welcome. Targeted reliefs which have been introduced over the years into the UK capital allowances rules have left a complex regime – and complexity can undermine access and effectiveness as an incentive.

Research and development tax relief

We welcome the certainty brought about by Labour's commitment to maintain the current structure of R&D tax credits throughout this parliament, and the need to drive down illegitimate claims, but much still needs to be done to ensure that genuine claims are encouraged and processed efficiently. We will be writing to you separately on this in due course but we suspect that, longer term, structural changes will be needed to the process of claiming R&D, to ensure that the relief operates effectively. This may also be an area worth considering in relation to pre-clearances.

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[2] https://www.tax.org.uk/ciot-and-att-principles-of-tax-digitalisation
[3] *HMRC v **SSE** Generation Ltd* EWCA Civ 105, *Urenco Chemplants Limited & Anor v HMRC* [2019] TC7318, *Gunfleet Sands Ltd & Others v HMRC* [2022] UKFTT 35 (TC)

Imports of goods

The Border Target Operating Model has several projects that seek to simplify the customs processes for importing goods into the UK, however there are still complications and significant impacts for some import businesses in respect of the declaration and the recovery of import VAT. Sectors particularly affected are:

- Cross-border leasing – The issue arises from the importer leasing the goods and using them within the business, but not having a right to recover the import VAT as they don't own them. The most common solution is for the non-established lessor act to as the importer of the goods, resulting in a non-UK established entity needing to register for VAT and obtain an EORI number in the UK, or making a 13th directive claim, all incurring additional resource for HMRC to administer. Allowing the UK lessee to act as importer and recover the import VAT would be a simpler solution.
- Businesses that must use the Inward Processing (IP) regime – Whilst the administrative burden of IP is appropriate for those that the regime is intended for, i.e. manufacturers and processors, the administrative burden for other types of businesses that must use IP for VAT reasons is not proportionate, e.g. repair centres, life sciences/medical devices sectors, which are industries where the UK wishes to encourage growth, though the current UK approach to VAT recovery makes it difficult to recommend that such start-ups base themselves in the UK. Further, HMRC has resourcing costs of issuing and monitoring authorisations for a scheme that does not generate any additional revenue. IP is a common area for VAT non-compliance due to complexity and VAT recovery issues.
- Importers of 'non-business goods (this does not mean 'private use' goods) – businesses may not use the postponed VAT accounting simplification (i.e. declare import VAT in the VAT return, available pre-Brexit for EU imports) for 'non-business' goods. This rule causes errors with customs agents, increased administrative burden for businesses, with no fiscal impact on the VAT paid to HMRC. We would like to see the simplified self-assessed VAT position be made available to these types of imports.

Apprenticeship Levy and investing in people

The King's Speech confirmed the government's intention to reform the Apprenticeship Levy into a more flexible Growth and Skills Levy to prioritise investment in the skills of the workforce and kickstart a skills revolution.

While the levy is relatively easy to collect (employers pay monthly through the Pay As You Earn system direct to HMRC), it is seen as complicated to access by employers, with the levy arrangements across the four home nations being inconsistent and difficult to navigate, and increased administrative costs and a lack of support for small businesses.

For many businesses, especially small and medium-sized businesses unable to unlock levy funds, the levy is viewed as an additional cost of employing workers, much like employers' National Insurance Contributions, rather than a means to unlock employees' skills.

The government has indicated that it will reform the apprenticeship levy to enable firms to spend up to 50% of their levy contributions on non-apprenticeship training. While this should unlock the potential for businesses to spend their allocated levy funding on upskilling the workforce, it will be equally important to remove unnecessary barriers, such as extending the levy expiry date, in accessing those funds.

To further incentivise employers to invest in their workforce, the government could consider an enhanced tax incentive – for example, a 'super deduction' – when recruiting and training certain categories of employee, such as the over 50s or those returning to work after an extended period of ill health.

Back to work plan

Labour's 'back to work plan' includes NHS and mental health policies, plus employment support policies to support people in work. The roadmap provides an opportunity to reinforce commitment to supporting people to get back into work.

For example, to incentivise employers to do more than they are currently doing by way of providing access to Occupational Health services for their employees, the government could expand the scope of existing tax incentives (such as the benefits-in-kind tax and National Insurance exemptions) and introduce new tax incentives.

Additionally, to assist those with responsibilities for looking after their own child to re-enter the workforce or increase working hours, the government could consider reintroducing the limited exemption for qualifying childcare vouchers, that was closed to new entrants on 4 October 2018 and replaced by the tax-free childcare scheme, so that new joiners may benefit from the old scheme. The voucher scheme would extend the options open to parents as regards the care costs and age limitations that are contained in the tax-free childcare scheme. Alongside this, it is worth noting the distortions to decision making of those whose salaries are close to the £100,000 bracket due to the cliff edge effect of them losing their tax free childcare (and amplified by them also starting to lose their personal allowance) meaning they actually end up worse off.

The plan for the modern workforce

A key issue for businesses, large or small, is the cost of engaging workers. The differences in taxation between employing people and engaging workers 'off the payroll' is stark, with employers' National Insurance Contributions (and for larger employers the Apprenticeship Levy) being a potential driver toward indirect engagements. The Taylor Review commissioned under Theresa May recognised this and we believe that plans for a modern workforce should also consider the tax (and national insurance) status of those doing the work and those engaging them to do it.

To enable the flexibility that is characteristic of an efficient labour market, we believe that more clarity is needed for both workers and engagers in understanding their tax and national insurance position and the associated costs of working in one way or another. This is particularly so in the 21st century gig economy where it can often be very difficult to form a view as to which side of the line people fall.

The roadmap provides an opportunity to commit to a wide-ranging engagement on how work should be taxed with the potential to codify when an individual is genuinely self-employed and, thus, their earnings are not subject to Pay As You Earn deductions.

We believe that a simpler way for businesses and workers to determine when Pay As You Earn applies should form part of the solution to ensuring there is a secure, well-paid and motivated workforce, whereby the business engages the worker directly as an employee rather than off the payroll.

Business Rates

One change pledged by the government is to replace business rates with a new system of business property taxation.

Key features of the current business rates regime include:

- a relatively narrow tax base because of exemptions and reliefs, notably for agricultural land, charities and small businesses[4]; and

[4] https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fassets.publishing.service.gov.uk%2Fmedia%2F66c4bbf967dbaeb97a13e4f0%2FNNDR1_2024-25_Tables_Automated_-_August_2024__ecomms_.ods&wdOrigin=BROWSELINK

- the rateable value, based on rental value, is charged on the occupier rather than the landowner.

Structural reform affecting the tax base and/or the incidence of charge could have wide-ranging effects, such as on lease structures, the rent rates equation within the rental market and property investment more widely. Therefore, we suggest the roadmap will need to set a timescale for full and transparent consultation, with structural changes benefiting from predictability and long lead-in times, giving full consideration to the inherent complexity any changes will bring.

We look to discussing these and other issues relating to the roadmap with you at the meeting on Thursday 12th September.

Yours sincerely

Ellen Milner

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Chartered Institute of Taxation

The Chartered Institute of Taxation

The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

Our stated objectives for the tax system include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.