

Accounting for good

Being a superhero is not one of the reasons most commonly cited for people wanting to become accountants. However, latest research commissioned by AAT shows how accountants and the accounting profession are a force for good within society.

Key findings reveal that accountants can educate and hold businesses to account with regards to ethical practices, and make them aware of their obligations to declare and pay their full taxes due. Additionally, the research indicates that transparent and ethical accounting can also be good for business because consumers are more willing to purchase from companies who engage in best practices. This signifies that the role of accountants, many of whom are performing the back office function, is hugely integral to the wellbeing of the economy and can help drive future growth.

Context of tax avoidance and the tax gap

Over the last couple of years, amidst a backdrop of austerity measures introduced by the Government, there have been a number of high profiles stories published in the media concerning corporate and personal tax avoidance and evasion. Whilst tax avoidance is legal, the recurring nature of the stories within the public discourse suggests that there is a strong moral case for clamping down on the more extreme cases.

The tax gap, defined as the difference between the amounts of taxes collected by HMRC, and the amount of taxes owed, currently stands at between £33 and £34 billion. It has remained at this level in pound terms since 2009-2010.

Whilst, as a share of liabilities this has decreased from 8.4% in 2005-06 to 6.4% in 2013-14, the tax gap is still significant due both to its size, and the potential its reduction can have on easing the financial burden on the public sector. For example, if the tax gap had not existed at all in 2013-14 public sector net borrowing could have been up to 36% lower.

Kay Allen, the founder of Trading for Good, an online portal set up to help small businesses celebrate the good work they do in their communities, thinks that it's important to help close the tax gap as failure to do so could adversely affect the provision and delivery of vital public services.

She says, "Tax revenue funds all the necessary social goods. This is a simple equation that most people understand and forms an essential element of the contract we all make as citizens. Without public revenue, society will fail to deliver the infrastructure we all expect from the NHS, schools, roads and social services. As citizens we expect society to support our elderly and vulnerable. Most people understand that living on borrowed money is unsustainable."

£33-£34BN

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How accountants can help reduce the tax gap

The tax gap is caused by a number of different factors, which are both legal and illegal. These include the hidden economy, criminal attacks, legal interpretation, evasion, non-payment, failure to take reasonable care, avoidance, and error. Whilst the second largest single contributor – criminal attacks – represented £5.1 billion of the total tax gap in 2013-14, SMEs, large firms and individuals accounted for the £28.9 billion related to the other main aspects.

As companies of all sizes, and some individuals, are likely to engage with accountants, this creates an opportunity for accounting professionals to incorporate a number of different strategies to reduce aggressive tax avoidance.

AAT research reveals SMEs as being the greatest contributors to the tax gap, representing £16.5 billion. It is possible that due to their size, and potentially limited resources, such companies may need to be educated about best practice with regards to tax compliance.

Findings also showed that the largest share of the tax gap represented by a single tax was income tax at £14 billion, followed by VAT at £13.1 billion.

The general public perceive that accountants

are well-placed for helping to reduce the tax gap. Research highlights that it is a commonly held belief that an effective way to reduce tax avoidance is by the accounting sector demonstrating greater collaboration and awareness with tax avoidance factors that rely on their cooperation.

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This can include greater accounting transparency for businesses’ foreign dealings and accounts, greater standardisation of published company accounts, greater awareness for the public of what tax avoidance strategies companies use, and compiling and publishing a blacklist of companies that engage in aggressive tax avoidance.

This sentiment is echoed by Mark Farrar, Chief Executive of AAT, who thinks that creating awareness of the worst offenders, as well as highlighting companies that pay their fair share of

tax, are likely to be effective measures to reduce tax avoidance.

He says, “All businesses are reliant on their good reputation in order to survive and thrive. Naming and shaming could and incidentally already does act as a deterrent. The public is aggrieved by aggressive tax avoidance. It is a topic which people have strong views on. We are increasingly seeing companies actively promoting their commitment to fair tax as a marketing tool because they know that it serves their economic interests in the long run, with customers being loyal to brands they perceive to act fairly and in the public interest.”

Farrar thinks accountants are already playing an active role in educating and supporting SMEs about the importance of paying the right amount of taxes due, alongside the responsibilities of all tax payers.

He foresees an opportunity for accountants to raise greater awareness by being more vocal about their “ethical stance and explaining it to clients alongside actively promoting their compliance within AAT’s professional conduct code in relation to taxation guidance.”

AAT requires all members employ only appropriate and responsible use of legislation to mitigate tax due.

Whilst Farrar believes that one of the main benefits of the recent news stories about tax avoidance is people seeing the public value in paying taxes, and a greater understanding of the public benefits of the tax system, he still thinks

that SMEs may feel hard done by due to the coverage of large businesses arranging bespoke tax arrangements.

AAT requires all members employ only appropriate and responsible use of legislation to mitigate tax due.

“A key challenge within the SME sector is the perceived injustice of sweetheart deals which HMRC enters into with larger businesses. Whilst in absolute terms their contributions are high, as a percentage of their profits, it is much smaller. This creates the impression of an uneven playing field and the topic of fairness is emotive in all circumstances. HM Treasury and HMRC must resolve this dilemma to rebuild the perception of fairness in this critical area.”

The importance of good accounting and ethics

Another reason for companies to make efforts to comply with taxation responsibilities is due to the preference of stakeholders to engage with businesses which demonstrate ethical and equitable behaviour.

Professional ethics are fundamental to the accounting profession, due to the industry needing to serve the public interest and retain the public's trust. All AAT members are bound by AAT's Code of Professional Ethics, based on the IESBA (International Ethics Standards Board for Accountants) Code of Ethics for Professional Accountants setting out five fundamental principles which all AAT members (student, affiliate, associate, full and fellow members) must comply with.

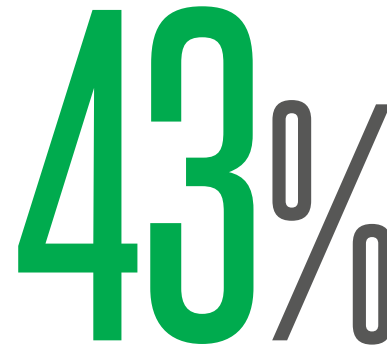
In addition to looking at the tax gap, AAT also commissioned research into whether the ethical behaviour of businesses influences consumer purchasing decisions. Findings showed that 43% of respondents said not participating in tax avoidance would be an important consideration when deciding whether or not to engage with a business.

Overall, nearly 70% of participants stated that a business' ethical behaviour impacts on their decision as to whether or not transact with that business.

Other ethical factors which ranked highly for reasons cited as being important when choosing which businesses to engage with included maximum transparency with regards to company accounts (36%); a strict ethical code about their supply chain (39%) and businesses being careful with sensitive client data (43%).

Transparency of company accounts is another area in which accountants can have influence. This can include willingness to accurately report

profits and losses, and the sharing of more information with the public.



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Kay Allen thinks that accountants can increase transparency measures of clients by getting them to share information relating to the good that they do for their employees, environment and society.

She says, "Measures needs to be explained to people not in complex terminology such as carbon footprint and carbon neutrality but in simple practical measures. This can include

investment in training of employees, investments in pensions, equality pay gap and days taken to pay small suppliers."

In conjunction to this view she also believes that it is important for businesses to take ethics seriously, as she thinks that this will ultimately help businesses improve their profitability.

"Having a solid brand reputation for paying suppliers on time, treating staff fairly, sourcing goods ethically and being a responsible neighbour in the community need to be shown to improve business performance in a simple way."

Mark Farrar echoes the views of Kay Allen, and considers transparency as being a measure important to consumers when considering whether to engage with a company.

He says, "Consumers are more aware than ever before of business behaviour and how it influences their purchasing decisions. Increasingly, people are being more mindful of how they spend their money and they want to feel confident in their choices. Greater transparency offers reassurance that their money is going to an organisation that fits with their own values."

However, he suspects that accountants may be limited by their efforts to make businesses more transparent due to the issue of client confidentiality. This means that the onus will be on them to facilitate and encourage greater disclosure rather than being directly responsible for it.

Additional willingness to purchase

An ancillary benefit of displaying strong ethical credentials is that often consumers will be more willing, and will pay a premium for businesses that adhere to these high standards.

Lush's strong ethical framework has made sound business sense, with the company increasing their annual profits in 2015 by 35% to £31.3 million.

This indicates that demonstrating strong ethical behaviour is something which companies should take seriously for commercial as well as reputational reasons.

AAT's research also found that 31% of consumers who were surveyed were willing to pay more for a product or service provided by a company that treats its employees well.

Additionally, not engaging in aggressive tax avoidance (23%) and displaying maximum transparency (22%) were also factors that scored highly when consumers were polled on positive ethical behaviours that would result in them being willing to pay more.

Whilst accountants are able to advise clients and companies on policy relating to the latter two factors in order to proactively influence consumer behaviour, a challenge is that these elements are viewed as being less important than treating employees well and being environmentally conscious. Additionally, this is supported by another research finding which shows that consumers are willing to pay around 3% more to companies who treat their employees well, but only 2% more to companies who do not engage in aggressive tax planning.

Kay Allen believes that one reason why consumers are willing to pay a premium to companies which display sound ethics is due to a desire to reward positive behaviour.

She says, "Customers who hand over their own hard earned money for goods and services expect that same level of fairness to be extended

to their purchasing power. Consumers are seeking out ethical brands with good reputations because as individuals we do not want to feel an indirect association with an unethical practice."

One business which has increased profits, and demonstrates strong ethical behaviour is Lush Cosmetics. Their ethical stance includes publishing their tax and environmental policies on their website, and retailing The Charity Pot, which has 100% of its sales donated to grassroots campaign funds.

In 2014, the company released a statement which said that they believed that they should not operate in "complicated tax loop holes to take advantage of legal but essentially questionable tax schemes."

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Findings from the research indicate that a strong ethical code and not engaging in aggressive tax avoidance can result in increased profits for businesses, and a reduction in the tax gap because consumers are displaying an appetite for engaging with companies who are good corporate citizens. This is also likely to benefit Government, due to a reduced tax gap meaning that there are more funds available, and less of a strain on the public sector.

The accounting profession is well placed to act on this increasing appetite for transparency and positive ethical behaviour. There is a

sound business case to be made for advising companies on the necessity to pay their taxes, benefits of transparent reporting and why high ethical standards matter.

A large, bold graphic of the number '31' followed by a percentage symbol '%'. The '31' is in a teal color, and the '%' is in a dark grey color.

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Contact AAT

**If you'd like to know more,
please get in touch with us.**

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Lines are open 09.00 to 17.00 (UK time), Monday to Friday.

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