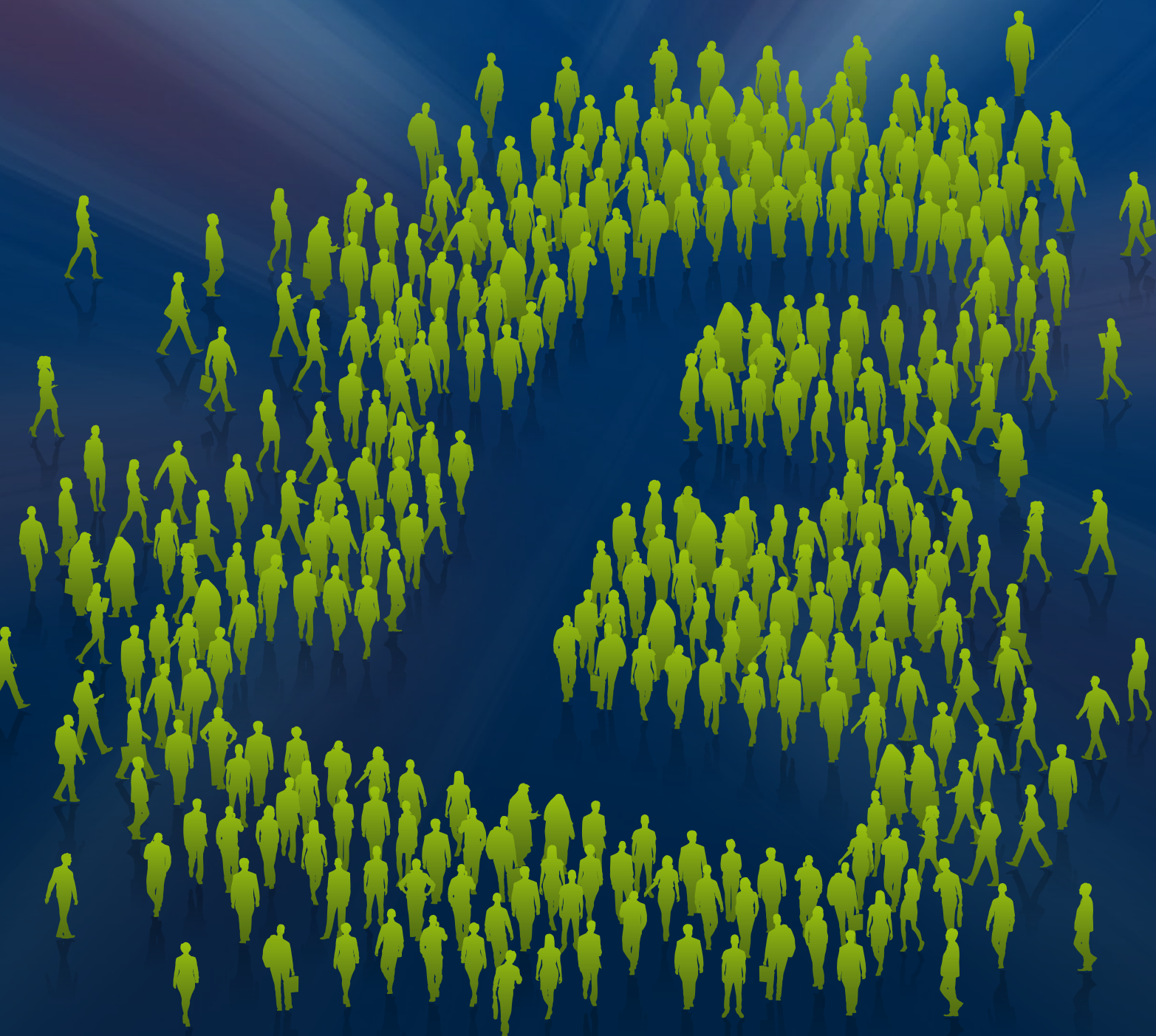


TOTAL TAX CONTRIBUTION STUDY

for UK legal and accounting activities



About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. In the UK, across Europe and globally, we promote policies that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes 10% of the UK's total economic output and employs 2.3 million people, with two thirds of these jobs outside London. It is the largest tax payer, the biggest exporting industry and generates a trade surplus greater than all other net exporting industries combined.

A report prepared for TheCityUK by PwC

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LEGAL AND ACCOUNTING SERVICES MAKE A SIGNIFICANT CONTRIBUTION TO THE UK ECONOMY

76,830

LEGAL AND ACCOUNTING
FIRMS IN THE UK

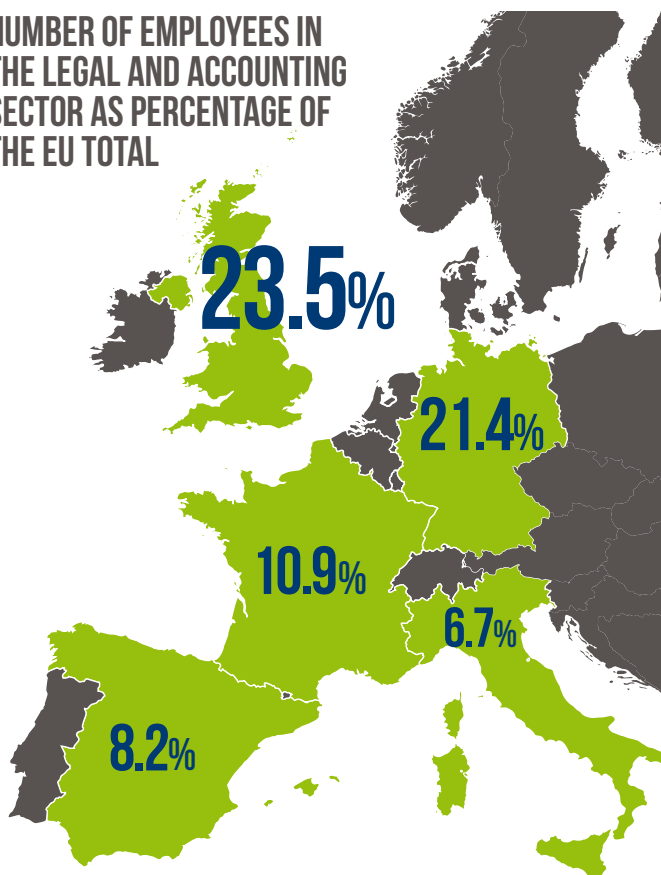


LEGAL AND
ACCOUNTING FIRMS'
EMPLOYMENT TAXES =

£7.4BN



NUMBER OF EMPLOYEES IN
THE LEGAL AND ACCOUNTING
SECTOR AS PERCENTAGE OF
THE EU TOTAL



LEGAL AND ACCOUNTING SECTOR'S
TOTAL TAX CONTRIBUTION IN 2018 =

£19.1BN



2.8%
OF TAX RECEIPTS
IN THE UK



TOTAL LEGAL AND ACCOUNTING
SECTOR EMPLOYMENT IS

743,000

2.4% UK WORKFORCE



SURVEY PARTICIPANTS' TOTAL TAX
CONTRIBUTION HAS INCREASED

6.8%

SINCE 2016



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FOREWORD

The second Total Tax Contribution survey of legal and accounting activities in the UK, like the inaugural report in 2017, aims to estimate the contribution made in taxes borne and collected by legal and accounting firms to the UK public finances, while putting into context their wider economic contribution and interdependence with the financial services industry.

Legal and accounting activities are a key part of the UK's world-leading financial and related professional services ecosystem. With financial and related professional services contributing one in 14 jobs in the UK, two thirds of which are outside London, it is important to recognise the high-value jobs that are generated within financial clusters across the UK and the significant contribution made to the public finances.

The contribution in taxes made by the financial services sector has grown strongly in recent years, reaching an estimated £75bn in 2018, according to research undertaken by PwC for the City of London Corporation ('The total tax contribution of UK financial services in 2018', 11th edition). The UK's professional services sector is closely related to financial services, and our second Total Tax Contribution survey of legal and accounting activities shows that the overall contribution reached £19.1bn last year, made up of £8.3bn in taxes borne and £10.8bn in taxes collected. The total contribution represents an increase of 6.8% from the estimated contribution in our last study, which covered 2016, and accounts for 2.8% of total UK tax receipts.

Legal and accounting activities plus financial services together contributed an estimated £94.1bn in taxes borne and collected in 2018, representing 13.7% of total UK receipts, compared to 9.6% of UK GVA. The interdependence of these sectors is an important part of the UK's competitive advantage in financial services. Its strong growth in recent decades has enabled specialist clusters around financial and related professional services to drive growth across all regions and nations of the UK.

Anjalika Bardalai

Chief Economist & Head of Research, TheCityUK



EXECUTIVE SUMMARY

- In 2018, the total tax contribution of legal and accounting activities was estimated to be £19.1bn, made up of £8.3bn in taxes borne and £10.8bn in taxes collected. This represented 2.8% of total government receipts in 2018.
- Compared to our last survey, which covered 2016, we estimate that the total tax contribution for the study participants has increased, on a like-for-like basis, by 6.8% over the two years.
- The overall contribution of the legal and accounting sector is broader than just tax:
 - Almost 750,000 people are employed in legal and accounting activities, representing 2.4% of the UK workforce.
 - Between 2016 and 2018, legal and accounting GVA as a percentage of total UK GVA increased from 2.5% to 2.7%. GVA growth in legal and accounting activities has outpaced UK GVA growth every year since 2010.
 - There is significant interdependence between the legal and accounting sector and the financial services sector. The full ecosystem of financial and related professional services enables the UK to retain its status as the leading international hub for such services.
- The largest tax payments are for partner and employment taxes, indicating the importance of highly skilled labour. The net VAT contribution is also significant compared to other sectors, representing 5.9% of total UK VAT receipts.
- The UK government was the largest beneficiary of value distributed by study participants, with almost half (49.4%) of value distributed going to the government in taxes borne and collected.

PURPOSE AND OUTLINE OF THE STUDY

Purpose of the study

This is the second Total Tax Contribution study of UK legal and accounting activities that PwC has carried out for TheCityUK with the aim of quantifying the contribution made by the sector to the UK public finances. The UK data was collected for accounting periods ending in the year to 30 June 2018.

This report builds on the first Total Tax Contribution study, published in 2017, and shows how the contribution has changed between 2016 and 2018. It also allows the calculation of trends using the data provided by companies that participated in both studies.

The purpose of the study is to collect robust data on all business taxes borne and collected by member firms of TheCityUK that perform legal and accounting activities, to better inform policy decisions and aid understanding of how the sector contributes to the public finances and the wider economy. The data provided by participating firms has been used in conjunction with government data to estimate the contribution from the sector as a whole.

The Total Tax Contribution methodology

The study uses the PwC Total Tax Contribution methodology, which looks at all the different taxes that firms pay and administer, including corporation tax, employment taxes, income tax paid by partners, VAT and other taxes. The study reports on the total taxes that are borne by these firms, and also on the taxes they administer and collect on behalf of government. The framework was developed over fourteen years ago and has been used in studies around the world.¹

The results provide information which would not otherwise be in the public domain, since this is not information the firms are required to disclose in their financial reports. PwC has anonymised and aggregated the data provided by legal and accounting firms to produce the study results. PwC has not verified, validated, or audited the data and cannot therefore give any undertaking as to the accuracy of the study results. Where the report refers to data published by the UK government and HMRC, this is clearly indicated.

This is the second study for the legal and accounting sector using the TTC methodology. The results are a measure of cash taxes paid, covering both taxes borne and taxes collected. The data relates to payments to the UK public finances, and no tax payments to other tax authorities are included.

¹ PwC, The Total Tax Contribution Framework: Over a decade of development, available at: <https://www.pwc.com/gx/en/services/tax/publications/total-tax-contribution-framework.html>

The distinction between taxes borne and taxes collected

The Total Tax Contribution methodology makes a distinction between taxes borne and taxes collected.

Partnerships are structured differently from corporates and so we cannot compare the results for partnerships with those for companies. A company will pay corporation tax on its profits and its shareholders may pay income tax on dividends received.

TAXES BORNE are all the taxes levied on a firm, which are its cost and affect its results. They include Partner Taxes, corporation tax, employers' national insurance contributions (NIC), irrecoverable VAT, and business rates. Taxes borne are a firm's direct contribution to tax revenues.

Many firms in this sector are structured as limited liability partnerships (LLPs) and the income tax and national insurance contributions paid by partners in relation to the profits of their firms are referred to throughout this report as 'Partner Taxes'. Partner Taxes are included within taxes borne.

A partnership allows entrepreneurial individuals who have built a reputation for excellence in a particular area to run a business while enjoying economies of scale. The partners will generate new business for the partnership but benefit, for example, from administrative support and networking opportunities which would not be available to a sole trader.

TAXES COLLECTED include employee income tax and NIC administered through the payroll, and VAT charged to customers. These are the taxes of employees and customers respectively, but are collected from them by firms and paid over to the government. Taxes collected are generated by a firm's business activity and are part of its indirect contribution to tax revenues.

Appendix 1 shows a detailed list of taxes borne and collected by study participants.

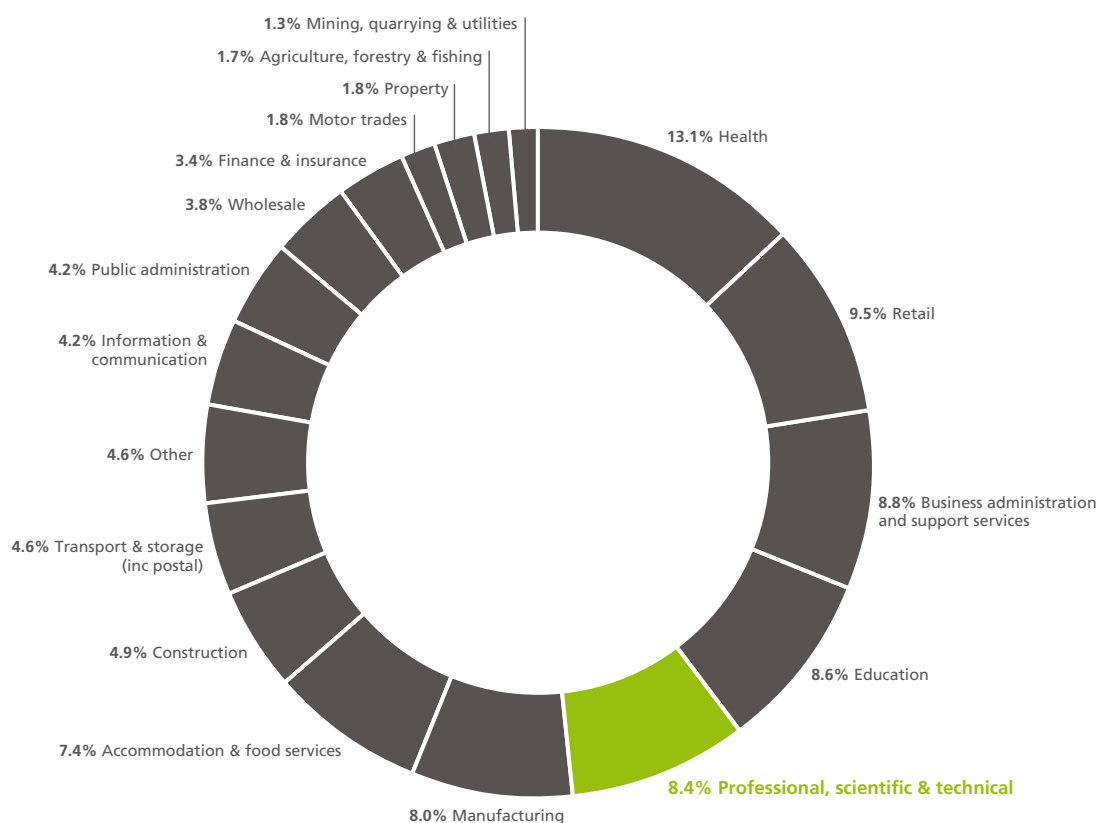
PROFESSIONAL SERVICES, LEGAL AND ACCOUNTING ACTIVITIES

Understanding the scope of the study

The term 'professional services' includes a range of different occupations which provide support to businesses of all sizes and in all sectors.² To put the scope of this study into context, Figure 1 shows employment in the UK by sector. Professional services are included within the 'Professional, Scientific and Technical Activities' sector, which represents 8.4% of total employment in the UK.³

Figure 1: Employment in the UK by industry sector, % of total, 2017

Source: Office for National Statistics



² A Standard Industrial Classification (SIC) is being used in classifying business establishments and other statistical units by the type of economic activity in which they are engaged.

³ ONS, 'UK level employment by Broad Industry Group– Table 1B UK', (September 2018), available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/broadindustrygroupsicbusinessregisterandemploymentsurveybrestable1>

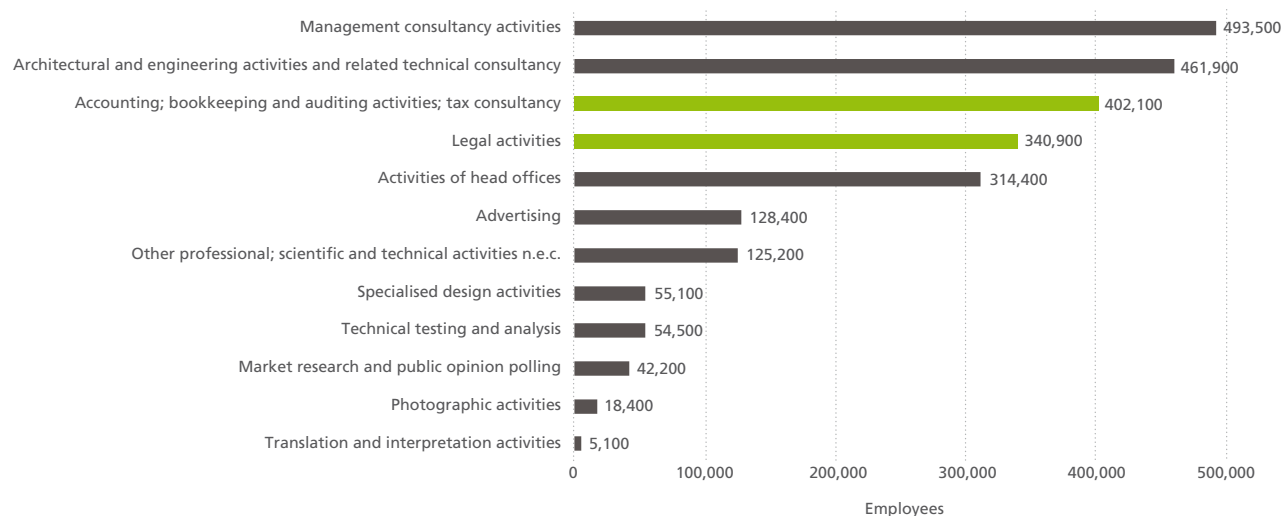
Professional, scientific and technical activities

Figure 2 shows the different sub sectors within the 'Professional, scientific and technical activities' sector, covering a range of industries from legal activities and accounting activities to advertising and market research, veterinary activities, etc.⁴ For government statistical reporting purposes, legal and accounting activities are combined.⁵

Within the overall professional, scientific and technical activities sector, the accounting and legal sub sectors are the third- and fourth-largest, respectively, by number of employees. While there are a number of small firms in these sub sectors, there are also a number of large and medium firms. This study is focused on the legal and accounting sub sectors, where data provided by large and medium firms, together with data from government sources (for the sector as a whole), could be used to estimate the contribution.

Figure 2: Employment in professional, scientific and technical activities, 2017

Source: Office for National Statistics



⁴ ONS, 'UK Standard Industrial Classification of economic activities 2007 –SIC', (July 2017), available at: <https://www.ons.gov.uk/methodology/classificationsandstandards/ukstandardindustrialclassificationofeconomicactivities/uksic2007>

⁵ ONS, 'Industry (2, 3 and 5 - digit SIC) - Business Register and Employment Survey (BRES): Table 2', (September 2018), available at <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/industry235digitsicbusinessregisterandemploymentsurveybrestable2>

Legal and accounting activities

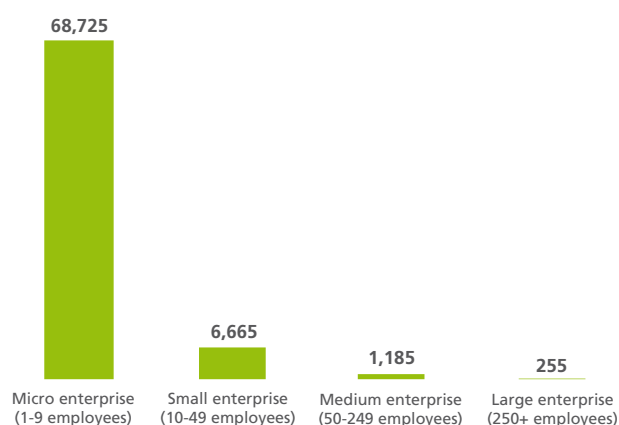
The legal and accounting activities sub sector is made up of 76,830 firms which employ a total of 743,000 people. This represents 30.3% of total employment in the professional, scientific and technical activities division, and 2.4% of the total UK workforce.

Looking at the number of firms, the legal and accounting activities sub sector is heavily weighted towards SMEs, which make up 97% of legal firms and 99% of accounting firms in the UK.⁶ Seventy-seven percent of legal firms and 80% of accounting firms are made up of fewer than four employees (Figure 3).

The profile of employment within the sector shows that a significant proportion of employees are employed by a small number of large firms, particularly within accounting services.

Figure 3: Number of UK legal and accounting firms, by size of firm

Source: Office for National Statistics



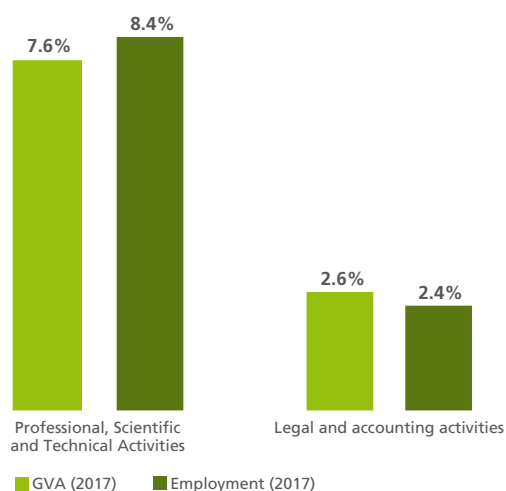
GVA and productivity trends

To put the contribution from the legal and accounting sector into greater context, other indicators were reviewed. At a national level, economic activity is commonly measured by gross domestic product (GDP). The contribution made to GDP is typically measured by calculating the GVA, which is a measure of the economic value added of a firm.

Comparing GVA and employment can provide an insight into – although not a complete measure of – productivity. The legal and accounting sector contributed 2.6% of UK GVA in 2017 and employed 2.4% of the UK workforce. This compares to the broader professional, scientific and technical activities division, which contributed 7.6% of UK GDP and employed 8.4% of the UK workforce, indicating higher productivity in the legal and accounting sub-sector than in the professional, scientific and technical activities sector as a whole (Figure 4).

Figure 4: GVA and employment for the professional, scientific and technical activities division and for the legal and accounting activities sector, shown as a percentage of the UK total

Source: PwC analysis, Office for National Statistics



Note: in the absence of employment data for 2018, we have used 2017 data to facilitate the comparison between employment and GVA.

⁶ Office for National Statistics, 'UK Business: Activity, Size and Location: Table 4 - Number of VAT and/or PAYE based enterprises by Standard Industrial Classification (SIC) class by employment sizebands (October 2018)', available at: <https://www.ons.gov.uk/releases/ukbusinessactivitysizeandlocation2018>

GVA growth in legal and accounting activities has outpaced GVA growth in the UK as a whole every year since 2010. In 2010, legal and accounting activities accounted for 2.4% of UK-wide GVA. By the end of 2018, this had increased to 2.7% as over the period legal and accounting sector GVA increased by 58%, compared to an increase of 35% for UK GVA.

Looking at productivity growth since 2010, legal and accounting activities performed roughly in line with the UK economy as a whole until the first quarter of 2016. Since then, growth in the productivity of legal and accounting activities has exceeded the productivity growth in the UK economy overall (Figure 5).

Figure 5: Productivity (output per hour), index, 2010 Q1 = 100

Source: Office for National Statistics



Sector interdependence: legal and accounting activities and financial services

The UK is a global leader in financial services. One factor in the development of the UK's comparative advantage in this sector is the presence of world-leading related professional service sectors, such as the legal and accounting sectors. Legal and accounting activities and other specialist suppliers and service providers have subsequently benefited from the success of the financial services sector.

Our first Total Tax Contribution survey in 2017 showed that a third of the revenue from participating firms was generated from activities related to the financial services sector.⁷ Recent government analysis has quantified the level of interdependence between the financial services sector and the professional and business services sector, particularly highlighting legal and accounting activities, which make up 22% of the professional and business services grouping. The research estimates that professional and business services account for 28% of total intermediate consumption by the financial services sector, while 14% of the UK economy's intermediate demand for professional and business services is from financial services.⁸

⁷ TheCityUK, Total Tax Contribution study for UK legal and accounting activities 2017, (August 2017), pg 13, available at: <https://www.thecityuk.com/assets/2017/Reports-PDF/959eadc349/Total-tax-contribution-study-for-UK-legal-and-accounting-activities.pdf>

⁸ House of Commons Committee on Exiting the European Union '28. Sectoral Report - Professional & Business Services,' (December 2017), available at: <https://www.parliament.uk/business/committees/committees-a-z/commons-select/exiting-the-european-union-committee/inquiries/parliament-2017/departments-sectoral-analyses-17-19/publications/>

PARTICIPATION

Data provided

Eighteen firms participated in this study, providing data on taxes borne and collected for their accounting period ending in the year to 30 June 2018. For most legal firms, the accounting period was the year ending 30 April 2018 and for most accounting firms, the period was the year ended 30 June 2018.

Measured by turnover of large firms (over 250 employees), the participation represents 60% of large services firms: 75% of large accounting services firms and 30% of large legal services firms.

Compared to the sector as a whole

Data for turnover, number of employees, and wages and salaries is publicly available for the legal and accounting activities sector. Figure 6 compares the data from the study with the data for the sector as a whole. The study participants generated £16.8bn of turnover and paid £6.6bn in wages and salaries, representing 28.4% and 28.8% respectively of the total UK legal and accounting activities sector.

Looking at the employment data, the study participants accounted for 12.8% of total UK employment in the legal and accounting activities sector, whereas the total tax contribution from study participants was estimated to be 32.5% of the total (please refer to the next section

for details of the extrapolation method). Compared to the sector average, the firms participating in the study generate more turnover per employee, and pay those employees a higher wage on average.

This report was prepared based on the data provided by the study participants. Where the report states the accumulated total figures for the entire legal and accounting sector, the relevant data was sourced or estimated from publicly-available data. Although the study participants represent the largest firms in the sector, the publicly-available data enables analysis and inclusion of the contribution made by the remaining small and medium-sized firms, which did not participate in the study.

Figure 6: Economic footprint for the study participants and the sector as a whole

Source: PwC analysis and Office for National Statistics

	Study participants	Official data for legal and accounting activities (whole sector)	Study participants as a % of whole sector
UK turnover	£16.8bn	£59.2bn ⁹	28.4%
Employment	95,709	743,000 ¹⁰	12.8%
UK wages and salaries	£6.6bn	£22.9bn ¹¹	28.8%

⁹ ONS, 'Annual Business Survey – 2017 Provisional Results', (November 2018), available at: <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/uknonfinancialbusinesseseconomyannualbusinesssurveysectionsas>

¹⁰ ONS, 'Industry (2, 3 and 5 – digit SIC) – Business Register and Employment Survey (BRES): Table 2', (September 2018), available at <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/industry235digitsicbusinessregisterandemploymentsurveybrestable2>

¹¹ Office for National Statistics, 'Annual Business Survey – 2017 Provisional Results', (November 2018), available at: <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/uknonfinancialbusinesseseconomyannualbusinesssurveysectionsas>

THE TOTAL TAX CONTRIBUTION OF UK LEGAL AND ACCOUNTING ACTIVITIES

Total tax contribution

The total tax contribution of the legal and accounting sector to the UK public finances in 2018 is estimated to be £19.1bn. Eighteen firms (representing the largest firms measured by revenue) provided their total tax contribution data, which totalled £6.2bn. Using this data alongside the official data for the whole sector, it is possible to extrapolate in order to estimate the total tax contribution of UK legal and accounting activities.

Figure 7 shows the breakdown of the data received from study participants and the extrapolated data for the contribution of the sector. The extrapolated data has been compared to the total tax receipts reported by HMRC.

The extrapolation is an estimation based on publicly available data for the sector. Where the extrapolation methodology generated a range of results, the lower end of the range was incorporated, so the extrapolation is considered to be prudent. It was necessary to take into account the pyramidal structure of the sector (a large number of smaller firms and a small number of larger firms) in devising the methodology. Since data in the survey was received from the largest firms, it was not possible to use participants' data on partner taxes per partner, or employment taxes per employee to estimate the total tax contribution of the smaller firms. Instead, the total tax contribution data received was used to identify the largest taxes in the sector (employment taxes, partner taxes and net VAT), and government statistics were then used to estimate the contribution from these taxes for the sector as a whole.

The extrapolation in this year's report is based on more accurate official statistics than were available for the previous report. The amount of employment taxes was previously estimated using Eurostat data. This year, employer's social security contributions are available from the Office for National Statistics Annual Business Survey, allowing for a more accurate estimate of the total employment taxes borne by legal and accounting activities.

Figure 7: Total tax contribution

Source: PwC analysis

£bn	Study participants	Extrapolated to UK legal and accounting activities	As a percentage of government receipts ¹²
Partner Taxes ¹³ (and corporation tax)	1.9	5.1 ¹⁴	
Employment taxes borne	0.7	2.6 ¹⁵	
Other taxes borne	0.2	0.6	
Total taxes borne	2.8	8.3	
Employment taxes collected	1.7	4.8	
Other taxes collected	1.7	6.0 ¹⁶	
Total taxes collected	3.4	10.8	
Total tax contribution	6.2	19.1	2.8%

¹² Office for Budget Responsibility, 'Economic and fiscal outlook, Table 4.6: Current receipts', (March 2019), available at: <https://obr.uk/download/march-2019-economic-and-fiscal-outlook-supplementary-fiscal-tables-receipts-and-other/>

¹³ Note that partner taxes include income tax as a tax borne, although this is a tax collected for employees

¹⁴ HMRC, 'Self-employment income assessable to tax, 2016-17, Table 3.9', (March 2019), available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/783132/National_Statistics_T3_1_to_T3_11_and_T3_16_tax_year_1617_-_FINAL.pdf

¹⁵ ONS, 'Annual Business Survey - 2015', (November 2016),

¹⁶ HMRC, 'Annual UK VAT Statistics 2017-18 Tables, Table T4b', (December 2018), available at: <https://www.gov.uk/government/statistics/value-added-tax-vat-annual-statistics>

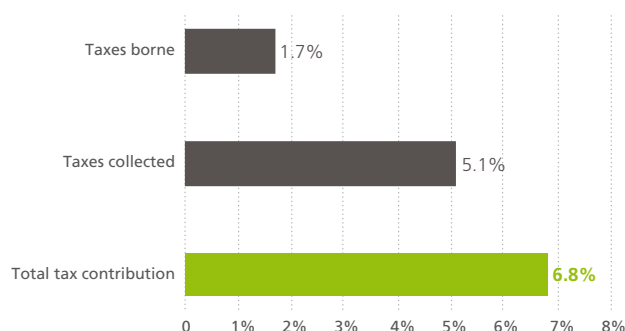
Trends in total tax contribution between 2016 and 2018

Ten firms provided data for both the 2016 and 2018 Total Tax Contribution studies, allowing us to analyse the trends on a like-for-like basis for these organisations.

Both taxes borne and taxes collected increased over this period, leading to an overall increase in total tax contribution, on a like-for-like basis, of 6.8% (Figure 8). The increase in taxes collected (accounting for 5.1 percentage points of the total increase) was driven primarily by increases in net VAT and increases in employment taxes collected. The increase in net VAT (output VAT less input VAT) reflects growth in UK turnover for the participating firms, whereas increases in employment taxes reflect higher wages and salaries. The increase in taxes borne (accounting for 1.7 percentage points of the total increase) was driven primarily by increases in employment taxes borne and partner taxes, followed by increases in business rates.

Figure 8: Trend in total tax contribution, % change over 2016-2018

Source: PwC analysis



EMPLOYMENT IN THE LEGAL AND ACCOUNTING SECTOR

TOTAL EMPLOYMENT in the UK legal and accounting sector is 743,000, representing 2.4% of the total UK workforce. In the study, almost a quarter of taxes borne was made up of employment taxes (PSAs and employers' NIC) and with employees' NIC and income tax deducted under PAYE combined, half of taxes collected were employment taxes

Average employment taxes per employee for the legal and accounting activities sector

The provision of legal and accounting activities relies upon the labour of skilled personnel rather than inputs from suppliers. The sector is diverse and includes international legal firms and global accountancy networks (e.g. partnerships that operate in one country, but do business internationally via networks) as well as small local businesses and sole traders. Therefore, the average wage and employment taxes (NICs and PAYE) per employee differ considerably depending on the size of each firm. For example, as shown in Figure 9, the weighted average wage per employee for the study participants, which represent the largest firms, was £71,248 and for each employee, an average amount of £27,228 was paid to the public finances in employment taxes. For the legal and accounting services sector as a whole, publicly available data was used to estimate an average wage of £32,528.¹⁷

UK government statistics highlight the contribution made by high earners in the UK. According to HMRC statistics, the lowest 50% of taxpayers were projected to be liable for 9.5% of total income tax in 2018-19, whilst the top 50% were projected to be liable for 90.5%.¹⁸ The top 10% of taxpayers were projected to be liable for 59.7% of total income tax, while the lowest 25% were projected to contribute 2.2% of the UK total.

Figure 9: Average wage and employment taxes per employee

Source: PwC analysis



¹⁷ ONS, 'Annual Business Survey – 2017 Provisional Results', (November 2018), available at: <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/uknonfinancialbusinesseseconomyannualbusinesssurveysectionsas>

¹⁸ HMRC 'UK Income Tax Liabilities Statistics – 2015-16 Survey of Personal Incomes, with projections to 2018-19', (May 2018), available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/710866/Income_Tax_Liabilities_Statistics_May_2018.pdf

Partner Taxes

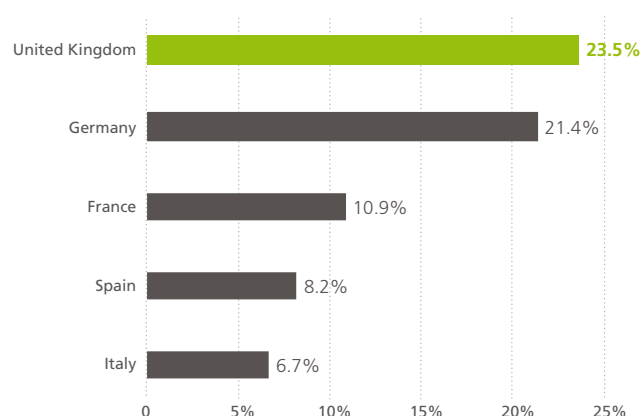
Total Partner Taxes were estimated as £5.1bn, which makes up 26.7% of the total tax contribution for the legal and accounting sector in the UK. On average, for the study participants, total partner taxes as a percentage of profit were 42.5%.

UK legal and accounting activities compared to EU countries

EU statistics show that the UK has the largest number of employees working in the legal and accounting sector of any EU country. Figure 10 shows the number of employees in the legal and accounting sector, in 2016, for selected countries as a percentage of the total employees in the EU.¹⁹ The number of employees in the UK represented 23.5% of the EU total.

Figure 10: Number of employees in the legal and accounting sector as a percentage of the EU total (selected countries), 2016

Source: PwC analysis and Eurostat



¹⁹ Eurostat, 'Professional, scientific and technical activity statistics - NACE Rev. 2' (March 2019), available at: http://ec.europa.eu/eurostat/statistics-explained/index.php/Professional,_scientific_and_technical_activity_statistics_-_NACE_Rev._

FINANCIAL INDICATORS

It is possible to put the total tax contribution data into the context of other financial measures, such as turnover, profit and value distributed. The following calculations were generated using the study data:

- taxes borne and collected as a percentage of value distributed
- total tax rate (TTR) which is the total tax borne as a percentage of profit before business taxes
- taxes borne and collected as a percentage of turnover.

The above calculations were carried out for each individual participant giving mean average calculations. For example, the total tax contribution/turnover ratio was calculated for each participant separately and then a simple average was calculated. The mean gives equal weight to all firms in the group and more accurately reflects the burden faced by individual firms.

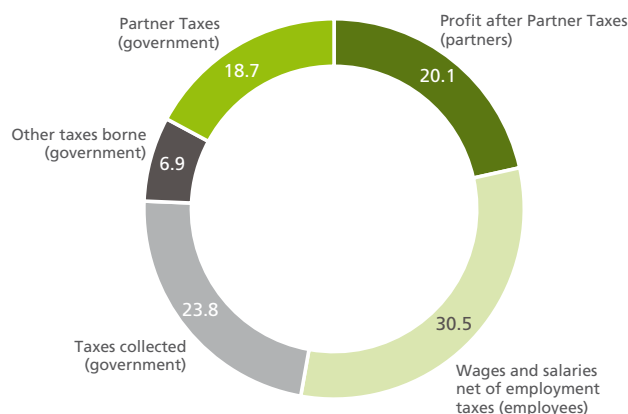
Value distributed to the government in taxes by UK legal and accounting activities

Value is distributed to the government in taxes, to employees in wages and to partners in profits. With the information gathered through the study, it is possible to put the total tax contribution in the context of value distributed by firms for those providing this data.

Figure 11 shows the profile of value distributed on average by the participants. The total tax contribution paid to government was 49.4% of the value distributed, while a further 30.5% was paid to employees as wages and salaries. The taxes borne (partner taxes and other taxes borne) accounted for 25.6% of the value distributed.

Figure 11: Total tax contribution as a percentage of value distributed

Source: PwC analysis



Total tax rate

The TTR is a measure of the cost of all taxes borne in relation to UK profits before all of those taxes borne. It is calculated for total taxes borne (Partner Taxes plus all other taxes borne) as a percentage of profit before total taxes borne.

$$\text{TTR} = \frac{\text{Profit taxes (Partner Taxes)} + \text{Other taxes borne}}{\text{Profit before taxes} + \text{Other taxes borne}}$$

The average TTR for the study participants was 52.8%, reflecting the inclusion of Partner Taxes in taxes borne.

TOTAL TAX RATE WAS

52.8%

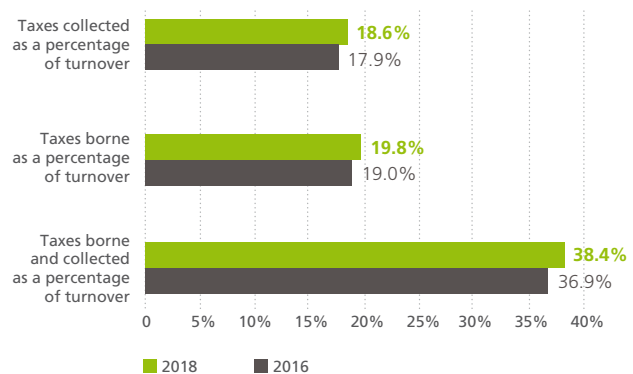
FOR THE STUDY PARTICIPANTS

Taxes borne and collected as a percentage of turnover

For legal and accounting firms participating in the study, the total tax contribution as a percentage of their UK turnover was on average 38.4%, consisting of 19.8% taxes borne and 18.6% taxes collected (Figure 12). For every £100 of UK turnover, an amount equivalent to £38.4 is paid in taxes.

Figure 12: Taxes borne and collected as a percentage of turnover

Source: PwC analysis



FIRMS PARTICIPATING:



£100
OF UK TURNOVER



£38.40
PAID IN TAXES



THE PROFILE OF TAXES BORNE AND COLLECTED

The profile of taxes borne

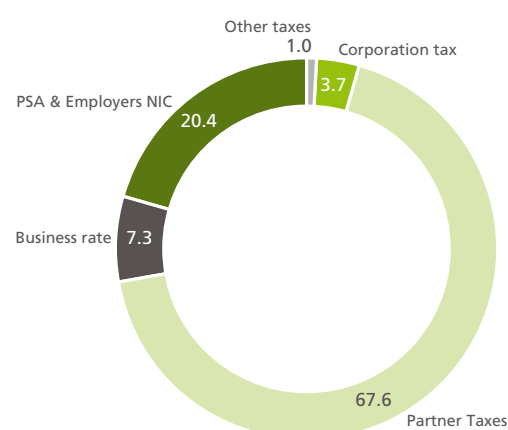
Taxes borne are a cost for businesses and therefore directly affect firms' profits. As outlined in the methodology section, Partner Taxes have been regarded as a tax borne. Figure 13 shows that Partner Taxes were the largest tax borne, making up 67.6% of the total in the study. Employment taxes, comprising employers' NIC and PSA (PAYE settlement agreement, a tax on benefits provided by the company) were the second largest taxes borne by the legal and accounting sector (20.4%). Note that Partner Taxes include income tax collected under PAYE, which is a tax collected for employees.

Business rates are paid on property (occupied offices) and other taxes include stamp duty, insurance premium tax, air passenger duty, carbon reduction commitment and climate change levy.

Figure 13: The profile of taxes borne for study participants % of total

Source: PwC analysis

Note: Chart shows the average result for participating firms in the study



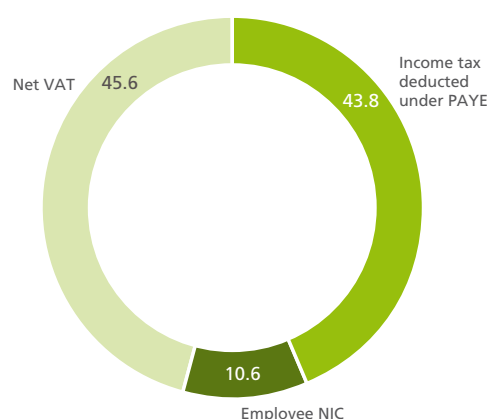
The profile of taxes collected

Figure 14 shows the profile of taxes collected in the study. Employment taxes made up over half of taxes collected by the sector (54.4%) and net VAT made up 45.6% of the total. The total net VAT for legal and accounting activities amounted to £6bn which represents 5.9% of the total net VAT from all sectors in the UK.²⁰ The high proportion of net VAT reflects the business model of the sector, in which nearly all outputs are taxable but with little input VAT since the majority of costs relate to people costs. For further explanation of employment taxes, please see the section 'Employment in the legal and accounting sector' on page 17.

Figure 14: The profile of taxes collected for study participants, % of total

Source: PwC analysis

Note: Chart shows the average result for participating firms in the study



²⁰ HMRC, Annual UK VAT Statistics 2017-18 Tables: Table 4b: Net Home VAT declared on traders' returns classified by trade sub-sector', (December 2018), available at: <https://www.gov.uk/government/statistics/value-added-tax-vat-annual-statistics>

CONCLUSION

This is the second Total Tax Contribution study reviewing the tax contribution of legal and accounting activities to the UK economy, following on from the first study published in 2017. It shows that the overall total tax contribution is significant (£19.1bn in taxes borne and collected) and growing (up by 6.8% between 2016 and 2018, on a like-for-like basis for the study participants). The total tax contribution of the UK legal and accounting sector represented 2.8% of total government receipts in 2018.

The extent of the contribution to the public finances, coming from just 2.4% of the UK workforce, is an indicator of the high-value jobs and the productivity of the sector. GVA growth from legal and accounting activities has outpaced that of the UK as a whole every year since 2010; the sector's GVA accounted for 2.7% of total UK GVA in 2018.

However, the sector's strength has wider benefits for the UK economy as a whole. Legal and accounting activities are a fundamental part of the UK's internationally competitive ecosystem of financial and related professional services. Legal and accounting activities, together with financial services, contributed an estimated £94.1bn in taxes borne and collected in 2018,²¹ accounting for 13.7% of total UK receipts, compared to 9.6% of UK GVA. The interdependence of these sectors is an important part of the UK's international success in services, and has enabled specialist clusters around financial and related professional services to drive growth across all regions of the UK.²²

²¹ City of London Corporation, 'Total tax contribution of UK financial services' (December 2018), available at: <https://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/total-tax-2018.aspx>

²² For more detail, see TheCityUK, 'A vision for a transformed, world-leading industry: UK-based financial and related professional services,' (July 2017), available at: https://www.pwc.co.uk/who-we-are/regions/northernireland/CityUK-FutureOfFS_060717.pdf

APPENDICES

Appendix 1

Data provided by 18 legal and accounting firms taking part in the study. The table shows taxes borne and collected for accounting periods ending in the year to 30 June 2018.

Taxes borne		£
Taxes on profits (profit taxes)		
Corporation tax		96,056,496
Partner Taxes		1,828,731,375
Taxes on property (property taxes)		
Business rates		142,068,692
Stamp duty		863,022
Taxes on employment (people taxes)		
PAYE agreements (tax on benefits)		31,033,085
Net apprenticeship levy		18,529,925
Employers' national insurance contributions		612,218,547
Taxes on consumption (product taxes)		
Irrecoverable VAT		8,378,178
Insurance premium tax		11,100,533
Air passenger duty		4,841,177
Fuel duty		670,000
Vehicle excise duty		497,432
Environmental taxes (planet taxes)		
Carbon Reduction Commitment		502,203
Climate change levy		698,161
Congestion charge		4,095
Total taxes borne		2,756,192,921

Taxes collected		£
Taxes on profits (profit taxes)		
Taxes deducted at source		41,206
Taxes on employment (people taxes)		
Income tax deducted under PAYE		1,340,033,659
Employees' national insurance contributions		343,888,445
Taxes on consumption (product taxes)		
Net VAT		1,765,676,582
Total taxes collected		3,449,639,892

Appendix 2

The Office for National Statistics provides the following definitions of legal and accounting activities.²³ Note that some participants also carry out consultancy work.

Legal and accounting activities

This division includes legal representation of one party's interest against another party, whether or not before courts or other judicial bodies by, or under supervision of, persons who are members of the bar, such as advice and representation in civil cases, advice and representation in criminal actions, advice and representation in connection with labour disputes.

It also includes preparation of legal documents such as articles of incorporation, partnership agreements or similar documents in connection with company formation, patents and copyrights, preparation of deeds, wills, trusts, etc. as well as other activities of notaries public, civil law notaries, bailiffs, arbitrators, examiners and referees.

It also includes accounting and bookkeeping services such as auditing of accounting records, preparing financial statements and bookkeeping.

Legal activities

Legal representation of one party's interest against another party, whether or not before courts or other judicial bodies by, or under supervision of, persons who are members of the bar.

- Advice and representation in civil cases & criminal cases.
- Articles of incorporation, partnership agreements or similar documents in connection with firm formation.
- Other activities of notaries public, civil law notaries, bailiffs, arbitrators, examiners and referees.
- Preparation of deeds, wills, trusts etc.
- Patents and copyrights.
- Advice and representation in connection with labour disputes – general counselling and advising, preparation of legal documents.

Accounting, bookkeeping and auditing activities, and tax consultancy

- Accounting and audit – preparation or auditing of financial accounts – examination of accounts and certification of their accuracy.
- Bookkeeping – recording of commercial transactions from businesses or others.
- Tax consultancy – preparation of personal and business income tax returns – advisory activities and representation on behalf of clients before tax authorities.

²³ UK Standard Industrial Classification of Economic Activities 2007 (SIC 2007)

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