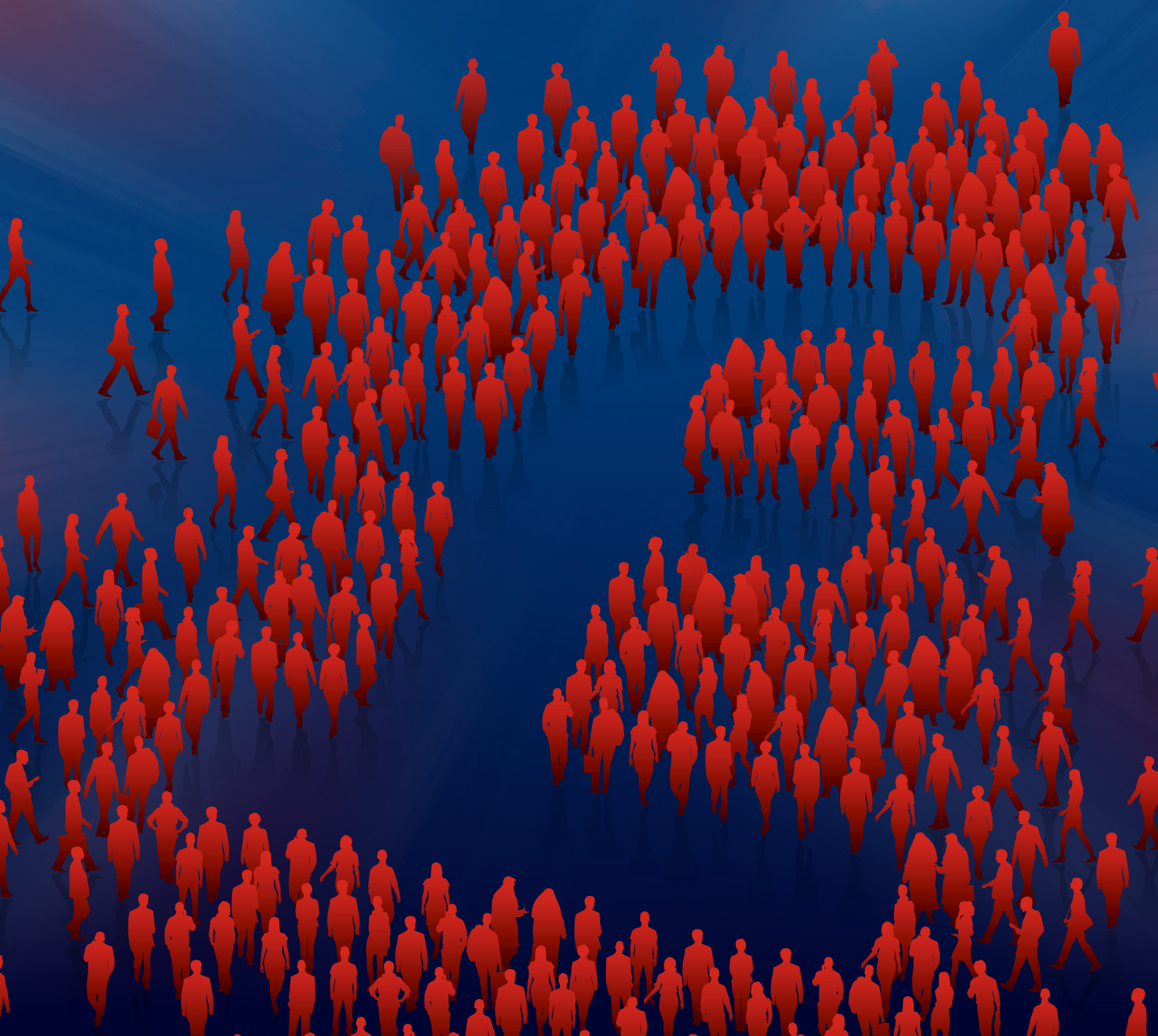


Total Tax Contribution study

for UK legal and accounting activities



TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK, across Europe and internationally that drive competitiveness, support job creation and ensure long-term economic growth. The UK's financial and related professional services industry contributes over 10% of the UK's total economic output and employs more than 2.3 million people. It is the largest tax payer, the biggest exporting industry and generates a trade surplus exceeding that of all other net exporting industries combined. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and protect and manage risk.

A report prepared for TheCityUK by PwC

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Foreword

This is the third Total Tax Contribution (TTC) survey of legal and accounting activities in the UK, following on from research published in 2017 and 2019. Like our previous TTC research, this report estimates 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 highlighting the interdependence with the financial services industry.

This contribution has become even more salient in light of the economic damage wrought by the Covid-19 pandemic; the relative resilience of the legal and accounting sub-sector makes it well-placed to make a strong contribution to the UK's post-pandemic economic rebuilding. But this resilience also allowed the sub-sector to make an important contribution even during the worst of the pandemic: for example, according to survey data collected for the period covering the whole of calendar year 2020, 86% of survey respondents maintained their originally intended level of recruitment for the calendar year.

Legal and accounting activities are a key part of the UK's world-leading financial and related professional services ecosystem, and a source of high-value jobs. The average wages and salaries per employee for the participants in the study is £77,002, and employment taxes per employee for this same population is £30,004.

Our latest TTC survey of legal and accounting activities shows that the overall contribution reached £20.5bn last year, made up of £8.4bn in taxes borne and £12.1bn in taxes collected. The total contribution represents 2.8% of total UK tax receipts. Together with financial services, legal and accounting activities contributed an estimated £96.1bn in taxes borne and collected in 2020, representing 12.9% of total UK receipts¹, responsible for 9.8% of UK GVA². Our research once again demonstrates that legal and accounting services constitute a high-value, high-productivity part of the UK economy, and an integral part of the wider financial and related professional services ecosystem.

Anjalika Bardalai

Chief Economist & Head of Research, TheCityUK



¹ Source: Table 2.8 Current receipts (on a cash basis), available at <https://obr.uk/efo/economic-and-fiscal-outlook-november-2020/>.

² Source: GVA in pounds millions at constant prices, Legal and Accounting Services (SIC 69) and Financial and Insurance (K), available at: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates>.

Executive summary

- The Total Tax Contribution (TTC) of legal and accounting activities in 2020 was £20.5bn, made up of £8.4bn in taxes borne and £12.1bn in taxes collected. This represented 2.8% of total government receipts in 2020. The period covered by the study is the year ending 30 June 2020 (three companies provided data up to 31 December 2019). The data are therefore largely pre-Covid-19; however, they cover the period in which GVA for related professional services saw the steepest pandemic-related decrease.
- Compared to our last survey, which covered 2018, we estimate that the TTC has increased, on a like-for-like basis³, by 5.4% over the two years.
- The legal and accounting sectors are an important contributor to UK economic growth. The average annual growth rate for legal and accounting GVA was 3.1% over 2011-20, while UK GVA rose by an annual average of 0.6% during that period.
- The legal and accounting sector provides skilled, well-paid jobs. The average wage for employees of the study participants, which broadly comprise the largest firms, was £77,002. For every employee in the study (98,803), an average of £30,004 was paid in employment taxes.
- Despite the pandemic, there was a sustained level of investment in graduate recruitment: 13 out of the 15 study participants that provided additional data related to Covid-19 maintained their originally intended recruitment levels in 2020.

Other key metrics:

- One-third of turnover and more than half of profits (33.6% and 54.6%, respectively) are paid and collected in the form of taxes.
- The largest tax payments are for partner and employment taxes, indicating the importance of highly skilled labour. The net VAT contribution is also significant, representing 4.9% of total government VAT receipts⁴.
- The UK government was the largest beneficiary of value distributed by study participants, with almost half (47%) of value distributed going to the government in taxes borne and collected.
- 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.
- Legal and accounting activities, together with financial services, contributed an estimated £96.1bn in taxes borne and collected in 2020, accounting for 12.9% of total UK receipts.

³ A like-for-like basis means that only those study participants providing data in both years of the study were considered in the trend calculation

⁴ Source: Office for Budget Responsibility, Table 2.8 Current receipts (on a cash basis), available at <https://obr.uk/efo/economic-and-fiscal-outlook-november-2020/>.

Purpose and outline of the study

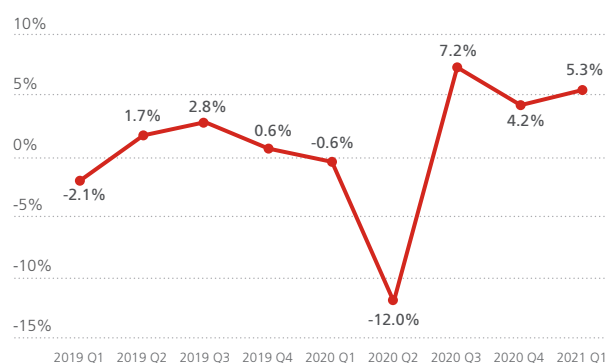
Purpose of the study

This is the third TTC 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 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 data was collected for accounting periods ending in the year to 30 June 2020. The period being covered therefore largely predates the impact of the Covid-19 pandemic. However, the data covering the first two quarters of 2020 capture the worst performing quarters in which GVA for legal and accounting services saw the steepest decrease:

Figure 1: Legal and Accounting Services GVA

Source: Office for National Statistics (ONS), GVA in pounds millions at constant prices, Legal and Accounting Services (SIC 69), available at: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates>.



The Total Tax Contribution methodology

The study uses the PwC TTC 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 16 years ago and has been used in studies around the world.⁵

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 third 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.

⁵ 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 TTC 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.

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.

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.

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

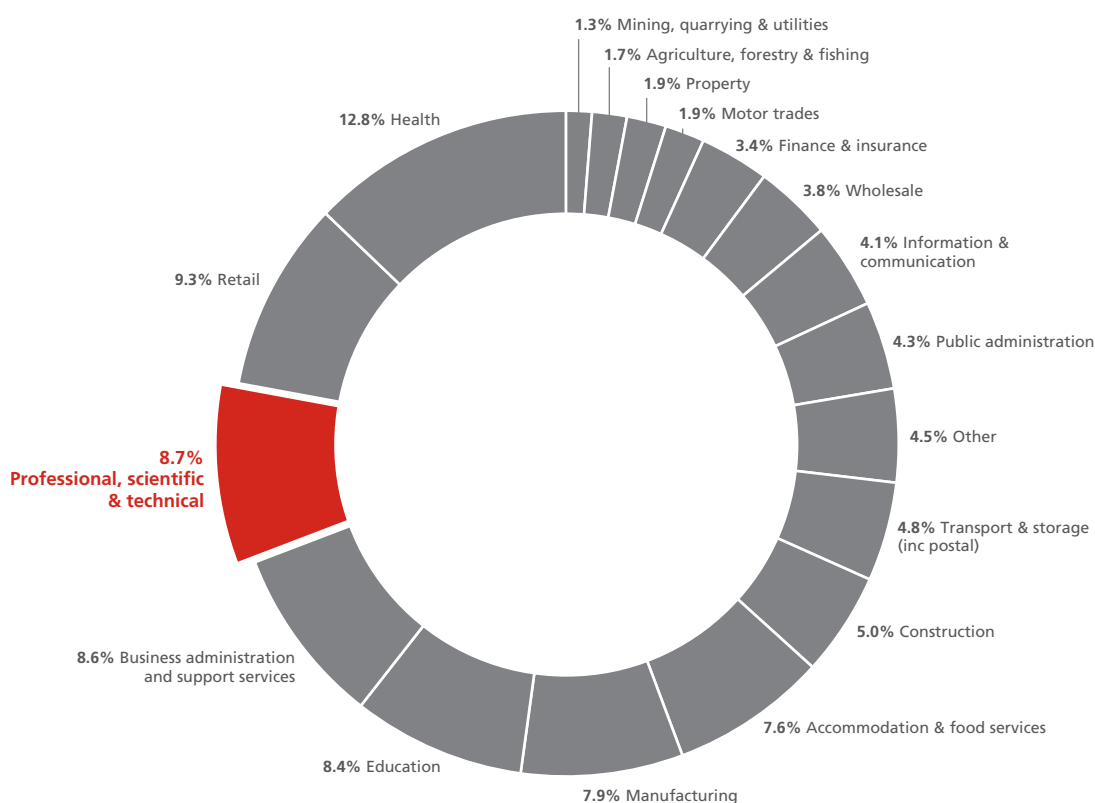
Professional services, legal and accounting activities

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.⁶ To put the scope of this study into context, Figure 2 shows employment in the UK by sector. Professional services are included within the 'Professional, scientific and technical activities' sector, which represents 8.7% of total employment in the UK⁷ and is the third largest sector in terms of number of employees.

Figure 2: Employment in the UK by sector as a % of total employment, 2019

Source: Office for National Statistics.



⁶ 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.

⁷ Office for National Statistics, 'UK level employment by Broad Industry Group– Table 1B UK', (September 2019), available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/broadindustrygroupsicbusinessregisterandemploymentsurveybrestable1>.

Professional, scientific and technical activities

Figure 3 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.⁸ For government statistical reporting purposes, legal and accounting activities are combined.⁹

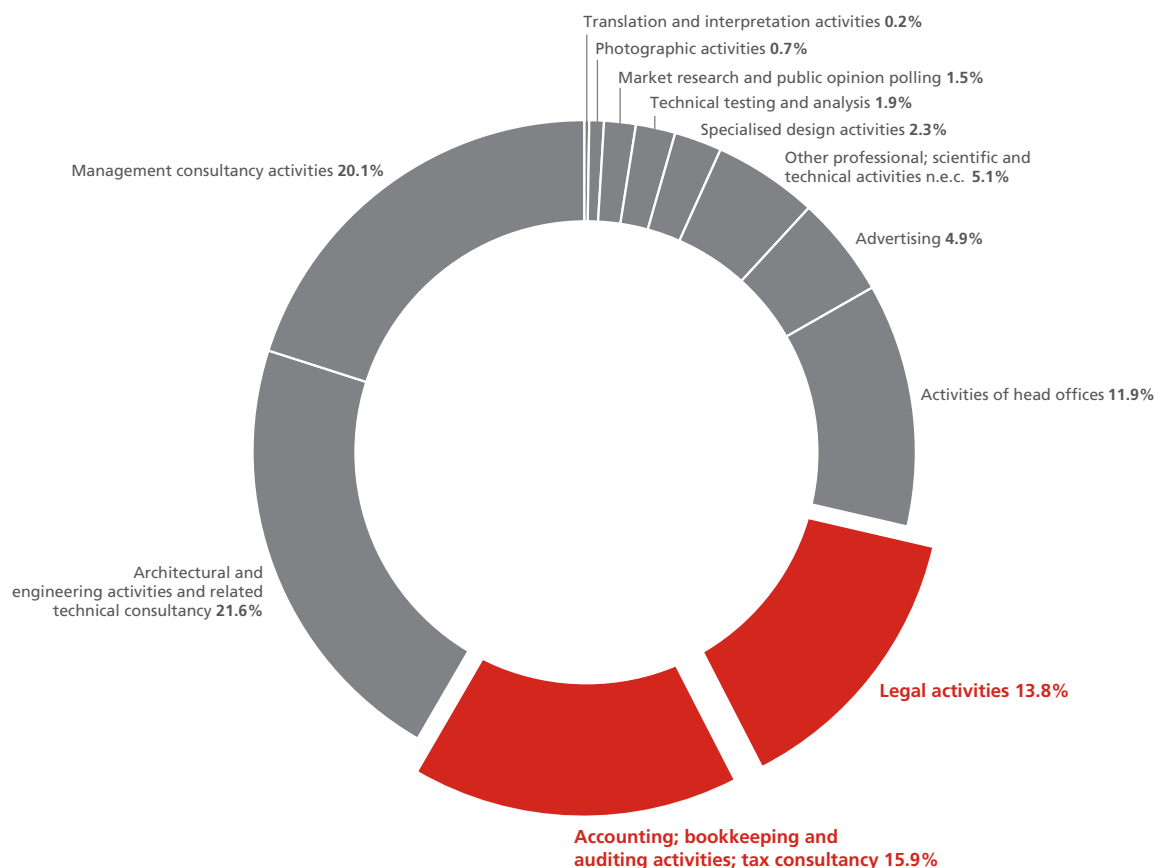
Within the overall professional, scientific and technical activities sector, the accounting and legal sub-sectors are the third and fourth largest, respectively, by number of employees. While there are a number of large and medium-sized firms in these sub-sectors, there is also a

very long tail of small and micro enterprises. This study is focused on the legal and accounting sub-sectors, where data provided by large and medium-sized firms, together with data from government sources (for the sector as a whole), could be used to estimate the contribution.

A small proportion of study participants (four out of the 21 total participants) are largely in the management consultancy sector. We have maintained the scope and references in this study to the legal and accounting sectors due to the small representation of predominantly management consultancy firms, consistent with previous years. Our expectation is that the scope of this report will expand to the management consultancy sector as more participants join this initiative.

Figure 3: Employment in professional, scientific and technical activities, % of employment within that sector, 2019

Source: Office for National Statistics.



⁸ Office for National Statistics, 'UK Standard Industrial Classification of economic activities 2007 –SIC', (July 2017), available at: <https://www.ons.gov.uk/methodology/classificationsandstandards/ukstandardindustrialclassificationofeconomicactivities/uksic2007>.

⁹ Ibid. SIC code 69.

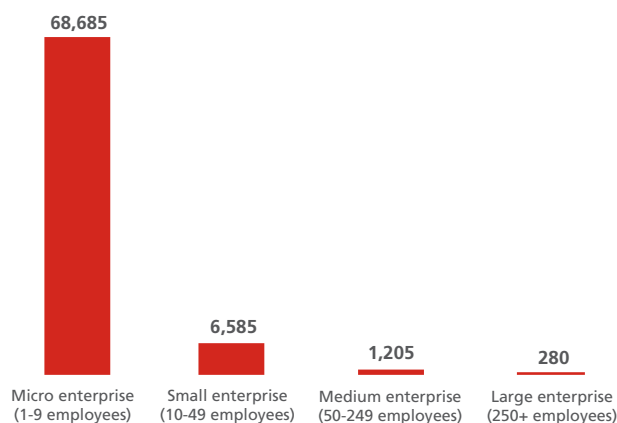
Legal and accounting activities

The legal and accounting activities sub-sector is made up of 76,755 firms which employ a total of 755,800 people. This represents 29.8% of total employment in the professional, scientific and technical activities sector, and 2.3% 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 99% of legal firms and 99% of accounting firms in the UK.¹⁰ Seventy-seven percent of legal firms and 80% of accounting firms are made up of fewer than four employees (Figure 4).

Figure 4: Number of UK legal and accounting firms, by size of firm

Source: Office for National Statistics.



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. The 280 largest enterprises—that is, 0.4% of the total number of legal and accounting businesses—employ an estimated 40% of the workforce in the sector.

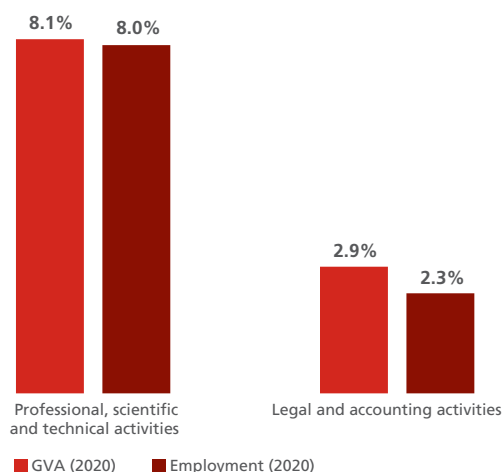
GVA and productivity trends for legal & accounting activities

To put the contribution from the legal and accounting sub-sectors into context, other indicators were reviewed. At a national level, economic activity is commonly measured by gross value added (GVA), which is a measure of output.

Comparing GVA and employment can provide an insight into—although not a complete measure of—productivity. The legal and accounting sector contributed 2.9% of UK GVA in 2020 and employed 2.3% of the UK workforce. This compares to the broader professional, scientific and technical activities sector, which contributed 8.1% of UK GDP and employed 8% of the UK workforce, indicating higher productivity in the legal and accounting sub-sectors than in the professional, scientific and technical activities sector as a whole (Figure 5).

Figure 5: GVA and employment for the professional, scientific and technical activities division and for the legal and accounting activities sub-sectors, % of the UK total

Source: PwC analysis, Office for National Statistics.

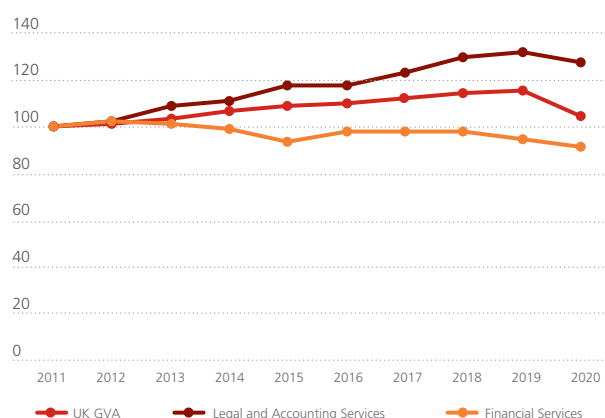


¹⁰ Office for National Statistics, 'UK Business: Activity, Size and Location: Table 4 - Number of VAT and/or PAYE based enterprises by Standard Industrial Classification (SIC) class by employment sizebands (2020)', available at: <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/ukbusinessactivitysizeandlocation/2020>

Since the last study concerning 2018, legal and accounting GVA as a percentage of total UK GVA increased from 2.7% to 2.9%. In real terms, GVA of legal and accounting activities increased by 27.8% since 2011, compared to an increase in overall UK GVA of 5.3% in that period. The average annual growth rate for legal and accounting GVA was 3.1% over 2011-20, while UK GVA rose by an annual average of 0.6% during that period.

Figure 6: GVA at constant prices, index, 2011=100

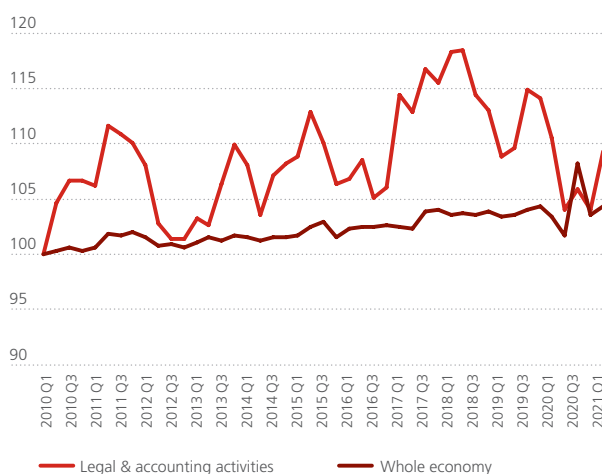
Source: PwC analysis, Office for National Statistics.



Looking at a standard measure of productivity growth – output per hour – since 2010, the legal and accounting sub-sector has outperformed the UK economy as a whole apart from the third quarter of 2020 (Figure 7)¹¹.

Figure 7: Productivity (output per hour), index, 2010 Q1 = 100)

Source: Office for National Statistics.



¹¹ Office for National Statistics, Output per hour by industry, UK, constant prices, (SIC code 69 and whole economy), available at <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/labourproductivitybyindustrydivision>.

Participation

Data provided

21 firms participated in this study, providing data on taxes borne and collected for their accounting period ending in the year to 30 June 2020. For most legal firms, the accounting period was the year ending 30 April 2020 and for most accounting firms, the period was the year ending 30 June 2020. As a consequence, while the accounting firms' results reflect six months in 2020, three of which were impacted by the pandemic, for the legal firms the impact is significantly less.

Measured by turnover, the participation represents 27.2% of total UK legal and accounting turnover: 12.7% of all legal service firms and 44.4% of all UK accounting services firms.¹²

Compared to the sector as a whole

Data for turnover, number of employees, and wages and salaries for the legal and accounting activities sub-sector are publicly available. Figure 8 compares the data from the study with the data for the sector as a whole. The study participants generated £18.9bn of turnover and paid £7.5bn in wages and salaries, representing 27.9% and 29.5% respectively of the total UK legal and accounting activities sub-sector.

The study participants accounted for 13.2% of total UK employment in the legal and accounting activities sub-sector, whereas the TTC from study participants was estimated to be 30.7% of the total (please refer to the next section for details of the extrapolation methodology). 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 activities 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 8: 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 sub-sector)	Study participants as a % of whole sub-sector
UK turnover	£18.9bn	£67.7bn ¹³	27.9%
Employment	98,803	745,800 ¹⁴	13.2%
UK wages and salaries	£7.5bn	25.4bn ¹⁵	29.5%

¹² Office for National Statistics, 'Turnover of Services Industries', available at: <https://www.ons.gov.uk/file?uri=%2feconomy%2feconomicoutputandproductivity%2foutput%2fdatasets%2fmonthlybusinesssurvey%2fturnoverofservicesindustries%2fcurrent/mbsturnoverofservicesindustries202104.xlsx>.

¹³ Ibid., SIC codes 69.1 and 69.2.

¹⁴ Office for National Statistics, 'GB and UK level employment (thousands) by 2, 3 and 5 digits SIC 2007', (2019), available at: <https://www.ons.gov.uk/file?uri=%2femploymentandlabourmarket%2fpeopleinwork%2femploymentandemployeetypes%2fdatasets%2findustry235digitsicbusinessregisterandemploymentsurvey%2fbtable2%2f2019provisional/table22019p.xlsx>.

¹⁵ Office for National Statistics, 'Annual Business Survey – 2019', (June 2021), 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 TTC of the legal and accounting sector to the UK public finances in 2020 is estimated to be £20.5bn. Twenty-one firms (representing the largest firms measured by revenue) provided data on their TTC, which totalled £6.3bn. Using this data alongside the official data for the whole sub-sector, it is possible to extrapolate in order to estimate the TTC of UK legal and accounting activities.

Figure 9 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 extrapolation methodology. Since data in the survey was received from the largest firms, it was not possible to use participants' data on partner tax per partner, or employment taxes per employee to estimate the TTC of the smaller firms. Instead, the TTC data received was used to identify the largest taxes in the sector (employment taxes, partner tax and net VAT), and government statistics were then used to estimate the contribution from these taxes for the sector as a whole.

Figure 9: Total Tax Contribution

Source: PwC analysis

	Study participants (£bn)	Extrapolated to UK legal and accounting activities (£bn)	As a share of government receipts (%) ¹⁶
Partner Taxes ¹⁷ (and corporation tax)	1.8	5.0	0.7%
Employment taxes borne	0.7	2.6	0.4%
Other taxes borne	0.2	0.7	0.1%
Total taxes borne	2.7	8.4	1.1%
Employment taxes collected	1.8	5.8	0.8%
Other taxes collected	1.7	6.4 ¹⁸	0.9%
Total taxes collected	3.6	12.1	1.6%
Total tax contribution	6.3	20.5	2.8%

¹⁶ Office for Budget Responsibility, 'Table 2.8 Current receipts (on a cash basis)', available at <https://obr.uk/efo/economic-and-fiscal-outlook-november-2020/>.

¹⁷ Note that partner tax includes income tax as a tax borne, although this is a tax collected for employees

¹⁸ Office for National Statistics, Monthly Business Survey turnover of services industries, available at <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/monthlybusinesssurveyturnoverofservicesindustries>.

Trends in Total Tax Contribution between 2018 and 2020

Fourteen firms provided data for both the 2018 and 2020 TTC 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 TTC, on a like-for-like basis, of 5.4%. The increase in taxes collected (accounting for 4.4 percentage points of the total 5.4% increase) was driven primarily by increases in net VAT (output VAT less input VAT) and increases in employment taxes collected. The increase in net VAT reflects growth in UK turnover for the participating firms, whereas increases in employment taxes reflect higher wages and salaries.

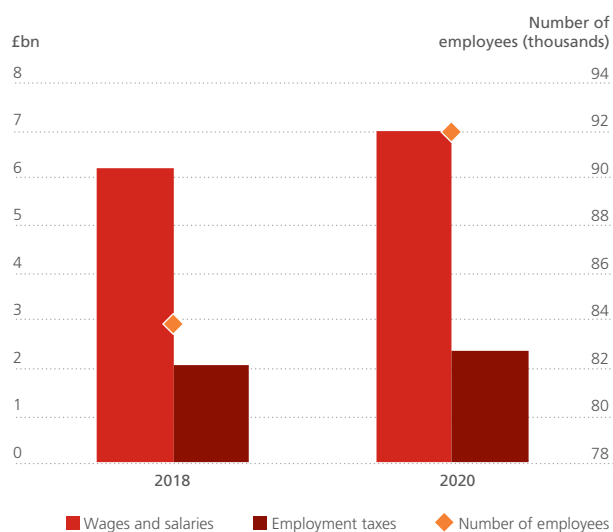
The increase in taxes borne (accounting for 1.0 percentage point of the total 5.4% increase) was driven primarily by increases in employment taxes borne and in business rates.

There was an increase in the number of employees, wages and salaries, and employment taxes.

These trends are reflected in the taxes borne and collected trends between the 2018 and 2020 surveys.

Figure 10: Trend in Employment Data, 2018-2020

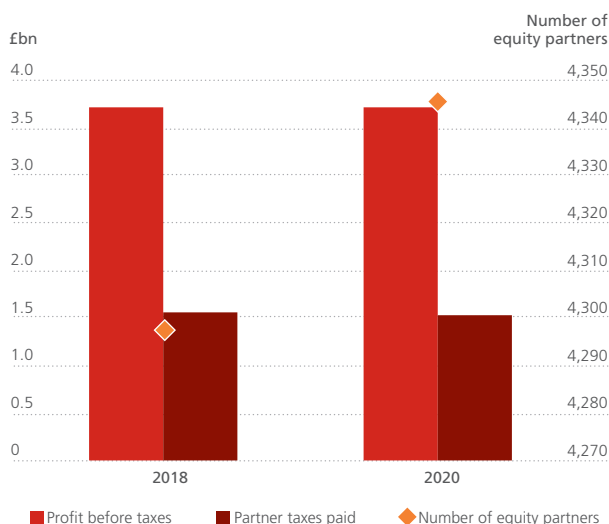
Source: PwC analysis on a like-for-like basis.



There was an increase in the number of partners, but the decrease in profits led to a reduction in payment of partner taxes. The reduction in partner tax is also reflected in the taxes borne trend between the 2018 and 2020 surveys, partially offsetting the increase in total taxes borne.

Figure 11: Trend in profit before taxes, equity partners and partner taxes paid, 2018-2020

Source: PwC analysis.



Nine study participants contributed data in all three years of the study (2016, 2018 and 2020). For this group of businesses, there were increases in taxes borne, taxes collected and TTC (3.0%, 8.8% and 11.9%, respectively) between 2016 and 2020. The employment data also saw an increase in all three indicators during that same period: wages and salaries (20.9%), number of employees (11.0%) and employment taxes (18.2%).

Employment in legal and accounting activities

Total employment in the UK legal and accounting sector is 755,800, representing 2.3% of the total UK workforce. 21% of taxes borne was made up of employment taxes (PSAs and employers' NIC); while employees' NIC combined with income tax deducted under PAYE corresponded to 62.5% of taxes collected as employment taxes.

Average employment taxes per employee for legal and accounting activities

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, the weighted average wage per employee for the study participants, which represent the largest firms, was £77,002 and, for each employee, an average amount of £30,004 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 (mean) wage of £42,921 and median of £32,241.²⁰

UK government statistics highlight the contribution made by high earners in the UK. According to HMRC statistics, the top 50% of income taxpayers accounted for 90.5% of total income tax revenue in FY 2018/19, or £168bn out of a total £187bn, highlighting the progressive nature of the income tax system. The top 1% of income taxpayers accounted for 28.9% of total income tax in FY 2018/19.²¹

Partner Taxes

Partner Taxes were estimated as £5bn, which makes up 24.4% of the TTC for the legal and accounting sector in the UK. On average, for the study participants, Partner Taxes as a percentage of total taxes borne were 61.5%.

²⁰ ONS, 'SIC07 Industry (4) SIC2007 Table 16.7a Annual pay – Gross 2020', available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/industry4digitsic2007ashtable16>.

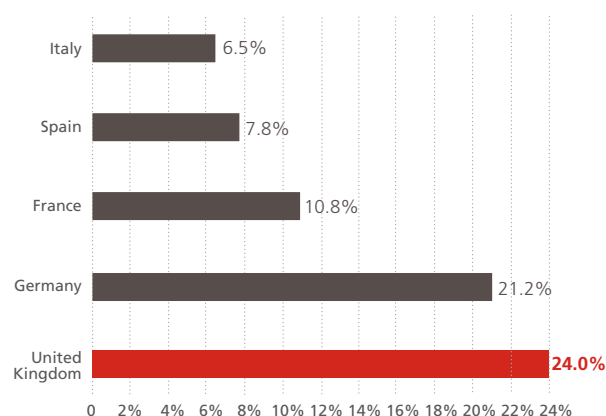
²¹ HMRC 'UK Income Tax Liabilities Statistics – 2018-19 Survey of Personal Incomes, with projections to 2021-22, available at: <https://www.gov.uk/government/statistics/income-tax-liabilities-statistics-tax-year-2018-to-2019-to-tax-year-2021-to-2022/summary-statistics>.

UK legal and accounting activities compared to EU countries

The UK ranks first in the number of employees working in the legal and accounting sectors when compared to countries in the EU. Figure 12 shows the number of employees in the legal and accounting activities sub-sector, in 2018, for selected countries as a percentage of the total employees in the EU.²² The number of employees in the UK represented 24% of the EU total in 2018 (when the UK was still an EU member).

Figure 12: Number of employees in the legal and accounting sectors as a percentage of the EU-28 total (selected countries), 2018

Source: PwC analysis and Eurostat.



COVID-19

2020 was an extraordinarily challenging year for many businesses. The Covid-19 pandemic has affected global supply chains, demand for goods and services worldwide, the way people work and interact, and how businesses operate. By the end of 2020, the UK economy remained 8.6% smaller than it was at the end of 2019, which is equivalent to every person in the UK being roughly £3,000 worse off than they were in 2019 on a net basis.²³

Labour market conditions were difficult throughout 2020. In the three months to October, redundancies set a new record high – rising by a record 217,000 in the previous three months to 370,000. These figures reflect the tightening of public health restrictions in October 2020, with the introduction of the tiered local lockdown system. Conditions appear to be improving in 2021: the headline unemployment rate fell to 4.7% in the three months to April 2021, down from 5% in the previous quarter. The rate of redundancy is now back to pre-pandemic levels and vacancies in many industries are now above pre-pandemic levels.²⁴

As legal and accounting businesses were able to leverage technology to minimise disruption in their day-by-day activities, the trends shown in the previous chapter highlight the resilience of the sector and the important part that these businesses will play in the recovery of the UK economy.

²² Eurostat, 'Annual detailed enterprise statistics for services (NACE Rev. 2 H-N and S95)', available at: <https://ec.europa.eu/eurostat/web/structural-business-statistics/data/database>.

²³ PwC, UK Economic Update (February 2021). Available at: <https://www.pwc.co.uk/services/economics/insights/uk-economic-update-covid-19.html>.

²⁴ PwC, UK Economic Update (June 2021). Available at: <https://www.pwc.co.uk/economic-services/ukey/ukey-june-2021.pdf>.

Figure 13 highlights the key findings for the sub-sector with regard to Covid-19. The analysis is based on survey data; we asked for the information for the period covering the whole of calendar year 2020.²⁵ Of the 21 TTC study participants, 15 shared information regarding how they addressed the challenges brought about by Covid-19.

Only two out of the 15 survey participants made use of the Coronavirus Job Retention Scheme (colloquially known as the 'furlough scheme') and only one participant made redundancies which were directly linked to the pandemic. There was also a minimal impact on graduate recruitment, with 13 participants out of the 15 maintaining their originally intended level of recruitment for the calendar year.

Participants made charitable donations to aid in the response to the pandemic amounting to £7.5m in 2020.

Figure 13: Covid-19 responses

Source: PwC analysis.



15 companies provided a response in their COVID-19 questionnaires.



Only **2** out of the 15 made use of the Coronavirus Job Retention Scheme.



1 out of the 15 had redundancies which were directly related to the pandemic.



13 out of the 15 companies maintained the same level of graduate recruitment.



£7,540,700 of additional money was spent as charitable donations during the pandemic.

²⁵ Note that this differs from the TTC data, which covered the year ending 30 June 2020.

Financial indicators

It is possible to put the TTC data in 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; and
- 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 TTC-to-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.

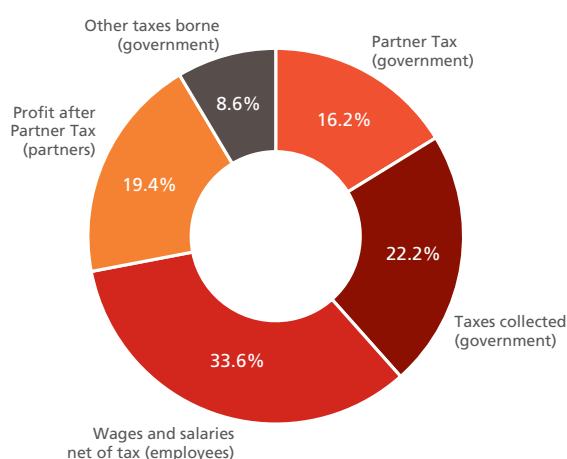
Value distributed to the government in taxes by UK legal and accounting activities

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 TTC in the context of value distributed by firms for those providing this data.

Figure 14 shows the profile of value distributed on average by the participants. The taxes borne (partner taxes and other taxes borne) accounted for 24.8% of the value distributed. The TTC paid to the government was 47.0% of the value distributed, while a further 33.6% was paid to employees as wages and salaries.

Figure 14: TTC as a percentage of value distributed

Source: PwC analysis.



Total Tax Rate (TTR)

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 Tax plus all other taxes borne) as a percentage of profit before total taxes borne.

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

Total Tax Rate was **54.6%** for the study participants.

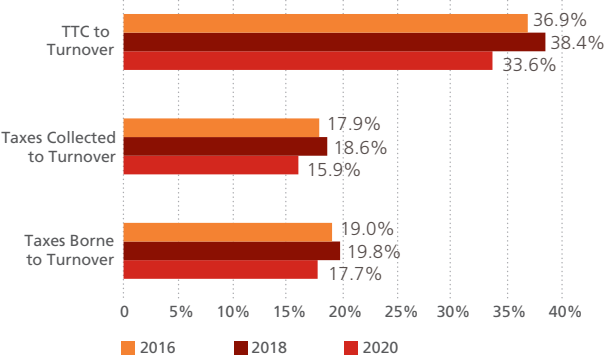
The average TTR for the study participants was **54.6%**, reflecting the inclusion of Partner Tax in taxes borne.

Taxes borne and collected as a percentage of turnover

For legal and accounting firms participating in the study, the TTC as a percentage of their UK turnover was on average 33.6%, consisting of 17.7% taxes borne and 15.9% taxes collected (Figure 15).

Figure 15: Taxes borne and collected as a percentage of turnover

Source: PwC analysis.



The decreasing trend of the TTC to turnover ratio is explained by the increase in turnover (11.6%) being higher than the increase in TTC (3.4%) on a like-for-like basis. For every £100 of UK turnover, an amount equivalent to £33.63 is paid in taxes.

The profile of taxes borne and collected

The profile of taxes borne

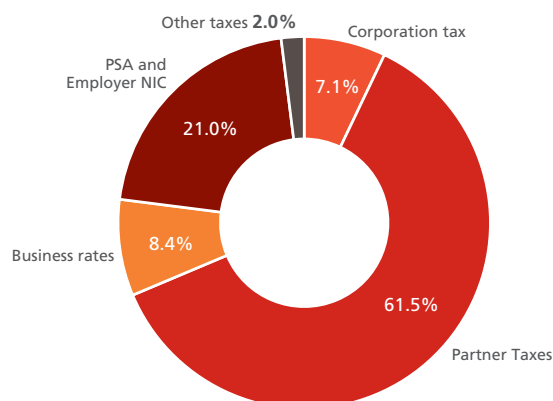
Taxes borne are a cost for businesses and therefore directly affect firms' profits. As outlined in the methodology section, Partner Taxes have been regarded as a tax borne. Figure 16 shows that Partner Taxes were the largest taxes borne, making up 61.5% of the total in the study. Employment taxes, comprising 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 (21%).

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 16: The profile of taxes borne for study participants

Source: PwC analysis.

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



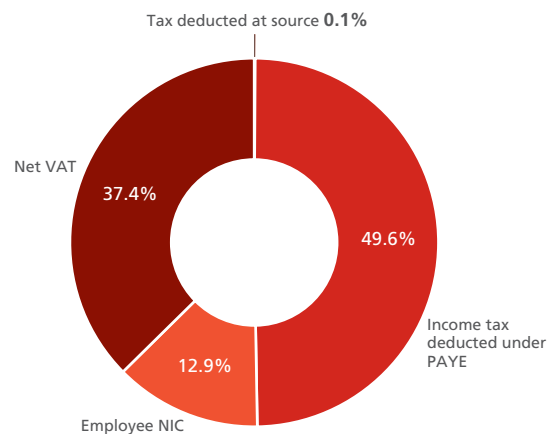
The profile of taxes collected

Figure 17 shows the profile of taxes collected in the study. Employment taxes made up over half of taxes collected by the sector (62.5%) and net VAT made up 37.4% of the total. The total net VAT for legal and accounting activities amounted to £6.4bn. 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'.

Figure 17: The profile of taxes collected for study participants

Source: PwC analysis.

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



Conclusion

This is the third TTC study reviewing the tax contribution of legal and accounting activities to the UK economy, following on from previous studies published in 2019 and 2017. It shows that the overall TTC is significant (£20.5bn in taxes borne and collected) and growing (up by 5.4% between 2018 and 2020, on a like-for-like basis). The TTC represented 2.8% of total government receipts in 2020.

The strength of the sub-sector 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 £96.1bn in taxes borne and collected in 2020,²⁶ accounting for 12.9% of total UK receipts. The extent of the contribution to the public finances, coming from just 2.3% of the UK workforce, continues to be an indicator of the high-value jobs and the relatively high productivity of the sector, attributes which leave it well placed to contribute to the wider economic recovery as the UK leaves behind the scarring effects of the pandemic.

²⁶ City of London Corporation, 'Total tax contribution of UK financial services' (February 2021), available at: <https://www.cityoflondon.gov.uk/supporting-businesses/economic-research/research-publications/total-tax-contribution-of-uk-financial-services>.

Appendices

Appendix 1

Data was provided by 21 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 2020

Taxes borne		£
Taxes on profits (profit taxes)		
Corporation tax		119,251,639
Partner Taxes		1,725,748,100
Taxes on property (property taxes)		
Business rates		145,767,030
Stamp duty		9,205,353
Taxes on employment (people taxes)		
PAYE agreements (tax on benefits)		30,640,872
Net apprenticeship levy		14,658,828
Employers' national insurance contributions		675,189,639
Taxes on consumption (product taxes)		
Irrecoverable VAT		7,530,134
Insurance premium tax		13,961,077
Air passenger duty		4,524,528
Fuel duty		320,271
Vehicle excise duty		452,926
Customs duties		926
Environmental taxes (planet taxes)		
Carbon Reduction Commitment		48,074
Climate change levy		1,465,964
Landfill tax		2,000
Congestion charge		1,963
Total taxes borne		2,748,769,324

Taxes collected		£
Taxes on profits (profit taxes)		
Taxes deducted at source		9,322,128
Taxes on employment (people taxes)		
Income tax deducted under PAYE		1,441,575,629
Employees' national insurance contributions		400,024,849
Taxes on consumption (product taxes)		
Net VAT		1,716,229,553
Total taxes collected		3,567,152,159

Appendix 2

The Office for National Statistics provides the following definitions of legal and accounting activities.²⁷ 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; 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.

²⁷ UK Standard Industrial Classification of Economic Activities 2007 (SIC 2007).

For further information please contact:

Anjalika Bardalai, Chief Economist and Head of Research
anjalika.bardalai@thecityuk.com
+44 (0)20 3696 0111

TheCityUK

TheCityUK, Fitzwilliam House, 10 St Mary Axe, London, EC3A 8BF
www.thecityuk.com

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