Fighting the good fight

General Features



01 October 2017

Paul Morton provides an update on the future plans of the Office of Tax Simplification

Key Points

What is the issue?

Since 2010, the Office of Tax Simplification has made over 450 recommendations on ways of simplifying the tax system and examined a number of areas where longer term thinking is required. Emerging issues, such as the best way to tax the Gig Economy have also been addressed.

What does it mean to me?

As it seems to be inevitable that the tax system becomes even more complicated over time, we need to continue to look for ways in which the experience of those interacting with the tax system can be improved through simplification.

What can I take away?

The OTS welcomes comments on the future work programme as well as suggestions as to where opportunities might lie. The everyday experience of tax advisers and their clients will offer plenty of good ideas and we would be delighted to hear about them!

The Office of Tax Simplification (OTS) is the independent adviser to the Chancellor on simplifying the tax system. This article looks back at the work of the OTS and sets out the priorities for future work. The hallmark of the OTS is its engagement with stakeholders in the tax professional community, the business world, within HMRC and HM Treasury and among taxpayers and we warmly welcome thoughts on our work programme as well as suggestions as to other areas we might look at.

What is the OTS?

We believe that the OTS is the first and only organisation established anywhere in the world with the sole aim of bringing a systematic and thoroughly researched approach to tax simplification. Having been created in July 2010, the OTS was put onto a statutory footing last autumn by sections 184 – 189 of the Finance Act 2016 and SI 2016/113. We have a new and broader remit to report on areas when requested by the Chancellor but also to report on other areas which we feel warrant attention. Although the OTS is part of HM Treasury it is independent in that it represents its own views and not those of Government.

We are governed by the OTS Board which includes members from HM Treasury and HMRC and four independent directors. Our Chair, Angela Knight, brings experience as a Treasury Minister as well as wide business knowledge. Our Head of Office, David Halsey, and OTS team have long experience from HMRC, HM Treasury, large and small professional firms and business. In fact it is our mix of different backgrounds in tax that we see as one of our greatest strengths. Looking back, I note our appreciation of the Rt. Hon David Gauke MP, now Secretary of State for Work and Pensions, for his support as a Treasury Minister and to John Whiting CBE for so successfully leading the OTS from the outset until earlier this year.

The published work of the OTS

We publish three kinds of report, comprising formal reports which offer practical recommendations in defined areas of the tax system, analysis which shines a light on challenging structural issues to inform and widen the debate on these areas and Focus Papers which draw together insight into the implications for tax simplification of societal, economic and business changes, such as our Focus Paper on the Gig Economy. We are particularly well placed to research and report on difficult topics which might not fit into a particular area of responsibility.

Some of our more notable recommendations include the removal of the requirement on employees to file an annual benefits return (P11D), the option to calculate profits on a cash basis, which is now used by more than a million of the smallest businesses and the abolition of Class 2 national insurance contributions. We have also looked in depth at the alignment of income tax and national insurance contributions and explored some of the difficult issues this raises including the enormous number of people who would pay more under a more aligned system, as well as the equally enormous number of people who would pay less!

To date, the OTS has published around 45 reports and papers and made over 450 recommendations. Over half have been accepted and another quarter remain under consideration. The OTS is deceptively small, having around 10 to 12 staff members, many of whom work part-time. However, our role is to provide advice and to stimulate debate so where recommendations are accepted it will be for HM Treasury and HMRC to take forward the implementation.

Our most recent reports include those on the Corporation Tax Computation, paper Stamp Duty and Disincorporation Relief as well as our first Annual Report. Earlier this year we published our papers on Complexity, including an update on the Complexity Index.

It is perhaps worth touching in a little more detail on the Corporation Tax Computation. Our recommendations fell into four categories:

- Simplifying corporation tax for smaller companies,
- Aligning corporation tax more closely with the accounts, including reform of the schedular system which seems from today’s perspective to be somewhat historic,
- Aligning the corporation tax more closely with the accounts for capital expenditure which means relying more on the accounts depreciation and less

on separate computations of capital allowances, and
- Two areas specific to large and complex businesses comprising earlier and more open consultation as part of a CT roadmap and further communicating and embedding the role of the Customer Relationship Manager.

We noted in our paper Stamp Duty report that for certain transactions it is still necessary, in exceptional cases, for documents to be carried to Birmingham to be physically stamped, in some cases several hundred times, the largest stamp being worth £1 million, and then brought back to London, all on the same day. We recommended that the stamp duty process be fully digitised, as it already is for stamp duty land tax and stamp duty reserve tax, and that the rather elegant stamping machines be retired. We also recommended that the legal obligations on a company registrar be amended so that the books of the company can be updated on sight of a transaction reference rather than a stamped stock transfer form. We propose that stamp duty become an assessable tax rather than in a sense a voluntary tax and there are other, somewhat more technical recommendations.

How we develop our programme

We maintain a pipeline of proposals for future work comprising projects for the forthcoming year, a wider range of projects to consider over the next three years and longer term ideas to guide our thinking over the longer term. Given that we have quite limited resources we aim to focus our efforts on those measures which would benefit the greatest number of people on the largest number of occasions. At the same time, we will not ignore an opportunity to secure a ‘quick win’ which might benefit a smaller number of stakeholders but which would achieve a useful outcome. We will also consider areas where simplification is clearly necessary even if the numbers affected are smaller and the task is harder, areas perhaps where it is just ‘the right thing to do’.

Historically, we have taken a keen interest in the quantity and quality of tax legislation. While we will continue to do so, we do not feel that the size of the tax statute book should be seen as one of our ‘key performance indicators’! Unfortunately, it seems quite likely that the volume of tax legislation will continue to grow but if the experience of those interacting with the tax system, at least members of the general public, can be improved it might be argued that there would be less concern about what was going on ‘under the bonnet’. We welcome views on

this.

The OTS has always focussed as much on the administration of taxes as on the legislative framework and this will continue. The experience of those interacting with the tax system, whether as private individuals, businesses or advisers will continue to inform and motivate our work programme. Perceptions are important as they may determine whether a feature of the tax system works as intended. For businesses, it is vital that tax administration doesn't unnecessarily inhibit productivity and efficiency. To inform our ongoing work we are particularly interested in hearing from taxpayers about practical challenges they face in dealing with their tax affairs.

Our future plans

Later this year we look forward to publishing our first report on VAT. There are a number of areas where we expect to be able to make recommendations. Perhaps the most notable issue is the impact of the VAT registration threshold, now £85,000 per annum. It seems that really significant numbers of businesses are held back from growing because they do not wish to exceed the threshold and to have to register for VAT. We will be exploring the impact of this and considering various ways of smoothing the impact of the threshold as well as the potential implications of a higher or lower threshold.

We are examining the tax issues which impact on businesses at key points in their life cycle, from the point of inception, to growing a business by taking on the first employee, to the first cross border transaction, to seeking outside capital for the first time and finally to the point at which a business may be sold or passed on to the next generation. This may lead on to further work on the reliefs available for raising capital. Our thinking is that looking at the interaction of taxes at key events in the life cycle of a business will expose practical issues in a clearer light than when we look at a particular tax.

Similarly, we are interested in key events in the lives of individuals in terms of the various taxes which can impact and interact. In this context, we will be looking at savings and investments.

Following the recommendations in our review of the Corporation Tax Computation, we will be looking in much more depth at the possibility of replacing capital allowances with accounts depreciation, perhaps for smaller businesses or perhaps

on a broader basis.

We are particularly interested in the role which technology might play in making the user experience of those interacting with the tax system better. We are observing how technology is used elsewhere in the world and learning about some of the recent developments in technology such as robotics, artificial intelligence, distributed ledgers and big data analytics. We are engaging with HMRC on making tax digital and their wide-ranging work on the customer experience. We expect that work will continue on the Gig Economy and on the digitalisation of the economy in general where new challenges and complexity are emerging.

How you can help

Our longer-term work programme will continue to evolve and develop and we always welcome views and suggestions. We always find that input from tax professionals is valuable and where possible we particularly welcome thoughts from taxpayers too. We are fortunate, in the UK, to have one of the most knowledgeable tax professional communities in the world but perhaps this means that individual taxpayers and those running small businesses will still see tax issues in a fresh way which tax professionals may have forgotten!

The OTS is an important, perhaps even unique, conduit into government for any and anyone who has a concern about tax complexity. This direct line to key decision makers means that input from our stakeholders can reach those at the heart of the policy-making process.