What does Simplification mean?

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Bill Dodwell considers the meaning of simplification in tax

The Office of Tax Simplification held a conference on 28 February, to discuss its current programme of work, where it might go next, and look back at some of its activities since formation in 2010. The conference was chaired by Angela Knight, who has just stepped down as OTS chair, as Kathryn Cearns takes over from 18 March.

As many will know, the OTS was established somewhat informally in 2010, led by John Whiting as Tax Director and chaired by Michael Jack. Its initial staff came from HMRC, with loan staff from accounting and law firms for individual projects. In 2016,

the OTS was put onto a statutory footing, through Finance Act 2016. It operates as an independent adviser to government on simplification, albeit that operationally it is part of the Treasury (and its staff are based in the Treasury/HMRC building). Today the OTS has about nine full-time equivalent staff, drawn from secondments from HMRC and the Treasury, with others having their roots in the private sector. The OTS Annual Report gives more details on its governance, the team and the work undertaken.

Sir Edward Troup was Director General Tax & Welfare at the Treasury when the OTS was set up. He was one of the OTS' Board members from the start, both in his time at the Treasury and at HMRC. He reflected that simplicity can, ironically, be complex to describe. He suggested that it related particularly to certainty, the burden of doing tax compliance, and the tax system's comprehensibility. He pointed out that the OTS's work has at times involved suggesting reforms where it can especially have a role in preparing the ground, seeking to revise how the system operates and acting as a restraint on the government through its wider influence. This last point is perhaps less apparent to those outside the Treasury and HMRC, who might wonder how an organisation of about 10 people can have an influence: the reality is that the formation of the OTS signalled the importance of embedding simplification into the wider tax system.

It's a truism that the simplest tax is one with no reliefs or exemptions or different rates – or perhaps that doesn't exist at all. Such as tax is unlikely to meet wider goals, though. There are some easy to spot signs where complexity is inevitable – and the choice for policy makers is whether the policy goal outweighs the additional burden for taxpayers and for HMRC. Examples of areas where complexity arises include boundaries, or thresholds. Other cases involve choices open to taxpayers. Too wide a range of potential choices can confuse, which may mean that individuals find it hard to understand the economic impact of their actions – and potentially choose the wrong ones. Choices – at least in the past – have opened up the potential for tax avoidance, which is a major source of uncertainty and complexity.

One important session at the conference covered technology. The OTS published a high-level report on technology in January 2019. Harvey Lewis (EY) and Andrew Burman (Grant Thornton) put forward the thesis that technology is likely to enable, and lead to, significant changes in the ways the tax system can be operated or designed in the future. A key reason comes from the huge amount of data potentially available and the ways that data can, or will be able to, be sourced and

used without specific action by taxpayers. Should tax authorities access and use data received by other national and local tax authorities? What happens when the data is incorrect? There are wider issues here about taxpayer engagement and confidentiality. An important question is whether the greater use of data and technology by tax authorities could reduce the engagement between individuals and taxation. This could reduce their understanding and possibly their willingness to report – on the basis that the tax authority should ‘know’ the correct figures. Several tax authorities, including HMRC, are conducting research into this important area. Technology also brings opportunities for ground-breaking changes (for example in relation to opening up a PAYE-like experience for self-employed people). Mathew Taylor’s Good Work report put forward this possibility and it is an area where the OTS is looking to contribute.

It was acknowledged that there were two schools of thought on how best to deploy technology to tax compliance. One approach is to simplify the tax code and then apply technology to aid reporting. An alternative could be to use technology to hide complexity. Do we need to understand? What is becoming clear though is that computing is becoming able to do things – not least in relation to machine learning – that are already starting to transform routine compliance activities. There are likely to be opportunities for machine learning to be built into the interface between HMRC and agents/taxpayers in novel ways. Trust will be key to harnessing these opportunities, along with knowing why (rather than how) technology produces the answers it does.

Opening up the technology debate will be one of the key areas for government and society at large over the next few years.