Lifetime events

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Bill Dodwell explains the recommendations from the recent OTS review of lifetime events for small businesses

The Office of Tax Simplification has just published its latest smaller business review (tinyurl.com/yygkjndd), commissioned last summer by the Chancellor. The review looks at key ‘lifetime’ events in the life of a smaller business. The focus of the report is on the smallest micro businesses – that is, businesses with 9 or fewer employees and turnover of less than £2 million. There is a multiplicity of definitions in this sector, with different approaches being taken by ONS (where small is up to 49 employees); HMRC (where small is sales up to £10 million and up to 20 employees)

and the complicated three factor company definitions. 75% of micro businesses employ only their owner(s).

The report contains recommendations in five main areas. There is also a long list of smaller scale recommendations, most of which could be adopted by HMRC without legislation.

The five main areas are:

Start-up – The government should develop and offer small businesses a package of start-up guidance taking them step-by-step through the things they need to do at key stages in the business, with tax as a major (although not the only) focus.

PAYE – A strategic focus on the PAYE system should be an HMRC priority to ensure effective implementation of improvements and system changes. A fresh review of areas where the PAYE/RTI system should be improved should be carried out, possibly by the OTS.

Tax agents – HMRC should appoint a senior official to oversee and prioritise implementation of the Agent Strategy. HMRC should routinely build agent awareness and needs into system design and improvement and its related guidance.

Companies – HMRC should work with partners such as Companies House to develop digital options to help small companies prepare accounts and tax returns, including use of an optional accounts template that is simple to use and acceptable to HMRC and other departments.

HMRC should simplify the corporation tax online return process as part of any future extension of Making Tax Digital to corporation tax, so that, as with the online income tax process, taxpayers only see the pages and information relevant to them, with pop-up information and help.

HMRC should explore ways to reduce the number of companies having to file two tax returns to cover first accounting periods that are very slightly longer than 12 months.

Strategic approach to tax administration and system change – HMRC should map major customer journeys for small businesses across tax regimes, to develop a programme to streamline the small business experience. HMRC should review tax payment processes across core taxes and regimes, with a view to aligning and

streamlining them.

The review found evidence that too many people lurch into self-employment, whether as a freelancer, through a personal company, or otherwise. The result may be that they do not appreciate their record keeping and tax obligations and, in some cases, use the wrong business form. In some ways tax education at schools could be part of the answer here, but no doubt there is pressure on the curriculum. The report highlighted the need for guidance to be accessible – graphics and bite-size content would be much more useful than a text-heavy approach. Most of us use jargon which normal people simply don't understand – why, for example, is the income tax return known as the Self Assessment tax return?

PAYE remains the flagship tax collection system in the UK. It brings in over £200 billion every year, which is 40% of annual tax receipts. It applies to well over 40 million people. Yet the review found that over 5% of PAYE returns are submitted late; that there are over 350,000 duplicate records and that the processing of data isn't always sufficiently swift or accurate to ensure correct tax codes and correct data in the millions of personal tax accounts.

Tax agents play an important part in the UK's tax compliance approach. The report found that HMRC needs to do more to leverage the benefit of tax agents, who represent over 70% of small businesses. In particular, HMRC needs to ensure that tax agents have access to the same data as is available to taxpayers. Copying material to tax agents should be the default.

Companies remain both a problem and a benefit. It is remarkable that Companies House can register a new company for a mere £12, taking probably less than 30 minutes. However, too many people don't understand the difference between themselves as an individual and the company they own, which provides their services. Most owners instruct a tax agent to help with company reporting and tax filings; accounting and corporation tax remain too complicated. Making more use of standard templates could help some smaller companies file easily and, with a single filing, satisfy the requirement for publicly-available accounts and the necessary corporation tax returns. The first accounting period is also a problem for many companies, since it all too often turns into two tax periods – another complication not readily understood. Finding an answer is not straightforward, though, since so much company tax is based around accounting periods not exceeding twelve months.

The Chancellor will no doubt respond once he and his officials have had the opportunity to consider the recommendations.