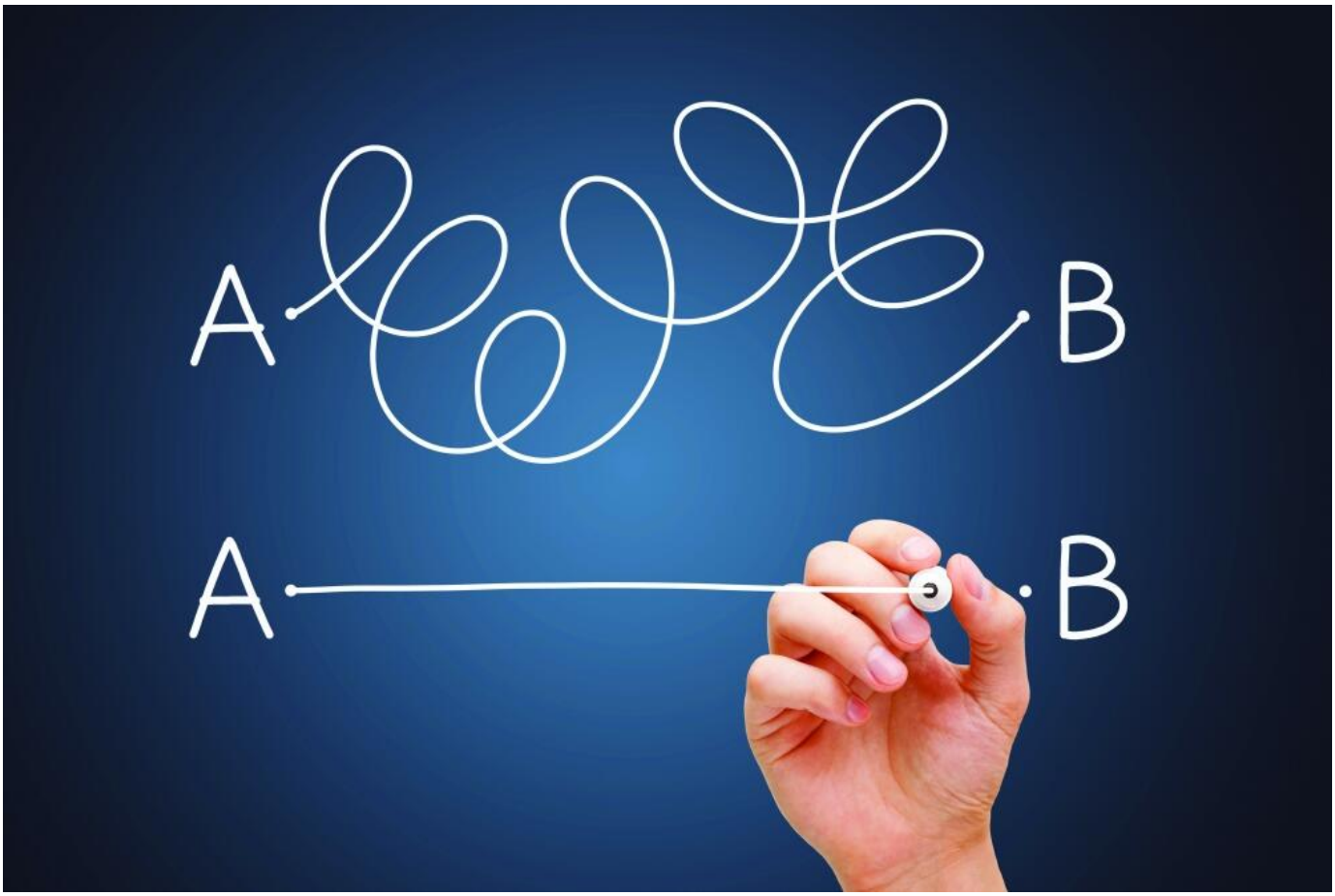
Finding a simpler way

Employment Tax | OMB | Personal tax



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Bill Dodwell asks whether we can create a simpler system of tax to benefit the smallest companies

On 20 July, the Office of Tax Simplification (OTS) published an evaluation update on its Corporation tax review and its Accounting depreciation or capital allowances review, combined with a stock take of its work on personal service companies and self-employed people's taxation (see bit.ly/3jvgZIz). This is the second recent evaluation of previous reports published by the OTS; the first, published in October 2019, looked at the November 2017 VAT report.

The OTS hopes that the update will be a useful contribution to current thinking, noting the chancellor’s statement in conjunction with the 26 March 2020 announcement of the Covid-19 support package for self-employed people: ‘It is now much harder to justify the inconsistent contributions between people of different employment statuses…’

Helping small companies

A key ambition of OTS work has always been to find a simpler way for very small companies to file corporation tax returns. Arguably, there is now a simpler system for many self-employed individuals, in that the cash basis has fewer adjustments than for accruals-based accounting and reporting. About 1 million individuals now file using the cash basis. It’s best suited to labour only businesses and is not right for everyone.

However, the cash basis doesn’t apply to companies, primarily no doubt because company law and accounting standards require that companies prepare accounts on the accruals basis.

The evaluation note explores whether it might be possible for very small companies to adopt a simpler system, with a short list of tax adjustments, instead of being required to consider (if only to dismiss) the much longer list in current legislation. The short list would inevitably include disallowing personal expenses and other items prescribed by law, such as entertaining and penalties. There’s a debate about how best to give tax relief for the cost of plant and machinery. One route might be to keep capital allowances and disallow depreciation – which would mean immediate deductions for all costs aside from on cars, thanks to the annual investment allowance. An alternative might be to give tax relief for accounting depreciation, perhaps with an optional top-up to mimic the annual investment allowance.

The note also highlights the following:

Personal service companies

The OTS suggests renewed consideration of enabling a small personal service style business to operate through a UK limited company whilst being treated as transparent for tax. This would remove the business from corporation tax (salaries, dividends and loans to participators being ignored for tax purposes) and permit the relative ease of a self-employment style tax calculation.

Tax administration

The OTS reiterates comments in its Tax reporting and payments review about the merit in HMRC doing more to enhance the personal tax account and to integrate it with the business tax account, to provide an end-to-end tax reporting and payment service and facilitate the simplificati on of tax administration for self-employed people. It is thus pleasing to find the Tax Administration Strategy from the financial secretary, the Treasury and HMRC, released on 21 July, specifically refers to a single digital account for individuals, combining and enhancing the personal tax and business tax accounts (see bit.ly/2CWV6kv).

Employment and self-employment

The OTS is interested in the possibility of a statutory definition of employment for tax purposes being developed. This need not be an attempt simply to codify the current case law principles but could have different features. A better definition would not be the answer to the current disparity of tax/NIC treatment of employed and self-employed people, but it should be easier to know which regime should apply.

Review of capital gains tax

On 13 July, chancellor Rishi Sunak wrote to the OTS to commission a review of capital gains tax in relati on to individuals and smaller businesses. He said: ‘I would like this review to identify and offer advice about opportunities to simplify the taxation of chargeable gains, to ensure the system is fit for purpose and makes the experience of those who interact with it as smooth as possible... This review should identify opportunities relating to administrative and technical issues, as well as areas where the present rules can distort behaviour or do not meet their policy intent. In particular, I would be interested in any proposals from the OTS on the regime of allowances, exemptions, reliefs and the treatment of losses within CGT, and the interactions of how gains are taxed compared to other types of income.’

On the following day, the OTS published its call for evidence. Please do reply to our survey or send us an email with your thoughts. The call for evidence is lengthy, as it att empts to cover everything, but answers on one or more aspects are very welcome. There is an initial call for comments on how CGT fits into the wider panoply of UK taxation, with a longer deadline for comments on the detail of the tax, its reliefs, exemptions and administration. See bit.ly/3hF8Gbx.