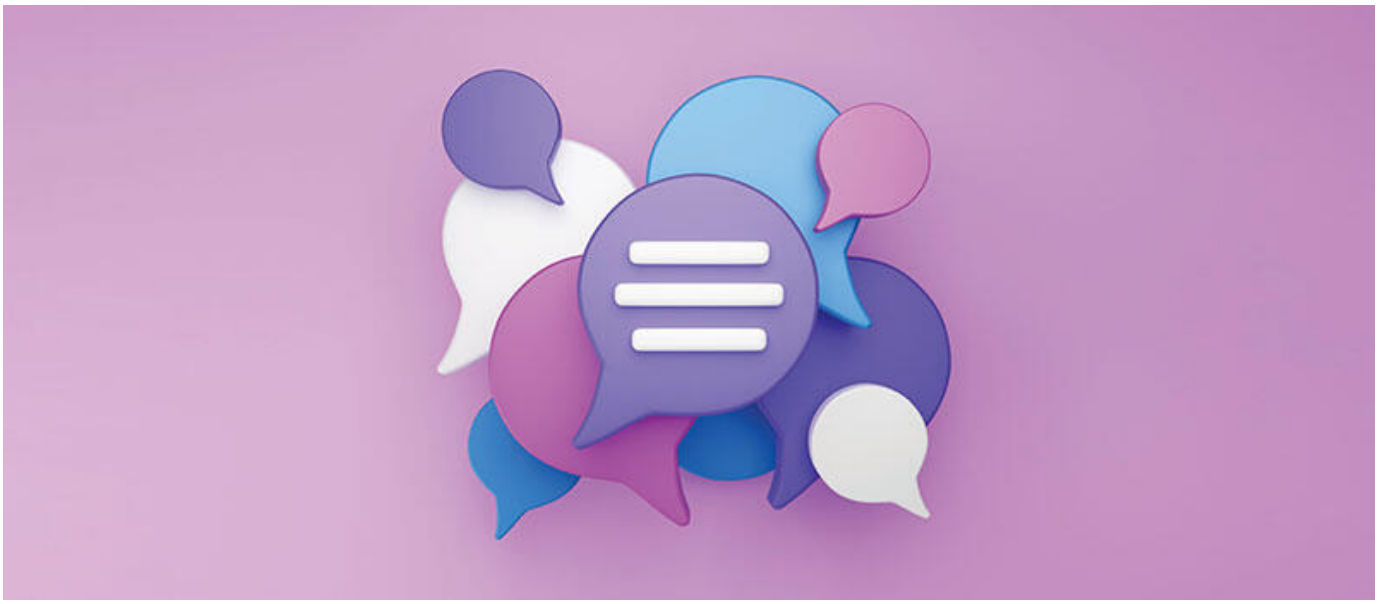
The OTS launches a new review of tax simplification

Management of taxes



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As the question of how government designs and implements its tax policy remains as complex as ever, the Office of Tax Simplification begins a new review to consider what tax simplification means.

The Office of Tax Simplification has just announced a new review to consider what tax simplification means. The report has been commissioned by the Chancellor and the Financial Secretary to the Treasury (see bit.ly/3LZu3UT) following the publication of the Treasury's five year review into the effectiveness of the OTS. The FST wrote:

> 'The [five-year] review recommends that the OTS "undertake a project to articulate its approach to and interpretation of 'tax simplification', including clarifying its aims as an organisation, and the success measures for assessing its progress". The Chancellor and I would like you to commence this work as a formal OTS review, focusing on conclusions that can inform how the OTS, and government, should prioritise simplification efforts over the next five years. I

> look forward to agreeing the detail of the terms of reference in the coming weeks, and to hearing your plans for own-initiative work over the coming months.'

The scoping note (see bit.ly/3LVtg7k) sets out the broad areas to be covered in the review. Simplification is not a policy choice in itself but considering how to design and implement a policy in the simplest way could help taxpayers to understand the policy, as well as potentially make better business and family choices taking account of tax generally. Simpler tax design and implementation can also make compliance easier and potentially cheaper, both for taxpayers and HMRC.

The OTS would be keen to hear from anyone with perspectives on tax simplification. Please send an email to ots@ots.gov.uk with comments, or to request a meeting.

Complex policy choices

The output of the work should set out some broad principles for government to consider when designing tax policy, and for HMRC in implementing tax policy. There will be times where a policy cannot be implemented in a particularly simple way though, and policy choices are always for the government to weigh.

The high income child benefit charge (HICBC) is an example of a tax charge which is hard for HMRC to implement. No doubt Chancellor George Osborne was advised of this when the policy was devised – and the government of the day decided to go ahead partly because the policy raised over £1.5 billion annually and it decided that higher than average income households should no longer receive what had been a universal benefit. HMRC is now using data mining to advise individuals of a potential liability, but the recent OTS evaluation note on the HICBC gives examples of additional things that HMRC could do to make compliance easier.

Thresholds are an example of a policy which can bring simplicity – through removing some potential taxpayers from tax compliance – but which can also bring complexity as taxpayers get close to the threshold. The OTS work on the £85,000 VAT threshold highlights that over 1 million traders do not need to charge VAT and manage VAT compliance. However, the OTS also heard from traders who found it hard to expand, as expansion would require that they charge VAT on their services, which would put them at a competitive disadvantage to those operating below the threshold. The data shows that there is a large number of traders operating just below the VAT

threshold.

Tax cases highlight potential complexity. The basic principle that law is enacted by parliament and administered by the tax authority, with disputes decided by the independent judiciary, is fundamental. Yet too many tax cases – as we see in the area of employment/self-employment – make it obvious that we have complicated law where taxpayers and HMRC cannot easily reach a common understanding. There is surely a good case for making changes to this area.

Limited capacity

One important point for all of us to recognise is that there is limited capacity within government to make changes, even where it is broadly agreed that change would be sensible. Our tax policy making approach means that HMRC and HM Treasury would need to devise a specific policy change, potentially taking account of broader areas outside the remit of the OTS. They would then consult on the changes and draft legislation would also be consulted upon. It is thus important that the OTS highlights the relative importance of review recommendations, as not everything can be taken forward immediately.

It would also be helpful for this review to refresh OTS strategy for the next five years.

Finally, the review should consider metrics. Measuring taxpayer behaviour will take some time to show meaningful results, although looking at reduced HMRC contact and a reduction in the need for compliance interventions would be good signs of helpful simplification. It may be very hard to measure the nirvana of taxpayer understanding!