Tax simplification project: revisiting the OTS review

Management of taxes | General Features

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A renewed review of UK tax administration seeks evidence to simplify compliance, improve competitiveness and reduce burdens for businesses and advisers.

Key Points

What is the issue?

The ICAEW is supporting a small team to revisit the former OTS review of the competitiveness of the UK tax administration. Following stakeholder engagement, the team will publish their own report in the spring, with actionable recommendations for policymakers.

What does it mean for me?

The themes of growth and the UK’s competitiveness are as important as ever. At the

same time, tax complexity continues to pull in the opposite direction, increasing administrative burdens for businesses, advisers and HMRC.

What can I take away?

The original OTS report made more than 50 recommendations, all except three of which were accepted or marked as under consideration by the government of the day. But how many have actually been implemented and where are the current pinch points in the UK tax system?

In October 2014, I co-authored the former Office of Tax Simplification (OTS) report on the competitiveness of the UK tax administration. The review was commissioned by the Chancellor at the time, George Osborne, on behalf of the Coalition government, following the UK's ranking (14th place) in the World Bank's *Paying taxes* report, produced by PwC.

The ranking was based on three factors: the total tax rate; the total time taken to comply; and the number of tax payments in the year. The OTS was asked to focus on the second of these. Its report put forward more than 50 recommendations to improve the competitiveness of the UK's tax administration, with all but three accepted or marked for further consideration by the Exchequer Secretary to the Treasury (see tinyurl.com/muu6b9aa).

But how many of these recommendations have actually been implemented by successive governments since then? Or are compliance burdens now fully resolved?

Both the World Bank's annual *Paying taxes* report and the OTS itself have since been discontinued. Nevertheless, the subject of growth and the UK's competitiveness remains as important as ever, while tax compliance burdens on business continue to pull in the opposite direction.

I have long been an advocate for the continuation of the OTS's work (see my *Tax Adviser* article in February 2023 on 'Tax simplification – where is it heading now?'). I am therefore very pleased that the ICAEW is supporting a small team comprising myself, Professors Kevin McMeeking and Peter Jelfs of Bristol and Brunel universities respectively, and PhD research student Sam Sherwood, to revisit the OTS review and publish our own report in the spring, with actionable recommendations for policymakers.

Call for evidence

We are following the OTS mantra of engaging with as many stakeholders as possible, including advisers, industry representative bodies, academics, HMRC officials and, crucially, businesses themselves. For businesses in particular, it is clear that only a party independent of the government will hear the full story, without fear or favour.

We have hit the ground running and, at the time of writing, have held more than a dozen meetings across the groups above. However, we need to continue building our body of evidence. Details of how you can contribute are at the end this article. Drawing partly on the recommendations in the original report, our call for evidence focuses on ten areas.

1. **Adjustments between accounting profit and taxable profit**
   Which adjustments take a disproportionate amount of time relative to the tax at stake?

2. **Relief and incentives for capital expenditure and R&D**

3. **The ‘schedular’ system**
   What are the benefits and burdens of placing income sources into separate ‘buckets’?
   What would be the obstacles to pooling income sources?

4. **Making Tax Digital (MTD): opportunities for a simpler regime**
   Have you been involved in the MTD for income tax pilot? If so, what simplifications could assist implementation from April 2026?
   How helpful or unhelpful has MTD for VAT been in managing VAT obligations?

5. **Reporting and compliance processes that could be simplified**

6. **HMRC support**
   How useful do you find HMRC guidance and online services?
   How easy is it to contact HMRC?
   What could be done to improve matters?

7. **Payroll and employment taxes**
   How easy do you find managing the company payroll, employment status, benefits in kind and CIS?

8. **Simpler tax for smaller companies**
   Could the complexity of the corporation tax computation for smaller companies be almost entirely removed, whilst retaining clear and simple incentives such as the annual investment allowance? What benefits and concerns would arise? Could smaller companies operate a cash-based system, and what problems might this create?

9. **International aspects**
   Are there international comparisons or case studies from other regimes that have successfully implemented simplifying changes to their corporation tax systems?

10. **Priority of changes**
    If one area of the business tax regime were to be prioritised for simplification, what would it be?

Early emerging themes

Accounting profits and adjustments

While following accounting profits would be simpler, the popularity of the annual investment allowance mean adjustments to profits will continue to be required, as concluded in the subsequent 2018 OTS review of capital allowances versus depreciation (see tinyurl.com/4648rhkk). In many cases, the issue relates to timing differences, raising the question of whether accounts could be followed more closely.

Difficulties were highlighted around private use adjustments and entertaining within travel and subsistence. Differences in definitions between accounting and tax, such as capital versus revenue, and inconsistencies between different taxes (for example, in the definition of ‘business’) were also seen as confusing. We would welcome further evidence on particularly time-consuming areas.

Income tax property businesses were cited as an example of where the disallowance of finance charges can result in a taxable profit even where there is an underlying economic loss arises.

Capital allowances

Certainty around the annual investment allowance being set at £1 million for the lifetime of the current parliament, as recommended in the original OTS report, has been welcomed. However, the interaction between the annual investment allowance and full expensing, and the need to track purchases separately, was seen as complex. Concerns were also raised about the policy rationale for the new 40% first-year allowance alongside a reduction in the writing-down allowance. Where land and buildings are purchased and later disposed of, with capital gains or losses arising, the system was described as confusing.

R&D tax credits

R&D tax credits have been raised at almost all our meetings. Larger businesses with access to a HMRC Customer Compliance Manger have welcomed the merged R&D scheme.

At SME level, however, businesses without such access report difficulty in determining whether their expenditure qualifies. This leads them to rely on advisers, who in turn report a lack of certainty. Although credits may be paid out early, there is concern that HMRC may later open an enquiry, creating uncertainty. The result appears, in some cases, to be a disincentive to claim, rather than an incentive to invest in R&D.

The schedular system

It is almost certain that, if starting with a blank sheet of paper, we would not design a system that places different income sources into different tax ‘buckets’. Proposals for schedular reform were carried forward into the OTS corporation tax computation review, where the chancellor at the time, Philip Hammond, acknowledged this as a sensible long-term proposal and said that he would ask officials to cost and assess its impact (see tinyurl.com/yc25tu3x).

The results of that work are unclear. Similar proposals were echoed by landowner groups in the penultimate OTS report on property income (see tinyurl.com/3v7t6v94), including calls for a rural business unit for diversified agricultural businesses.

We have heard that the 2017 loss reforms may have eased some concerns around the pooling of profits and losses, but we are keen to understand what other obstacles may arise if the schedules were removed.

Making Tax Digital

Unsurprisingly, there is a nervousness around the introduction of MTD for income tax. Some have suggested that quarterly accounting could result in increased reporting of expenditure that is currently missed. We are keen to understand whether there any lessons to be learnt from the MTD for Income Tax pilot or from MTD for VAT.

Concerns were also raised that automating processes and reducing human involvement (for example, through pre-population) could lead to increased compliance time later on.

Reporting and administration

We have been told that the Corporate Interest Restriction administrative rules are particularly cumbersome and in need of an overhaul. Difficulties arise where groups do not submit an interest restriction return because they believe they are within the £2 million de minimis limit, only for the corporation tax return to be amended after the 12 month filing deadline, leaving them unable to submit the required return.

The lack of digitisation for form CT61 has also been raised. On VAT, businesses highlighted difficulties around the boundaries for different rates (such as in the food sector), and the domestic reverse charge rules for the construction sector, which are not always fully understood. On payroll and employment taxes, expansion of the trivial benefits rules have been raised, and we would like to hear more under this heading.

HMRC support

HMRC delays in answering helplines calls and post were reported as discouraging businesses from contacting them. By contrast, the corporate webchat service has

been reported as being useful.

Smaller companies

For smaller companies, the possibility of a cash-basis system was cited by some as a potentially useful option, while others questioned the need for differential treatment at all, noting that too many businesses incorporate for the wrong reasons. A HMRC report from April 2025 (see tinyurl.com/5ck7jrau) found an interesting statistic that the second most common reason for incorporating (after limited liability), was simply ‘don’t know’. This is disappointing following improvements to guidance on gov.uk.

The need for a route to disincorporate back to sole trader or partnership status without a tax charge has again been raised. The OTS previously recommended a disincorporation relief, which was introduced in 2013, but an asset limit of £100,000 meant that it was rarely used. The relief was discontinued under a sunset clause in 2018.

International comparisons

Singapore has been cited as one example of a jurisdiction that communicates tax compliance obligations and business incentives in a comprehensive but concise and intelligible way. We are keen to hear further examples under this heading.

Contact us

If any of the above resonates with your experiences of the problems faced by UK businesses, we would be very pleased to hear from you. Contributions can be made either through a written submission or via a Teams meeting, and will help us build a robust body of evidence and frame recommendations for policymakers. Your insights will be invaluable in identifying problem areas and shaping reform proposals.

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