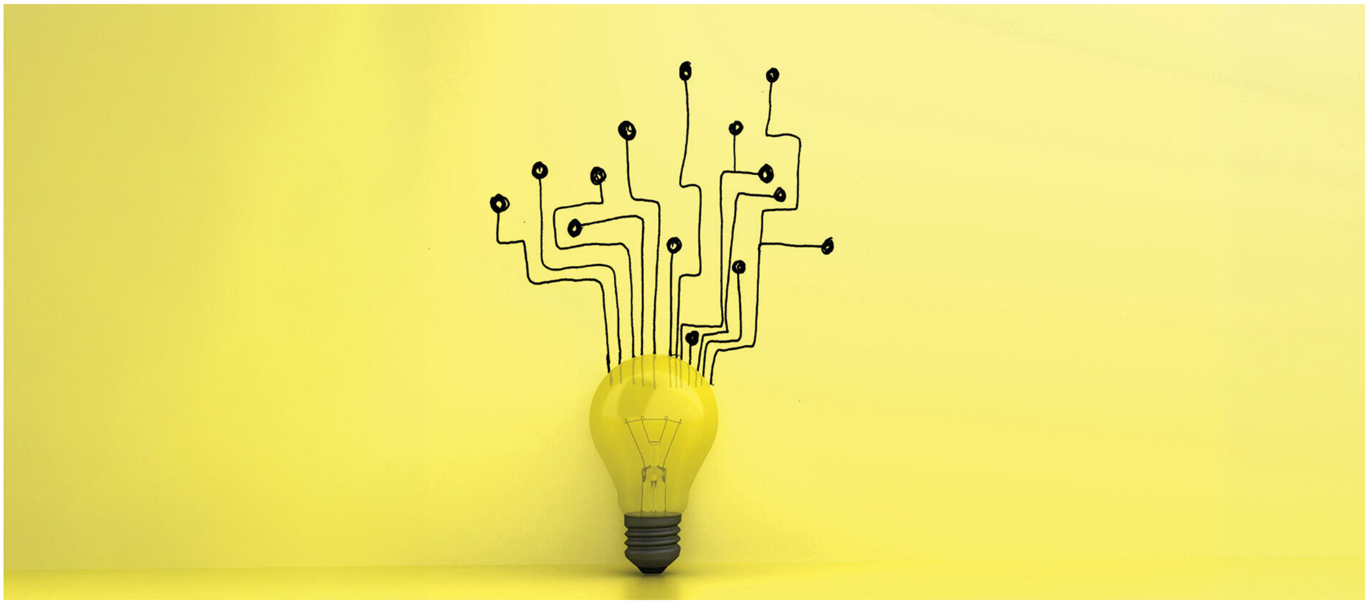
Tax complexity: impacting UK competitiveness

Management of taxes General Features



20 August 2026

An independent review revisits the Office of Tax Simplification's recommendations, assessing progress and proposing practical reforms to improve UK tax administration.

Key Points

What is the issue?
A small team revisited the former OTS review of the competitiveness of the UK tax administration. Following 35 meetings with stakeholders as part of that review, it has published its own report on 'Tax complexity: the impact on UK competitiveness and growth'.

What does it mean for me?
Its evidence and research found tax complexity to negatively impact business

growth and value, with the compliance burden being highly regressive, disproportionately affecting smaller businesses.

What can I take away?

The report's 35 recommendations can be found at: http://bura.brunel.ac.uk/handle/2438/33569

How can we make the UK more competitive? It is a question that successive governments have sought to answer.

As outlined in my previous Tax Adviser article, 'Tax simplification project: revisiting the OTS review' (February 2026), I co-authored the former Office of Tax Simplification's (OTS) 2014 review of the competitiveness of the UK's tax administration. That review made more than 50 recommendations to reduce administrative burdens, with all but three accepted or taken forward for further consideration.

More than a decade later, together with Professor Peter Jelfs, Professor Kevin McMeeking and Sam Sherwood, we launched an independent project, supported by ICAEW, to revisit those recommendations, assess the progress made and identify where further simplification is needed. Following a call for evidence, we held 35 meetings and roundtables with large businesses, SMEs, their advisers, representative bodies, academics and HMRC teams, supported by an academic review of the impacts of tax complexity.

This article highlights the principal findings of that review. Readers interested in the background to the project, the call for evidence and our methodology can find further details in the earlier *Tax Adviser* article.

Revisiting eight key themes from the original OTS report, we set out practical recommendations that we believe could improve the competitiveness of the UK's tax system.

Innovation and growth

Innovation and growth are central to the UK's competitiveness and featured in every meeting we held. On R&D tax credits, there was broad recognition that HMRC had needed to act to prevent fraud, particularly given the uncertainty surrounding the definition of innovation and the lack of clear policing of those boundaries.

However, the situation we found, particularly for SMEs, was far removed from the original UK government policy rationale to incentivise businesses to invest in R&D. Businesses consistently told us that they lacked certainty and clarity that what they were doing qualified as R&D. Some were fearful of a recovery claim and therefore might not reinvest the tax credit in R&D, while others feared being hit unexpectedly, threatening the future of their business. We further explore how the UK government works with business, through HMRC, in our chapter on HMRC.

We make a number of recommendations to improve this position. These include making greater use of HMRC's Research and Development Expert Advisory Panel to develop guidance and case studies across all sectors, while assisting in upskilling HMRC staff on sector specifics and the advance clearance pilot. We also recommend expanding the advance information form so that, provided a business has made a full and accurate disclosure, greater certainty is given when a claim is accepted. We heard that businesses would accept an extended period of time for HMRC to respond if it resulted in greater certainty.

The patent box was seen as a bonus for the UK, but the calculation of the profits derived from the development carried out by the company is complex. We therefore recommend a review to simplify those calculations, helping to smooth the transition from claiming R&D tax credits to accessing the patent box, thereby retaining the intellectual property in the UK.

On the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS), there are multiple conditions that a company must currently satisfy for relief to apply for the investor. Errors can lead to the loss of relief, including the associated capital gains tax relief, which can occur many years later.

We were told that the requirement for companies to raise EIS investment within seven years of their first commercial sale was the most common reason why established, promising businesses failed to secure a further tranche of funding, and that removing this restriction would help to address the current lack of scaling up. Regarding the increased EIS and venture capital trust limits from April 2026, we were told by regional advisers that these changes do not apply in Northern Ireland because of the Windsor Framework – an issue that needs to be addressed.

The definition of plant remains a difficulty for capital allowances. We suggest that the Supreme Court's decision in Orsted West of Duddon Sands (UK) Ltd v HMRC [2026] UKSC 12 – that pre-development surveys and technical studies did not constitute plant and machinery – could provide the impetus for a wider review of how 'plant' is defined for capital allowances, with the aim of better incentivising investment.

We were told that due to their complexity, the choice of capital allowance reliefs is usually left to advisers, which may reduce the incentive for the business itself that the reliefs are intended to achieve. The annual investment allowance was strongly approved of, particularly as it is to remain at a consistent level over the Parliament.

Corporation tax and income tax computations

We were given examples of extensive administrative work that produced no tax advantage when adjusting accounting profits to arrive at profits for tax purposes. We believe that the work begun following earlier OTS recommendations to reduce the number of these adjustments, where there is no policy or compliance rationale, should be revisited. In particular, we would like work to commence on aligning the tax and accounting definitions of capital and revenue, which would help when deciding whether the replacement of an asset should be treated as capital expenditure or as a repair, an issue currently regarded as a 'grey area'.

Stakeholders also told us that complying with the anti-hybrid rules often involved disproportionate time compared to the tax at stake. We therefore recommend introducing a de minimis limit, similar to that for the corporate interest restriction.

On the schedular system, there is little doubt that, if the tax system were being designed today, separate schedules for different sources of income would not form part of it. Separate streaming of different forms of income has become less significant since the loss relief reforms introduced in April 2017, when the rules changed to allow sideways set-off of losses.

Splitting and recombining income from different schedules takes considerable time while making a difference in a vanishingly small number of cases. We therefore recommend restarting work to align the rules for as many schedular income sources as possible, beginning with trading and property income.

For agricultural businesses, we also support the recommendation in the OTS's 2022 Property Income Review that the government work with DEFRA to explore the creation of a rural business unit. This would enable diversified agricultural businesses preparing consolidated accounts to submit a single tax return covering activities that support the core farming business.

Reporting and compliance

Making Tax Digital (MTD) for Income Tax was introduced for the self-employed and property landlords with income in excess of £50,000 (measured by reference to the tax year 2024-25) from 6 April 2026, requiring them to keep digital records and submit quarterly returns of income and expenditure. It is therefore too early to assess whether quarterly reporting is working as intended.

However, stakeholders expressed concern that small businesses in particular would find the transition more challenging, particularly where they perceived they were reporting the same information in a different format while also having to invest in software. Many questioned what practical benefits the changes would deliver. For that reason, we recommend a post-implementation review before extending MTD to those with turnover above £20,000 from April 2028. This should include an assessment of how many businesses at that level have profits exceeding the personal allowance.

On payroll, stakeholders questioned the resilience of the government's Real Time Information system, citing examples of where a single error could result in an entire batch of submissions being rejected. We therefore recommend reviewing the system's resilience, particularly its ability to cope with the added pressure of mandatory payrolling of benefits in kind from April 2027.

We also recommend reviewing the trivial benefits exemption, which has remained unchanged since its introduction, to determine whether it continues to meet current working practices. This should include considering whether reimbursements, in line with the recent changes for eye tests and vaccinations, should be brought within its scope.

Similarly, the £2 million de minimis for the corporate interest restriction has remained unchanged since its introduction, when interest rates were just 0.25%. More generally, consideration should be given to whether such limits ought to be uprated periodically in line with inflation.

Small enterprises

We heard that the fixed flat-rate expenses for unincorporated businesses were very useful. The motor mileage rates were increased from April 2026, and stakeholders also called for the flat rate for business use of the home and private use of business premises to be increased, as they have remained unchanged since their introduction in 2013.

It was disappointing that in HMRC's research and analysis paper 'Understanding experiences of dealing with corporation tax', published on 24 April 2025, the second most common reason given for incorporation was 'don't know' (14%). This suggests that HMRC's guidance on incorporation would benefit from clearer signposting. We therefore recommend that improving guidance on incorporation forms part of HMRC's Small Business Journey review, announced in June 2026.

We also suggest revisiting disincorporation relief, enabling assets to be transferred back to proprietors without tax acting as a barrier. In addition, extending the cash basis to one-person companies merits further consideration.

HMRC support

We encourage HMRC to 'think small first' by continuing to recruit and train compliance staff with expertise in small business issues. Stakeholders told us that difficulties in communicating with HMRC and obtaining timely responses undermine confidence in the tax system and contribute to the tax gap.

Regarding statutory clearances, we received critical comments on the difficulty of obtaining rulings from HMRC, leaving clients and businesses uncertain about the tax consequences of a transaction. VAT was identified as a particular area where clearances were sought but not given, echoing a finding in the 2014 OTS report. Those looking to invest, particularly in R&D, found HMRC's compliance focus could negatively affect their need for certainty.

Taken together, these findings reinforce the importance of building a culture that provides businesses with greater certainty and more constructive engagement with

HMRC. While achieving this will take time, we believe it is essential to improving confidence in the UK’s tax system.

Other taxes

VAT is another area that was frequently raised during our stakeholder discussions. In addition to concerns about the difficulties in obtaining HMRC clearances, we heard there was confusion surrounding the correct tax rate to be applied. We therefore recommend introducing a mechanism to assess whether any proposed tweaks to the VAT rates are worth the additional complexity caused.

Stakeholders also highlighted the Extended Producer Responsibility (EPR) levy and the Packaging Waste Recycling Note (PRN) system as examples of administrative complexity. Businesses cited uncertainty over EPR charges when setting prices, while the PRN regime often required engagement across multiple parties in the supply chain, increasing compliance costs and the need for specialist advice.

In conclusion

The annex to the report reviews research into the impact of tax complexity, which shows that it can reduce business growth and value, with compliance burdens falling disproportionately on smaller businesses.

Our own findings reinforce that evidence. Stakeholders have consistently told us that complexity reduces certainty, undermines confidence in the tax system and can discourage investment.

The report’s 35 recommendations provide practical, evidence-based steps towards reducing administrative burdens, improving certainty and strengthening the competitiveness of the UK’s tax system. We hope they will receive serious consideration from policymakers.

The full report can be accessed at: http://bura.brunel.ac.uk/handle/2438/33569