

OTS evaluation note:

Update on OTS reports on simplifying
everyday tax issues affecting
individuals and smaller businesses

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Executive summary

Introduction

The Office of Tax Simplification (OTS) is the independent adviser to government on simplifying the UK tax system. The work of the OTS is rooted in improving the experience of all who interact with tax. The OTS aims to improve the administrative process – which people encounter in practice – as well as simplifying the rules. These are often of equal importance to taxpayers and HMRC.

The impact of the work of the OTS is felt in a variety of ways, for example through ministerial responses to OTS reports,¹ action taken on OTS recommendations, and through prompting more informed public debate. OTS reports are widely referred to in HMRC strategy documents, external publications and in the media, and a broad range of stakeholders inside and outside government take a keen interest in OTS publications and recommendations.

Accordingly, a regular part of the OTS's work is to take stock of how its recommendations have been received and responded to, by producing evaluation and update notes to inform stakeholders about progress made and to flag up specific recommendations for refreshed consideration (most recently in relation to the OTS's report on HMRC Guidance).²

The present evaluation and update note follows up on the following two OTS reports:

- Simplifying everyday tax for smaller businesses (published in May 2019)³
- Life Events review: Simplifying tax for individuals (published in October 2019)⁴

Given the range of topics covered by these two reports, the OTS will publish a series of notes covering specific areas of interest.

This first note focuses on raising awareness and education about tax, helping those starting out in business and issues affecting small companies.

Later notes will cover the Single Customer Account, issues relevant to Taxation Agents, the High Income Child Benefit charge and its wider implications, and PAYE.

The OTS is grateful for discussions with HMRC, HMT and a number of stakeholders outside government in carrying out this work.

¹ See, for example, the Chancellor and Financial Secretary to the Treasury's response to the 'Simplifying everyday tax for smaller businesses' report

² <https://www.gov.uk/government/publications/ots-guidance-review-update-paper>

³ <https://www.gov.uk/government/publications/simplifying-everyday-tax-for-smaller-businesses>

⁴ <https://www.gov.uk/government/publications/ots-life-events-review-simplifying-tax-for-individuals>

Current context

The OTS recognises the impact that the COVID-19 pandemic has had on all government work streams, and the necessary diversion of HMRC effort that has been needed. However, the pandemic has also opened up new benefits through increased digitisation and different ways of working. In particular, COVID-19 has highlighted the importance of the tax system in delivering targeted support to people and businesses, and HMRC have shown themselves capable of rising to the challenge.

It is therefore encouraging that, in July 2020, the government publicly signalled their commitment to fundamental tax administration reform through the publication of the 10 year strategy document: 'Building a trusted, modern tax administration system',⁵ followed by HMRC's launch of a call for evidence: 'The tax administration framework: supporting a 21st century tax system' in March 2021.⁶

The OTS welcomes these opportunities for a thoroughgoing overhaul of the tax administration system, in particular to address the need for HMRC to massively increase their digital capacity to keep pace with that in society and in business generally. It is vital in turn that this work leads on to sustained changes that will benefit taxpayers now and prepare the way for a fully digitally enabled tax system in the future.

The OTS considers that in future all new tax policies must take account of digital requirements, both in the public and private sector – as a fundamental part of the policy-making process.

The OTS recognises that implementing substantive enduring improvements can take time. A good example is HMRC's planned 'Single Customer Account' - the keystone of the government's 10 year strategic plans for administrative reform.

This exciting vision will need significant and continuing commitment and funding over a sizeable length of time to become a reality, so that taxpayers are able 'to view their tax position and tell HMRC anything it needs to know through a single online account'.⁷

In the March 2021 Budget, the government committed £68m to the Single Customer Account and Single Customer Record,⁸ and the October 2021 Budget and Spending Review has seen the allocation of a further £136m⁹ over the three-year Spending Review period towards this work.

⁵ <https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system>

⁶ Call for evidence: the tax administration framework: supporting a 21st century tax system - GOV.UK (www.gov.uk)

⁷ <https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system#next-steps>

⁸ FST speech to HMRC virtual stakeholder conference. <https://www.gov.uk/government/speeches/speech-to-hmrc-virtual-stakeholder-conference>.

⁹

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1029974/Budget_AB2021_Web_Accessible.pdf - see para 4.107

This is very welcome, given the sustained commitment that will be necessary to see this vital enterprise through and the range of many technical, digital and practical details that will need to be addressed as the Single Customer Account policy develops. The way it is implemented will also need to be flexible enough to accommodate new developments along the way.

Separately, the OTS welcomes the October 2021 Budget announcement that top-up payments will be introduced to address the difference in outcomes (highlighted in the Life Events review)¹⁰ between those using net pay and relief at source pension schemes, though notes that this will apply only in relation to contributions made from 2024-25 onwards.¹¹

The OTS has carried out evaluation and update work in the light of the changes in the wider context since the two reports were conducted, in particular recognising the significance of the Tax Administration Strategy, the Tax Administration Framework Review and the plans for the Single Customer Account.

Tax education and awareness, those starting out in business and small companies

Reflecting on the recommendations made in the two 2019 reports, this update note highlights the following 3 key areas where work has started but where the OTS considers that much more remains to be done:

Tax education and awareness

While much useful information is already available on the government website, more should be done to ensure that this is actively presented to those who need it, such as exploring the potential for using third party 'engagers' or intermediaries to help raise awareness at certain key times. HMRC's recent call for evidence document on 'Income Tax Self Assessment registration for the self-employed and landlords'¹² sets out some early thinking in this area.

Another example, as suggested in the OTS's second Capital Gains Tax report,¹³ is that conveyancers could provide a link to HMRC information to those selling property (who may be unaware that they have limited time to make a CGT return).

In the UK, the rates of entry and exit into the business community are high,¹⁴ and most new sole trader businesses cease relatively quickly. Institute for Fiscal Studies figures¹⁵ (based on HMRC data and ONS Labour Force Survey data) show that around 20% of newly set-up traders are not trading after their first year; 60% have ceased trading by year 5 and 80% have ceased after 12 years. The majority of these

¹⁰ See recommendation 6 on page 12

¹¹ <https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents> Paragraph 5.34 on page 142

¹² Open consultation overview: Call for evidence: Income Tax Self Assessment registration for the self-employed and landlords - GOV.UK (www.gov.uk) (4.14-4.21).

¹³ <https://www.gov.uk/government/publications/ots-capital-gains-tax-review-simplifying-practical-technical-and-administrative-issues> (see para 1.96-1.98)

¹⁴ Business demography, UK: 2019 - Office for National Statistics (ons.gov.uk) – Chapter 1 shows that between 2018-19, the number of business 'births' was 390,000 and the number of business 'deaths' was 336,000.

¹⁵ <https://ifs.org.uk/publications/14241>

new sole traders will have had no basic formal bookkeeping or tax training. Many could be greatly helped by the relatively simple measure of introducing basic business tax training alongside or as part of vocational courses in universities and further education colleges where the qualification typically leads to a person setting up their own business.

Expanding on the work of the 'Tax Facts' programme for schools, HMRC should also look at other ways to engage young people as they start out in their adult, taxpaying, life - for example, the communication that 16 year olds currently receive to give them their National Insurance number could also contain an invitation to log on and set up a Single Customer Account. The Single Customer Account could then provide targeted, tailored information relevant to each individual taxpayer and potential benefit claimant.

Help for those starting out in business

The OTS remains concerned that not enough is being done to help those looking to start up in business. Alongside the use of third parties and intermediaries and introducing basic tax training in further education colleges set out above, more needs to be done to signpost people to information relevant to them, through increased presence in all possible media channels, and looking ahead, in more targeted information and tailored 'nudges' provided through the Single Customer Account.

A key observation is that people need to be provided with basic tax information ahead of any tax registration activity. For example, they need help in choosing how to structure their business (in particular whether to use a company or not) and in understanding both the tax implications and obligations involved, and also the non-tax obligations, such as the need for companies to file annual accounts with Companies House, or licensing or regulatory requirements.

HMRC have made it clear that they intend to use the Tax Administration Framework Review as an opportunity to bring about much needed reform to various administration processes, including tax registration, and the OTS welcomes the recently published call for evidence on 'Income Tax Self Assessment registration for the self-employed and landlords'.

However, reforming the systems alone will do little to provide real help to those who need it most. Chapter 3 of the call for evidence demonstrates that HMRC are aware of the lack of awareness of tax obligations among many new start up businesses; HMRC now need to prioritise addressing these problems.

Separately, the OTS welcomes HMRC's work to improve the 'Budget Payment Plan' and the supporting funding announced in the Autumn 2021 Spending Review.

Issues affecting small companies

The OTS welcomes various joint HMRC/Companies House initiatives, in particular work across departments looking at the possibility of progressing towards the ambition of companies only needing to file one set of accounts annually with government ('filing once').

The OTS is however disappointed to note that realistically this is a longer-term work stream which is unlikely to be achievable in under 5 years, largely because of the

complexities which arise in situations such as this where relevant policies are jointly owned across different parts of government.

Other proposals (set out in the December 2020 Companies House consultation looking at 'Improving the quality and value of financial information on the UK companies register')¹⁶ include ways to simplify and improve corporate reporting which would benefit smaller companies, requiring accounts to be delivered digitally to Companies House and to be fully tagged using iXBRL, and a review of the accounts filing options at Companies House for small companies. The consultation closed in February 2021 and the OTS understands that the outcomes will be published in due course.

The OTS recognises that the MTD for Corporation Tax initiative is still in its early stages, noting that the consultation document on 'Making Tax Digital for Corporation Tax'¹⁷ confirmed that the potential mandate date would not be before April 2026 at the earliest. The OTS hopes that HMRC will ensure that the initiative is properly targeted and does not go wider than needed. In particular, the OTS considers that it would be sensible to consider any changes to the corporation tax system well in advance of introducing new and additional filing requirements.

The OTS notes that the recently published summary of responses to the 'Making Tax Digital for Corporation Tax' call for evidence¹⁸ confirms that: *"no decisions have been taken on whether or when to make the MTD for CT service mandatory"*.¹⁹ The OTS also welcomes HMRC's statement that: *"the government is committed to working with stakeholders to get the design right and will provide sufficient notice ahead of implementation, following any decision to mandate MTD for CT, to allow businesses time to prepare."*²⁰

¹⁶ <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform-improving-the-quality-and-value-of-financial-information-on-the-uk-companies-register>

¹⁷ Making Tax Digital: Corporation Tax (publishing.service.gov.uk)

¹⁸ Making Tax Digital for Corporation Tax consultation - summary of responses (publishing.service.gov.uk).

¹⁹ Para 1.3.

²⁰ Para 2.2.

Chapter 1

Summary of the OTS reports

Simplifying everyday tax for smaller businesses¹

- 1.1 In July 2018 the Chancellor asked the OTS to carry out a review focusing on the day-to-day experiences of businesses in dealing with tax, especially for those smaller businesses which struggle the most.
- 1.2 The report aimed to highlight areas where complexity adds cost and inefficiency, with a particular focus on the smallest micro businesses – that is, those with 9 or fewer employees and turnover of less than £2 million.
- 1.3 Small business is a difficult term to pin down. Over 99% of the 6 million businesses in the UK are small in the sense that they have fewer than 49 employees.² But then again, three quarters of these employ no-one other than the owner. Hence the OTS focus on smaller micro businesses, for whom the administrative work of dealing with tax will loom disproportionately large in the context of the daily pressure of running the business.
- 1.4 The recommendations in the OTS's report in May 2019 fell within various themes, including:
 - Help for new start-up businesses
 - Streamlining the tax system, especially in respect of payments
 - Combining the Personal Tax Account and the Business Tax Account
 - Implementation of HMRC's Agents Strategy
 - Small companies
 - Improving the operation of the PAYE system
- 1.5 The Financial Secretary to the Treasury (FST) responded in November 2019³ on behalf of the Chancellor, noting that the OTS's "*wide-ranging report contains valuable insight into improving the tax environment in which small businesses operate*" and confirming that: "*the Government has accepted the majority of your core recommendations*" and that "*officials will continue to update you on the progress of your eighteen additional recommendations.*"

Life events review: simplifying tax for individuals⁴

- 1.6 The OTS followed this review about smaller businesses with one looking at

¹ <https://www.gov.uk/government/publications/simplifying-everyday-tax-for-smaller-businesses>

² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/923565/2020_Business_Population_Estimates_for_the_UK_and_regions_Statistical_Release.pdf

³ <https://www.gov.uk/government/publications/chancellor-responds-to-ots-report-on-simplifying-everyday-tax-for-smaller-businesses>

⁴ <https://www.gov.uk/government/publications/ots-life-events-review-simplifying-tax-for-individuals>

tax complexities that can affect individual taxpayers at key points in their lives.

- 1.7 The Life Events review in October 2019 made 15 recommendations to help tackle complex tax issues that can arise in relation to children, entering work, saving for or drawing a pension, and helping others who need support.

Subsequent government policy developments

- 1.8 In July 2020, the government published their report entitled: 'Building a trusted, modern tax administration system',⁵ which set out their ambition and strategy for reform over the next 10 years and beyond (the 'Tax Administration Strategy').
- 1.9 The Tax Administration Strategy makes reference to the rapid growth of information and communications technologies over the last two decades, and highlights that the UK *"both can and must have a fully digital tax system able to support taxpayers across the full range of their needs."* (OTS emphasis).
- 1.10 Further key components of the government's Tax Administration Strategy are: *"a single digital account for all taxpayers that is easily accessible and secure"* and *"for agents to be able to see and do what their clients can, and designing in agent access from the outset."*
- 1.11 As the first step towards realising the strategy, in March 2021 HMRC published an open consultation entitled: 'Call for evidence: the tax administration framework: supporting a 21st century tax system'⁶ (The 'Tax Administration Framework Review').
- 1.12 The OTS welcomed this consultation, understanding it to be HMRC's stated intent to simplify and improve the administration of the tax system and the taxpayer experience, and noting that many of the themes within the documents reflect issues raised by the OTS in the two reports being considered in this note. On 30 November 2021, HMRC published a summary of responses to this consultation⁷ – some of which are referenced in this update note.
- 1.13 The OTS also welcomes the government's announcement in the 2021 Spending Review to deliver *"significant levels of investment to modernise HMRC's IT systems and improve the quality, resilience and security of its digital services, by providing £468 million over the next three years, building on the £98 million allocated in 2021-22, to reduce the risk of system failures, enhance the department's ability to defend against cyberattacks and support the continued digitisation and modernisation of the tax system"*.⁸

⁵ <https://www.gov.uk/government/publications/tax-administration-strategy>

⁶ <https://www.gov.uk/government/consultations/call-for-evidence-the-tax-administration-framework-supporting-a-21st-century-tax-system>

⁷ Call for evidence: the tax administration framework: supporting a 21st century tax system - GOV.UK (www.gov.uk)

⁸ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1029974/Budget_AB2021_Web_Accessible.pdf (para 4.108)

Chapter 2

Tax education and awareness

Overview/background

- 2.1 In its 'Life Events review: Simplifying tax for individuals', the OTS recommended that: *"HMRC should collaborate more with relevant external bodies, including schools and in further and higher education, seeking to improve the public's understanding of tax and finance, when seeking to extend the reach of its own tax education materials"*¹ and also that: *"HMRC should extend its collaboration with academic researchers to quantify the effect of HMRC's tax education programme and explore the potential for a cost/benefit measure to allow HMRC to prioritise and target its tax education resources"*.²
- 2.2 A YouGov survey carried out in May 2019³ showed that the UK public struggles to understand tax – according to research, British people have a poor understanding of personal tax issues and lack basic knowledge of the tax system.
- 2.3 Respondents to the survey were asked about the tax system and awarded a score based on correct responses. The results revealed an average score of 10.6 out of a possible 30, with almost half of those surveyed achieving less than 10. People surveyed typically did not understand areas such as tax codes, income rates and the Gift Aid system.
- 2.4 It follows that people with a poor understanding of basic tax issues will not be well equipped to deal with their everyday tax affairs. Such people entering the workplace for the first time are unlikely to understand what is deducted from their payslip and why. Those setting up their own businesses will have to find out for themselves how to navigate the Self-Assessment system, including the new Making Tax Digital system for Income Tax.
- 2.5 The OTS considers that there are numerous easily-achievable ways that people could be made more aware of how and when tax affects them in their everyday lives. Improving the nation's basic tax knowledge could have significant time and cost benefits for all parties - ordinary people, small businesses and HMRC.
- 2.6 The OTS is encouraged that HMRC's recently published call for evidence on *"Income Tax Self Assessment registration for the self-employed and landlords"*⁴

¹ Recommendation 14.

² Recommendation 15.

³ The tax education gap: Majority of the UK don't understand personal tax | Deloitte UK

⁴ Open consultation overview: Call for evidence: Income Tax Self Assessment registration for the self-employed and landlords - GOV.UK (www.gov.uk)

does seek to particularly address some of the challenges over “*knowing about and understanding obligations*” faced by taxpayers who are new to self-employment or property income.⁵

- 2.7 Such taxpayers would stand to benefit hugely from basic tax training (and basic bookkeeping training) if it were given in further education colleges alongside all vocational courses that typically lead to a person becoming self-employed. In addition, all taxpayers could be helped by engagers and intermediaries handing-out HMRC information to taxpayers in specific targeted situations. Young people could be given a better start to their working lives if more were to be done to encourage take up of HMRC’s ‘Tax Facts’ programme for schools. These areas are explored in more detail below.

Tax training alongside vocational courses

- 2.8 The OTS is keen for HMRC to look into the potential for colleges of further education and other vocational training establishments to provide basic tax information or training alongside or as part of their vocational courses.
- 2.9 In the UK, the rates of entry and exit into the business community are high,⁶ and most new sole trader businesses cease relatively quickly. Institute for Fiscal Studies figures⁷ (based on HMRC data and ONS Labour Force Survey data) show that around 20% of newly set-up traders are not trading after their first year; 60% have ceased trading by year 5 and 80% have ceased after 12 years. The majority of these new sole traders will have had no basic formal bookkeeping or tax training, and may also be unaware of the scale of the risk they are taking on.
- 2.10 Such people would be greatly helped by the relatively simple measure of introducing basic business tax training alongside or as part of vocational courses in universities and further education colleges where the qualification typically leads to a person setting up their own business.
- 2.11 A person currently qualifying from a vocational course will typically need to then set up in business as a self-employed sole trader, or perhaps by establishing a company. This means that in addition to dealing with the everyday needs of their business activities, they will also rapidly need to decide how to structure their business, register for tax, then annually fulfil their tax filing and payment obligations. Currently they must find out for themselves what this entails.
- 2.12 Many new start ups could be massively helped by the relatively simple government measure of introducing basic business tax training alongside all vocational courses in universities and further education colleges where the qualification typically leads to a person setting up their own business, as an integral part of the training package.

⁵ Chapter 3.

⁶ Business demography, UK: 2019 - Office for National Statistics (ons.gov.uk) - Chapter 1 shows that between 2018-19, the number of business ‘births’ was 390,000 and the number of business ‘deaths’ was 336,000.

⁷ <https://ifs.org.uk/publications/14241>

- 2.13 The benefits of this relatively straightforward step are significant – newly emerging sole-traders can have increased confidence in dealing with their own tax affairs, saving them time and money. Fewer people will find themselves confused by such things as personal service companies, or the difference between a partnership and a company, that they may not fully understand, and they may be better aware of and prepared for the scale of the risk they are undertaking. For HMRC, there will be an increase in the receipt of timely, correct tax payments, and fewer calls to helplines.

Government help for small businesses

- 2.14 The provision of tax information or training as part of vocational courses could link in well with the guidance that the government already provides to small start-up businesses, but which needs to be continually be improved, expanded and updated.
- 2.15 A further benefit of increasing tax knowledge ahead of when people are likely to start up in business is that such people can be encouraged to register for tax earlier. The OTS understands that around one third of individuals newly registering for ITSA in 2019-20 waited until after the end of the tax year to register.⁸
- 2.16 The Tax Administration Framework consultation document highlights the potential benefits to both taxpayers and HMRC of earlier registration: *“Moving registration closer to the start of the relevant taxable activity, where applicable, could further improve the taxpayer experience and promote trust by reducing non-compliance. This could also facilitate greater real-time information gathering, enabling HMRC to target support to particular taxpayers and business sectors more effectively”*.⁹
- 2.17 HMRC’s recently published call for evidence on ‘Income Tax Self Assessment registration for the self-employed and landlords’ seeks to explore whether bringing forward the point at which the newly self-employed and landlords are required to identify themselves to HMRC would help people to be on top of their tax affairs. Chapter 1 of this call for evidence proposes that earlier interaction with the tax system could help taxpayers to *“get the best opportunity to understand their tax obligations and prepare for paying tax. This might include understanding good record keeping, or using HMRC’s Budget Payment Plan to plan, prepare and start paying towards a first tax bill.”*
- 2.18 The chapter goes on to highlight other potential benefits: *“For many self-employed taxpayers, registering for ITSA also open the door to important additional benefits, such as paying Class 2 National Insurance Contributions to build entitlement to a state pension, accessing free childcare or the construction industry scheme.”*
- 2.19 In addition, the OTS strongly believes that the new Single Customer Account could be used in the future to promote tax education, through perhaps

⁸ HMRC ITSA population data for new trading in tax year 2019-20 shows approximately 650,000 individuals filing a return with new trading income compared to 2018-19. Approximately 310,000 were new registrations and approximately 215,000 of those new registrations chose to register within the year they started trading.

⁹ Chapter 3.

personalised ‘nudges’ or reminders and also more general pop-up links to further information, and that HMRC should build such helpful functions into the design of the Single Customer Account from the outset.

Use of ‘engagers’ or intermediaries to raise tax awareness

- 2.20 An additional area that HMRC should consider is the potential for raising awareness of tax obligations through the use of ‘engagers’ or intermediaries (as distinguished from professionally qualified tax advisers – who already have a role in raising awareness of tax obligation issues). Third party intermediaries could hand out HMRC information to taxpayers in specific targeted situations to help inform and educate them about certain tax obligations, smoothing the process and helping taxpayers to avoid unnecessary penalties arising from lack of awareness.
- 2.21 The OTS raised this point in its CGT report,¹⁰ in which it suggested that for example conveyancers could provide an HMRC leaflet to those selling property who may be unaware that they have only limited time within which to make a CGT return.
- 2.22 HMRC’s recent call for evidence on ‘Income Tax Self Assessment registration for the self-employed and landlords’ agrees that HMRC could explore how third party data and intermediaries could be better used to make people more aware of their tax obligations, suggesting for example that better use could be made *“of self-employment “touchpoints” as conduits of information about tax obligations”*.¹¹
- 2.23 Chapter 4 of this call for evidence identifies some of these potential “touchpoints”: *“A newly self-employed taxpayer may be applying for business rates, getting a business bank account or applying for licences or safety certificates. A new landlord may be applying for buy-to-let mortgages or getting an insurance policy.”* The OTS welcomes these suggestions and considers that HMRC should also explore whether there are other circumstances where intermediaries of different kinds could usefully pass on HMRC guidance to prompt those with a tax liability to take the necessary action.

Government education programmes for schools

- 2.24 The OTS welcomes HMRC’s ‘Tax Facts’ programme which has been offered to schools since 2015 to introduce children and young people to the basics of the tax system. The OTS has been told that the programme has been well-received, is regularly updated, and that there are plans to expand the scheme to include new material suitable for a wider audience.
- 2.25 However, the extent to which the programme is made available is dependent on appropriate resourcing and timetabling by individual schools, and local availability is therefore variable. The OTS has also heard that people can also sometimes lack confidence in delivering tax material. The COVID-19

¹⁰

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/987994/Capital_Gains_Tax_stage_2_report_-_May_2021.pdf (See Recommendation 3)

¹¹ Open consultation overview: Call for evidence: Income Tax Self Assessment registration for the self-employed and landlords - GOV.UK (www.gov.uk) (Paras 4.14-4.21).

pandemic has also hampered take-up of the programme, though improvements have been made to make it more digital.

- 2.26 Teaching of the programme is done by school teachers, parents and HMRC ‘ambassadors’ (HMRC staff who offer their services as part of HMRC’s internal volunteering programme, which encourages HMRC staff to spend some days each year engaging in voluntary work). The OTS understands that HMRC have recently expanded the number of ‘volunteering days’ that HMRC staff can make themselves available to give to this training. Within schools, it may be worth looking at whether basic tax teaching could be presented by staff more comfortable with delivering it – for example, exploring the scope to include tax material as part of the general maths curriculum in some schools.
- 2.27 The OTS understands that HMRC have high ambitions for the programme, which aims to ensure that all young people will have been offered access to the programme before they leave school. HMRC’s intention is that all young people reaching the age of 16 understand their responsibilities as future taxpayers. When they receive information from HMRC they will know what to expect- who sent it, why it is important and what to do with it.
- 2.28 The OTS welcomes this ambition, and suggests that HMRC also explore what other opportunities there could be to further educate young people when they first hear from HMRC’. For example, perhaps the communication could contain an invitation to log on and set up a Single Tax Account with HMRC, through which to access benefits and tailored relevant tax information.
- 2.29 The OTS has been told that changes are also constantly being made to improve the accessibility of the ‘Tax Facts’ programme (for example, the programme now includes British Sign Language and subtitles), and that HMRC regularly advertise the programme, for example through ‘Talk Money Week’ in November and ‘My Money Week’ in June, and through various websites including ‘Young Money’, ‘Association for Citizenship Teaching’ and LIBF, and through various social media channels.
- 2.30 The ‘Tax Facts’ resource is housed on the HMRC YouTube Channel¹² and within the Times Educational Supplement,¹³ which also advertises the programme and monitors the programme take up. The OTS understands that HMRC are also exploring further ways of assessing the metrics and success of the programme for the future.

¹² <https://www.youtube.com/playlist?list=PL8EcnheDt1zjoRLU0I8WEKqqNzdR3w2xl>

¹³ <https://www.tes.com/teaching-resources/shop/HMRCtaxEducation>

Chapter 3

Help for those starting out in business

Introduction

- 3.1 The first key recommendation made by the OTS in its 'Simplifying everyday tax for smaller businesses' report was:

*"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."*¹

- 3.2 The FST's response was:

"The government recognises the importance of providing help to small businesses not just to meet their tax obligations but to grow and prosper. HMRC provides tailored support, including webinars and videos, alongside tax helplines and written guidance. Further progress can be made. The cross-government 'Start a Business' service community, a network of people across government who work to improve services for users, has published step-by-step guides to setting up a business. Work will continue to find the optimum way to improve guidance available to those starting out."

- 3.3 While encouraged by this response and by HMRC's subsequent Tax Administration Framework Review consultation, the OTS remains concerned that not enough is being done (or planned) to reach out to those *looking* to start up in business – who do not just need an earlier and simplified registration process, but who need to be given basic tax knowledge well *ahead* of any registration activity.

- 3.4 Bringing forward the point at which the newly self-employed and landlords are required to identify themselves to HMRC (an idea to be explored through the recently published call for evidence on 'Income Tax Self Assessment registration for the self-employed and landlords') should go some way to alleviate this problem, but people need help for example in first deciding how to structure their business activities (in particular whether or not to use a company), and in weighing up what tax implications and obligations will be involved.

- 3.5 People then need help with understanding the tax administration – how do they know what they should do? How do they then actually do it? How will the introduction of Making Tax Digital for Income Tax affect them? People

¹ Recommendation 1.

need to be actively directed to this information, in advance of the time that they will actually need to register for tax.

- 3.6 The OTS recognises that much useful information is already available on gov.uk,² but considers that more needs to be done to actively put this knowledge into the hands of those who need it, for example, through the ways outlined in Chapter 2 of this update note on 'Tax education'.

The tax registration process

- 3.7 The OTS's 'Simplifying everyday tax for smaller businesses' report highlighted the need for reform to the registration processes for businesses, for example, specifically recommending that

- "HMRC look further at the online process for registering for income tax self-assessment. Is a two-track process (self-employed vs not self-employed) necessary?"³ and
- "it may be helpful if the company registration process offered people targeted information and guidance about the key features of a company, together with a nudge to stop and think before they push the button to set up the company."⁴

- 3.8 The report also addresses deregistration, for example proposing that HMRC should "review the process of closing a business, to simplify and streamline it so that the business need only tell HMRC once that it is closing."⁵

- 3.9 The Tax Administration Framework Review picks up these themes, recognising that a simple, clear and frictionless registration process is critical to building trust and promoting tax compliance. It acknowledges that the current different registration, subscription and 'onboarding' processes for different taxes and duties can make things difficult for taxpayers, because they need to be aware of different rules and obligations for different taxes and duties that they are liable to report and pay.

- 3.10 HMRC make it clear that they intend to use the Tax Administration Framework Review as an opportunity to bring about much needed reform to the tax registration process, with specific intentions that their modernised registration process for tax should include the following features:

- be straightforward and hard to get wrong
- minimise the level of manual intervention and administration for HMRC and the taxpayer, including making better use of third-party and wider government data to determine taxpayer obligations (the OTS has separately published a report on this topic)⁶

² for example: <https://222.gov.uk/set-up-business>

³ Recommendation 13.

⁴ Recommendation 12.

⁵ Recommendation 28.

⁶ <https://www.gov.uk/government/publications/making-better-use-of-third-party-data-a-vision-for-the-future>

- require any necessary designatory information only to be provided once to HMRC, including changes to circumstances and details to ensure that information is up to date
- authenticate the identity of the individual or entity (such as a business) at the start of the process, to minimise the risk of fraud and ensure that data-matching is accurate and secure
- include simpler and clearer processes for timely 'de-registering', where appropriate

3.11 HMRC's subsequent call for evidence on 'Income Tax Self Assessment registration for the self-employed and landlords' picks up this theme and seeks to gather views on the case for reforming registration for these categories of taxpayer.

Smarter use of data

3.12 The OTS's 'Simplifying everyday tax for smaller businesses' report looked to the smarter use of data, proposing that HMRC should "*consider ways to give businesses personalised reminders, for example around payment dates, or that their declared turnover is nearing the VAT registration threshold*",⁷ and urging HMRC to "*look again at the pages of the income tax return with the user's perspective in view, to increase consistency of approach and more clearly signal what is needed.*"⁸

3.13 Helping the user through smarter use of data was also at the heart of the July 2021 OTS report: 'Making better use of third party data: a vision for the future',⁹ which builds on the theme of how HMRC could make smarter use of data, offering a vision of a simpler and much improved taxpayer experience.

3.14 The OTS welcomes the government's statement in Chapter 5 of 'the tax administration framework: Supporting a 21st century tax system – summary of responses',¹⁰ which confirms that "*the government supports the opportunities that greater use of third-party data present in relation to pre-populating tax returns and will explore this further as part of the [tax administration framework] review.*"

3.15 The OTS notes that the Tax Administration Framework Review consultation document highlights a number of specific opportunities for smarter data reform that HMRC could and should explore further, such as HMRC making better use of a broader set of data sources (from inside and outside government) to enable them to build a richer picture of taxpayers' circumstances and obligations – which would provide opportunities to simplify the taxpayer experience through for example, aiding registration and verification processes.

⁷ Recommendation 18.

⁸ Recommendation 16.

⁹ <https://www.gov.uk/government/publications/making-better-use-of-third-party-data-a-vision-for-the-future>

¹⁰ Call for evidence: the tax administration framework: supporting a 21st century tax system - GOV.UK (www.gov.uk) (Page 27: 'Government response to Chapter 5')

- 3.16 Other opportunities for simplification identified by the consultation document include HMRC asking for information at the right time and seeking information only once (reducing the need for people to supply data where HMRC already holds it, or can verify it itself), while allowing taxpayers to correct inaccuracies, thereby reducing the scope for error and improving the taxpayer experience.
- 3.17 The Tax Administration Framework Review consultation document specifically states that *“any future reform should draw on the lessons from previous work in this area”*, and it specifically cites the OTS reports on ‘Making better use of third party data: a vision for the future’ (July 2021) and ‘Tax reporting and payment arrangements review’¹¹ (October 2019) as examples of such previous work.
- 3.18 The OTS welcomes this endorsement of these reports, which also highlight how critical the smarter use of data will be to the success of the Single Customer Account.

Tax payments

- 3.19 The OTS welcomed the government’s acceptance of its key recommendation: *“HMRC should review tax payment processes across core taxes and regimes, with a view to aligning and streamlining them”*,¹² noting the FST’s direct response: *“HMRC will align and streamline payment processes across different taxes. HMRC has made organisational changes that are supporting a programme of work to do this, working to a payment strategy delivering a consistent and straightforward set of HMRC payment processes”*.¹³
- 3.20 This key recommendation has been specifically picked up in HMRC’s Tax Administration Framework Review document, which directly makes the case for more alignment across regimes because this could *“improve compliance and help to build trust in the tax system by ensuring it remains fair and even-handed”*.¹⁴
- 3.21 The OTS is pleased to note that part of the government’s March 2021 £95m investment in HMRC to deliver new digital technology has been specifically allocated to work to *“allow HMRC to develop services that will enhance their ability to collect and receive payments, helping taxpayers to budget and manage their finances. This includes expanding the Self-Serve Time to Pay service to more taxes, after its success in supporting taxpayers during the peak of Self Assessment payments made in 2021”*.¹⁵
- 3.22 The OTS has also been encouraged to hear of joint work initiatives between debt management and policy teams within HMRC, which for the last 18 months have been looking at ways to make the debt collection process more

¹¹ <https://www.gov.uk/government/publications/ots-tax-reporting-and-payment-arrangements-review>

¹² Recommendation 10.

¹³ The Chancellor and Financial Secretary to the Treasury’s response to the ‘Simplifying everyday tax for smaller businesses’ report.

¹⁴ Chapter 6.

¹⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/974025/Tax_policies_and_consultations_2021_Web_accessible.pdf (para 1.4)

efficient and less costly for both taxpayers and HMRC, including reducing the opportunities for actively engaged taxpayers to fall into tax debt.

- 3.23 The OTS notes and welcomes the introduction of the new payment process enabling taxpayers to approve a payment through their online bank account,¹⁶ which has the advantage of supplying the necessary payments details directly to the bank, though regrets the continued inability of taxpayers to be able to use a Direct Debit system for anything other than single, 'one-off' Income Tax payments.¹⁷ This is disappointing given that HMRC have been able to set up a Direct Debit system for VAT payments. The OTS considers that there would significant benefit in HMRC setting up an equivalent direct debit system for PAYE payments too.
- 3.24 Separately, the OTS understands that work has been going on to improve the 'Budget Payment Plan' programme, with changes to improve guidance and raise the online profile to be implemented in the near future.
- 3.25 The recently published summary of responses to HMRC's 'Timely payment' review¹⁸ confirms that HMRC has also received welcome additional funding through the Autumn 2021 Spending Review to further enhance the functionality of the Budget Payment Plan. These enhancements include *"broader data inputs to calculate customer liabilities now, and to forecast their liabilities to the end of the tax year; improving the customer view of their liabilities and in-year payments made via the Budget Payment Plan; and offering alternative payment options, for example a 'Pay Now' button."*¹⁹

¹⁶ <https://www.gov.uk/pay-self-assessment-tax-bill/approve-payment-through-online-bank-account>

¹⁷ <https://www.gov.uk/pay-self-assessment-tax-bill/direct-debit>

¹⁸ Call for evidence: timely payment - GOV.UK (www.gov.uk)

¹⁹ Para 1.9.

Chapter 4

Issues affecting small companies

Overview/background

- 4.1 In July 2020 the OTS published its 'Evaluation update and stock take of OTS work on corporation tax, personal service companies and self-employed people's taxation',¹ which included a section on 'simpler tax for smaller companies'.
- 4.2 This gave an update on HMRC work relating to a number of recommendations from the 'Simplifying everyday tax for smaller businesses' report, such as taking a closer look at the potential to reform the schedular system, consideration of the loan relationship regime, and the tax treatment of capital expenditure. These areas are therefore not considered here. Neither does the present note look further at Research & Development tax reliefs, given the government's review of R&D tax reliefs which was launched in March 2021.²
- 4.3 This present note does however look at work streams relating to the joint HMRC/Companies House initiative, where some progress appears to be being made, and at other areas affecting small companies.

HMRC/Companies House initiatives

- 4.4 The OTS's 'Simplifying everyday tax for smaller businesses' report stated that: *"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."*³
- 4.5 The OTS understands that policy relationships have been significantly strengthened as a result of over 2 years of a 'Closer Working' project between Companies House and HMRC. This project has seen a joined-up approach – in particular, on working on the large BEIS 2019 public consultation document: 'Corporate transparency and register reform'⁴ in which there are multiple proposals aimed at combatting economic crime, but also accounting and company law simplifications aimed at smaller businesses.

¹ <https://www.gov.uk/government/publications/ots-evaluation-and-stock-take-note>

² <https://www.gov.uk/government/consultations/rd-tax-reliefs-consultation>

³ Recommendation 6.

⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819994/Corporate_transparency_and_register_reform.pdf

- 4.6 The OTS has been told that this closer working has helped with joined-up public responses on Making Tax Digital for Corporation Tax, and the application of iXBRL and digital tools across both organisations. The closer working with Companies House has also led to better networking with other departments including BEIS, the Charities Commission and with Cabinet Office – more recently in relation to proposals to share data better across government.
- 4.7 Following on from the 2019 ‘Corporate transparency and register reform’ consultation, in December 2020 Companies House launched a further consultation looking at ‘Improving the quality and value of financial information on the UK companies register’.⁵ This consultation closed in February 2021, and the outcomes are yet to be published.
- 4.8 The OTS notes that proposals set out in this consultation consider ways of simplifying and improving corporate reporting which would be particularly of benefit to smaller companies. Such proposals include:
1. **Progressing towards ‘filing once’ with government**
- 4.9 Under the Companies Act 2006, directors of a company are required to prepare and approve accounts and reports for each financial year and to file a copy with the Registrar of Companies. Filing requirements vary depending on the size (small, medium, large, micro-entity) and the type of company. Accounts can currently be filed on paper or online, and accounts and reports filed with the Registrar are published on the register. In addition to filing accounts with the Registrar, many companies must also separately file accounts with other regulatory bodies. The filing requirements and deadlines can be different for each regulatory body.
- 4.10 The OTS understands that discussions are taking place across government – particularly with the Department for Business, Energy and Industrial Strategy, HMRC and Companies House, but including others such as the Charities Commission and the Financial Reporting Council about the concept of ‘filing once with government’.
- 4.11 The concept is simple – rather than the burden of filing with more than one organisation, in more than one place, and potentially leading to more than one set of accounts (when there should only be one set of accounts, for one entity, for a particular period) - have just “one version of the truth”. One set of accounts, filed in one place, with one government department, and then re-used and shared across government.
- 4.12 The OTS is encouraged to hear of this work, recognising how this could particularly benefit small companies in the future. However, the OTS notes that, as set out in the Companies House consultation document: *“significant differences in filing requirements, purposes and timings remain and have proved too great a challenge for any further significant progress to be made. Full alignment would require fundamental changes in tax and company legislation, the challenge of*

⁵ <https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform-improving-the-quality-and-value-of-financial-information-on-the-uk-companies-register>

which should not be underestimated”, and understands that realistically this is a longer-term work stream which is unlikely to be achievable in under 5 years.

- 4.13 This time frame is disappointing, which perhaps reflects the complexities of the challenges which arise where relevant policies are jointly owned across different parts of government.
- 4.14 In the meantime, some welcome steps have already been taken towards greater alignment. One example is that a joint filing service has been developed to allow small companies to file their accounts information with Companies House at the same time as they file their company tax return with HMRC.⁶ A second example is the separate ‘Streamlined Company Registration Service’⁷ that enables a company to register for certain taxes at the same time as it is registered at Companies House. Companies House statistics show that this service is being well-used.⁸

2. Requiring accounts to be delivered digitally

- 4.15 Companies House regards requiring all financial information to be delivered in a digital form at Companies House as a crucial step towards companies being able to file their financial information once across government.
- 4.16 Statistics show that small companies are keen to file digitally, and the Companies House consultation document records that: *“small and micro-entity companies already have the highest digital take up”*. The OTS therefore notes that small companies are likely to welcome this proposal.

3. Requiring accounts filed with Companies House to be fully tagged using iXBRL⁹

- 4.17 Fully tagged financial reporting in iXBRL format has been mandatory when filing with HMRC since 2016, and iXBRL is widely used across the world. It is currently mandatory in jurisdictions such as the USA, Japan, China and India and will be in the EU from 2021. The OTS recognises iXBRL tagging as an important and integral part of HMRC’s accounts filing process.
- 4.18 To ease burdens on business and align processes, the government is proposing that all accounts should also be delivered to the Registrar in the same way. This is also seen as an important first step towards future plans for companies to be able to file once with government.
- 4.19 The OTS welcomes this proposal; however, the OTS is also aware of various restrictions in the way that HMRC is able to use the iXBRL tagging system in

⁶ <https://www.gov.uk/file-your-company-accounts-and-tax-return>

⁷ <https://www.gov.uk/limited-company-formation/register-your-company>

⁸ Companies House statistics show that in the period from April-September 2021, 44.5% of all incorporations submitted to Companies House were made using the joint filing ‘Streamlined Company Registration Service’ (SCRS).

The milestone of 1 million companies being incorporated via SCRS was reached by August 2021. (This data is sourced from Companies House management information and is unaudited.)

⁹ ‘Extensible Business Reporting Language’ (‘XBRL’) is a standard for reporting financial data that uses computer readable labels or ‘tags’. ‘Inline XBRL’ (‘iXBRL’) attaches computer-readable tags to an electronic file which can be read by people on screen or in printed form. The information can be easily checked to ensure its presence and accuracy and in addition it is easily shared, analysed and compared.

its current form. For example, the enforcement activity carried out by HMRC is currently very constrained, and HMRC makes only limited practical use of the data obtained through the tagging.

- 4.20 The OTS suggests that HMRC use the opportunity of the Companies House reform to make positive changes to enable the tagging system to be used much more effectively by all parties, in particular by introducing much greater, improved enforcement controls. This will improve the quality of the data and also increase confidence in the register. To build trust and confidence still further, HMRC should also actively and demonstrably make better use of iXBRL tagging in their compliance activities.

4. A review of the accounts filing options for small companies

- 4.21 Currently there are several different Companies House accounts filing options for small and micro-entity companies, requiring different amounts of financial information. Some small company filing options do not require sufficient information to allow Companies House to identify whether or not a company meets the eligibility conditions to be filing under a specific regime. That such filing options exist creates confusion for businesses and is also costly to government where companies use filing regimes which they are not entitled to use.

- 4.22 The OTS therefore welcomes the proposed measure set out in the Companies House consultation document: *“to review the filing options that are available for small companies with the aim of reducing the number of options and making the filing process easier”*, which would simplify the framework by reducing the number of filing options available for small companies. The OTS understands that although the information required to be supplied in the accounts will be slightly increased, any additional information should be readily available to the companies.

Considering ways of reducing the number of companies filing two tax returns in the first Accounting Period

- 4.23 The ‘Simplifying everyday tax for smaller businesses’ report stated that *“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.”*¹⁰
- 4.24 The OTS understands that Companies House and HMRC are working together on better guidance for companies whose first accounting period spans more than 12 months, and which currently must make two tax returns (one for the 12 month period, and one for the remainder of the accounting period).
- 4.25 For example, the OTS has been told that a simple solution would be to look at providing guidance encouraging those entities when they first incorporate, to relatively simply (with one Companies House form) change their year end so that it falls within 12 months of the date of incorporation, so that only one tax return is needed.

¹⁰ Recommendation 8.

- 4.26 The OTS welcomes this proposal, and would also recommend that HMRC and Companies House explore ways to encourage or require companies to report the date of the commencement of trade as well as the date of incorporation, and to improve specific guidance to explain that unless HMRC is notified of the actual date of commencement of trade, the date of incorporation will automatically be used, which will then most often lead to the requirement for two tax returns to be filed. The online system could flag the point to prompt people to provide the date of commencement of trade.

Making Tax Digital for corporation tax

- 4.27 In the ‘Simplifying everyday tax for smaller businesses’ report, the OTS recommended that: *“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 and have pop-up information and help screens at key points.”*¹¹
- 4.28 HMRC’s consultation on Making Tax Digital for Corporation Tax¹² (MTD for CT) ran from November 2020 to March 2021, with a simplified version aimed at small companies launched in January 2021.
- 4.29 This consultation referred to previous OTS work on possible simplifications to the corporation tax computation to align taxable and accounting profits more closely.
- 4.30 The OTS understands that the HMRC MTD for CT team has strong links with other HMRC and Companies House teams, as the need for collaboration with other initiatives (such as the Single Customer Account, the Tax Administration Framework Review and the development of the agent strategy) is recognised by all parties.
- 4.31 The OTS understands that key areas that HMRC are considering include:
- learning from the experience of the roll out of MTD for VAT
 - looking for opportunities to digitise the system (as many processes are still manual)
 - looking at ways to simplify the process (particularly as the intention is for all companies (regardless of size) to ultimately come within the MTD for CT regime)
- 4.32 The OTS notes that the ‘Making Tax Digital for Corporation Tax’ consultation document set out that the potential mandate date for MTD for CT would not be until April 2026 at the earliest.¹³ The OTS welcomes the statement in the recently published ‘Making Tax Digital for Corporation Tax’ consultation outcome¹⁴ that *“the government is committed to working with stakeholders to get the design right and will provide sufficient notice ahead of implementation,*

¹¹ Recommendation 7.

¹² <https://www.gov.uk/government/consultations/making-tax-digital-for-corporation-tax>

¹³ Page 12.

¹⁴ Making Tax Digital for Corporation Tax - GOV.UK (www.gov.uk)

following any decision to mandate MTD for CT, to allow businesses time to prepare.”