

Office of Tax Simplification Board Meeting

21 May 2012

Present

Rt Hon Michael Jack – Chairman
John Whiting – Tax Director
Dave Hartnett – HM Revenue & Customs
Teresa Graham
Adam Broke

Guests

Lin Homer – HM Revenue & Customs
Sam Cairns – HM Revenue & Customs

Apologies

Edward Troup – HM Treasury

Secretary

Jeremy Sherwood

Apologies, introductions and welcome

Edward Troup was abroad and had sent his apologies. The Chairman welcomed Sam Cairns who was shadowing Jeremy Sherwood for the day. The Chairman also welcomed Lin Homer, Chief Executive of HM Revenue and Customs, who had asked to attend the OTS Board meeting as an observer.

Lin Homer congratulated the OTS on getting off to a good start and establishing itself as an effective body with its first simplification reviews. She thought that HMRC had a common interest with the OTS in looking for simplifications to the tax system, and encouraged the OTS to not only draw on the expertise of HMRC's technical and policy teams, but also to harness the valuable experience of frontline staff. They would know which areas of the tax system people found most difficult to understand, which generated most complaints about complexity, and which new policies were causing difficulties in practice. Finally, she advised the OTS to engage with HMRC's policy teams early in the policy making process, helping them to think strategically about medium and long term improvements to the tax system.

The Chairman said the OTS was delighted at HMRC's commitment to tax simplification and would continue the productive dialogue with its senior tax experts and frontline people.

1. Minutes of the last meeting

The minutes of the 20 April 2012 meeting were formally agreed.

2. Action points from previous meeting

- HMRC and HM Treasury resource plans: The Secretary had asked HMRC and HM Treasury to forecast the number of staff they expected to be involved in supporting the OTS reviews during 2012/13 and he would report back to the next OTS Board meeting.
- OTS website: The Government was developing a single website to host all government departments and independent public bodies. This should give the OTS its own stand alone website, which the Board welcomed. The Chairman asked the Secretary to find out more about the design, content, editorial control and funding of the proposed website and to report back to the next Board meeting.

3. Government response to the recent OTS reports

Letter from David Gauke

The OTS was expecting to receive a formal letter from the Exchequer Secretary to HM Treasury, David Gauke, setting out the Government's response to the OTS reports published in March. On receipt, the letter would be circulated to OTS Board members and published on the OTS website.

Adam Broke expressed his concern at the complexity of some of the measures in the Budget and the record length of the current Finance Bill.

Latest government consultations

The Government had already published two papers responding to the OTS small business tax review, one on a simpler income tax system for the smallest businesses and one on improving HMRC administration for small businesses. The OTS was also expecting consultation documents on the OTS proposal for a new tax relief for disincorporation and on simplifying the tax rules and HMRC administration of approved share schemes. Finally, a consultation document on the next steps in merging the operation of tax and national insurance was also expected. The Board asked HMRC to keep them updated on the progress of these consultations, and on the nature of the responses received.

John Whiting pointed out that although many of the OTS proposals for a simpler tax system for the smallest businesses were being taken forward by the Government, the simpler income tax package being consulted on incorporated some important differences to the OTS proposals. The OTS proposal was focused on businesses with turnover up to £30,000 whilst the Government had decided to increase this to £77,000; the OTS's recommendation was for the simpler system being the default option whereas the consultation linked cash accounting and flat rate allowances and offered businesses a choice that would probably lead many to seek advice. Teresa Graham supported the proposal to increase the turnover limit to £77,000 on deregulation grounds but agreed that the OTS's proposal to start with a lower limit and then increase it later had been sensible.

OTS future work programme

The current OTS reviews into pensioner taxation and unapproved share schemes were due to report by Budget 2013, leaving scope for new projects to be taken up in 2013. The OTS was talking to the tax profession and HMRC experts about which areas of the tax system were most suitable for a simplification review. It was also drawing up a methodology for

identifying relative complexity across the tax system, which would help inform the OTS work programme.

4. Complexity review

Update on applying the usability approach to the tax rules for leasing

The OTS had held meetings with three different groups of users of the tax rules for leasing: HMRC's technical experts responsible for the legislation; members of HMRC's Large Business Service; and members of the Finance and Leasing Association. These groups had been asked about their experience of how "usable" the rules were, focusing on effectiveness, resource efficiency and satisfaction measures. The outcome was that the OTS felt the usability approach was a good way to identify complexity in tax law as experienced by different users. The meetings also highlighted the importance of asking a range of different users, as the experience of large companies was very different to the experience of small and medium enterprises. The OTS did not propose to carry out a simplification review into leasing, but would share their findings with the HMRC experts to help inform any future changes to the leasing rules.

Initial work on a tax complexity index

The OTS had been working on a methodology for drawing up a complexity index for tax legislation. The intention was to produce a tool that could identify which parts of the tax system were more complex than others, and this could help inform the OTS's future work programme. The OTS team had identified around a dozen factors which contribute to tax complexity (such as length of legislation, drafting style, compliance costs and HMRC's operating costs). For specific areas of tax legislation each factor was given a relative weighting, and the weighted factors were added up to arrive at a final complexity rating.

The OTS Board thought the approach was a very good way to arrive at a fairly rough and ready means of identifying relative complexity, but the results would depend very much on the complexity factors chosen and the relative weightings assigned to each one. The OTS intended to discuss the model with a wider group of interested parties and then perhaps publish a more refined model for comment. Dave Hartnett advised the OTS to engage with experienced HMRC specialists and frontline staff in developing the model.

5. AOB

- The Board put on record their thanks to Stuart Evans and Jill Evans who had resigned from the Consultative Committee for the share schemes review. The Board made three new appointments to the Committee: David Pett of Pett Franklin, Kay Ballard of Kingfisher plc and Martin Osborn-Shaw of Killick & co.
- OTS staff changes: Tunde Ojetola had left the office in March, and Anish Mehta was due to leave in June. To replace them, the OTS had recruited Katya Williams and Mark Thompson, both on secondment from HMRC. The OTS was also in the process of recruiting a new secondee to work on the pensioner tax review. The Chairman asked the Secretary to circulate to the Board a list of OTS team members, their contact details and the reviews they were working on.

Date of next meeting

The next meeting is on 12 July.

Jeremy Sherwood
OTS Secretariat