

12 May 2016

David Gauke MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Dear David

Update on simplification matters

We are very grateful to you for your letter to the OTS which you sent us on Budget Day and pleased that our work continues to attract your support and agreement.

As is our normal practice, we are writing back formally to you with our response and plans, but have waited so we could do so alongside publishing various documents, which we have done today.

OTS future high level strategy

We have published a consultation paper on future strategy, setting out the framework for the future direction of 'OTS Mark 2', for comment from stakeholders and we intend to hold a conference, on 18 July, to discuss our plans. We hope you will be able to join us then. I enclose a copy of the Strategy document for your ease of reference.

Income tax and NICs reviews

We have published the agreed Terms of Reference covering these two further reviews, concerning (a) moving employee NICs to an annual, cumulative and aggregated basis and (b) on the reform of employer NICs to a payroll based charge. We are grateful for your endorsement. Our aim is to report on these further projects by the end of September.

Small companies; follow-up work

We very much welcome your ready acceptance of most of the recommendations in our Small Companies report and in particular our proposals to develop outlines for a 'SEPA' (Sole Enterprise with Protected Asset) model and a Lookthrough basis of taxation for some companies. We have started work on these and our current plan is to publish outlines for comment, probably in early July, with a view to concluding and reporting in September.

New Corporation tax review

We have published the agreed Terms of Reference for our new review on the corporation tax computation, and again welcome your endorsement. Our aim here is to report by February 2017, with an interim report in the autumn.

Termination payments

We note the comments in your letter on Termination payments reforms. Whilst we are pleased that our report encouraged a critical review of the underlying rules, as you anticipated and will understand, we are disappointed that our proposals are not being more closely followed. We are in touch with the relevant HMRC team and hope to meet them soon.

Travel & subsistence

Our work on the travel and subsistence concluded that the rules were generally well understood and operated fairly well: hence we recommended they be retained. We detected no real desire for wholesale reform so the general findings of the recent discussion document come as no surprise to us.

We did identify some areas for improvement but we understand that the responses to the discussion document tended to focus on the difficulties in making changes, despite the previous calls for improvement. As you said in your letter, the improved and modernised HMRC guidance, which was developed following our recommendation, has been well received and has probably served to answer some of the issues identified and reduce the calls for reform.

PAYE settlement agreements (PSAs)

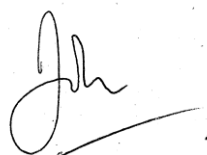
Your comment that there will be a consultation on simplifying PSAs will, we know, be widely welcomed. As you appreciate, reforming PSAs was a significant component of our proposals to largely eliminate the need for P11Ds. We continue to hear regular calls from employers for reform.

We hope this consultation will follow our recommendations. In particular, the decision to make no further changes to the travel and subsistence rules does make it more important to allow this area to feature in PSAs, as we recommended in our report.

Yours sincerely



Angela Knight
Chair



John Whiting
Tax Director

