



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Angela Knight, Chair  
& John Whiting, Tax Director  
Office of Tax Simplification  
1 Horse Guards Road  
London  
SW1A 2HQ

23 November 2016

Dear Angela and John,

The Finance Act 2016 placed the Office of Tax Simplification (OTS) on a permanent, statutory footing. Your previous recommendations have led to significant simplifications, including the introduction of cash basis accounting, which has been taken up by more than 1 million businesses, and the simplification of employee benefits and expenses, which has saved employers an estimated £20 million per year in administrative costs.

I am confident that the OTS's new status puts it in the best possible position to continue to make those positive differences to taxpayers. We also recently announced the appointment of the OTS's new Tax Director, Paul Morton, and I am confident that with Paul's expertise and guidance you will continue to provide the government with valuable independent advice to further simplify the tax system for the businesses and individuals who use it.

#### **Follow-up to Small Companies Taxation Review**

Following your review of small company taxation published at Budget 2016, you have carried out useful follow-up work with two further papers. The first (Sole Enterprise with Protected Assets (SEPA)) develops the design of a new business model for the self-employed, and the second explores the design of a look-through taxation system.

Small businesses must make important decisions about the most appropriate way to set up their business, and as they grow their needs may change. Your SEPA paper explores the design of a new business model that would provide the self-employed with a form of limited liability by protecting their personal homes. I welcome your conclusion that the SEPA model has the potential to simplify the tax affairs of many small business owners.

As you state, there are some issues that would need to be explored further, including the impact on the insolvency market, in order to establish the overall

merits of introducing such a model. These will need to be considered as the government looks at how it can further support small businesses.

Your look-through paper exposes some of the key issues and opportunities associated with taxing some businesses in this way. I welcome your conclusion that there is merit in a long-term, strategic review in this area of taxation. The ways in which people are working are changing, including a growth in self-employment and the number of single person companies. The OBR has highlighted that the growth in incorporations is resulting in increased fiscal costs to the Exchequer.

The tax system needs to keep pace with these changes and so as the Chancellor has said today, the government will look at how it can ensure that the taxation of different ways of working and different forms of employee remuneration is fair and sustainable. I am confident that your findings will help ensure further work in this area gives appropriate consideration to simplification.

### **Corporation Tax Interim Paper**

You are due to publish a full review of the corporation tax computation in spring 2017. I welcome your interim paper and look forward to seeing your final conclusions next year.

In line with your new powers I am pleased that you have also started formally responding to HMT and HMRC consultations.

### **Next Reviews**

Alongside your continued work on corporation tax, I would like to request that the OTS carry out a review into the VAT system, to ensure that it is fit for purpose in our modern economy. The review should focus in particular on VAT accounting simplifications for SMEs, including annual and cash accounting, the flat rate scheme and the registration threshold. It could examine the rules for calculating VAT due to HMRC by businesses that make both VATable and VAT exempt supplies and it might also consider the complexity for businesses and administration under the current rate structure. It should, however, avoid any more fundamental review of VAT rates and be mindful of sensitivities post-referendum. Revenue neutrality, countering avoidance and thinking about how we might more effectively protect VAT revenues in the future remain key objectives of the government.

I would also like the OTS to look at how Stamp Duty is collected on share transactions. I am aware that some features of this area of taxation, such as the physical stamping of documents, could benefit from simplification. My officials

have been working with you to agree Terms of Reference for these reviews, which will be published shortly.

To conclude, I would like to take this opportunity to thank you and your office for producing these papers. I would also like to thank you, John, for guiding the OTS with expertise and integrity since its inception, and kindly agreeing to stay at the OTS whilst handing over to Paul.

The OTS is now in a stronger position than ever to provide valuable advice and I look forward to working with you to further simplify our tax system.

With kindest regards,

A handwritten signature in black ink that reads "Jane Ellison". The signature is written in a cursive style with a long horizontal flourish extending to the right. The name "Jane" is written in a larger, more prominent script than "Ellison".

JANE ELLISON MP