

25 July 2018

## **Business Life Cycle, 2nd Report: Scoping Document**

The first business life cycle review by the OTS addressed the tax charges and reliefs applicable at key stages or events over the course of the life of a business (Start up, Incorporation, Finance, Succession and Disposal).

The primary focus was on external events such as the raising of capital or a change in ownership rather than on internal events such as registering for and paying tax, taking on the first employee or dealing with the tax consequences of unprofitable years. Neither was there space to do more than scratch the surface of the practical day to day issues facing businesses during their start-up phase. These are the areas that will be at the heart of the present review, which will have a natural focus on the affairs of smaller businesses, especially those which struggle the most with tax on a day-to-day basis.

The review will consider the extent to which administrative complexity may contribute to errors or a failure to take reasonable care, as well as any other underlying factors which result in compliance-related practical difficulties and penalties and which contribute to the tax gap (tax not collected). In addition, the review will build on the Office's previous work on smaller businesses.

### **Scope of Review**

The review will consider the direct and indirect tax issues facing unincorporated and incorporated businesses in the course of their ordinary operations. The review will be more focussed on smaller businesses, particularly those with £2m turnover or less or fewer than 10 employees.

The review will consider issues such as

- the accessibility and clarity of guidance and support in relation to the process of setting up a business, including the information on gov.uk (linking to the OTS's wider work on guidance), including issues arising from the interaction between an individual's personal and business affairs
- how a business works out and administers its taxes (taking into account matters such as Making Tax Digital, record-keeping, filing returns, understanding allowable deductions)
- sources of error and unnecessary complexity, and ways these could be eased or mitigated
- the way the tax system handles unprofitable years or shorter-term cash flow issues (for example through the loss rules and time to pay arrangements) and the extent to which the tax system helps businesses manage the cash flow demands of paying tax more generally
- the impact of taking on the businesses' first employee and subsequent employees (with regard to payroll taxes, completing P11Ds in relation to benefits, employment allowance)
- the impact and any distortive effect of thresholds (recognising the significance of issues of this kind that the OTS drew attention to its 2017 VAT report)
- issues arising in relation to relevant tax reliefs such as R&D tax credits
- making overseas sales or purchasing goods or services from abroad for the first time
- issues arising as the business develops, for example moving to new premises

### **Further guidance for the review**

In carrying out its review, the OTS will

- liaise with the Administrative Burdens Advisory Board
- consider the likely implications of recommendations on the Exchequer and on compliance with the tax system
- take account of relevant international experience
- establish a Consultative Committee to provide support and challenge