

8 December 2016

OTS review

VAT General Simplification Review

Value Added Tax (VAT) was introduced into the UK in 1973. It is often referred to as being (or intended to be) a simple tax and in principle it should be easy to administer. However, as with most forms of taxation, since its introduction it has been subject to a continuous process of evolution and change. It is now recognised as being complex to administer which in turn creates compliance challenges for all types of businesses ranging from sole proprietors to large corporations.

The Office of Tax Simplification (OTS) has agreed with the Chancellor and the Financial Secretary to carry out a review of a range of aspects of VAT in order to consider whether the VAT system is working appropriately in today's economy and to identify simplification opportunities. The basis of the review is that, as demonstrated by previous OTS reviews, simplification of the VAT system is desirable.

The overall aim of the review will be to develop recommendations for the Chancellor and the Financial Secretary as to how to reform and simplify aspects of the VAT system from both a tax technical and administrative stand point.

In conducting the review the OTS will provide a report in the autumn of 2017 that:

- Provides analysis and evidence of the main areas where simplification could be achieved and the benefits that could result for businesses and in the administration of VAT;
- Recommends specific steps that could be taken to secure simplification; and
- Considers and offers an initial evaluation of the impacts for businesses, HMRC and the Exchequer.

The OTS will provide an update on its work and call for evidence in the spring of 2017.

Terms of reference

The review will consider how to help ensure the VAT system works appropriately in today's (and indeed for tomorrow's) economy. This will include consideration of:

- The issues and impacts which would be involved if the VAT registration threshold were either higher or lower than at present;

- The extent to which the definitions of the types of supply which are currently exempt from VAT, subject to a reduced rate or are zero-rated, fit the modern context, create complexity for businesses and administration;
- The level of demand and practical challenges arising from having a more widely available formal ruling system for businesses uncertain of a particular VAT treatment, for example in relation to TOGC;
- The potential for simplifying the operation of partial exemption methodologies, the option to tax and the Capital Goods Scheme with a focus on the impact on smaller businesses;
- Special Accounting Schemes;
- The general administration of VAT including the penalty regime and the appeals process;
- The opportunities available to align VAT more with other taxes (or vice-versa) as part of the Making Tax Digital plans;
- The relative significance and impact of the issues identified on businesses of different sizes or in different sectors.

The review will not, in the main, be concerned with the VAT rate structure. Neither will it focus on issues likely to be significant in the context of the Government's consideration of Brexit, such as the treatment of financial services, statistical reporting and EU cross border VAT rules such as MOSS. However, it will actively bear the Brexit context in mind in looking at opportunities to simplify VAT for the future.

Further guidance for the review

In carrying out its review and developing its recommendations, the OTS should:

- Research widely among all stakeholders;
- Involve HMRC's Administrative Burdens Advisory Board;
- Take account of the principles and design of HMRCs Making Tax Digital reforms, including digital tax accounts, integrated reporting and payment;
- Consider the likely Exchequer implications of recommendations;
- Be consistent with the principles for a good tax system, including fairness and efficiency; and
- Take account of relevant international experience.