# Office of Tax Simplification

Office of Tax Simplification
Room G 41
1 Horse Guards Road
London SW1A 2HQ
May 2016

**OTS review of the corporation tax computation**

A company can receive income from a number of different sources. Although trading activity is often the main source of income, others commonly include income from property or from general investments. The specific calculation rules differ between the income categories and, as with many aspects of the tax system, such differences are often a matter of history. Today, with more companies undertaking multiple activities, and with the digital agenda in mind, it's an open question to what extent these differences remain appropriate or whether the rules could be simplified and made more cost effective, not least for smaller companies.

The Office of Tax Simplification (OTS) has therefore agreed with the Chancellor and the Financial Secretary to carry out a review of the corporation tax computation. The basis of the project is that, as demonstrated in previous OTS reviews, simplification of the tax computation is desirable.

The overall aim of the review will be to develop recommendations for the Chancellor and the Financial Secretary on how to simplify the computation and reduce the administrative burdens it imposes. This will involve picking up on some of the recommendations in the OTS UK Competitiveness report and the recent Small Companies report, and will have regard to the Business tax road map published in March 2016 and to HMRC's Making Tax Digital work.

In conducting this review the OTS will provide a report before Budget 2017 that:

- provides analysis and evidence of the main areas where simplification could be achieved and the benefits that could result for companies and in the administration of corporation tax;
- recommends specific steps that could be taken to secure simplification; and
- considers and offers an initial evaluation of the impacts for companies, HMRC and the Exchequer.

The OTS will provide an update on its work before Autumn Statement 2016.

***Terms of reference***

The review will consider the adjustments between accounting profit and the corporation tax profit, their significance in the light of the current business environment and the complexity and/or administrative burdens created, and will make recommendations for simplifying the calculation of taxable profits. This will include consideration of:

- The main categories or sources of income for corporation tax purposes (trading, property, loan relationships, chargeable gains etc) and the related allowable expenses, including management expenses and depreciation/capital allowances;
- To what extent these categories fit the modern context;

- The legislative and practical complexities that arise from them and their interaction with accounting or other business processes;
- To what extent these categories are required to support tax policy imperatives;
- The potential for reducing the differences between accounting profit and tax profit (including the possibility of combining some of the categories);
- The legislative, practical and Exchequer impacts of so doing - taking into account any implications for general transitional and loss relief rules (including the reforms announced at Budget 2016), and maintaining a separation between capital and revenue; and
- The relative significance and impact of the issues identified on companies and groups of different sizes or in different sectors, and the potential for having simpler rules for smaller companies.

While the review will have regard to international matters (such as double tax relief) which could be affected as a consequence of any recommendations being considered, it will not be directed more widely towards international matters or issues within the purview of the Base Erosion and Profit Shifting work following the OECD initiative.

***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;
- Have regard to the potential implications for corporate members of partnerships;
- Be consistent with the principles for a good tax system, including fairness and efficiency; and
- Take account of relevant international experience.