



Making tax easier, quicker and simpler for small business

March 2012

Foreword

Small businesses make a vital contribution to the UK economy, both in terms of employment and growth. Under the Government's Plan for Growth we aim to create the most competitive tax system in the G20, and make the UK the best place in Europe to start, finance and grow a business.

As part of this, the Government's aim is for a tax system that is simple to understand and easy to comply with. In 2010 the Government asked the newly-created Office of Tax Simplification (OTS) to carry out a bottom-up, independent review of tax for small business. The OTS reported its final recommendations in February – these covered both the rules of how the system works and also how HMRC goes about administering them.

Responding to these proposals, we will offer a radically simpler way for small businesses to calculate their tax. Businesses will be able to work out their income tax on a cash basis and use simplified expenses rules, rather than always having to follow rules designed for larger business.

We will also consider options for integrating the operation of income tax and National Insurance contributions, including simplifying the NICs system for the self employed. We will be consulting on both of these changes shortly after the Budget. I believe that they will make a big difference in making tax easier and simpler for small businesses.

At the same time, for small businesses and their tax agents, the way the tax system works day-to-day really matters too: that's why HMRC is committed to making it easier, quicker and simpler for SMEs to get their tax right. In particular, this means making tax easier to understand (with improved education and support), and making tax simpler and easier to do (getting core services, such as phones and post, right; and making it easier to register, file and pay).

Over the next three years, I want to see a positive improvement in the relationship between HMRC and small business – an improvement that will be felt on the ground and so recognised and welcomed by SMEs.

This document sets out how HMRC intends to deliver, over the next three years, an environment in which SMEs can get on with what really matters to them – running their businesses. HMRC will do this by implementing important changes to the tax system, both simplifying how it works and improving the way that they operate the system.

David Gauke

Exchequer Secretary to the Treasury

1. Introduction

1.1 Small businesses are a key part of the economy in terms of employment and growth. They account for around 50 per cent of UK business turnover, have more than 13 million employees, and pay more than a third of the tax receipts paid by businesses.

1.2 For Small and Medium-sized Enterprises (SMEs), dealing with **tax should be as simple and straightforward as possible**. For some it is, but for many others it's not. We want to change that.

1.3 HMRC is committed to making it **easier, quicker and simpler for small businesses to get their tax right**, and we want to remove the anxiety still felt by many of those who do get it right, or who genuinely try to do so. We understand that small businesses are very diverse, with differing needs, attitudes and behaviours. Our approach to running the tax system recognises this, and we tailor what we do to take account of those differences.

1.4 Small businesses also need to feel that everyone pays their fair share and that no-one gets an unfair advantage by breaking the rules. So we want to **level the playing field** – between the vast majority who do get it right and pay the right tax, and the few who do not.

1.5 We want small businesses to:

- find tax **easier to understand**, and become more confident that they know what they need to do, when and how; and
- for it to be **simpler and quicker** for them to do what they need to do (register, keep records, file, pay), with **greater certainty** and accuracy.

So whether a business uses an agent, or tackles their own tax returns, HMRC's commitment is to provide appropriate and easy to use services and support.

1.6 This document sets out what the Government and HMRC are doing to deliver these objectives. Chapter 2 focuses on changes to the rules to make the tax system itself simpler for small business, and Chapter 3 sets out the initiatives that HMRC is taking to improve the experience of SMEs when dealing with the tax system.

2. Making the tax system simpler for small businesses

'It is the view of the OTS that simplified and clearer rules for the taxation of business income would mean that more businesses would be able to get their taxes right and that HMRC would also find the regime easier to police.'
Office of Tax Simplification¹

2.1 The Government has announced a number of important changes to the tax rules that are designed to make it simpler and easier, especially for small businesses. This Chapter outlines how these changes are being implemented, including those in response to the OTS's recent proposals.

Simpler income tax for smaller businesses

2.2 In response to the **OTS recommendation for simplified income tax**, the Government announced in Budget 2012 that it is offering a radically simpler system for calculating tax for small business. Up to three million businesses will have the choice to use this approach.

2.3 At present, all businesses have to use the same rules to work out their trading profits, and therefore the tax they owe on them. This applies whether the business is a sole trader starting out or a multinational corporation. These rules are based on accounting practice designed for larger businesses.

2.4 The burden and cost of making tax calculations falls disproportionately on the smallest businesses, which may have little or no need to prepare professional accounts for their own business purposes.

2.5 Research undertaken to inform the OTS small business review found that, despite devoting time, expense and care to calculating tax and filling in tax returns, half of small businesses worry about making mistakes in applying the rules. They also found that 20 per cent of small businesses (potentially 700,000 businesses) have difficulty working out how much tax they need to pay, and that half of all small businesses had experienced difficulties identifying what is a deductible expense.

2.6 The OTS has recommended that small, unincorporated businesses should have the option to calculate their taxable income on a simpler cash receipts and payments basis, and that simplified arrangements should be introduced for some business expenses to complement that new scheme. The OTS also recommended that businesses using the normal tax rules (such as incorporated businesses) should have the option to use simplified expenses.

2.7 As announced at Budget 2012, the Government will introduce a new cash basis for calculating tax for small unincorporated businesses. We will consult shortly after Budget on the details of this scheme. It will reduce the time it takes for small businesses to calculate their tax. This means that they

¹ OTS, *Small business tax review: Final report - HMRC administration*, February 2012

will be able to calculate their taxable income by adding-up business receipts, and subtracting payments made to cover allowable expenses (using, as appropriate, standard mileage rates for business use of a car and standard amounts for significant business use of home). These simplifications will be available from April 2013.

2.8 The main practical differences from the normal tax rules will be:

- No need to understand rules designed for larger businesses
- No need to pay tax until cash is received
- No need to keep complicated records (for example stock, debtors and creditors), over and above those needed to run a business effectively
- No need to understand capital allowances
- No need to keep detailed records for certain key expenses – use a standard rate instead.

2.9 The Government wishes to make the benefits of a simpler cash basis available more widely and more quickly than the OTS has suggested. So the Government will be consulting on a proposal to allow businesses with receipts of up to £77,000 (the same as the VAT registration threshold) to be able to use the new scheme, and to allow businesses to grow within the scheme until their receipts exceed £150,000 before they have to switch to using the normal tax rules.

2.10 The new, simpler scheme should be suitable for most of the smallest businesses, although some may still wish to use the normal rules. So the new regime will be entirely voluntary, and any business using the new scheme would be free to go back to the normal rules. So businesses get to choose the scheme that works best for them.

2.11 These changes will provide small businesses with much greater certainty about their tax affairs, through a simple system, and clearer rules on expenses. This was a key aspect of the OTS's findings, and reflects what HMRC knows very many SMEs want most. It will be simpler, easier, quicker and cheaper for small, unincorporated businesses to understand how to calculate their taxable profit and complete their tax returns, reducing the risk of mistakes and the need to seek advice and assistance.

2.12 The OTS also suggested that a turnover-based tax (which would tax the total amount of the sales of a business, with no deductions for expenses) should be investigated further. After carefully considering the various issues, the Government has decided not to take this suggestion forward.

Making disincorporation easier

2.13 The OTS also addressed the question of disincorporation, and how that might be made easier. The Government recognises that some small businesses may have opted to become a limited company in the past and now feel 'trapped' in the more complicated tax regime for companies, and could benefit from moving to the simpler cash basis scheme. **The**

Government will be consulting on options for making it easier to move out of Corporation Tax.

Improving PAYE for small business

2.14 For SMEs who are employers, dealing with PAYE can be a significant issue. The **Real Time Information** (RTI) programme will streamline PAYE reporting for all businesses by linking it to the employer's normal payroll activity (using payroll software to gather and send the information that HMRC needs). HMRC will be piloting RTI during 2012-13 in preparation for full implementation from October 2013. RTI will also provide a useful National Insurance Number (NINO) verification service – making it quicker and easier for employers to check the correct NINO when taking on new employees. SMEs have told us that RTI will help them to avoid building up debt, reduce the end-of-year pressures, and get their PAYE responsibilities right.

2.15 Recognising that the introduction of any new system will take a little time for businesses to understand and will involve some set-up costs. HMRC will provide clear advice, guidance and information to help businesses to operate within RTI; and for businesses who do not currently use payroll software we will provide a basic PAYE software package that will allow the transmission of RTI data to HMRC. This software package will be free for employers with nine or fewer employees. Once the system is live, PAYE will be simpler and more efficient, with no additional end-of-year processes, delivering potentially significant cost savings to businesses as well as greater accuracy in the income tax affairs of their employees.

Making the tax system more transparent

2.16 The Government wants all taxpayers to benefit from greater transparency in the tax system, so they understand what taxes they pay and how much. HMRC will therefore provide more accessible information to all taxpayers on their tax affairs. In April, HMRC will launch an **online Business Tax Dashboard**, which will offer a quick and easy way for businesses to see how much tax they have already paid and how much they still owe. From 2014-15, HMRC will also improve transparency for individual taxpayers. A new Personal Tax Statement will be available to all individuals who file their Self Assessment return online (and some taxpayers in PAYE). It will detail how much tax and National Insurance they have paid, average tax rates and show them how those deductions contribute to public expenditure.

Integrating income tax and National Insurance contributions (NICs)

2.17 In March 2011 the OTS published their interim report on simplifying tax for the smallest businesses, which recommended that the Government look at integrating income tax and National Insurance. For decades income tax and NICs have functioned as two fundamentally different systems with different periods and bases of charge. Although payroll software can handle the majority of differences between the two charges, employers find the system confusing and opaque and often feel obliged to outsource the operation of

their payroll to agents. The self employed also have to contend with two different systems for paying NICs.

2.18 In response to this recommendation, the Government announced at Budget 2011 that it would consult on the issue. Throughout 2011 HMRC and HM Treasury have been working closely with a wide range of stakeholders, including small business representatives, to identify options for reform that will reduce administrative burdens for employers and achieve a more transparent and understandable personal tax system.

2.19 Following this work, **Budget 2012 announced a detailed consultation on integrating the operation of income tax and National Insurance.** The consultation will be published shortly after Budget and will set out a broad range of options for the operation of employee, employer and self employed NICs. The Government will continue to engage with representatives from small business during the forthcoming consultation.

3. Helping small businesses to get their taxes right

'At its simplest, what [small businesses] want to know is how much they have to pay, what they can claim for and where they can go for help. They also require clear advice that can be relied upon and they don't want to receive an unwelcome surprise. In short, they want to feel that they are in control of their own affairs.'

Rt Hon Michael Jack, Chairman, Office of Tax Simplification²

3.1 Tax can be daunting for small businesses – especially when they first have to deal with it or when there are changes. HMRC is making tax simpler so that small businesses know what they need to do, when and how they need to do it – whether they choose to do it themselves or use a tax agent or accountant.

3.2 The small business population is huge (about 4.6 million) and very diverse in size and business activity. Small businesses are similarly diverse in their needs, attitudes and behaviours when it comes to tax. We design and deliver our services, and shape our compliance and other activities, in a way that reflects and responds to that diversity. We tailor what we do for SMEs.

3.3 SMEs and the OTS have told us that what really matters to small businesses is being able to deal with their tax easily and quickly, such as through good online services; and that if they need to contact us for help they want prompt, clear and simple answers that they can rely on. This Chapter addresses what HMRC is doing to meet those expectations, including how we are responding to the OTS's principal recommendations for improvements³.

i) Improving guidance, education and support

3.4 HMRC has made big changes to the **guidance, education and support** that we provide, so that SMEs can find it more easily, through routes they know and trust; that they can access it in ways and at times to suit them; and that is tailored and targeted to their needs. For example:

- **My New Business**⁴ – launched in November 2011 to provide online help and support (videos, tools, etc), especially for new businesses
- **'webinars'**⁵ – a new programme of online seminars where businesses can ask questions directly of our staff (with a library of pre-recorded presentations also accessible online)
- **bite-sized video tutorials** on the HMRC YouTube channel⁶
- working with **trade organisations, representative bodies and private sector partners** that SMEs already use, know and trust⁷.

² OTS, *Small business tax review: Final report - HMRC administration*, February 2012

³ HMRC will publish a comprehensive response to all the OTS's recommendations on tax administration shortly after Budget

⁴ www.businesslink.gov.uk/mynewbusiness

⁵ www.hmrc.gov.uk/press/online-advice.htm

⁶ www.youtube.com/user/HMRCgovuk/featured

What our customers said⁸:

Before...

'I just want them to talk in everyday language so I can understand it. We all know the basics of tax but the message can be put across much easier. You trawl through the website but there's just so much there.'

'When you start up, nobody tells you what to do – it's up to you to know!'

After...

'It was excellent. The new presentation of material through video, animation and self-tests was really useful. I had been doing part of my VAT incorrect, so really useful all round!'

'I have to say that much of the My New Business content is absolutely top drawer. The video case studies especially.'

'Wow! HMRC provide this? I love the look of it, this makes me feel much more confident about what I need to do.'

'I just wanted to let you know how incredibly useful and convenient I found [the webinar]. It was great to be able to attend from the comfort of my own desk, and the presenters were knowledgeable and friendly.'

'Yes I really enjoyed [the webinar]! Brilliant idea and hugely informative for me in first year of self employment.'

'We've had really positive feedback from our members and staff about the HMRC presentation on YouTube. They love the fact it's clear, concise and only lasts eight minutes.'

3.5 In the coming year, and taking account of various OTS recommendations on education and support, we will:

- from April, launch an interactive version of the **tax ready reckoner**, which helps people to work out how much tax they may wish to set aside for their self-employed tax bill; plus several **record-keeping apps** for smart phones (developed with the software industry)
- use email more – we have just started emailing over 100,000 new, self-employed businesses to point them to the education and support we provide

⁷ For example, a new tax learning product was developed with the Hair and Beauty Industry Authority, and hosted on their website. Also the SME 'tax widget', displaying the latest guidance (videos, guides etc), is hosted on third-party sites, such as the Federation of Master Builders

⁸ All comments from HMRC customer research and feedback on new products

- complete pilots of the use of **two-way email** (so SMEs can email HMRC, and we reply by email), to establish how we can use it more widely (taking necessary account of data security issues)
- expand our **webinar programme** and work through trade organisations
- make more use of **social media** (such as Twitter) to increase awareness of what help is available.

We're doing this because customers⁹ said:

'It would be nice to have a service where you register to receive reminders about deadlines and information which is relevant.'

'I know it's important to keep records, not only for HMRC but for my own benefit – but it's boring and time-consuming. What I need is a basic guide written in plain English which tells me exactly what I have to do and no more.'

'I know they do these classroom events to learn about tax, but I haven't got the time for all that. If you could stream it online... you could watch someone talk you through it.'

ii) Getting our core services right

3.6 To help them to do what they need to do, SMEs expect HMRC to provide robust online services, for filing and payment, and to deal effectively with enquiries, by phone and post. The OTS has specifically recommended that we improve our contact centre telephone waiting times and that we introduce a dedicated, small business helpline.

3.7 We know that in the recent past our call answering and post handling services fell well short of what our customers expect of us, but we have made real improvements in the last year and will continue to improve these services, especially in our contact centres. For instance, in the year to the end of January 2012 we were successfully handling 73 per cent of call attempts made, against just 45 per cent in the previous year. It is still not good enough, but we are moving in the right direction.

3.8 Our service standard goals for these two core services are, by March 2015:

- to achieve a service level of 90 per cent of call attempts handled
- to deal with 80 per cent of correspondence within 15 working days, and 95 per cent within 40 working days.

We will report performance against these core service standards each year.

⁹ Comments from HMRC customer research

3.9 Our contact centre and post standards are closely linked to how easy we make it for customers to manage their tax affairs. We know that a high proportion of calls and post is generated by customers seeking explanations about things that are unclear, or reassurance that we are handling their cases. By making our forms and guidance simpler to understand, and our processes easier to deal with such as through better online services, we can reduce the need for many customers to contact us in the first place. This will mean that our advisers can provide more and faster help to those small businesses who still need it. We believe that these improvements will benefit all customers, including SMEs, and make it unnecessary to create a dedicated SME helpline, as suggested by the OTS.

iii) *Delivering improved digital services*

3.10 We will continue to improve our online services so that they are quicker and easier to use. For example:

- from April, there will be a single online tax registration form via our **new Online Tax Registration Service**¹⁰ and new businesses incorporating online with Companies House will be able to **register for Corporation Tax at the same time**
- also from April, our new online **Business Tax Dashboard** will allow SMEs to view their current liabilities and payments for, as appropriate, Self Assessment or Corporation Tax, VAT, and PAYE for employers
- from October, **the VAT registration process** will move online, meaning the vast majority of businesses will get their VAT number 4-6 days quicker. From April 2013, we will enhance the service further so that most businesses will get their VAT number within three working days.

The screenshot displays the 'Business tax dashboard' interface. On the left is a 'Main menu' with options: 'Your HMRC Services', 'Business tax dashboard' (expanded), 'Account overview', 'Your details', 'Your account', 'Direct debit payment', and 'Tools & Calculators'. The main content area is titled 'Business tax dashboard' and includes an 'Account overview' section with a navigation bar. Below this, there are three rows of tax information: 'Corporation Tax (Company UTR: XXXXXXXXXXXX)' with a 'View account' link, 'PAYE for Employers (Employer Reference: XXX/XXXX)' with a 'View account' link, and 'VAT (VAT Registration Number: XXX XXXX XX)' with a 'View account' link and a help icon. A 'Remove business tax dashboard' section with a 'Remove service' link is also present. At the bottom, there is a 'Paying HMRC' section with a 'Paying HMRC' link. A caption at the bottom left reads: 'Illustrative example for a SME with CT, PAYE and VAT liabilities'.

¹⁰ Initially for Income Tax Self Assessment, Corporation Tax and PAYE

3.11 The OTS recommends a number of improvements to our online guidance and over the next year we will be working with the new **Government Digital Service**¹¹ (GDS) to help develop the new Single Government Domain. Among other improvements, this should offer a much improved search function, more interactive content and ‘intelligent’ forms, which help the person completing the form eg with pop-up advice and also ‘check’ the form before it is submitted.

iv) Making paying taxes easier

3.12 To make paying tax straightforward, we accept a wide variety of payment methods and channels: direct debit is one of the cheapest and most secure methods. We also offer a Budget Payment Plan¹² which allows businesses to pay their Self Assessment income tax via regular instalments. Many small businesses told the OTS that the one thing we should do to improve the way the tax system works is make it easier to pay. The OTS made a number of suggestions for improvement, such as making the link between filing a return and making a payment easier, and improving the wording on the online payment screens. We are examining how we can make these changes happen, and will work further with the business community and banking experts to make paying tax a smoother process.

3.13 For some businesses, getting behind with tax payments can be a real problem, especially in current economic conditions. We introduced the **Business Payment Support Service**¹³ in 2008, to help businesses by providing a single point of contact and an immediate response to requests for ‘time to pay’. Where the business’s future viability is clear we can generally help by agreeing requests to delay payments or spread them over a specified period. Time to pay has supported many businesses during a period of temporary financial difficulty. Since 2008, more than 500,000 businesses have used this service. The vast majority of them have managed to pay off their debt, while keeping the business going. We continue to offer such ‘time to pay’ to businesses in difficulty, applying the same standard criteria.

v) Supporting agents

3.14 Very many SMEs choose to use an accountant or other agent for some or all of their tax affairs. We are also making it easier for agents to handle the tax affairs of their small business clients by, for example, introducing **more online services for tax agents**, including a service that allows them to do online many of the things that they currently have to do through telephone calls and correspondence. We are also introducing a **new, secure agent enrolment process**, which will also make it easier and faster for agents to transact on behalf of their clients. We are working with agents to better understand our services from their perspective with a view to improving a number of aspects of those services.

¹¹ <http://digital.cabinetoffice.gov.uk/>

¹² <http://www.hmrc.gov.uk/payinghmrc/selfassessment.htm#3>

¹³ <http://www.hmrc.gov.uk/payinghmrc/problems/bpps.htm>

vi) Improving the ‘tone’ of the relationship with SMEs

3.15 We know that the majority of SMEs want to get their tax right, and an important part of HMRC’s job is to enable them to do so. The tone of our communications and the way we deal with businesses needs to reflect this better. While we have made some acknowledged progress, we know, and the OTS specifically highlighted, that some SMEs still find the ‘tone’ of the relationship we have with them difficult, and that they want us to demonstrate more understanding of what it’s like to be running a small business. We are addressing these concerns by:

- improving our forms, letters and statements so that they are more customer focused and less confrontational in tone
- increasing our awareness of what it is like to run a small business through improved commercial awareness training for our front line staff dealing with businesses.

vii) Delivering a level playing field

3.16 While the majority of small businesses want to and do get their taxes right, a minority don’t, some because they make mistakes or fail to take sufficient care to get it right, and others because they choose deliberately to cheat the system. This is unfair both to those small businesses that do pay the right tax, and to general taxpayers who have to make up the shortfall to fund essential public services.

3.17 Most of what we do is aimed at supporting SMEs to get their taxes right, and to prevent unintended errors. But we also have to discourage deliberate evasion and pursue those who do break the rules. We are also making compliance checks simpler, through a new **Single Compliance Process**¹⁴ – to respond more proportionately to risk, and to be clearer from the outset about the reasons for the check and what it will involve.

¹⁴ <http://www.hmrc.gov.uk/news/single-compliance.htm>

4. Conclusion

Working with SMEs to build a tax system that works better for them

4.1 We need to continue to work with the small business community, and their representatives, to make the changes set out in this document practical and effective. To support us in delivering our goals:

- we work closely with representatives of the SME business community and of the tax profession that serves them, and actively seek their input into the design and delivery of new services and initiatives for small business
- we recognise, in particular, the important role that tax agents play (since 70 per cent of SMEs use an agent to deal with some or all of the tax affairs) and so also work closely with them
- we have strengthened the external and independent challenge function of the Administrative Burdens Advisory Board (ABAB)¹⁵, our panel of businesses and tax professionals who are either SMEs or work with them. We are asking ABAB to challenge us on our performance against our goals, and to help us maintain the focus on making a noticeable difference for SMEs.

4.2 It is important to be able to measure and demonstrate the progress we are making in meeting our goals. We do this by:

- using our rolling Customer Survey to test what SMEs and agents think, based on their experience of dealing with us. Here we want to achieve a sustained improvement in our scores
- monitoring our performance in meeting core service standards, because we know these are a vital component of small business experience of the tax system which we need to get right. Here we want to continue to improve performance levels, and sustain them
- tracking the costs to business of dealing with the tax system, with the goal of achieving an overall reduction in those costs.

¹⁵ ABAB's Terms of Reference are available at <http://www.hmrc.gov.uk/better-regulation/ab-terms.htm>