

Office of Tax Simplification

**Rt Hon Michael Jack
Chairman**
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**David Gauke MP
Exchequer Secretary to the Treasury**

**cc Chancellor
Economic Secretary
OTS Board**

Dear David,

Office of Tax Simplification – future projects

1. In your letter of 9 May, you asked the OTS to develop proposals for a range of further simplification reviews. As a result of consultations and meetings of our Board, the following are the areas we want to focus on:
 - a. Pensioner taxation
 - b. Share schemes
 - c. A project to examine where and why “intense” complexity remains in the tax system
 - d. Small business taxation.

2. The first three projects are new and we will tackle them alongside the next stage of our review into small business taxation, which does of course include the work the Chancellor has already asked us to take forward.

3. The proposed projects reflect the lessons learnt from our first year and consultation with taxpayers, tax professionals and the many businesses that played such an important part in helping us to formulate our first two reports.

4. This list reflects the projects which we believe will deliver a real simplification dividend when judged against the following criteria:
 - Benefit a significant number of taxpayers
 - Tackle legislative complexity
 - Simplify and streamline administration.

5. Our new projects are:
 - (i) Pensioner taxation – where we would propose to look for ways of simplifying the tax system for the estimated 5.6 million people of pensionable age who pay tax. This area of taxation is widely acknowledged as causing too many problems for a group, some of whom are the least able to cope with them. The project would highlight policy changes capable of delivering to pensioners a much more straightforward way of dealing with their tax affairs, especially when they have small levels of income from multiple sources.

 - (ii) Share schemes – this would be a two stage project. Initially looking at the scope for streamlining the over 6,000 approved share schemes, with over 1 million members, and then moving on to tackle the complexities inherent in the rules surrounding unapproved share schemes. Our consultations with business confirm that these schemes are a very complex area of the tax code with too many traps for the unwary, especially the HR

departments that often have run such plans. There is also scope to use some of the methodology developed during our Reliefs project to see how well policy objectives are being met.

(iii) Identifying complexity - During our first year we learnt a lot about where taxpayers, Parliament and commentators felt that future work should be conducted about continuing legislative and administrative complexity in the tax system. We recognise that to tackle all the issues that were raised with us is currently beyond our present resources. However we do believe that work should now be done to define and catalogue where the really “intense” forms of complexity are in the tax system. This exercise would be extremely valuable in helping to define the future long term priorities for the OTS whilst not deflecting us from projects with a shorter time scale.

6. I would confirm that in arriving at our proposals we have had constructive input from both HM Treasury and HMRC.

7. We have developed outline project plans and timescales and would be happy to share these with you.

8. Looking further ahead, we would like to review the whole field of employee benefits and expenses. Such a project has great potential to:

- Simplify rules for employers, making the system easier to operate
- Make the tax code in this important area more logical and understandable for employees
- Test how well the current rules encourage the behaviours that policies intend, and

- Review the need for rules to be modernised to meet current and future working patterns.

However, we do not think that now is the right time to conduct a thorough review in this area. For one thing, the Budget announcement to look at merging the operation of tax and NIC may well have an impact. It is also a potentially huge project that we would first like to do some scoping work on early in 2012.

9. Our letter to you in February also set out ideas for projects looking at harmonising definitions of terms across tax legislation and reviewing numerical thresholds across the tax system. We have discussed these subjects informally with a number of interested parties. The OTS Board's conclusion is that we should not rule out looking into them at some future stage, but do not feel they should be an immediate priority.
10. The project on identifying complexity would also contribute to developing our thinking with reference to employee benefits and harmonising definitions across the tax system.
11. We would very much welcome the chance to discuss these proposals more fully when we meet on 22nd June with a view to finalising our programme of work, for the rest of 2011/12. We hope you will feel able to concur with our proposals.

Yours sincerely



Rt Hon Michael Jack