

SMALL BUSINESS TAXATION – FINAL REPORT

The interim OTS report on small business taxation was published in March 2011. This report identified a number of areas of complexity in the tax system for small business.

- **At Budget, based on the OTS findings, the Chancellor announced the first part of the second stage of the small business tax review. This work will examine the scope for improving HMRC's administration of the tax system for small business – further details are provided in the terms of reference on the OTS website.**
- **These terms of reference outline the remaining aspects of the OTS review.**

Following the OTS proposals, this work will focus on two specific areas (i) alternative systems for taxing the smallest unincorporated businesses and (ii) the case for a relief for disincorporation. Further details on these aspects of the review are provided below.

The final OTS report on small business tax will be published ahead of Budget 2012. This report will cover both the work announced at Budget and the additional areas outlined below. The OTS will publish interim reports on individual issues over the review period for discussion with business, tax professionals and other interested parties.

(i) Examining the case for alternative systems for taxing the smallest unincorporated businesses

The Office for Tax Simplification's interim report on Small Business Taxation highlighted the fact that many OECD countries have measures in place to reduce tax compliance obligations for small businesses. As part of the final report on small business tax the Government is asking the OTS to:

- Review simplified tax arrangements for small business used in other countries and assess how these make businesses tax affairs easier;
- Examine the case and demand for similar arrangements in the UK
- Explore arrangements that might deliver simplifications in the UK, and consider whether these could be achieved by legislative or administrative changes
- Consider what size and type of business should come within these arrangements, but not extend to considering incorporated businesses (due to complex interactions with company law);
- Examine whether the simplifications delivered by such arrangements would outweigh the complexities of introducing the change

If the evidence supports it, the report will make specific recommendations on alternative systems for taxing small business for the Chancellor to consider.

The report will have regard to:

- previous consultations on alternative systems for taxing small businesses;
- the wider economic and policy implications of any proposals – including impact on business, wider Government policy and tax receipts
- the risk of non-compliance and avoidance opportunities;
- the Spending Review resource constraints on HMRC

The evidence to support the recommendations should be quantified as far as possible, and be based on:

- a wide range of evidence, academic research and taxpayer data;
- critical analysis of feedback from the potentially affected population of small businesses and other stakeholders;
- a recognition that different parts of this business population are affected in different ways

(ii) A relief for “disincorporation”

The OTS interim report on Small Business Taxation suggested there was a case for a form of “disincorporation” relief. This follows feedback that businesses that wish to stop operating through a limited company can encounter tax, legal and administrative barriers that prevent them from doing so. Reflecting this, the Government has commissioned the Office of Tax Simplification to:

- Review the need for a form of tax relief for businesses which no longer wish to operate as incorporated entities;
- Explore possible forms for this relief, whether operating at company or shareholder level (or both), together with any interaction with other legislation, especially CA 2006, as well as the need for protection of creditors, minority interests and the Exchequer.
- Quantify the number of businesses that would adopt or be eligible for such a relief and the potential cost to the exchequer
- Fully develop any recommendations for a disincorporation relief, if a case is identified for it.

The review should have regard to:

- the wider economic and policy implications of any proposals – including impact on business and their shareholders, fairness between different taxpayers, wider Government policy and tax receipts
- protection of minority interests and shareholders
- the legislative implications of introducing such a relief, including risks of additional complexity and any necessary anti avoidance measures
- interaction with Companies Act 2006, and other legislation – and the concept of a single person new entity currently under consideration by BIS
- the Spending Review resource constraints on HMRC.