



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

**Rt Hon Michael Jack, Chairman
& John Whiting, Tax Director
Office of Tax Simplification
1 Horse Guards Road
London SW1A 2HQ**

10 December 2012

Dear Michael & John

OFFICE OF TAX SIMPLIFICATION – PROJECTS FOR 2013

Thank you for your letter of 15 November outlining proposals for future projects for the OTS.

I am pleased to see the OTS is engaging widely in developing these proposals and very much appreciate the work you and your team have been carrying out to assess the case for each review.

Employee Benefit and Expenses

In your letter you propose the OTS carries out a review into employee benefits and expenses, potentially including termination payments. I agree this would be a worthwhile project. I also noted your assessment that this is a broad area and agree that an initial scoping phase to establish where best to focus the work is the right approach.



I am attaching terms of reference for the first stage of this work. This reflects the OTS's initial assessment of complexity in this part of the tax system and the wider issues the review will take into consideration in forming its recommendations.

You have indicated that the OTS will report back to the Government on stage one of the exercise in Spring 2013, and that this will include identifying priority areas and a proposed timetable for the second stage of the review.

I very much look forward to the OTS initial findings and discussing your thoughts on where to focus the review in 2013.

Ongoing reviews and further proposals

In your letter you also mention final dates for publishing the OTS reports into employee share schemes and pensioner taxation, and publications relating to the Office's work on measuring complexity across the tax system.

I am pleased to see the OTS is making progress in these areas. You have indicated the work on measuring complexity is already informing your proposals for new reviews. I look forward to seeing more on this project and to the final reports you are hoping to publish in the New Year.



You also mention the OTS will be doing further scoping work and intends to put forward additional proposals for further reviews later in 2013. I noted that you are particularly considering Partnerships' Tax and HMRC penalties.

You will have seen that the Government will be considering the taxation of partnerships and similar structures as part of its review of high risk areas of the tax code. I would be happy to discuss how best to co-ordinate where these reviews might coincide.

I will be very interested to see how the OTS proposals and initial assessment of complexity in each of the areas mentioned in your letter develop further.

Autumn Statement and the draft Finance Bill

Finally, I would like to draw your attention to announcements in the Autumn Statement and the publication of the draft Finance Bill on the 11 December 2012.

Earlier this year the OTS published recommendations on improving the administration of the tax system for small business. Inspired in large part by this report, the Autumn Statement announced that HMRC will be significantly expanding the online services it offers over the next three years (with additional funding of £45 million by 2014-15). Taxpayers will benefit from a range of improvements, which include:



- a personalised homepage with secure digital messaging for SMEs to access everything they need online;
- online personal tax statements and the ability to alert HMRC to changes affecting their tax for PAYE taxpayers; and
- Self-Assessment taxpayers will be able to conduct all their tax transactions online for the first time.

These changes will make the tax system more efficient, transparent and less burdensome, addressing a number of the issues raised in the OTS report.

Autumn Statement also confirmed the introduction of the cash basis for small business – recommended by the OTS in March and consulted on by the Government over the summer. From April 2013, small businesses will be offered the cash basis as an alternative simpler way of calculating their tax. It provides a good example of how the OTS's recommendations will have an impact on the ground with individual taxpayers.

On 11 December, alongside the draft Finance Bill, the Government will also announce its response to the consultation on OTS proposals for a disincorporation relief and approved employee share schemes. I hope both will provide further simplification to the tax system and make taxpayers affairs more straightforward.

As ever, I am very grateful for all the hard work the OTS is carrying out. The mix of expertise brought by the OTS's private sector



seconded, the breadth of its engagement with the public, and the analytical work carried out by your team are showing real results in the office's recommendations. I look forward to further success in 2013/14.

Yours ever

David

David Gauke MP

