



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

**The Rt Hon Michael Jack, Chairman
& John Whiting, Tax Director
Office of Tax Simplification
1 Horse Guards Road
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3 December 2014

Dear Michael & John

UPDATE ON TAX SIMPLIFICATION MEASURES

At Autumn Statement, the Chancellor made several announcements relating to the work of the Office of Tax Simplification (OTS). I am writing to thank you and your team for your excellent work since Budget and to explain these announcements in greater detail.

Competitiveness of UK tax administration

The Government welcomed your review of the competitiveness of UK tax administration at Autumn Statement. I am pleased to report that we will accept or further consider nearly all of your recommendations. After your review was published, the World Bank's 'Doing Business 2015' report echoed your finding that there needs to be substantial action in this area, given the rate at which other countries are improving.

You recommended reviews of several important parts of the corporation tax and VAT systems. As your report acknowledged, these reviews would be major undertakings with wide-ranging impacts on businesses and



Exchequer revenue and should rightfully be considered fully in the next Parliament.

The Government's response to the recommendations from your report is annexed, with explanations on each of the suggestions not being taken forward.

Employee benefits and expenses

Following the OTS' reviews, HMRC held four consultations aimed at simplifying the administration of employee benefits and expenses. The Government was very pleased with the support these proposals received from employers. At Autumn Statement, the Chancellor announced the following reforms:

- abolishing the £8,500 threshold below which employers do not pay income tax on certain benefits in kind (BiKs) and replacing it with a new exemption for carers and ministers of religion;
- introducing a statutory exemption for certain trivial BiKs costing under £50;
- introducing a system of collecting income tax in real time through voluntary 'payrolling' of BiKs; and
- replacing the expenses dispensation regime with an exemption for paid and reimbursed expenses.

Work now continues to take these measures into the 2015 Finance Bill. HM Treasury will also lead on a review into the rules for tax relief on travel and subsistence.



Partnerships taxation

Good progress has been made since your interim and update reports were published. HMRC improved the guidance in many areas highlighted by your review, including by providing partnership guidance in a single 'Partnership Tax Manual.' Further, HMRC officials:

- have simplified the process for issuing Unique Taxpayer References (UTRs) to some non-UK resident partners and will continue to review the scope for further simplification;
- propose to make full use of the data they receive from partnerships and will collect less data from individual partners to reduce the administrative burdens faced by small partnerships; and
- are assessing your proposed changes to the corporation tax self-assessment form.

HMRC will soon be in touch to provide further details on their work on partnerships.

Tax penalties

I would like to thank you for your recent report on tax penalties. The Government is now considering your recommendations. I hope that the research and advice provided by the OTS can be used to further improve our understanding of the impact of penalties.

Termination payments and accommodation benefits

I was interested to see the recommendations you made in your report on the tax treatment of termination payments and accommodation benefits. I agree that the current rules are complicated and can result in inconsistent outcomes, but as your report set out, these are two complex areas of tax. Reforms will have far-reaching impacts and will need careful



consideration. I appreciate the extensive research undertaken by the OTS and the innovative options that are presented in the report. The Government looks forward to considering these issues in the future.

Non-tax advantaged share schemes

The Government issued discussion papers over the summer on the OTS' proposals for a new employee shareholding vehicle and the marketable security. These were creative and far-reaching proposals. I wanted to test the level of demand from businesses and the likelihood that we could implement the ideas in a way that remained attractive to them.

As my officials have discussed with you, unfortunately the volume of responses did not indicate to me that there is sufficient demand for the proposed changes, either from those already benefiting from employee share schemes or from those considering it. Taken together with the significant implementation challenges and the risk of abuse, the Government has decided to not proceed with either proposal. We will publish response documents that set out our reasons in more detail.

Although I appreciate that this will be disappointing, the OTS' other recommendations have enabled us to undertake the most significant package of reform to the tax rules for employee share schemes for many years. You deserve enormous credit for this change in the landscape, which would not have been possible without the OTS' excellent work.



To conclude, I would like to thank you and your colleagues for your work on these reviews. The OTS has again demonstrated that it can drive change that will benefit individual and business taxpayers. I look forward to meeting in the New Year to discuss your next review on employment status.

Yours ever

A handwritten signature in cursive script, appearing to read "David Gauke".

David Gauke MP



Annex: Government response to OTS competitiveness of UK tax administration review

	OTS recommendation	Government response
	Corporation Tax	Chapter 3
1	<p>Review of the rules for the basic corporation tax and business income tax computations to consider:</p> <p>a) Closer alignment of taxable profits with accounting profits</p> <p>b) Replacing capital allowances with tax relief for accounts depreciation including transitional rules. This review should also encompass other 100% allowances such as Enhanced Capital Allowances for environmentally friendly spending</p> <p>c) What tax is actually paid by companies on chargeable gains and on what transactions to see if abolishing the general charge balanced with limited specific charges could deliver simplification.</p>	<p>a) Consider</p> <p>b) Consider</p> <p>c) Consider</p>
2	The trading /investment distinction is outdated and businesses should be taxed on their overall business profits.	Consider
3	The worldwide debt cap and UK-UK transfer pricing provisions are generally seen as burdensome and to have little effect. There needs to be a review of their effectiveness; at a minimum the threshold at which the transfer pricing rules apply to medium sized businesses should be raised or the rules otherwise simplified.	Consider
11	There should be a review of what a consolidated return for groups of companies would look like, at least on an optional basis	Consider
12	Businesses should be able to agree a level of materiality with HMRC	Reject – HMRC is committed to helping businesses get their tax right. It does not believe that agreeing a level of materiality with each individual business is the best way to achieve this.
13	The annual investment allowance should be set at a particular figure for a longer length of time.	Consider



14	There needs to be a review of quarterly instalment payments leading to an increase in the threshold or simpler procedures for the medium-sized companies increasingly drawn into the net.	Consider
15	Research and Development relief generally works well but we propose that: a) More case studies on R&D be incorporated into the guidance, b) HMRC guidance makes clear what costs that are part of an R&D activity within the BIS guidelines do not qualify for R&D tax credits and relief, and c) HMRC provide clear guidelines on what qualifies as R&D for software development particularly with regard to the capital/revenue distinction	a) Accept
		b) Accept
		c) Accept
16	HMRC should continue their current work on streamlining the processes and tagging definitions for iXBRL.	Accept
	VAT	Chapter 4
4	Look for ways of giving greater certainty over the categorisation of supplies. This is both in terms of rulings and at boundary issues.	Accept
17	The de minimis amounts for partial exemption need to be reviewed	Consider
118	HMRC should consider a simpler procedure for SMEs that are partially exempt	Consider
19	HMRC should allow scope for modifying partial exemption agreements in real time HMRC should establish a target for the time taken to agree a partial exemption method	Consider
20	Review whether the capital goods scheme CGS is needed or, if it is, whether its scope can be reduced.	Consider
21	Retail schemes need to have de minimis amounts for changes built in so that there is more leeway before a retailer needs to change their arrangement	Consider
22	It is probably time to review flat rate schemes and their rates.	Consider
23	On clearance applications:	a) Accept



	<p>a) There should be guidance on how a trader can best protect themselves against incurring penalties from the time of making the clearance application</p> <p>b) An email template should be developed for the clearance service</p> <p>c) Rulings should be publicised, suitably anonymised to reduce future enquiries and to ensure consistency</p>	<p>b) Accept</p> <p>c) Reject – HMRC does not believe it would be possible to ensure anonymity while still providing helpful detail as rulings are factual and case specific. General principles on clearances are covered by the guidance.</p>
24	Once VAT returns have been submitted, they are only amendable through form VAT 652. It would be helpful if this form was given greater prominence or (preferably) if VAT returns could be amended online	Accept
25	The need to wait six months for VAT bad debt relief seems harsh, Relief should follow the accounting with the VAT being restored if any of the bad debt is recovered.	<p>Reject – Small businesses can have 'automatic bad debt relief' if they are in the flat rate scheme.</p> <p>For others, the "waiting period" before bad debt relief may be claimed has been progressively reduced from two years, to six months.</p> <p>Shortening would risk relief being granted, (at variance with EU law), on debts that were late and still being pursued rather than bad, and increase the administrative workload and cost for suppliers in adjusting their VAT accounts.</p>
26	Recommend that visits and audits in relation to exercises for VAT, intrastat and EC Sales list be better coordinated and carried out simultaneously	Consider
27	There needs to be better guidance around property transactions, particularly aimed at smaller businesses, including better definitions of 'dwelling'.	Accept
28	An option to tax register (i.e. a searchable list of properties that have been 'opted') would be very useful to business and is something that should be possible to develop with increasing digitisation.	Reject – HMRC maintains a database of options to tax made by taxpayers - it is not a database of opted properties so searching by property is not possible.



		<p>For commercial sensitivity and taxpayer confidentiality reasons, HMRC are unable to provide public access to the database.</p> <p>Also, as there has not always been a legal requirement for options to be declared to HMRC, the database is incomplete.</p> <p>Nevertheless, if a taxpayer is unsure if they have opted to tax a particular property, on request HMRC will search and advise if an option has been recorded under that taxpayer's records.</p>
	Payroll Taxes	Chapter 5
5	Income Tax and National Insurance should be harmonised and integrated as far as possible.	Consider
6	HMRC should conduct a post-implementation review into Real Time Information, and whether full 'on or before' reporting is necessary and what further scope there is to extend / harmonise easements for small employers.	Accept
7	To help executives coming to the UK to work, the easement from PAYE for some short-term business visitors should be extended to cover all short-term business visitors to the UK, coupled with a general widening and clarification of the rules. This should include a streamlined National Insurance application process introduced for incoming staff to avoid personal attendance at job centres; this should be linked to visa applications where these are necessary.	Consider
29	The existing programme of work to implement the OTS's recommendations on employee benefits and expenses should be carried through.	Accept
30	Legislation needs to be amended to allow employers to give authority for 3rd parties such as software providers to deal with HMRC on payroll issues	Accept
31	One particular problem faced by businesses coming to invest in the UK is when a payroll needs setting up. Better guidance on this would be helpful	Accept



32	It should be possible to set up annual schemes through a structured email facility	Accept
33	The RTI reporting rules require a date of leaving employment to be no more than 30 days later. This may not agree with the actual date used for many employment entitlements and the guidance should reflect this.	Accept
34	The ongoing HMRC programme of work on improving CIS needs to be carried through; ideally this would include an overriding review of the need for CIS in its current form.	Accept
	HMRC Administration	Chapter 6
8	Providing certainty a) HMRC should extend its Customer Relationship Manager model to as many businesses as is financially viable b) Depending on the results of (a), HMRC should continue to develop its new mid-sized business customer service, and expand the range of situations under which the service is available c) HMRC needs to explore how to increase certainty in their tax affairs for the vast majority of small businesses, particularly around VAT	a) Reject – HMRC do not consider the CRM model to be appropriate to all customer groups. As announced in Autumn Statement 2014, HMRC is testing a new approach to supporting mid-size businesses for formal launch in 2015.
		b) Consider
		c) Accept
9	Providing assistance to businesses a) HMRC must continue to strive to reduce the waiting times and improve the quality of its phone service ('once and done') b) HMRC should provide further training to contact centre staff including help for them to quickly identify more complex requests and an appropriate person to refer them to. c) HMRC should make greater use of email to deal with queries and review how to ensure that replies are based on best knowledge of the taxpayers' affairs	a) Accept
		b) Accept
		c) Accept
10	HMRC should explore creating a single tax account service for smaller businesses, to enable them to make regular payments to cover all taxes.	Accept
35	HMRC should investigate whether an advance tax ruling service would be advantageous for both the UK government and inward investors	Accept



36	We recommend HMRC consider scoping out a charge based clearance service, or issue a discussion document about how such a service might look	<p>Reject – HMRC already offers a range of statutory and non-statutory clearance regimes free of charge.</p> <p>A paid for service as envisaged by the OTS would raise questions about competition with the service already offered by tax agents in helping taxpayers to meet their obligations.</p>
37	HMRC should develop a monthly payment option system for small business corporation tax/income tax along the lines used by utility companies. [Different to 10 above]	Consider
38	HMRC should better advertise and target its current clearance service to taxpayers with genuine uncertainty	Accept
39	HMRC should take advantage of moving its guidance to gov.uk to make it more accessible, in particular to make it easier to obtain guidance on all of the tax issues for transactions in one place rather than separately under heads of duty. It should also be more dynamic with greater use of flow charts and animations.	Accept
40	HMRC should undertake a review into whether the SAO system has now completed its job, and whether it remains necessary.	<p>Reject – Feedback from advisors, CRMs and HMRC customer surveys confirms that the SAO legislation has been effective in encouraging very large companies and groups to strengthen tax governance, processes and controls, something that the OECD has recognised as a priority in the management of tax risk.</p> <p>However, HMRC does keep the application of such administrative requirements under regular review, most recently in 2011.</p>
	Other taxes	Chapter 7
41	HMRC should review the feasibility of raising the de minimis figure on stamp duty, with the aim of minimising administrative burdens	Consider
42	The rule that a company secretary commits an offence if they register an unstamped stock transfer form should be removed, or the process for stamping itself be simplified.	Partially Consider – The offence is a vital part of the stamp duty rules and this is a key stamp duty provision.



		However, HMRC will continue to work with stakeholders to consider ways to simplify the stamping procedure.
43	HMRC should review whether the rules surrounding Stamp Duty Reserve Tax and interactions with Stamp Duty are in need of modernisation, including introducing group relief for SDRT.	Consider
44	The requirement to make a Stamp Duty Land Tax return at the 5 year point for a lease with uncertain rent needs to be streamlined,	Accept
45	HMRC currently offers a wide range of webinars, which are broadly welcomed. Additional webinars on tax reliefs for businesses and start-ups on Seed Enterprise Investment Scheme and Venture Capital Trust schemes would be helpful.	Accept
46	The current discussions on streamlining Annual Tax on Enveloped Dwellings (ATED) administration need to be carried through to simpler and less burdensome procedures.	Accept
47	Non-resident landlords cannot do their tax returns online. Since they are by their nature non-resident the return has to be on paper, which is burdensome for this group. Can this form be moved online?	Accept
48	As a general rule, it should be possible to complete all forms and returns online, with the facility to save part completed forms. We heard particular comments on Insurance Premium Tax, Customs Duty forms	Accept