

# Office of Tax Simplification

Office of Tax Simplification  
Room G41  
1 Horse Guards Road  
London SW1A 2HQ

19 December 2016

Rt Hon Philip Hammond MP  
Chancellor of the Exchequer  
1 Horse Guards Road  
London SW1A 2HQ

Dear Chancellor,

Thank you for your letter of 23 November, which accompanied your Autumn Statement and was the response to our report on the issues and options to be considered, if there is to be a closer alignment of income tax and national insurance contributions (NICs).

Our report was laid before Parliament and, following your statement and as is our normal practice, we are responding formally to you, to set out how we plan to progress some of the matters discussed in your letter; this letter will be published on the OTS website in due course.

We would like to say first of all, that we very much appreciate your vote of confidence in the OTS and the value you place on our work. Your endorsement of our aim of reducing complexity and making the tax system easier to understand, is gratifying and important.

We are also very supportive of your announcement of a move to a single annual formal fiscal statement a year. This is firmly in line with our aims of reducing complexity in the tax system, not least as a simpler and more transparent statement, focusing on longer term stability, will mean fewer changes to the system. Whilst obviously agreeing that the tax system has to evolve, the OTS has long argued that excessive change is itself one of the biggest causes of complexity.

## **Our work on income tax/NICs**

In this context, the OTS's second report on the closer alignment of income tax/NICs reaffirmed the view that reforming the NICs system would simplify it, ease administrative burdens, improve transparency and understanding, and generally make it fit for the future. The last point is important as the current arrangements do not readily reflect ever-changing working patterns, which is an issue of increasing importance, as you recognised in your Autumn Statement.

Given the potential extent of the changes the OTS flagged in its NICs/IT report, we set out an indicative five-year timetable to aid the thinking on the many steps that needed to be considered for closer alignment. In addition, we recognised the potential for adverse impacts and provided extensive detail on the likely consequences for people in different circumstances and for businesses, in order to prompt in depth thinking and aid debate. The OTS has long been concerned that the external discussion about alignment of NICs and IT has sometimes been more of a simplistic appeal 'just to do it'.

The OTS recognises fully the many challenges associated with significant change to the current income tax and national insurance regime in the country. At the same time, we also recognise that business and world of work changes have moved forward very substantially from the time that our system was created. We would therefore suggest that these different employment models and the tax questions they throw up, are considered hand in hand. In this regard we would draw your attention to our recently published Focus discussion paper on the Gig economy

We welcome your agreement that alignment along the lines we set out would make the system easier to understand and hope that this will be part of your future considerations on this subject. Furthermore, addressing tax and particularly NICs - both employee and employer - presents a significant early challenge to government, if it is to respond to the growth of self-employment and the trend towards single person incorporations.

Simplification issues such as with IT/NICS are also relevant to the evolving digital relationship HMRC are developing, with Making Tax Digital. We trust that the recommendations in our report will be key reference points in that regard and as always, the OTS stands ready to assist in this area in the future to help make the tax system simpler.

Lastly, we are pleased by your recognition that the current NICs system has unnecessary complexities, by the specific action you propose in particular areas and your request to officials to seek to actively consider NICs and income tax alignment when making future changes. We are liaising with officials about the most effective way we can contribute, not least in relation to non-reimbursed expenses.

### **Next reviews**

The Terms of Reference for our VAT review and the review on the residual paper Stamp Duty on shares, have now been published, as foreshadowed in the Autumn Statement. We plan to publish an interim report and call for evidence on VAT prior to the Spring Budget and a final report in the Autumn; on Stamp Duty we will target a report in the Summer.

### **Looking ahead**

The OTS is also now looking further ahead at its programme of work, taking into account both the responses to our draft strategy document, the recently completed stakeholder consultation, and reflecting on our current operating model for reviews. We are already putting some of this into practice by responding to a number of HMRC/HMT consultations and through our contributions to the Making Tax Digital programme. We plan to generate further 'Focus' discussion documents, the first of which was our paper on the Gig economy.

The OTS is entering a new era. It now has its independent status and the new Tax Director will be joining in the New Year. Meanwhile the world of work is changing, with digitalisation in all its many forms bringing much direct and consequential change. The expectations of taxpayers are high, bringing challenges for us.

The OTS will seek to fully play its part and we look forward to discussing with you how the OTS can best do this.

Yours sincerely

Handwritten signature of Angela Knight in black ink.

Angela Knight  
Chair

Handwritten signature of John Whiting in black ink.

John Whiting  
Tax Director