

## **Simplifying Tax for the Future**

*Our high level strategy – a stakeholder consultation*

### **Summary of responses**

*October 2016*

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## Foreword

1.1 We have been delighted with the level of engagement we've had with the consultation we launched in May<sup>1</sup>, both through written responses and the large number of people who offered lively participation at our stakeholder event in July, and would like to warmly thank everyone who has contributed to making this such a valuable process.

1.2 In this document our main purpose is to 'report back' and offer an initial response to the main comments, observations and suggestions that have so helpfully been made.

1.3 It is then our intention to develop our strategy further with our new Board members, and our new Tax Director (when appointed), and publish a further more definitive document, taking account of all the input, in due course.

1.4 We are of course already giving consideration to the ideas we've been offered for future OTS work in developing our thinking about our future work programme.

1.5 Meantime, if this document prompts further thoughts from those who have already commented, or indeed comments from others who have not yet had a chance to feed in their thoughts, then - as ever - we'd be very pleased to receive them.

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<sup>1</sup> <https://www.gov.uk/government/publications/simplifying-tax-for-the-future-a-consultation-on-our-future-strategy>

## Introduction

2.1 The OTS was initially established as a temporary non-statutory office of the HM Treasury (“HMT”) in July 2010, to provide independent advice to government on simplifying the UK tax system.

2.2 Since then, the OTS has put forward more than 400 recommendations of which over half have been accepted, with another quarter still being considered. Much has been done in a wide range of areas of the tax system and, in doing so, the OTS has gained its reputation and the trust of government, individuals, businesses and professional advisers and bodies.

2.3 The Government’s decision to place the OTS on a statutory footing is evidence of the value the OTS has provided over the last six years.

2.4 Finance Bill 2016, which is expected to receive Royal Assent in September 2016, enlarges the OTS’s current scope so that as well as carrying out reviews at the request of the Chancellor, it may also initiate reviews and projects itself. This enhanced scope will allow the OTS to build on its success and cement its independence further.

2.5 In this context, we issued a stakeholder consultation document on 12 May 2016. Our aim, in common with all our work, was to obtain a wide range of views and perspectives on the OTS’s high level strategy.

2.6 In total, 17 very helpful and often detailed written responses were received from various professional advisers, professional bodies, individuals and industry representative bodies (these are listed in Appendix 1). We also received input during some of our general evidence-gathering meetings on our current projects. Importantly, we then held a stakeholder meeting on 18 July to discuss the consultation questions we posed in the document (attendees are listed in Appendix 2). In this document, all these contributors are together taken as “respondents”.

2.7 The consultation document asked for responses to six questions. Some respondents chose to provide answers to each question, but many provided combined comments on the document as a whole, addressing the issues raised in composite answers. The summary of responses, in the next section, covers the issues by thematically drawing on responses, including those captured at the OTS stakeholder event.

2.8 Although the summaries necessarily omit some of the detail of the individual responses, all contributions have been fully considered. The OTS is very grateful to all those who took the time and trouble to respond to our document and to those who attended our stakeholder event and indeed all those who have contributed to and support the work of the OTS, and continue to do so.

## Summary of responses

### **Question 1 - Are there other significant trends or issues, in the wider context or on the horizon that may change the tax landscape that we should take into account?**

3.1 There was considerable support for a continuing focus on the implications of **changing working patterns and the sharing economy**, the main concern being that the current tax system is out of date (as regards employment status) given the changing trends in the ways people work.

3.2 One example given by a number of respondents was the increase in number of individuals providing their services via intermediaries, which they believe were unfairly treated as the tax system only distinguished between the self-employed and the employed. Some respondents suggested this was caused by inconsistency in HMRC's guidance & compliance process driving engagers and workers into alternative arrangements.

3.3 HMRC's **Making Tax Digital** work ("MTD") was also a popular topic raised by respondents as something that will dominate the scene for the next few years.<sup>2</sup>

3.4 While many recognised the opportunity for simplification of the tax system under MTD, respondents were concerned that HMRC was pursuing the digital agenda without materially simplifying the tax system, which could cause problems, particularly for the self-employed and small businesses, or was simply a missed opportunity.

3.5 A significant number of respondents encouraged the OTS to be actively involved with the design and development of MTD to help ensure MTD was developed and implemented with simplicity and taxpayers' concerns in mind.

3.6 As arguably the biggest political event for at least a generation, it was not surprising many respondents identified the implications of **Brexit** on the UK tax system as another key issue. Many recommended that the OTS ensure that tax simplification remains a priority for the government in this context.

3.7 Another issue raised by some respondents was the **devolution** agenda within the UK, as this would allow complexities to creep into the current tax system as a result of devolved administrations introducing differences from the current UK tax rules (e.g. in relation to property taxes).

3.8 Some respondents mentioned the ongoing perception that large businesses are treated differently (i.e. more favourably) as compared with smaller business and individuals. As corporation tax rate falls and the rules remain complicated, this is unlikely to change.

### **OTS response**

3.9 The OTS notes and broadly agrees the trends and topics suggested by respondents which we will bear in mind when considering our future work.

3.10 Currently the OTS is working on two projects, namely, sole enterprise protected assets ("SEPA") for sole traders and look-through treatment for small companies, which

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<sup>2</sup> HMRC's consultation documents on this subject were issued on 15 August (after the OTS stakeholder event).

touch on the issues raised at paragraphs 3.1 and 3.2. It is to be hoped that the cross-government working group on employment status<sup>3</sup> will also make a useful contribution.

3.11 HMRC has now released its consultation documents on MTD and there is much detail to go through. The OTS is committed to engaging actively with HMRC on MTD.

3.12 Although Brexit will have a significant impact on the UK tax system and as rightly suggested, there may well be opportunities for simplification, the government is yet to set out a framework for the UK departure from the EU. The OTS intends to contribute in this area; for example we are developing a short paper on the potential opportunities and challenges as regards the future of VAT.

***Question 2 - Bearing in mind our legislative framework, do you have any comments on the observations above on the OTS's purpose and aims?***

3.13 Respondents valued the OTS's ability to expose structural issues for wider informed debate, as we have been doing in relation to the IT/NICs work (see also para 3.21 below), but recognised that this approach will necessarily sometimes take time to come to fruition.

3.14 Alongside this there was a strong desire for the OTS also to continue to focus on (a) making practical improvements to the current tax system and (b) influencing the operation of the policy process. It was felt that by continuing to make practical recommendations, the OTS would pave the way for a greater role in policy making, as trust and its reputation is strengthened.

3.15 Almost all respondents commented that the OTS should engage with the policy process, with a focus on prevention of complexity, not simply cures; many examples of how this can be done were given, including the following:

- a. Undertake post implementation reviews to assess whether policy aims have been met and facilitate the inclusion of sunset clauses;
- b. Review draft legislation to test whether it meets policy objectives for simplification and respond to consultation documents;
- c. The OTS should have a section in HMRC or HMT consultation response documents summarising the simplification issues of the proposed policy; and
- d. Do more in educating the public of its vision of tax reform.

**OTS response**

3.16 The OTS notes the comments made, and welcomes the recognition of its work and approach so far in regards to practical improvements to the current tax system.

3.17 Although the question was focused on suggestions within the OTS's new legislative framework, there is clearly a desire for the OTS to play a wider role in relation to future policy making. However, the OTS's remit does not include powers to have a formal say regarding draft legislation or future policies, though the OTS will seek, as before, to feed into government policy as and when possible. For example, we have recently begun to comment

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<sup>3</sup> Set up in response to a recommendation in a previous OTS review.

to selected HMRC consultations<sup>4</sup> and will, as noted above, be engaging on MTD. In general terms, it is one of our aims to embed simplification into the policy process.

**Question 3 - Do you have particular suggestions for areas of the tax system that the OTS should consider in the coming years? How do you see our main priorities?**

3.18 Attendees of the stakeholder event and consultation responses raised a number of areas of the current tax system which the OTS should consider. The table below covers these (in order of prevalence in responses) along with a summary of feedback received.

Topic	Feedback from respondents
Self-employed/employment/micro companies	<ul style="list-style-type: none"> <li>• Strategic review of employment status and relevant legislation for fresh approach to a third category of workers (i.e. contractors).</li> <li>• Review into extending cash basis for tax to more taxpayers.</li> <li>• Simplifying the compliance burden for partnerships.</li> <li>• Reviewing of pension tax relief and the workings of salary sacrifice schemes.</li> </ul>
Interface Income tax/NIC	<ul style="list-style-type: none"> <li>• Consolidating guidance for income tax and NIC for better alignment.</li> <li>• Testing whether changes to income tax and NIC systems will make eventual merger of the two easier or harder.</li> </ul>
Indirect taxes	<ul style="list-style-type: none"> <li>• Possible avenues of simplification to indirect taxes, particularly following Brexit.</li> </ul>
Making Tax Digital	<ul style="list-style-type: none"> <li>• Ensure opportunities for simplification of the tax system is central under MTD.</li> </ul>
Capital taxes	<ul style="list-style-type: none"> <li>• Simplify taxes on death and the complexity arising of having multiple rates of CGT.</li> </ul>
Tax system in general	<ul style="list-style-type: none"> <li>• The OTS should issue long term ideas for the tax system and facilitate debate on how best to accomplish these.</li> <li>• Prioritise areas where the legislation is unduly complex or there is uncertainty in the law which has led to unintended outcomes.</li> <li>• Review the need for large number of personal and trust rates &amp; allowances, which make it harder for taxpayers to understand.</li> <li>• Reviewing the payment, collection, repayment and the offset of tax.</li> <li>• Revisiting reliefs and reporting on the extent and effectiveness of them, as well as how they are applied/given.</li> <li>• Undertake post implementation review of legislation from the perspective of tax simplification. This includes advising government on the wording and structure of legislation and considering the role of extra-statutory concessions.</li> </ul>

<sup>4</sup> See for example <https://www.gov.uk/government/publications/the-otss-response-to-gift-aid-consultation-document>

### ***OTS response***

3.19 The OTS is grateful for the comments and suggestions made and will bear them all in mind for future projects. It is clear there is a wide spectrum of topics that respondents would like the OTS to look at.

3.20 Some of these, for example closer alignment of income tax and NIC, have already been looked at by the OTS with further work in the pipeline.

3.21 Clearly some of the topics listed above, such as MTD, will command significant attention of the OTS over the coming foreseeable future as HMRC works on its implementation.

### ***Question 4 - Do you have any comments, principles or ideas in addition to the above, that you would like us to consider as we further develop our approach?***

3.22 Attendees and respondents commented on the OTS's unique position to start and hold debates on major structural changes to the tax system, given its ability to host conversations with HMRC and HMT which others are not able to. At the same time, the OTS's independence gives it the ability to make recommendations and raise criticisms when required. This was clearly important to all respondents.

3.23 Connected to this, a number of respondents commented on the opportunity for the OTS to host open debates between the authorities and the public with the aim to build trust, making sure young and old taxpayers were engaged (beyond 'the usual suspects'). Many respondents commented that if trust can be built, this could drive the right behaviours, which could lead to a simpler tax system.

3.24 The sense from most respondents was for the OTS to continue to develop achievable 'easy wins' (not necessarily 'quick wins') and, at the same time make technical proposals and lead the debate on structural change. In particular, it was important to a high number of respondents that the OTS should not shy away from raising difficult issues and remain involved in the implementation of its recommendations as much as possible.

3.25 Some respondents recognised the merit of the OTS having thus far focused on issues that were achievable which have earned it the respect and reputation to tackle bolder challenges.

3.26 Nearly all respondents commented on the importance of the OTS being an independent office which gives it the ability to deliver recommendations and criticisms (when required). One respondent commented that as the role of the office widens, it should ensure its independence is not impacted.

3.27 Some respondents commented that the OTS should work closely with the Administrative Burdens Advisory Board ("ABAB") to ensure a 'joined up' approach.

## **OTS response**

3.28 The OTS recognises and notes the overall theme of the responses being that the OTS should be playing a much bigger role, given its unique position as an independent office of the Treasury.

3.29 The OTS wants to consider how to best take the suggestions given by respondents and determine how best to implement them within the office's current remit.

3.30 It is worth pointing out that the OTS already works closely with ABAB (whose Chair is our Senior Independent Director and which has our Tax Director as a member).

***Question 5 - We are sure it is right to have a mix of private and public sector people but do we get the balance right? Are there pools of expertise we are not tapping? Or particular skills and expertise we could aim to recruit into our staff?***

3.31 The general view was very much in favour of the OTS continuing to have a mix of both private and public sector personnel.

3.32 A number of respondents suggested that the OTS should recruit private sector personnel from smaller accountancy firms (as opposed to the Big 4) as this would provide a different kind of experience to the office.

3.33 Some respondents commented that a wider mix of personnel were required if the OTS is to embark on a broader remit, including academics, economists. It was suggested this could be done on temporary research assignment or platform basis.

3.34 While there could be a place for outsourcing some specific economic or statistical work, there was agreement that it would not generally be appropriate for the OTS to outsource work given the risks of losing control of the aims or agenda of the work.

3.35 Some responses suggested the OTS should consider bringing in or otherwise engaging with personnel with less tax expertise but more commercial awareness to represent the population who are not part of the natural/normal stakeholder group.

## **OTS response**

3.36 The OTS has always tried to make sure it has a broad base of experience amongst its civil service secondees and its private sector employees, ranging from former heads of tax at large companies to tax specialists from small firms. The OTS believes it has a wide breadth of experience to draw upon in this regard. We try and make sure we balance the secondees that some of the large firms have generously provided with direct hires of people with complementary experience.

3.37 It is also worth stressing that our evidence gathering process is intended to ensure we have input from all sectors: in setting up stakeholder meetings we always have regard to the gaps in knowledge and experience within our staff.

3.38 Going forward, the OTS will take the above suggestions into consideration as part of its recruitment process, in particular as regards its engagement with those outside the tax profession.



**Question 6 - How should the OTS measure its success? Do you agree with the broad measures of success sketched out above or are there other objective measures or subjective criteria we should use?**

3.39 Respondents agreed we would need a mix of objective measures and subjective judgements.

3.40 In terms of specific areas we might consider to judge success, reducing admin burden & compliance costs was the clear first choice, with structural change coming in second.

3.41 There was also agreement that the length of tax code is not an appropriate measure of success, partly because the OTS cannot itself implement changes and also because a shorter tax code doesn't necessarily translate into a simpler tax system from a practical point of view.

3.42 Some respondents commented that the more straightforward measurement of success would be to quantify how many of the OTS's recommendations have been implemented.

3.43 Some respondents suggested that the OTS should provide information on the savings it has achieved as a result of its recommendations and many supported the idea of including a simplification impact reference on tax information & impact notes ("TIINs").

3.44 A number of responses suggested that the OTS could measure its success by illustrating that it was involved and listened to in HMRC/HMT policy development, which includes taking credit for policies that the OTS have stopped or influenced.

3.45 Some respondents suggested piloting OTS recommendations, while others suggested using data from calls to HMRC helplines to measure whether complexity has been eased, or the level of complaints about tax complexity in the media. However these respondents did acknowledge the difficulty in these approaches.

3.46 There was a call by some respondents for the OTS to define what it means by tax simplification and a number of measures should be developed around this definition by which success could be judged.

**OTS response**

3.47 The OTS is grateful for the observations and suggestions made, in particular the overriding twin focus on practical admin burden reduction and structural change. We will consider all ideas with a view to developing some agreed measures.

3.48 We recognise that it would be useful for us to define better what we mean by tax simplification, perhaps by building on the paper we published last year on 'Principles for avoiding complexity'.

## **Appendix 1 – List of respondents**

We are very grateful to the following organisations and individuals who have sent written comments in response to our document:

AAT

ATT

C Brookes-Mann

CINTRA

FSB

Gary Richards

Grant Thornton

ICAEW

ICAS

LITRG

Martin Gunson

Pearl Lily & Co

Prism

Prof Adrian Sinfield

PwC

Tax Law Review Committee of the IFS

Zerado

## **Appendix 2: Stakeholder event – list of those registered to attend**

<b>Name</b>	<b>Organisation</b>
Stuart Adam	IFS
Duncan Adams	HMRC
Asif Ahmed	Richmond Gatehouse LLP
Patrick Alderson	Grant Thornton
Stella Amiss	PwC
Callum Anderson	The QCA
Laura Bailey	Zerado - IT solutions
John Baldry	Barrister
Susan Ball	Crowe Clark Whitehall LLP
Ben Baruch	FSB
James Bowler	OTS Board
Liz Bridge	Joint Tax Committee of Construction
Adam Broke	OTS Board
Susan Cattell	ICAS
Andrew Chamberlain	IPSE
Emma Chamberlain	Barrister
Matt Cornford	HMT
Kate Cottrell	Freelancer & contractor accountants
Hannah Cox	HMRC
John Cullinane	CIOT
Chris Davidson	KPMG
Andrew Disley	Allen & Overy
Bill Dodwell	Deloitte
Robina Dyall	HMRC
Calum Fuller	Wolters Kluwer
Sarah Ghaffari	ICAEW
Michael Gibbons	Elexon / RPC
Teresa Graham	OTS Board
Martin Gunson	Independent accountant
Phil Hall	AAT
Brian Harris	RWEnpower
Hugh Hedges	HMRC
Stephen Herring	IoD
George Hodgson	STEP
Ian Holloway	CINTRA payroll
David Hook	TSC
Neville Howlett	PwC
Andrew Hubbard	Taxation
Paul Hughes	Prism
Ann Humphrey	Independent Tax Solicitor
Adam Jackson	GT
Belinda Johnson	Worklab
Paul Johnson	IFS
Rhiannon Jones	CBI
David Jordorson	ABI
Alastair Kendrick	McIntyre Hudson

Julia Kermodé	Freelancer & Contractor Services Association
Angela Knight	OTS Board
Chris Lallemand	Smith Williamson
Vicky Lim	BSA
Nicola Mandale	Grant Thornton
Samantha Mann	CIPP
Chris Mattos	Tax Adviser
Robert McIlveen	Royal Mail
Simon McVicar	IPSE
Ellen Milner	HMRC
Caroline Miskin	ICAEW
Tomasz Mloduchowski	Zerado - IT solutions
Mairi Morrison	BDO
Paul Morton	Relx Group
David Nicolson	BCVA
Brian Palmer	AAT
Jill Palmer	Frith & Co
Nick Parker	ICAEW
Giles Parsons	Caterpillar
Ken Penton	Parliamentary adviser
Gary Richards	Independent Tax Consultant
Jonathan Riley	Grant Thornton
Andy Roberts	Prudential
Stephen Rooney	IPSE
Chris Sanger	EY
Will Silsby	ATT
Sarah Squires	CREFC Europe
Paul Stainforth	Tax Journal
Anthony Thomas	LITRG
Edward Troup	OTS Board
Paul Tucker	Smith & Williamson
Graham Turnock	BRE
Kate Upcraft	Independent Payroll consultant
Richard Wild	CIOT
Robin Williamson	LITRG