



Treasury Committee

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Recent OTS Reports

Thank you for your letter of 24 March, enclosing copies of your recently published reports on the Closer Alignment of NICs and Income Tax and on Small Company Taxation, as well as the Financial Secretary's letter to you.

Your proposals for administrative simplification appear to be a step forward. There should be much more transparency about National Insurance contributions; it is important that the public understand the contributory principle so that they can see the fundamental difference between tax and National Insurance contributions. However, anything which makes life simpler for taxpayers is to be welcomed and I am interested in the idea of an annual, cumulative and aggregated assessment of employee's National Insurance Contributions so that they are treated in a similar way to PAYE.

The report on Small Company Taxation is wide ranging and comprehensive. It is clear that the OTS have done a good job in identifying some of the issues affecting small companies.

I am pleased to see that David Gauke has accepted some of your recommendations for further work, notably:

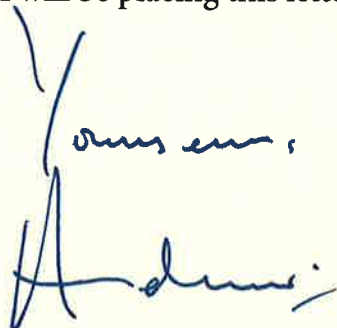
- a 'Sole Enterprise Personal Assets' (SEPA) vehicle – to provide sole traders with limited liability while allowing them to continue with the accounting and tax obligations of an unincorporated sole trader; and
- a 'look-through' system, whereby the profits of small companies are taxed directly on the shareholders, with the company itself paying no form of corporation tax.

Some of the other ideas in your report are relevant to issues that the Treasury Committee is exploring in its current Inquiry into tax policy. For example, the

consolidated tax model was proposed in the Federation of Small Business' submission to the Inquiry. I note the Government's response to it. I also note that the Government will consider your suggestion that it should seek to align taxable profit more closely with accounting profit. When you appeared before the Committee on 2 February, you and your fellow witness mentioned the desirability of aligning accounting and taxable profits in the context of reducing opportunities for tax avoidance. I strongly support moves to reduce opportunities for avoidance while simplifying the tax system. I suggest that the anti-avoidance angle should be reflected in the Terms of Reference for the work on options to simplify the computation of corporation tax.

The Treasury Committee will be keeping a close eye on how all this work develops over the next few months, and particularly on how the Government responds.

I will be placing this letter in the public domain.

A handwritten signature in blue ink, appearing to read 'Andrew Tyrie', is written over a large, stylized blue checkmark.

RT HON ANDREW TYRIE MP
CHAIRMAN OF THE TREASURY COMMITTEE