



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

**Rt. Hon. Michael Jack, Chairman  
& John Whiting, Tax Director  
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1 Horse Guards Road  
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18 March 2015

*Dear Michael & John*

#### **UPDATE ON TAX SIMPLIFICATION MEASURES**

The Budget today made a number of announcements relating to the work of the Office of Tax Simplification (OTS). I am writing to explain our response in more detail, and update you on recent progress.

I would also like to take this opportunity to congratulate Michael on a well-deserved CBE for services to tax policy, and to thank you both for your work over the course of this parliament.

Your determination to untangle the most complex areas of the tax system has led to simplification of our tax system that would not otherwise have been achieved, making a real difference to individual and business taxpayers. Without your personal commitment, vision and drive these successes would not have been possible.

Before I address your recent reports, I want to highlight a major announcement in the Budget on our plans to modernise tax



administration. This sets out our intention to transform how individuals and small businesses engage with the tax system over the next parliament, with every taxpayer able to manage their tax affairs through their digital account.

It will mean the end of the tax return for millions of individuals (including many pensioners, as you have championed). Small businesses will only have to provide information once, be able to link their accounting software to their digital account, and if they wish they will be able to pay as they go so that it will feel like paying one tax. It also means that those who use the cash basis introduced following your small business review will not have to do an end-of year tax return at all (around a million small businesses used the cash basis in its first year of operation in 2013-14).

Building on another of your recommendations, the Chancellor also announced that we will abolish Class 2 NICs in the next Parliament and consult on reforming Class 4 NICs to include a contributory benefit test. This will simplify NICs for five million self-employed people.

### Employment Status

I welcome your report and think you have effectively highlighted the challenges of ensuring the tax system reflects the reality of the modern day labour market, and of providing certainty for individuals and employers. As you note, there are no 'quick wins' here, but I believe there is considerable merit in some of your more ambitious and longer term recommendations.



There are trade-offs between which of these to pursue and we will need to work through the broader implications of any change, including the impact on employment law. The government will therefore consider the recommendations carefully in shaping its programme of tax reform and administration for the next parliament.

### Partnerships taxation

I welcome your final report and recommendations on the taxation of partnerships, published on 19 January 2015. The government will consider or take forward work on the majority of your recommendations.

Following on from the progress made since the publication of your interim and update reports, HMRC has revised its Statement of Practice D12 to take account of the matters raised by you and external stakeholders. HMRC is also revising its guidance in a number of other areas you identified. I understand that you and external stakeholders have had discussions with HMRC and HM Treasury officials on key technical and international matters faced by partnerships, and that these discussions have been helpful in clarifying a number of issues. HMRC is also working with the Chartered Institute of Taxation to look at reducing the administrative burdens, via the tax system, of accessing the short term business visitor exemption.

### Competitiveness of UK tax administration

Since your review was published, HMRC has made significant progress on your recommendations, including further stakeholder engagement to supplement the valuable insight provided by the OTS.



HMRC has completed a consultation on R&D tax credits and the feedback will be used to improve guidance and increase awareness of R&D tax credits. The government has also accepted your recommendation to create new case studies. An update is included in the Budget statement. On Annual Tax on Enveloped Dwellings (ATED), legislation was included in draft FB15 to introduce a new, much shorter relief return for businesses, streamlining the process for them. The first tax manuals have now moved to GOV.UK, with many more to follow, and VAT guidance is also being evaluated so improvements can help provide greater certainty.

Your review made a number of long term recommendations around corporation tax. HMRC is continuing to engage with stakeholders on these substantial changes to the corporation tax system and will report further progress on this after the election.

#### Tax penalties

Your November 2014 report on tax penalties suggested that the penalties regime introduced by HMRC's Powers Review was broadly working in line with its objectives. However, you raised issues about whether or not those penalties have led to the desired behavioural change, and whether the current regime is fully appropriate for the increasingly digitised nature of the tax system. You recommended that the government undertake a full post-implementation review of the HMRC Powers Review work in respect of penalties. As you know, in February this year, we opened a discussion to look again at the penalty regimes through the publication of a discussion document, and I am very pleased that you have been supportive of this.



### Employee benefits and expenses

Following your review of employee benefits and expenses, the government will legislate a number of measures in the 2015 Finance Bill. This package will significantly reduce administrative burdens on employers and employees. Work continues on other areas identified in the review.

To conclude, I would like to thank you and your colleagues for your work on these reviews, and your work over the parliament as a whole. The OTS has again demonstrated that it can drive change that benefits taxpayers and businesses. I understand that you are working with HMRC and HMT officials to publish an update on how the government is responding to your recommendations shortly.

*Yours ever  
David*

**David Gauke MP**