



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

**Rt. Hon. Michael Jack, Chairman
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Dear Michael & John

SUMMER BUDGET 2015 - OFFICE OF TAX SIMPLIFICATION

In his speech today the Chancellor made a number of announcements relating to the Office of Tax Simplification (OTS). I am writing to explain these announcements in more detail, and to bring to your attention a number of announcements which relate to previous OTS work.

Future of the OTS

As you know, the OTS was set up in July 2010 for the duration of the last parliament. Since then the OTS has examined ten different areas of the tax system, published over 30 reports and made 402 recommendations. Half of these recommendations have been implemented so far. Our manifesto set out a commitment to establish the OTS on a permanent basis and expand its role and capacity, and I am pleased that today the Chancellor also announced that we will put the OTS on a statutory footing in Finance Bill 2016.



Giving the OTS an expanded role and capacity will require some immediate changes ahead of legislation. We are discussing changes to be made through a new framework agreement, to be published before summer recess.

Work programme for 2015/16

My vision is for a stronger OTS to play a greater role in the public debate, to provide challenge to HMRC on its important digital agenda, and tackle the big complexities in the system. That is why, as discussed, the Budget also confirmed that the OTS will carry out two new reviews, with detailed terms of reference to be published shortly.

The first is a review of the closer alignment of income tax and National Insurance contributions. This is an area often cited as a major source of complexity for taxpayers. I would like the OTS to look at what the impacts, costs and benefits of closer alignment would be and to set out what the necessary steps would be to achieve closer alignment. This is a new type of review for the OTS, focusing on the issues and impacts rather than on making specific recommendations

The second is a review of the taxation of small companies, focusing on the distortions between the personal and business tax systems. This builds on your previous review of small business tax which focused on unincorporated small businesses, by looking more closely at the complexities facing incorporated small businesses. You will have seen related announcements in the Budget, specifically on the taxation of dividends and on IR35, where the government intends to begin a dialogue



on improving the effectiveness of the IR35 regime. This will run in parallel to your review.

Previous OTS recommendations

There were several other announcements in Summer Budget 2015 that built on previous OTS work. The government will consult this autumn on abolishing Class 2 NICs and reforming Class 4 NICs with a view to simplifying NICs for 5 million self-employed individuals. The government will also further simplify the tax system by consulting on the tax and NICs treatment of termination payments to make the system simpler and fairer, and on the taxation of travel and subsistence for employees.

You may also be interested in the government's plans to publish a Business Tax Roadmap by April 2016, setting out plans for business taxes over the rest of the parliament. This, alongside the announcement of a permanent level for the Annual Investment Allowance of £200,000 from January 2016, will give businesses the certainty they need to plan long-term investment. The Corporate Tax Road Map we published in 2010 was widely welcomed for providing businesses with policy certainty. This new Roadmap will extend beyond corporation tax to cover a range of taxes affecting business.

Over the last five years, the OTS has demonstrated that a tax simplification body is not only a good idea, but an essential part of making progress on simplifying the tax system. I believe that establishing the OTS on a statutory basis with an expanded role and capacity will equip it



to approach the complexities of the tax system with renewed force, and I look forward to further success in this parliament.

Towers

David

David Gauke MP