

Simplifying Tax for the Future

Our high level strategy – a stakeholder consultation

Spring 2016

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Foreword

The Office of Tax Simplification (OTS) was established some five years ago and the Chancellor is now placing it on a statutory footing. The OTS is therefore developing its new and broader remit and looking ahead at what its future strategy should be.

It is hardly a surprise that the UK tax code is long and complex. The UK is one of the world's largest economies and greatest trading nations. Companies based here trade in goods and services locally and internationally, and both face to face and through e-commerce. What role the OTS can usefully and actively play in simplifying matters and how simplification is judged, are key questions for our strategy and the next five years of the organisation.

The OTS has a vision to make it easier for the millions of individuals, self-employed people and businesses who live and work in the UK to interact with the tax system, by playing a key role in making it simpler and so more understandable.

This means that our role is both tackling the complexities of the tax system itself and also looking at making some of those key areas that will inevitably remain complicated, easier for us all to use (just as, for example, even though a mobile phone is a complex piece of engineering it is pretty straightforward to make a call or send a text).

The OTS strategy is threefold: considering the tax issues arising in a changing world; addressing specific complex areas; and playing a greater role in the public debate on tax.

To do this we will:

- Look ahead at changing business and economic structures and set out the new trends and changes in business, employment and other areas that will have an impact on tax and frame the 'story' into which our reviews and proposals will be set;
- Consider the steps that could make the tax system more straight forward and simpler, in the context of these world of work changes and how people do their jobs;
- Undertake reviews on areas integral to these identified trends; highlight the issues and seek views and evidence; propose options and choices for the changes and compromises that will make the system more relevant and simple;
- Review specific complex areas affected by the themes which can bring obvious and early benefits, or where there are difficult issues where an informed discussion is required;
- Take the issues and options out for wide discussion, ensuring we gather views and evidence from all interested parties including those outside the natural stakeholder groups;
- Seek to ensure that simplification considerations are built into tax policy making and implementation early on in the process;
- Engage closely with HMRC on its important digital agenda.

We have made a start on our new agenda, building on the excellent work of the OTS's first five years. Two of our most significant reports have recently been published, one on Small Company taxation (3 March 2016) and the second on closer alignment of Income Tax and National Insurance (7 March 2016). As part of its future programme, the OTS will be investigating further some of the key findings in these two reports and will also start a new project on the computation of corporation tax.

To date the operation of the OTS has benefited from a mix of public and private sector staffing. We propose to continue this model and build on it by seeking further involvement of the private sector particularly in assisting with themes, economic analysis and statistical expertise.

In putting together this strategy document we have had some early discussions with business stakeholders, the tax profession and government. But there is much more that needs to be taken into account. We are therefore now bringing a set of questions to a broader audience to seek feedback and discussion to help bring about this new stage of the OTS. Please let us know your views. We will also be discussing our plans at our stakeholder conference which will be held in July.

Lastly, I would like to pay tribute to John Whiting OBE, who has been the Tax Director of the OTS from its beginning and whose dedication has been instrumental in building it to the position it holds today. John will be standing down later this year and a search for his successor will begin shortly.

Angela Knight CBE

Chair, Office of Tax Simplification

Introduction

1. The OTS was initially established as a temporary non-statutory office of the Treasury (HMT) in July 2010, to provide independent advice to government on simplifying the UK tax system.
2. The OTS has approached its work from the perspective that simplification is about
 - making the administration of the tax system simpler to deal with (for individuals, businesses, advisers and HMRC); and
 - making structural and detailed aspects of the tax rules and legislation simpler - in ways that better fit the changing context in the economy and the world of work.
3. Simpler administration is a powerful focus, not least because administrative aspects are what most people come across in practice. Making the legislation simpler may enable it to be reduced in length, but simplification is not simply (or indeed mainly) about the length of the tax code.
4. Over the last five years 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 wide range of detailed areas of the tax system; in so doing, the OTS has gained respect from a wider range of engaged and informed stakeholders for good, wide consultation and evidence gathering, high quality output, relevant recommendations and evident independence.
5. This has demonstrated the value of its combination of an independent voice with the ear of Ministers, analyses rooted in HMRC data, access to policy and operational staff in HMT and HMRC, and a mix of tax professional and policy expertise from inside and outside Government. (Though it's perhaps important to reiterate that we are an advisory body; it is not part of our remit to directly make policy changes - that is a matter for Ministers.)
6. We have had some significant successes in simplifying the tax system; to give three examples:
 - a cash basis for the smallest businesses, now used by over a million such 'nanos';
 - setting in train a series of reforms to largely eliminate P11Ds;
 - an important set of detailed changes to simplify share schemes.
7. With the Chancellor deciding to place the OTS on a statutory footing, through Finance Bill 2016, and to enlarge its scope, there is a real opportunity to build on this success and to enhance our output and reach. To help us achieve that effectively, we are developing a strategic vision – an outline of which is set out in this document and on which we want to consult.
8. We want to gain a wide range of views and perspectives on our thinking so far. We are open to ideas and as always will be seeking views and opinions from individuals, businesses, tax advisers, academics, representative bodies and others; and from Government - HMT, HMRC and other departments such as the Department of Business Innovation and Skills - as well as from Parliament. We want to test the way of working we have evolved over our first five years: although it has been tolerably successful we have no doubts that it can be improved.
9. To support us in this, the OTS will be enhancing its independence by bringing onto its board some new external independent non-executive directors. They will be in addition to the Chair, John Whiting (the Tax Director) and Teresa Graham (as Chair of the Administrative Burdens Advisory Board) and senior representatives from HMT and HMRC. This will result in a majority of independent directors on the OTS Board, which in turn will be addressing policy and strategic issues, be the arbiter of decision-making on the content of the reviews and play a major part in the future work programme of OTS.

10. This Strategic Review covers five broad areas: the purpose and aims of the OTS; the work it will undertake; how and with whom it will undertake its work; and its impact and influence.
11. This document is intended to prepare the ground for our planned stakeholder conference in July 2016. We'd also be delighted to receive written contributions to our email inbox (ots@ots.gsi.gov.uk) before then, or at the time, and to discuss the issues involved in other ways. Do please get in touch with us if you'd like to contribute.

The wider context

12. The UK and world economies are changing and some traditional taxes are under increasing pressure. Traditional working patterns are changing, as evidenced in the OTS's Employment Status report and through the rise of platforms such as Airbnb and Uber. This is sometimes called the 'gig' or sharing economy and is a growing trend. Current and future OTS reviews will be set in these contexts.
13. So we'll look ahead at changing business and economic structures and set out the new trends and changes in business, employment and other areas that will have an impact on tax and frame the 'story' into which our reviews and proposals will be set, and consider the steps that could make the tax system more straight forward and simpler, in the context of these world of work changes and how people do their jobs.
14. That means that we will aim to highlight the main changes that need to be considered; be clear about the downsides; indicate the timescales that will allow change to take place with minimum disruption; and be understandable by the non-specialist. We will therefore aim to garner support for and facilitate wider public debate around our proposals.
15. The OTS has always considered digital issues but these will inevitably play a stronger role in its future work. Considerable funds are being spent on major improvements and changes to HMRC systems and processes, so that it can interact electronically with individuals and corporates.
16. As the use of smart technology continues to develop and rapidly be adopted by very many people and businesses in the UK, there is great opportunity to adapt the tax code and its administration to make things simpler for all. The OTS has a significant role to play in ensuring digital opportunities for simplification are grasped; and that at the same time new ideas take proper account of how businesses really operate.
17. One interesting aspect of this is that taxpayers will demand to know more about how their taxes are calculated, collected and spent: a call for more transparency. Taxpayer statements and HMRC's 'your tax account' ideas are already addressing this and may ease administration.
18. There is already evidence that simpler taxes encourage compliance: taxpayers find it easier to comply and have greater trust in the system. That implies reduced scope for avoidance.
19. Our recently published reviews on income tax/national insurance alignment and small company taxation have already been significantly influenced by these themes. Both reviews were set in the context of the changing nature of employment from the big employer to the 'sharing' internet-enabled economy; and what this requires of companies and corporate structures.

Question 1: As well as these, 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?

The OTS's purpose and aims

20. We aim to bring about long term beneficial structural change, alongside making specific recommendations that can be implemented in the near-term. To achieve this we seek to secure support for a direction of travel, and to command support from Ministers for our work.
21. As noted above, over 50% of our 402 recommendations have been accepted wholly or in part. While we've seen some notable 'successes' (e.g. in relation to the move away from P11Ds towards payrolling benefits in kind), the position with other recommendations is less clear and we plan to do a stocktake of progress in this respect.
22. More widely, it's evident from HMT's evidence to the Lords' Economic Affairs Committee¹ that our influence is wider than simply through our recommendations. A senior HMT official said:

"I would not underestimate the influence that the existence of the OTS and our informal relationships and engagement have on the way we approach and think about policy and, importantly, tax administration, where the OTS has shifted mind-sets and put a focus on these areas that they might not have had before."
23. We consider that our two recent reports illustrate the beginning of a new dynamic in our reports, where we aim - as well as making specific recommendations - to trigger debate about some of the hard choices that it will be necessary for government to make if significant simplification is to take place, including any overall implications for the Exchequer.

Our remit

24. The legislation to be enacted in Finance Act 2016 provides that

"The OTS must provide advice to the Chancellor of the Exchequer on request, or as the OTS considers appropriate, on the simplification of the tax system."
25. Provision is then made about specific reviews the Chancellor will request and the reports and recommendations that flow from them; and for the OTS to make an annual report on the performance of its functions.
26. It is worth noting that '*simplification of the tax system*' is defined to include
 - simplification of the law and administration of HMRC taxes (including direct and indirect taxes, duties and national insurance contributions); and
 - improving the efficiency of their administration.
27. Our remit accordingly embraces all taxpayers, both personal and businesses (of all types and sizes), and we always consider the impact of the administrative burdens HMRC taxes involve, not least through our strong link with the Administrative Burdens Advisory Board (ABAB).
28. As well as responding to requests from the Chancellor, our remit also extends to providing advice on other matters and in other ways; hence we can initiate our own projects.
29. We will always engage with Ministers about our work and recommendations but we will remain independent and make our own final judgements on what to recommend. In turn, decisions on which recommendations are to be pursued, and if so how, are for Ministers and ultimately Parliament who rightly may have wider (including political) factors to consider.

¹ <http://www.publications.parliament.uk/pa/ld201516/ldselect/ldconaf/108/108.pdf>

Our approach

30. Building on our experience to date, stakeholder feedback and our legislation, we see our approach being multi-faceted, framed by reference to themes that are cutting across the tax landscape as the economy, business structures and working patterns change, with broadly the following order of priority:
- 1) We will undertake reviews on areas integral to these identified trends; explore structural features of the tax system where removing deep-seated complexity will involve losers as well as gainers and expose the issues and impacts for public debate; highlight the issues and seek views and evidence; propose options and choices for the changes and compromises that will make the system more relevant and simple;
 - 2) Review specific complex areas affected by the themes which can bring obvious and early benefits, or where there are difficult issues where an informed discussion is required;
 - 3) We will provide independent advice on how to deliver a simpler tax system through the policy process - seeking to ensure that simplification considerations are built in earlier on, through engaging closely with HMRC on its important digital agenda and developing closer involvement with wider HMT and HMRC work, consultations and initiatives alongside a monitoring role in relation to tax complexity.

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

What work should the OTS undertake?

31. The main output from the OTS to date has been:
- reports on 10 formal projects, often in multiple stages, covering reliefs, small business, pensioners, share schemes, partnerships, employee benefits and expenses, complexity, penalties, competitiveness, and employment status; and
 - the two reports we published in March 2016 on small company taxation and closer alignment of income tax and NICs.
32. We have also developed some broader thinking including our complexity index, and papers on issues such as principles of avoiding complexity and definitions in tax legislation.
33. The main focus of the OTS will continue to be on the tax system that is in effect and we will always have regard to revenue and cost implications. We recognise the greater ease of implementing options that are financially neutral, but will not shy away from recommending simplifications that have revenue implications (in either direction) if we consider this 'worth it', or clearly worth exploring, from a simplification perspective.
34. The OTS will also consider what "principles of simplicity" could help and will seek to develop further its work on a 'complexity index' to help answer the question: what makes tax complex?
35. In all of this we will seek to build links to those involved with Better Regulation, including ABAB, and will draw on examples they have of how to do better (in effect simpler) regulation.
36. We will also revisit our earlier work and see whether there is merit in revisiting any areas, including recommendations made and not to date progressed or responded to. The OTS's first review was of a sample of the many tax reliefs and it recommended the abolition of approximately 30% as no longer worthwhile or necessary, and improvements to others. Reviewing further reliefs could be well worth undertaking from the perspective of simplification.

37. We also want to maintain an up to date schedule of areas that stakeholders believe we should consider including in our future work programme.
38. We will also increase the involvement of the OTS in wider issues such as consultations. This may help address the many calls for the OTS to be involved in the Finance Bill and the Government's tax policy making process at an earlier stage.
39. We will, of course, report on all our work in the annual report we are required to produce under the legislation; on the basis of the legislation published on 24 March 2016 the first such report will be due in respect of the period ending on 31 March 2017.

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?

How should the OTS operate?

40. The OTS's structure is set out in the legislation to be enacted in Finance Act 2016. As an independent office of HMT, it is part of the civil service. As such the Civil Service Code², and the core values of integrity, honesty, objectivity and impartiality, govern all we do.
41. Equally, it seeks to operate in line with the Treasury values³: in particular being professional and credible, valuing all perspectives and contributions, working collaboratively and - while safeguarding confidences - being open, clear and transparent in our communication.
42. It follows that we seek to develop and sustain open and constructive engagement with all our stakeholders, not least HMT and HMRC, especially as we will want to take issues and options out for wide discussion, ensuring we gather views and evidence from all interested parties including those outside the natural stakeholder groups.
43. Accordingly, we place a high value on consulting as fully and widely as we can, consulting and talking directly with a wide range of taxpayers, businesses, representative bodies, advisers and other organisations, being open to meet with any group that wants to talk to us. We seek to cover the whole of the UK (and indeed gather evidence from overseas where we can) and have started to use surveys more regularly. We keep the confidences of those who we consult with.
44. We have developed an open 'critical friend' relationship with HMT and HMRC (where we meet both front-line and policy staff), and in turn welcome similarly constructive and challenging engagement from our colleagues in those and other Departments.
45. Without undermining our independence at all, this helps us avoid overlooking any facets the government are likely to want to consider, and gives us the benefit of direct access to HMRC's Knowledge Analysis and Intelligence Directorate who carry out its policy impact assessments. In these ways we ensure our recommendations are firmly evidence-based and practical.
46. It is against that background we will seek to ensure that simplification considerations are built into the tax policy making and implementation process earlier on. And, in particular, where OTS recommendations are taken forward, we envisage being involved in developing the approach taken to their implementation.
47. A significant feature of our future work will also be to flag the often competing requirements of simplicity and fairness, highlighting potential gainers and losers, and to dispassionately present the key options, impacts and choices. The OTS will discuss these issues with the widest possible

² <https://www.gov.uk/government/publications/civil-service-code/the-civil-service-code>

³ <http://www.hmtreasurycareers.com/life-at-hmt/>

range of stakeholders, seeking at all times effective and practical ideas, whether for taxpayers, businesses or HMRC.

48. That's one reason we are opening up the debate about the closer alignment of income tax and NICs and wanting to tease out what would be involved in adopting a 'look through' approach for some small companies.
49. One issue with any simplification is the transition - both because any change at all will itself temporarily make things more complicated and because any remotely significant change will mean altering the amounts of tax different people pay to some degree. Change, as the OTS has established, is the greatest source of complexity so we have to ensure our proposals for change are 'worth it'.
50. In developing our recommendations, we have always aimed for a mix of
 - Short term changes (sometimes termed 'quick wins'): often administrative improvements that can be taken forward easily, usually by HMRC without any need for legislative change;
 - Technical changes: ones that will deliver a simpler system, sometimes narrow in scope, sometimes wider;
 - Structural proposals: more significant ideas that may change the tax system and will undoubtedly take time to effect.
51. We do this partly because we naturally develop a range of ideas during our work, often as a result of suggestions made to us. But there is also a strong element of our wishing to show that some progress is possible in the short term, which demonstrates the value of their input to our stakeholders and also keeps up a certain amount of momentum.
52. If we confined ourselves to major structural matters we suspect we would make no real progress. So we also seek to contribute to the day-to-day policy-making process within government and the legislation and practice that results from it.
53. In parallel, we have tried to complete projects relatively quickly: usually within a year and often in a shorter period. There is an inevitable tension here between a desire for quick results from our sponsors and doing the work thoroughly. At the same time, we need to strike a balance between doing enough work to bring forward soundly-based recommendations and not wasting time developing an idea too far when there is no certainty it will be taken forward.

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?

How should the OTS be staffed?

54. We have described above our instinct for consulting as fully and widely as we can on our work; we fully intend to continue to do that.
55. Equally, we have always sought to harness the best of both private and public sectors within the OTS itself, in what has always been a small team made up of a few permanent civil servants on loan from HMT or HMRC and private sector staff on loan/secondment terms or under fixed term appointments.
56. For most of the life of the OTS to date we have operated with fewer than 5 full-time equivalent staff, including the Tax Director.
57. Following the decision to make the OTS permanent, this began to change – as we filled three permanent roles with new civil servants on loan from HMRC and Treasury in late 2015, bringing

a variety of experience in policy, compliance and operational roles across business and personal tax issues and a wide range of taxes.

58. Our work will, however, continue to depend crucially on our continuing to secure a range of private-sector staff, often on a part-time fixed term contract or secondee basis.
59. In the past we have tended to recruit on a project-by-project basis. While we'll continue to do that, now we are permanent we will also look to secure some people on a slightly longer term basis to increase continuity and experience. But we'll remain keen to maintain a diversity of tax professional staff with recent private sector experience, whether from in house roles with businesses or from large or smaller advisers.
60. Another possibility could be to source specific research or analysis assistance from other bodies of appropriate independence or standing.

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?

Our impact and influence

61. Given our resources, we have achieved a good deal, not least by putting simplification on the agenda, as HMT acknowledged before the House of Lords (see above). But there is an issue with expectation management: we have not (yet!) delivered a noticeably simpler system for the average taxpayer. Although parts of the tax profession have a good appreciation of who we are and what we do, we want to broaden and deepen this and our wider public profile, to help gain greater traction for tax simplification, including through greater dialogue with parliamentarians.
62. How, though, do we measure our impact? We have kept a simple 'scorecard' of the progress of our recommendations, but that is a crude measure - though easy to calculate and understand. As noted in paragraph 3, the length of the tax code, while a simple measure, is not the key issue⁴, and would not capture our impact on procedures.
63. Perhaps there is more we can do to assess the impact of changes made in response to OTS recommendations. That could include seeing what savings have resulted in terms of the annual costs to business and within HMRC, including work within the scope of the tax policy making process, bearing in mind the approach of the Regulatory Policy Committee in the non-tax arena.
64. In addition, it will remain important to set out an agreed programme of work (structured so as to fulfil the strategy we've set out above in terms of exposing structural questions as well as identifying more immediate changes and embedding simplification into the policy development and implementation process) and to deliver it to an acknowledged high standard – to maintain and enhance our reputation.
65. More widely, we think our work programme both requires and will enable us to gain greater public presence. This is essential to sustain the engagement we need, especially in relation to simplification ideas that would have significant economic or social impacts. It's not going to be enough for the OTS just to say something would be a good idea in principle and go no further.
66. We want to maintain and develop the strength, depth and quality of our consultation work, to ensure our reports are considered both authoritative and persuasive, and for us to see a higher proportion of our recommendations progressed, with government having the confidence to build on the work, through more detailed policy development and impact assessment rather

⁴ In 2012 an OTS analysis showed that of the 17,000 pages in Tolley's tax handbooks, the real figure for effective, unduplicated primary legislation was 6,102 pages.

than revisiting consultation work we consider we have already carried out.

67. We want to maintain activity and engagement across the spectrum - including issues affecting individuals and across the full range of micro, small and big businesses.
68. We want to be seen and recognised as having value to bring to projects and issues under debate or consideration, particularly in areas of significant change.
69. We also want to be more effective at getting our messages over and raising our profile, and to improve the extent to which Parliament takes an active interest our work.

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?

Conclusion

70. We have a number of specific work areas that we will be spending time on this year, alongside exploring the new trends in business and employment that are impacting the tax world.
71. These specific work areas include:
 - Taking forward aspects of our Small Companies and Income tax/NICs closer alignment reports;
 - Beginning a new review concerned with aspects of the computation of corporation tax;
 - Carrying out a stock take of what has happened to the 400 or so recommendations the OTS has made, to discover to what extent that earlier work is bearing fruit and, where it may not appear to be doing so, what the reasons are and what we can learn from that;
 - Engaging with HMRC on its Making Tax Digital programme, especially in the context of the changing business economy and work patterns; and
 - Developing our work on the Complexity Index.
72. The OTS will target its resources on reviews and other work with potential to change the debate and lead to tangible simplification improvements. With our firm statutory footing we are eager to build on and continue what has already been achieved and to extend our reach and impact.
73. We hope the plans outlined above give you, our stakeholders, confidence that we – with your help and support – can make a real difference in bringing about simplification of the tax system in a variety of ways over the coming years.
74. But we are always keen to hear stakeholder views on particular areas of the tax system, large or small, which you feel could repay attention, and on our approach and progress generally. So we are particularly keen to engage with you now, as we establish ourselves on our new statutory footing and settle on our medium strategy.
75. Accordingly, we very hope to see or hear from many of you, whether or not you've contributed to OTS work before. Please contact us at ots@ots.gsi.gov.uk. Contributions before 30 June will help set the agenda for our planned conference but we will welcome comments on this document until 31 July. As always, we will welcome engagement with our work at any time.

The Office of Tax Simplification

12 May 2016

<https://www.gov.uk/government/organisations/office-of-tax-simplification>

Summary of questions

Question 1 (page 5): *As well as these, 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?*

Question 2 (page 7): *Bearing in mind our legislative framework, do you have any comments on the observations above on the OTS's purpose and aims?*

Question 3 (page 8): *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?*

Question 4 (page 9): *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?*

Question 5 (page 10): *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?*

Question 6 (page 10): *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?*