



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

22 November 2017

Angela Knight CBE  
Chair  
Paul Morton  
Tax Director  
Office of Tax Simplification  
1 Horse Guards Road  
London  
SW1A 2HQ

Dear Angela,

### Office of Tax Simplification review of Value Added Tax

I am writing to thank you for your report on the simplification of VAT, published earlier in November. The government aims to simplify the tax system where possible, ensuring the UK remains an attractive environment for enterprise. Your report contains valuable insight and analysis into the current VAT system and its complexities, and I am grateful to you and all your team for your work.

I have responded below to the eight core recommendations you have identified as most significant in your report about VAT and I understand officials in HMRC and HM Treasury will also work with you on an additional fifteen recommendations contained in your report.

**Recommendation 1.** I am grateful for the research and analysis conducted by the OTS on the issues and impacts around raising or lowering the VAT registration threshold, and note in particular the distortive impact that the current threshold appears to have on business behaviour. I agree with your recommendation to examine the VAT registration threshold but I am minded to keep it at its current level of £85 000 whilst we consider the issues raised.

**Recommendation 2.** I appreciate that practical administrative issues are of importance to businesses working within the VAT system, and that those businesses benefit from clear guidance and prompt rulings. The government is committed to simplifying the tax system and, where there is uncertainty, making relevant information readily accessible. I am keen to ensure that progress in this area continues.

**Recommendation 3.** Similarly, your report highlights the administrative costs and uncertainty for business when voluntarily disclosing inaccuracies. I have therefore asked officials in HMRC to consider ways of addressing these issues in the future.

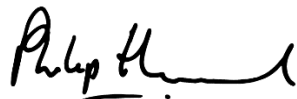
**Recommendation 4.** The government's ability to amend the scope of the various rates and exemptions is limited to some extent by EU law at present. It is clear that the current rates structure is the root cause of much of the complexity in the VAT system, imposing administrative burdens on businesses and often confusing consumers. I agree that there is merit in a review of the current system of VAT rates and reliefs in the longer term, and HMRC and HM Treasury officials will continue to engage with the OTS on this subject.

**Recommendations 5,6 & 7.** Your report raises concerns about the existing partial exemption regime and Capital Goods Scheme. I would encourage the OTS to continue to engage with HMRC and HM Treasury officials in these areas.

**Recommendation 8.** Making Tax Digital is a priority for the government, and presents opportunities to reduce burdens on business and improve their experience of VAT. As part of the introduction of Making Tax Digital for VAT, I will ask my officials to consider the scope to implement your recommendation on the online handling of options to tax.

Thank you again for the work of you and your team in producing this report. I appreciate your contributions and believe we can make progress against some of these areas relatively quickly. Others will need to be considered over a longer time period, against the backdrop of our ongoing discussions about the UK's future relationship with the EU. In taking this work forward, the government will engage with business, the public and the OTS on specific areas as appropriate, and consider any future legislative changes as part of the normal Budget process.

I look forward to your future involvement in work towards creating a simpler tax system that supports taxpayers and the UK as a whole.

A handwritten signature in black ink, appearing to read 'Philip Hammond', with a horizontal line underneath the name.

PHILIP HAMMOND