



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

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#### OFFICE OF TAX SIMPLIFICATION REPORT ON CAPITAL ALLOWANCES

I am writing to thank you for your report exploring the use of accounting depreciation instead of capital allowances, which was published in June.

The government aims to ensure the tax system is simple to understand and easy to comply with. This contributes towards ensuring the UK remains an attractive location and conducive environment for enterprise.

Your report includes valuable analysis of the difficult trade-offs and costs associated with moving to accounts based depreciation and I am grateful to you and your team for your work. I agree with your primary recommendation that the evidence does not support such a change at this time. That finding is as valuable and useful to us as an affirmative one.

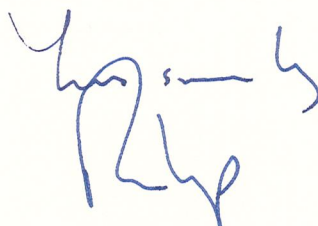
In addition, the report outlines alternative options to simplify the current capital allowances landscape, short of an accounts-based system. These alternative options offer useful insights into how the current system could be simplified and improved.

The government took a significant step towards capital allowances simplification at Budget 2018, by introducing a permanent Structures and Buildings Allowance. This new relief is broadly in line with the recommendation in your report, to widen the scope of capital allowances. In addition, we expect this allowance to boost business investment and improve the competitiveness of the UK tax system.

We have published a technical note alongside the Budget document to provide businesses with information on the key features of the policy. Furthermore, the note invites them to provide their views on some detailed aspects of the Structures and Buildings Allowance, which will help inform the secondary legislation.

I will be asking both HM Treasury and HMRC officials to continue considering the scope

for further capital allowances simplification. Thank you again for your work and that of your team in this area. I hope the OTS will continue to contribute to the government's thinking on how to create a simpler tax system which benefits taxpayers and the UK as a whole.

A handwritten signature in blue ink, appearing to read 'Philip Hammond', with a stylized flourish at the end.

PHILIP HAMMOND