

Annual Report 2018-19:

Simplifying the tax system to make it easier for taxpayers

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Foreword

I am delighted to present this third Annual Report of the Office of Tax Simplification.

This year has been a highly productive one for the Office, as seen in the number and of range of reports published. It has also seen significant changes in the organisation's leadership, with Bill Dodwell and myself respectively succeeding Paul Morton as Tax Director and Angela Knight CBE as Chair. We owe each of them a great debt for all they have brought to the work and reputation of the Office.

The OTS is the independent adviser to the government on simplifying the UK tax system. During the past year, it has continued to focus on the quality of the experience of taxpayers, whether private individuals or someone running a business, when dealing with the tax system. We undertake formal reviews agreed with the Chancellor, and work undertaken on our own initiative covering some of the many issues brought to our attention. The aim with everything we do is to recommend to the Chancellor ways of making taxpayers' experience as simple as possible.

Some highlights from the past year include:

- publishing the OTS's two reports on Inheritance Tax, first to explore ways to improve the administration of this tax, which inevitably comes at a time when those affected are under stress, and then offering a range of suggestions for simplifying the rules themselves, in particular in relation to lifetime gifts
- the warm reception from HMRC to the OTS report on improving HMRC guidance, which highlighted the benefits available if the Department gave this crucial interface with taxpayers greater and more consistent focus
- seeing the OTS's work on the Gig economy and Technology move on to a new level, with papers on both the wider issues and the opportunities technology presents, and floating the potential for self-employed people to have access to a PAYE-like experience

The OTS could not do its work without the help and support of others both inside and outside government. We are grateful to the Financial Secretary to the Treasury for his active engagement and support and to all those stakeholders in business and the profession who freely and openly provide their views, advice and time, and we are indebted to all OTS staff, past and present.

Kathryn Cearn OBE - Chair

Tax Director's Report

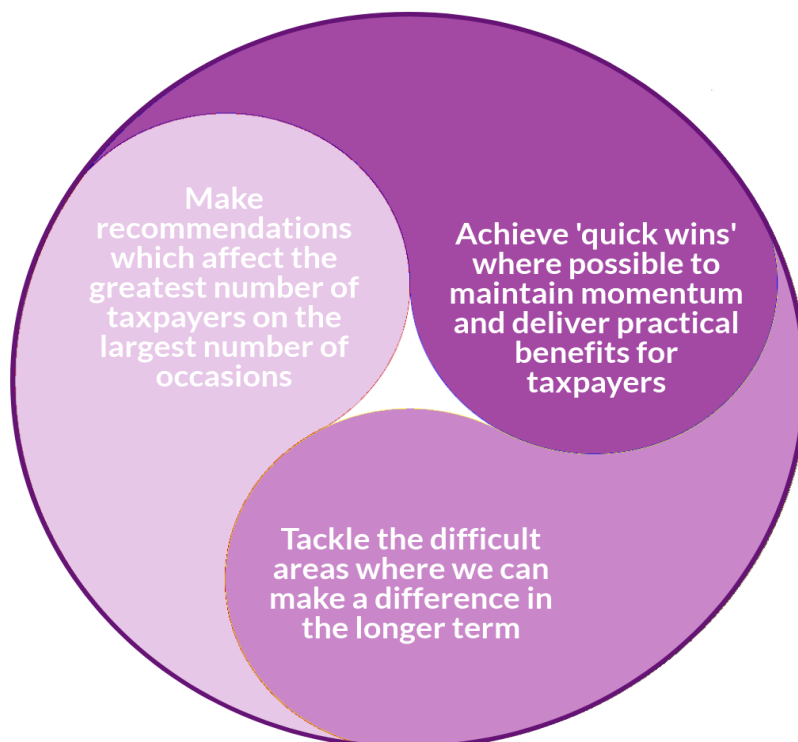
I was delighted to be appointed Tax Director in January 2019, after working at the OTS as a policy adviser for six months. I would like to thank my predecessor, Paul Morton, who brought new angles and insights to the work of the OTS. Paul's love of taxation is well-known, and he continues in several tax roles, as well as going back to university studies.

This is thus my first Annual Report on the work of the OTS, for its stakeholders and all those who take an interest in our work.

The OTS is the independent adviser to government on simplifying the UK tax system. While the office is based within HM Treasury (HMT), we offer an independent view under the responsibility of our Board. We were placed on a statutory footing in Finance Act 2016.

Our Strategy

Our strategy is unchanged from last year and is based on three principles:



We produce two kinds of report: those commissioned by the Chancellor, which are laid before Parliament, and those undertaken on our own initiative, as permitted by our statutory mandate.

All our reports and papers are published on our website. An important feature of our work is the development of a public debate on tax simplification. We welcome the discussion which this has triggered in the media and the many comments from members of the public.

The cost of complexity

Complexity brings with it multiple costs. Perhaps the most insidious is that a complex tax system robs taxpayers of their understanding of the impact of taxation on what they do. The tax burden in the UK is about 37% of GDP, which is about average for developed economies. Yet the way in which tax can affect ordinary life may not be at all easy to grasp. If tax isn't clear, then taxpayers cannot make the best choices about their economic and family affairs.

Compliance cost - both for taxpayers and for HMRC - is another burden. One of HMRC's core strategies is to make it easy for taxpayers to comply with their reporting and payment obligations. Yet complexity and uncertainty make it hard to achieve this obviously desirable goal.

An overly complex tax system can also promote opportunities for tax avoidance. Taxpayers should reasonably have choice within the boundaries of the overall tax system. Complexity can make it hard for individuals to appreciate when they might be making the wrong sort of choice. The litigation of the last decade (which still continues currently) highlights the massive burden that tax avoidance can place on taxpayers and on HMRC.

What is simplification?

It's a truism that the simplest tax is one which doesn't exist at all, or one which has a single flat rate, with an easily-understood base, and no reliefs, allowances or exemptions.

Our work, though, operates in the context of the current UK tax framework. It is beyond our remit to propose the abolition of a tax, although we do make proposals for removing or adding elements to existing taxes.

There are, however, several signs of complexity. The first area is that of boundaries, or thresholds. Taxpayers inevitably cluster just below a threshold, as evidenced, for example, by work from the Institute for Fiscal Studies¹ and in our own report on the VAT threshold².

A multiplicity of definitions covering broadly the same area is likely to confuse. While each is possibly justified by reference to designing the base precisely for an individual tax measure, it seems wholly unnecessary for there to be quite so many definitions of common terms.

¹ <https://www.ifs.org.uk/events/1602>

² <https://www.gov.uk/government/publications/ots-report-on-routes-to-simplification-for-vat-is-published>

Frequent change, such as we have seen in the area of pensions, is another sign of complexity, especially where there is grandfathering of old reliefs and thresholds (which may be important on fairness grounds).

A key way to reduce complexity is to make the framework of a tax easier to understand by a taxpayer, without needing tax training. Reducing and removing distortion also helps. There shouldn't be two ways to achieve a similar result – aside from differences in tax.

Our work

During the year to 31 March 2019, we have published seven reports.

Two of these were commissioned by the Chancellor of the Exchequer, being our first report on Inheritance Tax and our review on whether to replace capital allowances with an allowance for accounting depreciation.

We published two reports with a technology link: an initial review of platforms; and a wide-ranging report on the use of technology, which aimed to ask some of the bigger questions about the use of technology. Technology could make tax simpler for many taxpayers, essentially by doing more for them. This might come at the cost of reducing their understanding of the wider tax system. These questions go much wider than taxation alone and ideally should be addressed more broadly by government and citizens.

We also published a report on HMRC's Guidance, which has the role of simplifying the application of taxation for millions of taxpayers. We are pleased that HMRC are already adopting several of the recommendations.

The Office has published two further reports since 31 March 2019; one on Simplifying everyday tax for the smaller business and our review of the design of inheritance tax.

Future work

We are about to start some new areas of work.

The first of these will be a preliminary report on reporting and possible tax withholding by the engagers of self-employed people.

In some ways this is a follow-up to last year's report on platforms, but it is intended to consider broader questions, not simply limited to internet platforms. We hope that this report will be helpful in setting the scope of more detailed work that could be pursued in this area.

We will also be looking at the first of a number of issues in Tax Administration which we hope it will prove possible for us to consider over time.

In addition, alongside considering a variety of other possible projects, we will be reviewing the impact of our more significant recent reports.

Public support

One of the most important aspects of the way in which we conduct our work is the support and input we receive from taxpayers, professional and representative bodies, business organisations and others working in tax. It remains important that we travel throughout the UK to get as wide a range of input as possible. The local branches of the CIOT/ATT, the ICAEW, the FSB, ICAS and Chartered Accountants Ireland are a valuable source of input. We would also like to thank everyone who completes our surveys. Our inheritance tax work gathered over 3,000 survey responses, while our second report on the business lifecycle benefitted from over 250 responses. Reaching this wider population helps us make better recommendations for improvement and change.

OTS Conference

The OTS held a conference on 28 February 2019, attended by about 90 people, representing a wide range of stakeholder interests outside government, together with OTS, HMT and HMRC staff.

Presenters discussed the recent past and future work programme, the role of technology and the economic case for simplification. Sir Edward Troup reflected on the formation of the OTS, noting that the OTS's work has at times involved suggesting reforms where it can especially have a role in preparing the ground, seeking to revise how the system operates and acting as a restraint on the government through its wider influence.



Our staff and our links

The OTS maintains a unique mix of team members with both public and private sector experience. This, together with our strong links with the external tax community as well as within HMT and HMRC, places us in a strong position to bring together all points of view.

I am grateful to our Head of Office, David Halsey, for his support and strong contribution to our work. David shortly starts a new three-year secondment to the OTS from HMRC. I would also like to thank very much, all our team members, who contribute to the high quality of our work and our reports. Our team photo appears later in this document.

Last - but by no means least - we would like to thank our colleagues in HMT and HMRC for their invaluable support and challenge and their help in ensuring that our recommendations are achievable.

Contacting us

We welcome comments and suggestions for further areas of our work from members of the public as well as tax professionals in business, in professional firms and in HMT and HMRC. Experiences and perceptions are all valuable in deepening our understanding of the impact of tax complexity. Please email us at ots@ots.gov.uk or write to the Office of Tax Simplification, 1 Horse Guards Road, London SW1A 2HQ.

A handwritten signature in blue ink that reads "Bill Dodwell". The signature is written in a cursive, slightly stylized font.

Bill Dodwell – Tax Director

Chapter 2

Themes and impacts

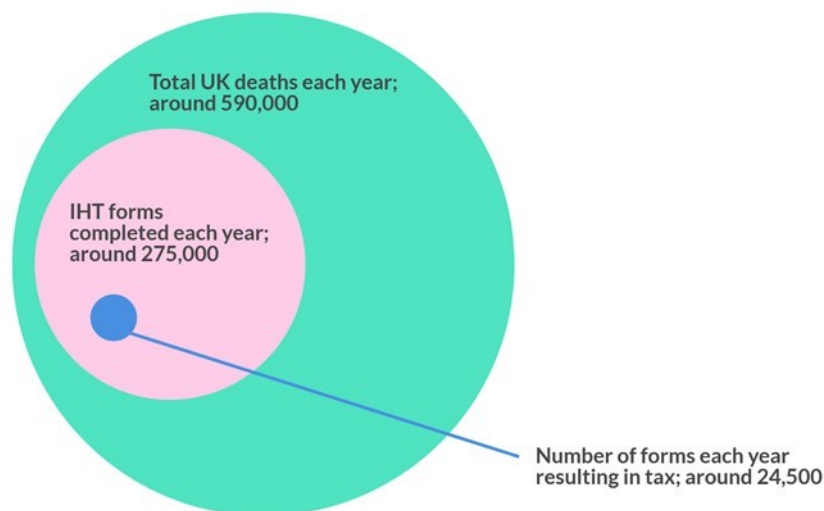
During the last year the OTS has published reports and papers addressing a wide range of themes, and has seen some significant action from government and HMRC in response to its work.

Inheritance Tax

The OTS has devoted a significant proportion of its energy and resources to our work on Inheritance Tax over the last year, resulting in two reports: on administration (in November 2018) and on the way the tax works (in June 2019).

This effort reflects the huge level of interest in the tax - the online survey supporting the consultation generated nearly 3000 responses, the largest number of responses we have ever had to a survey.

However, while many people are interested in, or have concerns about Inheritance Tax – which raised £5.2 billion in 2017 - 2018, it's helpful to appreciate that currently less than 5% of estates actually pay any Inheritance Tax. On the other hand, while each year just 25,000 estates pay the tax, the first report drew attention to the fact that over 10 times as many estates have to fill in the forms.



A key emphasis in the recommendations is to improve the experience of executors (usually close relatives of the deceased person, struggling to deal with a complex system at a difficult time) and of others involved in the process. The recommendations cover potential long and short-term actions ranging from implementing a fully integrated digital system to clear forms and guidance, especially looking at the need to complete and submit a return when the estate is simple and there is no tax to pay.

It is encouraging that HMRC is already beginning to address some of these matters, including creating new improved arrangements for cross-government liaison about tax and probate matters.

The recommendations in the second report go deeper into the workings of the tax, in particular focusing on the gift exemptions and the extent to which features of the system fit well with people's perhaps intuitive expectations about how it operates. The OTS looks forward to the Chancellor's response and to further debate and developments.

Technology and self-employed people's taxation

Technology offers the prospect of providing taxpayers with easier ways of fulfilling their obligations and streamlining HMRC's activities.

Expanding the scope of HMRC's personal tax account, both to more people and with more functions, could provide better targeted guidance and more information, making it easier for an individual to understand their tax position and to get answers to an expanding range of common questions.

The OTS's high level review of the impact of technology (January 2019) drew attention to a variety of risks and opportunities, including the question of who is responsible when technology goes wrong, and whether greater automation – however helpful administratively in terms of taxpayer experience – could reduce taxpayers' engagement with the system.

Building on this and on our work on Platforms (July 2018) the OTS is starting some further work to explore the potential scope for improving the experience of self-employed people through the opportunity to take up closer to real time approaches to reporting information and payment of tax, so that it can feel more like the sort of experience of the tax system that employed people have through PAYE, in particular without the worry of large tax bills coming along later.

Guidance and tax administration

Good clear guidance lies at the heart of HMRC's relationship with taxpayers, given the acknowledged complexity of the tax system. By the same token, poor guidance causes taxpayers who are trying to comply confusion and frustration, damaging perceptions of HMRC, reducing engagement and voluntary compliance.

The OTS's recommendations in the Guidance report (October 2018) particularly focused on the way guidance is created, presented and overseen, with HMRC recognising the ways in which taxpayers use guidance and aiming to create a more user-friendly product designed to meet taxpayers' and tax professionals' needs.

HMRC are embracing this challenge, through a project incorporating the OTS's recommendations, and prioritising a refashioning of its approach to maintaining and improving its guidance.

For the future, the OTS is exploring a range of other areas of tax administration where a simplification perspective would be valuable, potentially including the operation of claims and elections, tax rulings, appeals and reviews.

Small businesses and Individuals

The experience of small businesses and individuals are perennial interests of the OTS.

The OTS's recently published report on Everyday tax for smaller businesses (May 2019) explores for the first time the tax challenges faced by small businesses by reference to the stages a developing business might go through in its engagement with the tax system. The three areas which have particularly come to the fore are:

- making effective the cross-government guidance available to businesses even before they get as far as engaging with the tax system to help prevent avoidable problems later
- prioritising improvements to the practical mechanics of the PAYE system
- leveraging the invaluable role that tax agents can play, not least by building this consideration into the upgrading and development of HMRC systems and policy thinking



The OTS is also progressing work on the impact on individuals when life events (such as childbirth, starting work, drawing a pension or becoming in need of help in managing their affairs) cause there to be a need to engage with the tax system, particularly with a view to ways in which people's experiences of the system can be made easier.

Impact of our work

The impact of our work is felt in a variety of ways, both through formal responses to our work, action taken on our recommendations, an enhanced (we hope) quality of informed public debate and a more pervading influence in government.

In addition to these, and actions on the part of government or HMRC referred to elsewhere in this report, we highlight below some particular developments.

VAT consultations

Following the OTS VAT review (November 2017), HM Treasury launched a consultation on 13 March 2018 about the VAT threshold, picking up issues the OTS report had raised. In October 2018, HMT announced the registration threshold would remain frozen until 2022 and the question of a smoothing mechanism (which the OTS has mooted) would be revisited once the terms of Brexit are clear.

In Spring Statement 2019, the Chancellor announced there would be consultations on our recommendations about partial exemption and the capital goods scheme.

The OTS continues to engage with HM Treasury about these and other recommendations we made in the VAT report.

Other areas

The government has acknowledged the work of the OTS in its report on Capital Allowances or Depreciation (June 2018) in bringing forward the new structures and buildings allowance announced at Budget 2018.

The government also announced at Budget 2018 that there will be a consultation on aligning the stamp duty and the stamp duty reserve tax consideration rules and introducing a general connected party market value rule, reflecting some of the recommendations in the OTS report on Stamp Duty (July 2017).

Simplification is also part of the rationale for changing the national insurance treatment of termination payments, to bring this into line with the income tax position, from April 2020.

Chapter 3

Projects, Partners and People

Projects

The OTS has worked on the following reviews requested by ministers in 2018-2019.

- Capital Allowances and Depreciation review (report published on 14 June 2018)
- Inheritance Tax review (call for evidence published on 27 April 2018, first report published on 23 November 2018, second report published 5 July 2019)
- Business lifecycle further review (scoping document published on 26 July 2018, call for evidence published on 10 October 2018, with the report 'Simplifying everyday tax for smaller businesses' published on 16 May 2019)

During 2018-19, the OTS has also published:

- its first Business Lifecycle report (16 April 2018)
- a paper on Savings income (25 May 2018)
- a focus paper on Platforms and the platform economy (20 July 2018)
- a report on Guidance for taxpayers (5 October 2018)
- a discussion paper on the implications of using Technology to simplify tax (17 January 2019)

Partners

HMT and HMRC are our key partners within government; without their constructive engagement and challenge, and the data that only HMRC's Knowledge Analysis and Intelligence Directorate (which develops the Exchequer costings validated by the Office of Budget Responsibility) can provide, our ability to bring private sector concerns and experience together with public sector perspectives and priorities would be impossible. These relationships operate within a published framework agreement.

We have a particularly close relationship with ABAB, with its chair being a member of our board and our Tax Director being a member of ABAB.

We also have active relationships with other parts of government.

Outside government we consult widely with a wide range of stakeholders, both in relation to particular reviews and strategically. Our published reports list the organisations, businesses, representative bodies and others we have met or from whom we have received written input in relation to the project concerned.

Among those we most consistently engage with are many leading representative bodies, including the AAT, ATT, ACCA, BCC, CAI, CBI, CIOT, FSB, IOD, LITRG, ICAEW, ICAS and the LSEW.

People

The Board

Legally, the OTS consists of its Board, whose members from 1 April 2018 to 31 March 2019 were:



Kathryn Cearns OBE

Chair, OTS
(from 18 March 2019)



John Cullinane

Tax Policy Director
Chartered Institute of Taxation



Bill Dodwell

Tax Director, OTS
(from 15 January 2019)



Teresa Graham CBE

Chair of The Administrative Burdens
Advisory Board (ABAB)



Jim Harra CB

Second Permanent Secretary
HM Revenue & Customs



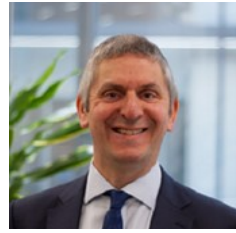
Paul Johnson CBE

Director of the
Institute for Fiscal Studies



Angela Knight CBE

Chair, OTS
(until 17 March 2019)



Paul Morton

Tax Director, OTS
(until 14 January 2019)



Kathleen Russ

Senior partner
Travers Smith LLP



Beth Russell

Director General, Tax and Welfare
HM Treasury

Teresa Graham CBE, who has been a member of the Board since 2010, is the OTS's Senior Independent Director.

The team

The OTS team, or secretariat, is led by David Halsey who acts as secretary to the Board.

During the year to 31 March 2019, a total of 20 people worked for the OTS at some stage, either full-time or part-time, who were Charlotte Alderman, Peter Allen, Chris Burns, Peter Drummond, Bill Dodwell, Marian Drew, Michael Govind, David Halsey, Simon Jackson, Daphna Jowell, Zoë Judd, Bethan Kay, Nigel Mellor, Sylvia Otieno, Andrew Parrock, Eileen Rafferty, Jakob Reinholdsson, Andy Richens, Sue Youngman and Robin Williamson MBE.



Across the year as a whole this was the equivalent of 9.4 full time people and a further 0.6 of a full-time person on free loan from HMRC.

Throughout its life, the OTS has employed a mix of staff on loan from HMT and HMRC, and those recruited directly from the private sector. We also sometimes benefit from secondments generously provided by private sector firms.

The OTS Budget

The OTS's budget for the year April 2018 to March 2019 was £960,000, of which the pay element was £770,000.

