

# Annual Report 2019-20: Simplifying the tax system to make it easier for taxpayers

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# Foreword

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

The OTS is the independent adviser to the government on simplifying the UK tax system. The OTS undertakes 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 ways of making taxpayers' and others' experience as simple as possible.

The past year has been productive, with major reports published on small businesses, Inheritance Tax and personal taxation. Alongside this, external events including the Covid-19 pandemic, have affected our work and ways of working.

Two particular highlights from the year to March 2020 are:

- our second report on Inheritance Tax, published in July 2019, which offered a number of packages of recommendations to simplify the underlying rules of this tax
- our October 2019 report on ways of streamlining the tax and reporting arrangements for self-employed people and residential landlords, building on the Office's earlier work on the application of technology and advocating greater investment in HMRC's personal tax account

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. Looking ahead, we look forward to making a full contribution to government thinking in response to the impact of Covid-19 and the potential for tax reform and simplification.

I would like to welcome Professor Judith Freedman CBE, who joined the Board in June 2020, and to thank Paul Johnson CBE who stood down in January 2020 for his contribution to our work.



Kathryn Cearns OBE - Chair

# Tax Director's Report

I am sitting at my desk writing this report on 2019-20 – but of course it is not my desk in the OTS space in the Treasury, but my desk at home. The Office of Tax Simplification moved to home working after 16 March and it is going pretty well.

The Treasury's IT team immediately made available two different video conferencing facilities and the team is now used to seeing each other on screen. Our well-being initiative is important; most of the team are not living on their own but I think we all miss the companionship of working together in the office. Virtual coffee, team quizzes and team video calls have filled much of the gap. One new staff member arrived in April and I hope feels relatively well-settled into the team, despite not yet seeing any of us in the office. We have also supported the Treasury by lending two staff members to help with some of their additional work from the pandemic.

The OTS is the independent adviser to government on simplifying the UK tax system. 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. We welcome and support the development of a public debate on tax simplification.

## Our Work

2019-20 has been an unusual year, where commissioning new work has been affected by the significant political developments of the last year, including the General Election, and working with three Chancellors.

### Inheritance Tax

We started the year by continuing our work on the second report on Inheritance Tax, commissioned in 2018 by Chancellor Philip Hammond. We received a great many contributions from individuals and professional bodies, as well as from the All Party Parliamentary Group on Inheritance Tax and Intergenerational Fairness, which subsequently produced its own report advocating a gift tax.

Our final report was published in July 2019. We were pleased by its reception in the media, where many liked the recommendations for policy packages – combinations of measures - to produce a tax that is more understandable by non-experts. The policy package approach allowed us to recommend solutions that combined raising money and giving away money to produce a more coherent tax structure.

One particular highlight of our work on inheritance tax is that HMRC's statistics group undertook considerable new analysis on the tax, so that our reports could give much more information than has ever been available about taxpayers and their use of reliefs. We look forward to the Chancellor's response to both inheritance tax reviews, recognising that he has a considerable number of pandemic-related tasks to deal with at the moment.

### Life events

The other report we continued from Spring 2019 became "Taxation and Life Events: Simplifying tax for individuals", which we published in October 2019. This report was undertaken on our own initiative and looked at particular life events for individual taxpayers which could give rise to tax complexity, cost and uncertainty.

The report offered high level recommendations in five areas: the High Income Child Benefit Charge; the operation of PAYE, as people start work or first receive a pension; the workings of pension reliefs and charges; the ability for people to assist others who may have lesser capacity; and the potential for better information and education about tax. It is clear that the government is considering action on some aspects of pensions, highlighted in our report.

### Tax reporting and payment

We also undertook a short scoping report on Tax reporting and payment: Simplifying tax for self-employed people and residential landlords. We know from previous OTS work that many self-employed people – especially those on lower pay – find reporting hard and do not like having two large, unpredictable tax bills each year.

The study considered whether third-party reporting could play a role in helping individuals with their tax compliance. It recommended that HMRC invest in an enhanced Personal Tax Account, including the elements currently in the separate Business Tax account, and add in a current year calculator and easy facility to make voluntary payments. With this in place, there could be a valuable role for third party reporting, but only in those sectors where there is significant involvement of intermediaries. The report noted the importance of aligning UK requirements for third party reporting with international arrangements, so as to have a common standard.

### Current and Future work

Our last annual report mentioned the value in doing reviews of some of our important reports, to assess progress and consider whether the landscape had changed such that some of our recommendations needed to change. Our first review, of our November 2017 VAT review, was published in October 2019 and our second review of our Corporation tax and Capital Allowances and Depreciation reports has just been published.

In February 2020 we launched a potentially wide-ranging review into the more commonly used Claims and Elections across a variety of taxes. The Call for Evidence



closed on 8 May and the team are currently reviewing and analysing the many helpful responses received. We hope to publish our report in the autumn.

A week or two ago, the Chancellor commissioned a major review into Capital Gains Tax. We were able to publish our scoping document and Call for Evidence right away and look forward to hearing from taxpayers and professionals who can help us with their experience of the tax and its administration.

## 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 visited many different branches whilst we could and hope to do so again in the future.

We would especially like to thank members of the public who complete our surveys and send us suggestions, all of which help us make better recommendations for change.

## OTS: the tenth anniversary

The OTS was established in September 2010, under the chairmanship of Michael Jack CBE, with John Whiting CBE as tax director. We last held a conference on 28 February 2019 and are planning a follow-up on 7 September 2020. Unlike 2019, this event will not be at a physical venue but will be online. This offers the big advantage that we can invite participants from all parts of the UK – and indeed internationally. We hope that many people will be able to join us to mark the achievements of the first ten years, consider current activity and ask questions about our future.

## Our staff and our links

The OTS maintains a unique mix of team members with both public and private sector experience. We have seen changes in the team over the year, as colleagues have moved to new roles in other government departments and our most long-standing team member, Andy Richens, retired from the OTS. We would like to thank everyone for their help and wish them well in new roles. We have recruited additional policy advisers to take their place, including one who joined whilst the team is working from home. We all hope to meet up when we can!

Our mix of policy advisers, together with our strong links with the external tax community as well as within the exchequer departments, places us in a strong position to bring together all points of view. We continue to be grateful to our Head of Office, David Halsey, for his support and strong contribution to our work.

I would also like to thank very much all our team members for their continued strong contribution. Last year's team photo was taken in the Drum – the central

courtyard of the Treasury building. This year's photo was snapped on a video conference call!

Last - but by no means least - we would like to thank our colleagues in HM Treasury and HMRC for their invaluable support and challenge and their help in ensuring that our recommendations are achievable. We recognise that both the Treasury and HMRC have needed to divert very substantial resources to providing support in the pandemic; they have also managed to support our work, which is much to their credit.

## Contacting us

We receive and always welcome comments and suggestions for further areas of our work from members of the public as well as tax professionals. Experiences and perceptions are all valuable in deepening our understanding of the impact of tax complexity. Please (preferably) email us at [ots@ots.gov.uk](mailto:ots@ots.gov.uk) or write to the Office of Tax Simplification, 1 Horse Guards Road, London SW1A 2HQ.



Bill Dodwell - Tax Director

# Chapter 2

## Themes and impacts

In the year to March 2020, the OTS published four substantive reports addressing a wide range of themes. The Office also published an update paper on the impact of its previous reviews into VAT and, this July, into Corporation Tax.

### Small businesses

The experience of small businesses, whether operated by a sole trader, in partnership or through a company, is always a particular focus for the OTS.

The OTS's report on Everyday tax for smaller businesses (May 2019) explored the tax challenges faced by small businesses by reference to the stages or events a business might encounter as it develops. In particular, the OTS called for

- business to have access to cross-government advice 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 of tax agents, by building this consideration into the development of HMRC systems and policy thinking

The Chancellor and Financial Secretary to the Treasury responded to this report on 5 November 2019. They noted that this 'wide ranging report contains valuable insight into improving the tax environment in which small businesses operate' and stated that the government accepted the majority of the core recommendations.

They then gave clear commitments in two of the three areas highlighted above:

- HMRC are integrating the way Income tax process reform is overseen through its Income Tax Oversight group (under the leadership of HMRC's Directors for Tax Administration, Customer Insight & Design, and Operational Excellence), which provides support for key areas which impact the health of income tax administration, including PAYE and Self-Assessment
- HMRC have appointed a senior official to provide renewed leadership on HMRC's Agent Strategy, with a focus on ensuring constructive engagement in these areas.

## Inheritance Tax

The OTS published its second report on Inheritance Tax in June 2019. This report was devoted to the design of how the tax works, complementing the November 2018 report on IHT administration.

The recommendations in this second report, some of which were aimed at changing features of the tax to fit better with people's likely intuitive expectations, included:

- reducing the 7-year gift period to 5 years and abolishing the present taper relief that applies to gifts made in the years before death
- that where a relief or exemption from Inheritance Tax applies, the removal of the capital gains uplift (where with the recipient being treated as acquiring the asset at the base cost of the person who has died)

The Chancellor has yet to respond substantively to these two reports.

## Personal taxation

The OTS's report on Taxation and Life Events (October 2019) considered the impact of income tax on individuals at different key stages or events of their lives, mirroring the lifecycle approach of the Everyday tax for smaller businesses report.

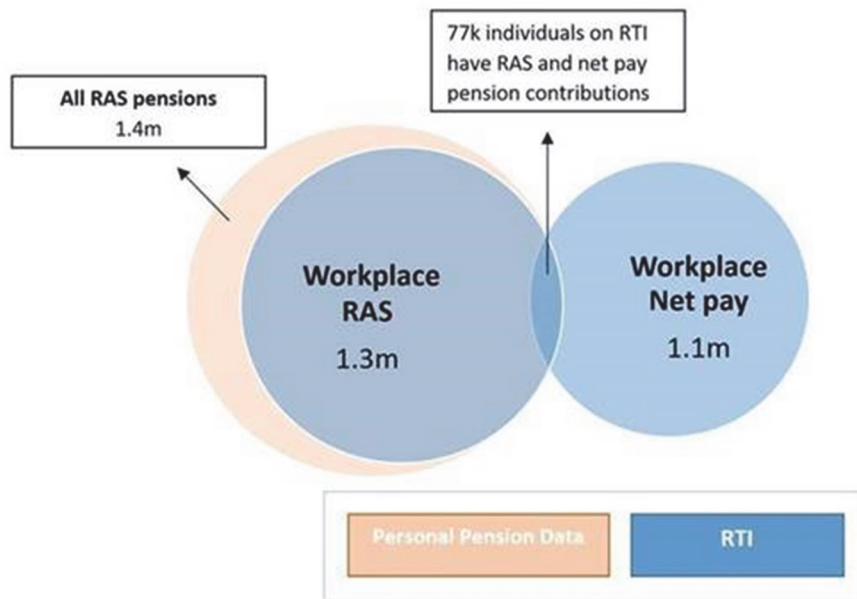
The areas of focus which emerged were

- the high income child benefit charge
- the operation of PAYE as people start work or first receive pensions
- the workings of pension reliefs and charges
- ways people can assist others who may have lesser capacity
- the potential for better information and education about tax

Of the 15 recommendations, two were concerned with

- the difference in outcomes that can be experienced by people earning less than the personal allowance if their employer uses a 'net pay' pension scheme as opposed to a 'relief at source' (RAS) arrangement
- the anomalies that can arise in relation to the operation of the annual and lifetime pension allowances (often commented on in relation to the NHS)

Chart 2.A: Numbers of people in pension schemes with income under the personal allowance in 2016-17



Source: HMRC data using information on personal pensions and from the PAYE 'Real Time Information (RTI) system

## Tax reporting and payment arrangements

The OTS also published in October 2019 an initial exploration of possible ways to make the tax simpler for self-employed people and residential landlords, including through the use of Technology, building on earlier OTS work in this sphere.

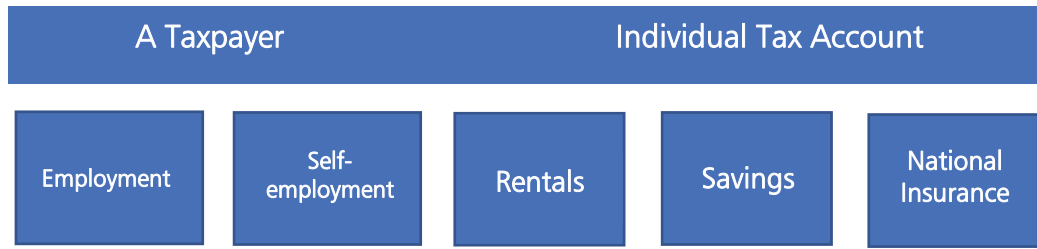
Recognising the increasing number of self-employed people in recent years, the report considered existing and future options that would enable information to be reported, and potentially for tax to be paid, closer to real time.

There is a great range of situations and activities undertaken by self-employed people and residential landlords, so that no one change will work in all of them.

Key to progress in this area, and the OTS's main recommendation, is for HMRC to invest in a fully integrated Individual Tax Account, providing an end-to-end tax reporting and payment service, whether in relation to

- individuals wanting to keep closer track of their tax and perhaps make more frequent payments, or
- the potential for greater use of third-party data in sectors of the economy where such third parties pay a significant role in business operations

Chart 2.B: Illustration of the Individual Tax Account structure



Source: OTS

## Impact of our work

The impact of our work is demonstrated in a variety of ways, including formal responses from government ministers, action taken on our recommendations, a more informed (we hope) public debate and our wider influence within government.

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

The OTS has begun publishing evaluation update notes on our more significant reports, to update stakeholders and add further to the impact of the Office's work.

The first of these evaluation update notes concerned our 2017 VAT report and was published in October 2019. It noted progress on a number of fronts, including the publication in July 2019 of a Call for Evidence on the simplification of partial exemption and the Capital Goods Scheme. It also pointed out areas where little progress had yet been made.

A further update note in this series was published in July 2020, concerning our 2017 Corporation Tax report and our 2018 report 'Accounting Depreciation or Capital Allowances'. This noted some progress on specific points, and a longer-term influence on HMRC's ongoing thinking about potential approaches to simplifying corporation tax for smaller companies. We will continue to support work in this area.

This note also provided a stock take of the Office's work on related issues concerned with the distortions resulting from the differences in taxation of employees, self-employed people and those working through personal service companies.

# Chapter 3

## Projects, Partners and People

### Projects

The OTS has worked on the following reviews requested by ministers in 2019-2020:

- Simplifying everyday tax for smaller businesses: a further business life cycle review (report published 16 May 2019)
- Inheritance Tax review – second report: Simplifying the design of Inheritance Tax (report published 5 July 2019)

During 2019-20, the OTS has also published:

- an update paper on its 2017 VAT review (1 October 2019)
- a report on Taxation and Life Events: simplifying tax for individuals (10 October 2019)
- a pathfinder report on tax reporting and payment: simplifying tax for self-employed people and residential landlords (31 October 2019)
- In addition, the OTS carried out preparatory work relating to a variety of possible future projects, including in relation to Capital Gains Tax.

### Partners

We continue to rely on and build our relationships with our key partners within government, HMT and HMRC, with our reports benefiting from their constructive challenge and engagement. In particular our relationship with HMRC's Knowledge Analysis and Intelligence Directorate (which provides much of the data for our reports) has been strengthened through clearer mutual working arrangements.

We continue to maintain our relationship with the Administration Burdens Advisory Board of which our Tax Director is a member and whose Chair is on our Board.

We continue to engage widely with stakeholders in the private sector, including tax professional and industry bodies, academics, charities and international bodies who have an interest in our work. Each of our published reports provides a list of the organisations we have consulted with or from whom we have received written representations in relation to the project concerned.

We have also seen a rise in the level of engagement by members of the public in relation to the surveys we run as part of the data gathering for our reviews. This is in part due to the increase in the media coverage we have secured for our work.

## People

### The Board

Legally, the OTS consists of its Board, whose members from 1 April 2019 to 31 March 2020 were:



**Kathryn Cearns OBE**

Chair, OTS



**John Cullinane**

Tax Policy Director  
Chartered Institute of Taxation



**Bill Dodwell**

Tax Director, OTS



**Dame Teresa Graham DBE**

Chair of the Administrative Burdens  
Advisory Board (ABAB)



**Jim Harra CB (until 12/3/20)**

First Permanent Secretary & Chief Executive  
HM Revenue & Customs



**Paul Johnson CBE (until 20/1/2020)**

Director of the Institute  
for Fiscal Studies



**Kathleen Russ**

Senior Partner  
Travers Smith LLP



**Beth Russell**

Director General, Tax and Welfare  
HM Treasury





Ruth Stanier OBE (from 12/3/2020)

Director General Customer Strategy and Tax Design  
HM Revenue & Customs

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

Paul Johnson resigned on 20 January 2020. Following an advertised recruitment process Professor Judith Freedman CBE was appointed from 25 May 2020.

## The team

The OTS team is led by Head of Office, David Halsey who also acts as secretary to the Board.



A total of 20 people worked for the OTS at some point during the year to 31 March 2020, in either full time or part time roles. They were Charlotte Alderman, Sally Campbell, Sophia Cogliano, Bill Dodwell, Sarah Glover, Michael Govind, David Halsey, Simon Jackson, Daphna Jowell, Zoë Judd, Bethan Kay, Nigel Mellor, Julia Neate, Sylvia Otieno, Andrew Parrock, Mark Pickard, Eileen Rafferty, Andy Richens, Robin Williamson MBE and Sue Youngman.

Across the year this was the equivalent of 9.1 full time people, and a further 0.3 of a full-time person on free loan from HMRC.

The OTS has continued to employ a broad mix of staff from both the private sector and on loan from HMT and HMRC, to benefit from a wide variety of knowledge and experience.

### The OTS Budget

The OTS's budget for the year April 2019 to March 2020 was £1,021,000, of which the pay element was £820,000.



