

The 2021 Statutory Review of the Office of Tax Simplification: OTS evidence for the review

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Foreword

This document is intended to support HM Treasury's review of the OTS, which was announced on 23 March 2021 by the Financial Secretary to the Treasury and in relation to which the Treasury published a Call of Evidence on 12 May 2021.¹

It is evident that there is still much to be achieved in simplifying the tax system and plenty of opportunity for the OTS to contribute to this.

The OTS accordingly welcomes the review as an opportunity for all interested parties – government, taxpayers and tax professionals alike – to consider what, if anything, they think the OTS should do differently, and ways in which its impact and effectiveness could be increased.

This document aims to support this by laying out the context of the work we do, to give some indication of what we think works well at present based on our experience in recent years and to outline some of the challenges that lie ahead.

The document also identifies three potential reforms that could assist in this respect:

- slightly expanding the OTS Board to widen the range of skills and experience it can provide
- for the OTS to have appropriate opportunity to contract external research surveys to support the OTS's work
- for Ministers, the Treasury or HMRC to considering responding publicly to OTS reviews which are not commissioned by the Chancellor, to improve the visibility and impact of the OTS's work

It will of course be for the Treasury to determine any changes they wish to make, or to recommend to us or to Ministers as a result of all the contributions made to the review.

We look forward to working with them and HMRC in strengthening and equipping the OTS for the future.



Kathryn Cearns – OTS Chair



Bill Dodwell – OTS Tax Director

¹ <https://www.gov.uk/government/publications/review-of-the-office-of-tax-simplification-call-for-evidence>

The current role of the OTS

The remit and objectives of the OTS

- 1.1 The Office of Tax Simplification (OTS) is the independent adviser to government on simplifying the tax system. The work of the OTS is rooted in improving the experience of all who interact with the tax system. The OTS aims to improve the administrative processes, which is what people actually encounter in practice, as well as simplifying the rules. These are often of equal importance to taxpayers and HM Revenue & Customs (HMRC).
- 1.2 The remit of the OTS extends to taxes HMRC that are responsible for, including direct and indirect taxes, duties and national insurance contributions. This includes taxes paid and collected by businesses and individuals. But it does not include tax credits or taxes administered by local authorities or devolved governments.
- 1.3 The role of the OTS is to provide advice to the Chancellor on the simplification of the tax system, either at the Chancellor's request or of its own accord.¹ It is then for the government to consider its recommendations, and to proceed as it sees fit, taking a range of other considerations into account.
- 1.4 By its nature the OTS looks at the tax system as it is (sometimes referred to as the 'stock') and then makes recommendations for the government or HMRC to consider.
- 1.5 It is not directly involved in the processes involved in the government making new policy through the Budget process (sometimes referred to as the 'flow'). This delineation reflects and is inherent in the OTS's independent advisory role, one step removed from the day to day functioning of government.
- 1.6 The OTS is however able to address significant policy questions, to evaluate their potential desirability in terms of their impact on the Exchequer, as well as the impact on the day to day experience of the tax system for millions of people. This is evident, for example, from the OTS's work on the alignment of Income Tax and National Insurance Contributions, and on Inheritance Tax and Capital Gains Tax.
- 1.7 This illustrates the wider role the OTS can and does play in the tax policy making process beyond its published reports. The OTS promotes a more

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/522874/20160512_ots_draft_revised_framework_document.pdf

informed public debate, and offers support to HMRC and HMT in their work, whether on specific OTS recommendations or more widely in relation to their own work on tax simplification.

- 1.8 The OTS continues to be free to explore simplification in the broadest sense. This reflects the fact that there is often no clear boundary between technical and administrative issues and bigger picture policy questions where simplification considerations are no less relevant, and the OTS's unique constitutional position.

The challenge of tax simplification

- 1.9 As noted above, the OTS is an advisory body with no authority to make changes to the tax system.
- 1.10 This goes to the heart of tax policy making in the UK – and indeed in almost all countries. While there are different approaches and philosophies towards taxation; it is not the role of an adviser to make those philosophical or political choices, which are for the elected government.
- 1.11 Governments will take tax policy decisions in the light of their broader economic and political objectives, supported, in the UK context, by advice from HM Treasury and HMRC.
- 1.12 The OTS is well equipped to offer technical advice on tax – but constitutionally it remains advice. It is important for the OTS – even in work not commissioned by the Chancellor – to work in areas relevant to objectives of HMRC and HM Treasury and to make a good case for reform in those areas.
- 1.13 There are a range of reasons why recommendations from the OTS may not be implemented, in whole or part. These include:
- Political and/or economic choices made by ministers: in many areas of tax there is room for a wide range of opinion on policy choices – and no adviser on tax issues is equipped to make those choices. In addition, political or economic circumstances may have changed.
 - Insufficient resources to take forward recommendations: drafting new tax law or making administrative changes take up financial, systems and people resources, which may be dedicated to other priorities.
 - Costs and benefits of implementing recommendations – after further investigation, it may be found that the Exchequer cost of some recommendations exceeds their perceived benefit.
 - Additional policy development work may reveal that the recommendation is unlikely to achieve its intended benefit or has unappreciated drawbacks.
- 1.14 More widely, some OTS reports explore potential directions for future policy over the longer term rather than providing a set of detailed recommendations for immediate implementation:
- The 2016 report on harmonising the base of income tax and national insurance probably falls into that category, as does the 2018 consideration of whether to move to accounting depreciation instead of

capital allowances (where the report recommended against making such a major change – although it did contain several smaller recommendations relevant to the current system).

- The 2019 Tax Reporting and Payment report considered the high-level case for introducing additional third-party reporting obligations, while acknowledging that further work would be needed from the OTS or HMRC if the area was to be taken forward to implementation.

1.15 HM Treasury and HMRC do sometimes consult or ask the OTS for more detail on its recommendations, but as an advisory body, the OTS has not been directly involved with policy implementation.

1.16 If the OTS were to have a more formal role in taking forward tax policy changes from its recommendations, there would be a number of potential ramifications. It could be positive for the OTS to be part of an implementation team; though this could mean that the OTS became part of the Budget process, which may be challenging for its independent status. The OTS might also need to grow in size and possibly expand its mix of skills.

1.17 It would be hard to bring the same value outside those areas where the OTS has an evidence base from recent work, or the broader experience of senior team members.

1.18 More generally, it is not obvious that it would help governments for the OTS to seek to provide an additional policy making function, given the intrinsic role played by HM Treasury and HMRC. It would also need to be considered whether, and how feasible, it was to do this while offering its independent perspective.

The importance of tax simplification

1.19 Tax simplification remains as important as ever and connects to a range of other Government objectives. This is because a simpler tax system, which is more intuitive and easier to understand, would:

- Improve public confidence – so people can understand where their money is going
- Boost compliance – so that it is easier for taxpayers to comply and for HMRC to police the system
- Empower people – to make the right decisions for their own circumstances through better understanding the consequences of their interaction with the tax system

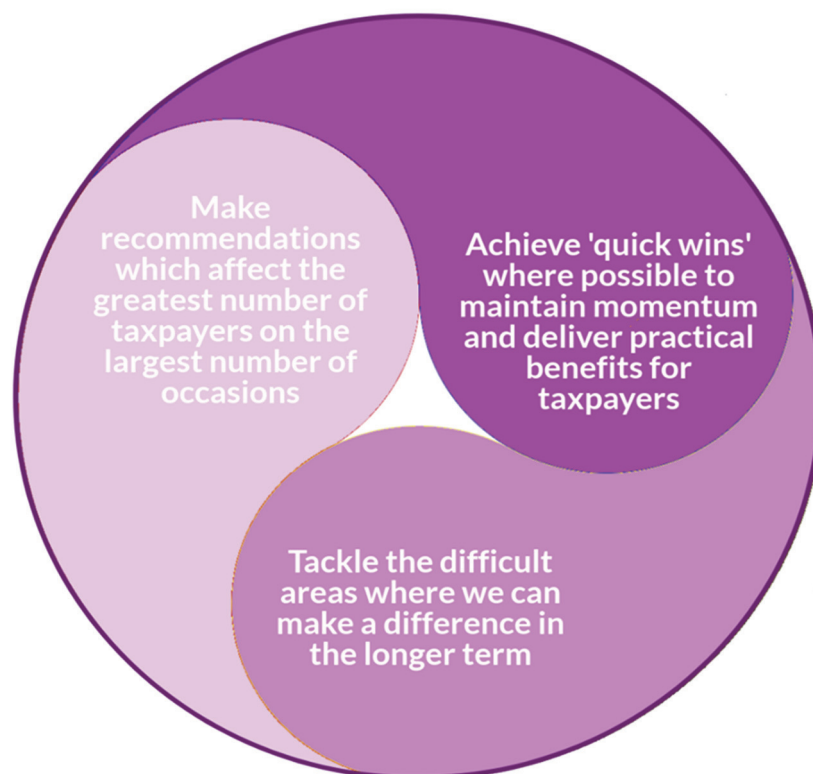
1.20 From an economic perspective, an efficient tax system should be as neutral as possible, to minimise distortions to taxpayers' business and family choices. A non-neutral tax system risks incentivising inefficient economic activity or complex sub-optimal decision making. However, intervention can be needed to support social objectives or prevent market failure.²

² See for example the discussion in The Economic Approach to Tax Design, Mirrlees Review (2011). <https://www.ifs.org.uk/uploads/mirrleesreview/design/ch2.pdf>, page 40

- 1.21 It is for the government to weigh all potential drivers of tax policy in the UK - such as fairness, economic growth and revenue raising - as well as simplification. Most of these drivers have public advocates and obvious benefits but the OTS is the only organisation in the world which is dedicated to proposing ways of simplifying the tax system.
- 1.22 While the OTS always draws attention to the implications of any proposed policy changes on tax revenues, it is not constrained to ensure that the outcome of any changes is revenue-neutral or indeed asked to aim for any specific outcome in this respect. Some recommendations would lead to more revenue if implemented, while others would result in less revenue. OTS recommendations are based on static costings; it is highly likely that behaviourally adjusted costings would be developed by HMRC's Knowledge, Analysis and Intelligence Directorate (KAI) and used by the government in taking forward a policy or administrative change.

The OTS strategy

- 1.23 The OTS has worked to a simplification strategy made up of three interconnected principles:



- 1.24 Most OTS reports include recommendations in more than one of these three categories and many recommendations have wider simplification impacts, beyond their immediate purpose or context.
- 1.25 The OTS will use the output from the review in revisiting these strategic objectives to ensure that its focus remains fit for purpose and that its

objectives remain as useful in informing its work as they were when they were formulated in 2018.³

- 1.26 Much of the OTS's work is concerned with improving HMRC administrative processes and, increasingly, with developments in its use of technology to make things easier for taxpayers, as with the first Inheritance Tax report, the Tax Reporting and Payment report, and the report on making smarter use of Third Party Data.
- 1.27 In addition, the OTS considers technical improvements to the way legislation operates in practice, to remove practical frustrations or make the system more intuitive, as for example in with second Capital Gains Tax report.
- 1.28 Other aspects of OTS work are concerned with raising awareness of the rules. A recent YouGov survey commissioned by Deloitte on the Tax Education Gap confirmed that tax knowledge is important, as tax affects so many economic and family choices⁴ and without it people may not understand the implications of particular decisions.
- 1.29 Tax knowledge also has an impact on the tax gap (the difference between the amount of tax that should be paid, and what is actually paid). Addressing this wider issue could give HMRC greater ability to tackle evasion and avoidance and reduce the level of unintended error.
- 1.30 As with all of its work this involves giving careful consideration, in discussion with HMRC and HM Treasury as well as with other stakeholders, to the practicalities of administration and compliance, and to ways in which simplification could improve the day to day experience of taxpayers in navigating the tax system.
- 1.31 In this and other respects, the primary focus of the OTS is tax issues affecting individuals and small businesses. In doing so the OTS pays full attention to the impact of complexity on HMRC and tax advisers.
- 1.32 Simplification may also require a more holistic approach to remove distortions to taxpayer behaviour, as explored in the very first report from the OTS on Tax Reliefs and more recently in the first Capital Gains Tax report or the second Inheritance Tax report.

³ <https://www.gov.uk/government/publications/office-of-tax-simplification-publishes-2017-18-annual-report>

⁴ The Tax Education Gap – is it time to talk tax?, Deloitte, p1.
<https://www2.deloitte.com/uk/en/pages/tax/articles/tax-education-gap.html/>.

The unique position of the OTS

Overview

- 2.1 It is clearly for the government to set its tax policy objectives, not least because taxation is a political matter, requiring direct democratic accountability. Development and implementation of tax policy is the responsibility of the HM Treasury and HMRC Policy Partnership. This is a key reason that the OTS is constituted in the role of an adviser to government, rather than having any executive role.
- 2.2 The OTS occupies a unique position, with
- a statutory mandate as a standing adviser to government, giving it an independent voice, and the freedom to consult widely, and confidentially, on its own initiative
 - a trusted position within government, facilitating confidential discussions with HMT and HMRC officials and access to HMRC policy analysis data
 - its Board and its staff drawn from a wide range of backgrounds including the tax profession, HMRC and HMT
- 2.3 This is a particular reason why it is important for the OTS to take a broad view of tax simplification, as there is no other body which occupies a comparable position from which to operate in this sphere.

OTS governance

- 2.4 The OTS was originally established in 2010 as a temporary office of the HM Treasury, under the chairmanship of Michael Jack CBE, with John Whiting CBE as tax director. The OTS was expanded and made a permanent independent office of HMT in July 2015 and placed on a statutory basis in Finance Act 2016.
- 2.5 The Chancellor is ultimately responsible for the OTS and accounts to Parliament for its management and performance, other than the contents of its reports. The Chancellor may delegate some or all of his OTS responsibilities to the Financial Secretary to the Treasury.
- 2.6 The OTS is also accountable to Parliament in relation to its work:
- the OTS's reports to the Chancellor and its annual reports are laid before Parliament
 - the Treasury Select Committee (TSC) may choose to hold a post-appointment hearing regarding the Chair and Tax Director

- the Chair and/or Tax Director may be invited to give evidence to the TSC or other Parliamentary Committees on the contents of its reports or any another aspect of the Office’s work
- 2.7 The Treasury Select Committee conducted a post-appointment hearing for the Chair in March 2019, but not for the Tax Director. It invited the Tax Director to give evidence to its Tax After Coronavirus inquiry but has not sought to give consideration to specific OTS reports.

OTS Board

- 2.8 The OTS is led by a Board of up to eight members who are supported by the OTS staff team.
- 2.9 The Chancellor is responsible for the appointment of the Chair and Tax Director (in consultation with the Chair) and for appointing senior HMT and HMRC executives to the Office’s Board.
- 2.10 HMT and HMRC Board members have a particular role in facilitating smooth working relationships with HMT and HMRC staff, and for ensuring that the OTS has access to the necessary facilities and expertise, including from KAI, in an accessible and timely manner, in line with the framework document.
- 2.11 Up to four additional members of the Board can be appointed by the Chancellor on the Chair’s nomination. In recent situations where vacancies occurred, these Board positions were filled through an open recruitment process. A facility for up to two observers to be appointed by the Chair after discussion with the Financial Secretary to the Treasury was recently introduced. The Chair of HMRC’s Administrative Burdens Advisory Board (ABAB) is either one of the additional members or an Observer.
- 2.12 The Chair and Tax Director are responsible for the Office’s work, including the content of its reports. All the reports produced by the OTS are published, as is the Chancellor’s response if the report is Chancellor commissioned.
- 2.13 The OTS Board:
- meets regularly throughout the year, normally bi-monthly
 - provides leadership and direction to take forward OTS strategic aims and objectives
 - ensures the work programme is appropriately focused on the impact to the taxpayer and prioritised to maximise the value of its impact
 - ensures the work of the OTS is aligned with other related bodies
- 2.14 The diverse range of skills, expertise, and knowledge that it is desirable for the Board to have includes but is not limited to:
- bringing relevant tax expertise and skills and experience in a related field (such as tax policy, academia, economics, or as a practitioner)
 - bringing experience of, or an interest in, the taxation of smaller businesses, individuals or unadvised taxpayers
 - bringing an informed, realistic and independent personal mindset to bear

- being able to draw on their expertise, skills and experience without simply acting as a representative of a particular professional body or interest group
- being able to work collaboratively with, and appropriately challenge, other Board members, and others with diverse backgrounds, expertise or experience
- being willing and credibly able to fulfil the role and its responsibilities.

2.15 The majority of these skills and experiences are well represented on the current Board.

2.16 However, while the recently added facility for observers is very welcome, to maintain and enhance this wide range of expertise and diversity of perspective as the OTS's work continues to evolve, it may be beneficial for there to be the facility for one or two additional Board members. This would both widen the range of skills and experience feeding directly into Board discussions and ensure the balance of the Board favours independent members over those closer to government or acting in an executive capacity in the day to day work of the OTS. Such a change would require primary legislation.

The workings of the OTS

OTS staff and resourcing

- 3.1 As an Office of the Treasury, the overall level of the OTS's staffing and its budget are agreed through HMT's annual business planning process and is accounted for in HMT's published accounts.
- 3.2 The cost of the pay budget is shared between HMT and HMRC. The budget for non-pay items (corporate services such as accommodation, IT and HR) is borne by HM Treasury.
- 3.3 The OTS's staffing has been set at a level of up to 10 full-time equivalent people since the OTS was put on a statutory basis in 2016. In 2020-21 its budget was £1,030,000, of which the pay element was £825,000. During that year, a total of 14 people worked for the OTS at some stage, either full time or part time.
- 3.4 The OTS has always sought to harness the best of both private and public sectors with a professionally diverse team made of people from across HMT, HMRC and the private sector, supported by our office manager, sometimes supplemented by specialists recruited on a fixed term basis or on loan for particular projects.
- 3.5 In its early years, reflecting the OTS's previously exploratory status, staff were recruited from the private sector tax profession on secondment, or on part time fixed term contracts, to work on specific reviews, alongside a small number of staff on loan from HMRC or HM Treasury. Moving to permanent status and with increased resources enabled the Office to change its staffing model in 2018, with nearly all OTS staff now being appointed on permanent terms. It has remained the case that recruits from the private sector have nearly always been appointed on a part-time basis.
- 3.6 Accordingly, there is now an expectation that all members of staff will work on different areas of tax as necessary, as well as bringing their particular experience and perspectives to bear on multiple areas of work. This has deepened the flexibility, diversity and resilience of the team, and enabled and supported team members' personal and professional development at different stages in their careers.
- 3.7 The OTS also employs its own part-time communications specialist, to advise on the strategic management of our independent communications activity, to build direct relationships with journalists and to steer and handle proactive briefings ahead of major publications, with day to day support from the HMRC press office. Articles in the national press and other media,

including the use of Twitter¹, help bring tax issues to the attention of many more taxpayers, alongside the ideas and recommendations from the OTS. Media articles are also vital in prompting members of the public to respond to OTS surveys.

- 3.8 The OTS has not recruited staff from other specific disciplines, such as data analysts, economists, behavioural scientist or tax technology experts. This is partly because of the variable level of work of these kinds in the context of a small team, but also because of the need to secure that input from someone who has direct access to the data, knowledge and insight only available from within HMRC or HM Treasury.
- 3.9 The OTS has however greatly valued the work of academics in areas relevant to its work, for example in relation to the bunching of VAT registrations below the threshold² and the wealth distribution of those paying Capital Gains Tax,³ and has commissioned external research analysis on the prevalence of people with multiple employment or self-employments.⁴
- 3.10 The OTS has sought input from specialists through its consultative committees. For example, the Technology review was supported by several private sector technologists. Economists have regularly joined consultative committees, such as those for inheritance tax and for capital gains tax.
- 3.11 While the OTS does make extensive use of simple surveys in support of its reviews, they respondents compared re not comparable to surveys produced by professional survey companies. Securing fully representative surveys of that kind in support of the OTS's work would require additional funding, perhaps in conjunction with HMRC's work in commissioning such surveys, but could be another practical area it may be helpful to explore following this review.

Collaboration within government

- 3.12 It is of the essence of the OTS that it speaks publicly with an independent voice.
- 3.13 However, it very clearly cannot and does not seek to work in isolation. In particular, the work of the OTS would not be possible without the support and encouragement of officials across HM Treasury and HMRC, and active engagement from Treasury ministers.
- 3.14 This input is necessary to ensure that the OTS reviews areas or issues that are of interest to those who would have to decide whether and how to implement them. Reviewing an area of the tax system that is not of current interest to the government would be unlikely to lead to meaningful changes to the tax system. This is, however, considered in the context of the OTS's

¹ www.twitter.com/ots_uk

² <https://www.gov.uk/government/publications/ots-report-on-routes-to-simplification-for-vat-is-published> Para 1.13ff

³ <https://www.gov.uk/government/publications/ots-capital-gains-tax-review-simplifying-by-design> Para 1.22ff

⁴ From the Resolution Foundation: See <https://www.gov.uk/government/publications/ots-publishes-further-report-on-the-closer-alignment-of-it-and-nics> para 1.6ff

strategy of looking at where the greatest impacts fall on the largest number of taxpayers.

- 3.15 Collaboration with HMT and HMRC is also essential as they are a crucial source of confidential knowledge, data and practical expertise, in relation to tax policy, tax compliance and operational developments concerning technology or administration. In particular the OTS works closely with KAI to ensure that its reports contain appropriate data about the Exchequer impact or administrative impact of possible policy changes.
- 3.16 This valuable data and taxpayer insight is not generally available to those outside government (the Datalab facilities provided by KAI for academic studies meet a different kind of need). The OTS's ability to access this data, and to commission analysis carried out in a comparable way to that used to advise ministers and prepare costings for fiscal events, and to publish new data or different analysis of data, is one of its unique capabilities.
- 3.17 Notable examples include KAI developing a bespoke model, using ixBRL data, for the Capital Allowances or Depreciation Report,⁵ carrying out new analysis of paper Inheritance Tax returns to establish the number and pattern of gifts made in the 7 years before death,⁶ and establishing the extent of the bunching of reported capital gains just below the level of the Annual Exempt Amount.⁷
- 3.18 The data that KAI is able to provide for the OTS does not usually include consideration of the behavioural effects of proposed policy changes. That would be done as part of any work by HMRC and HMT to take the recommendations forward and means the actual revenue effect may be higher or lower than the static estimates presented in OTS reports.
- 3.19 The OTS also liaises with other government departments and executive agencies where relevant such as the Department of Business Energy and Industrial Strategy, Companies House, the Department of Work and Pensions, and the Department for the Environment Fisheries and Rural Affairs.
- 3.20 The OTS has a specific connection with HMRC's Administrative Burdens Advisory Board, which is chaired by a member or an observer on the OTS Board and of which the OTS Tax Director is a member.

Collaboration outside government

- 3.21 One of the most important aspects of the way in which the OTS conducts its work is the support and input from taxpayers, professional and representative bodies, business organisations, academics, economists and others working in tax.
- 3.22 This mainly comes in two ways:
- in written responses to OTS calls for evidence

⁵ CA or Depreciation report

⁶ IHT2 report

⁷ CGT1 report

- from meetings held with individuals and representatives or members of different organisations
- 3.23 The OTS has also greatly benefitted from members of the public who complete our online surveys and send us suggestions, or details of specific experiences, all of which help us make better recommendations for change. Articles in the national media are a key way of bringing surveys to wider attention.
- 3.24 It remains important that the OTS continue to reach across the UK to get as wide a range of input as possible. To this end, at different times the local branches of the CIOT/ATT, the ICAEW, ICAS and Chartered Accountants Ireland, and VAT Practitioner Groups have been a valuable source of input. Over the last year, the universal adoption of online meeting facilities has significantly enhanced the OTS's ability to increase the number and range of its meetings and to meet with a greater number of people from different parts of the UK. The OTS will aim to retain and enhance this approach as more meetings start to take place in person again and continue to strive to meet the broadest range of taxpayers possible.
- 3.25 For Chancellor commissioned reviews, the OTS will normally establish a Consultative Committee, chaired by the Tax Director, to facilitate close consultation with interested parties in the OTS's work and provide input and challenge to the review process and recommendations. Consultative Committees are made up of around 10 unpaid members drawn from the tax and legal professions, business and other interested parties, economists, and representatives of HMT and HMRC.
- 3.26 In all these contexts, one key feature is that the detail of particular meetings and written evidence given to the OTS is confidential, whether it is from HMRC and HMT or private sector specialists. This can enable the OTS to get more under the skin of issues than it might otherwise be straightforward to do. In some cases, the OTS may seek permission to share or attribute evidence, but confidentiality remains the default.

The OTS's general approach to its work

- 3.27 In carrying out its work the OTS endeavours to:
- research widely among all stakeholders
 - have regard to wider government priorities beyond tax
 - consider the likely implications of recommendations on the Exchequer, the tax gap and compliance
 - take account of relevant international experience
 - consider the implications of devolution of tax powers and different legal systems within the UK
 - be consistent with the principles for a good tax system, including fairness and efficiency
 - be mindful of the effect of taxpayer trust in the operation of the tax system

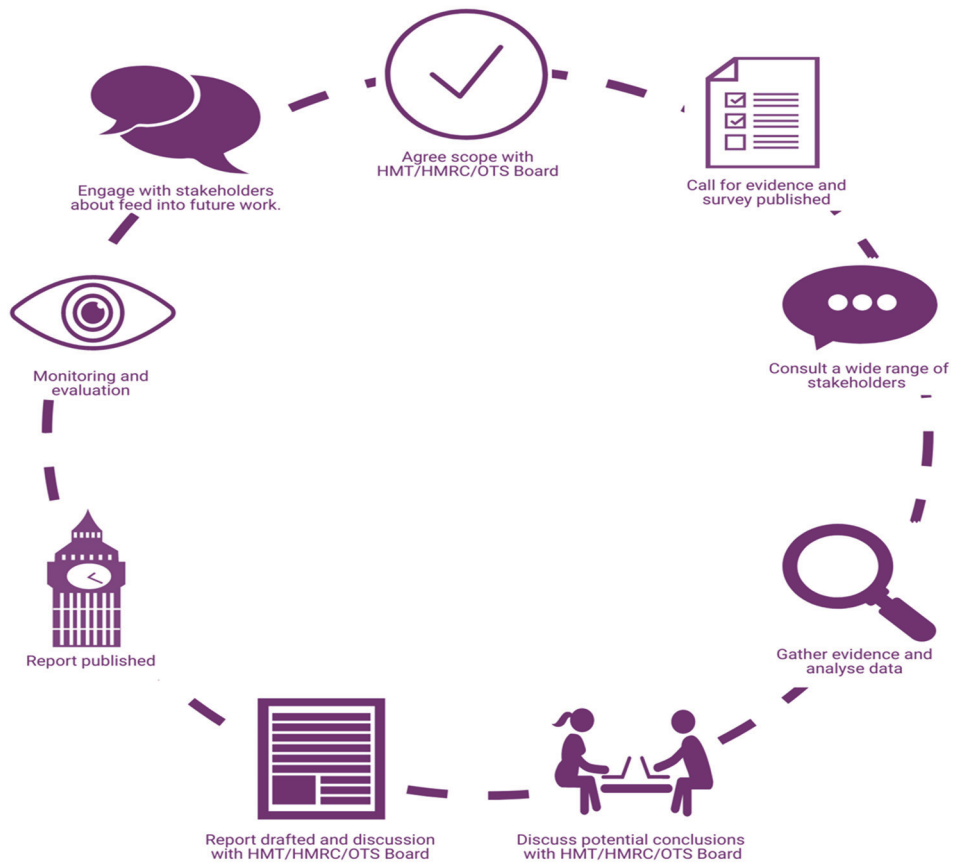
3.28 The OTS's reports set out a summary of the evidence it has collected (including on the views of interested parties), its analysis of potential options and recommendations, taking account of the key trade-offs government is required to make in determining tax policy.

3.29 The process for a typical OTS report broadly runs in the following way:

- 1 **Scoping the work** – the scope of the project is explored, defined and agreed with HMT and HMRC and published in a scoping document.
- 2 **Convene consultative committee** – for Chancellor commissioned reviews the OTS will convene a consultative committee, in consultation with the Board, and hold several meetings with them for the rest of the process
- 3 **Call for evidence** – a more detailed document is published which invites taxpayers and other interested groups to submit written responses or requests to meet. At this stage the OTS will reach out to groups that it knows have an interest in the subject.
- 4 **Online survey** – alongside this a light touch online survey may be published to get a wider view of some of the issues outlined in the call for evidence. Surveys are typically aimed at taxpayers, rather than advisers or representative bodies.
- 5 **Data analysis** – the OTS will engage with HMRC analysts and other sources of data.
- 6 **External Meetings** – the OTS will meet with a wide range of stakeholders.
- 7 **Internal meetings and debate** – the OTS will meet with a range of teams from across HMT and HMRC.
- 8 **Evaluation** - the OTS will bring together the main challenges identified and consider appropriate solutions.
- 9 **Drafting** – the emerging report will go through a number of iterations as it is shared with HMT, HMRC, the consultative committee and of course the OTS Board.
- 10 **Publication** – once a final draft is available the report can be published (and laid in Parliament if it is a Chancellor-commissioned report).
- 11 **Monitoring and evaluation** – the OTS publishes periodic evaluation update notes on major reports and continues to be available to HMRC and HM Treasury as they consider the recommendations.
- 12 **Scoping further work** – Outputs from and responses to previous reports are one influence on the direction and scope of future work.

3.30 This is illustrated in the chart below.

Chart 3.A: Chart



Source:OTS

3.31 The full lifecycle usually takes between six and twelve months although this depends on the nature of specific projects. The OTS aims to strike a balance between doing enough work to bring forward soundly based recommendations and delivering a report within a reasonable time of commissioning.

The impact of the OTS

Overview

- 4.1 Over the last 10 years the OTS has grown into its role and developed a higher profile. At the Office's online anniversary conference¹, Emma Agyemang (Global tax correspondent, Financial Times) said: "when the OTS reports are published, on the day of publication, they are usually the most read articles across all of the FT publications."
- 4.2 This higher profile has been used to stimulate 'expert conversation with government' (Rt Hon Jesse Norman MP, the Financial Secretary to the Treasury) by 'act[ing] as advocate for the mass of general taxpayers and the interests of a simpler tax system' (Jill Rutter Senior Research Fellow, Institute for Government). This in turn has helped the OTS to stimulate a wider public debate about several aspects of the tax system.
- 4.3 Some of the main areas and types of work that have been carried out over the last 10 years are set out below. While it is perhaps more important to consider the last five years (which are formally within the period set for the review), it is also helpful to see this in the context of its first five years, which were not reviewed in this way.

Early projects

Tax reliefs

- 4.4 One of the OTS's first reports concerned the number of tax reliefs in the system, and indeed the OTS was the first body to perform a large scale systematic analysis and categorisation of the tax relief landscape.
- 4.5 The report showed that there were 1,042 reliefs, and this number has grown since then. Following the report, the government removed 43 small or essentially unused reliefs. Specific changes include abolishing luncheon vouchers, simplifying the Gift Aid claims process for charities, and abolishing the Millennium Gift Aid relief.
- 4.6 However, that was not the main or most useful output from this project. The OTS also highlighted the benefit of reliefs being reviewed and monitored to see if they are still effective and proportionate, which later became an area of interest for the Committee of Public Accounts and the National Audit Office, including in relation to their overall cost to the Exchequer.
- 4.7 As a result, in response to this interest, HMT and HMRC have developed improved processes for keeping significant reliefs under active review.

¹ <https://www.gov.uk/government/news/ots-celebrates-tenth-anniversary-with-online-conference>

Cash basis

- 4.8 The cash basis was an early and significant success of the OTS.
- 4.9 Self-employed tax returns can be prepared using cash basis or accruals basis accounting. The cash basis of reporting income from self-employment was introduced in 2013, following a report from the OTS. The cash basis allows micro businesses to account for their income and expenses when they actually receive payment or when they actually pay for an expense. The accruals basis uses accountancy principles to ensure that only income and expense which accrue over the accounting year are recorded in that year, rather than when cash is received or paid. In 2017-18 this treatment was extended to small landlords.
- 4.10 The cash basis currently may be used by taxpayers with gross income up to £150,000. HMRC data shows that approximately 1.1 million self-employed taxpayers reported their income using the cash basis in 2017-18, and the numbers using the cash basis have been fairly static in recent years.

Review of specific taxes

- 4.11 The OTS has carried major reviews into the closer alignment of Income Tax and NICs, VAT, paper Stamp Duty, the Corporation Tax computation, Inheritance Tax and most recently Capital Gains Tax. These have explored potential major policy changes, with an increasing attention to potential behavioural distortions, as well as drilling into a range of technical and administrative issues.
- 4.12 Some of these reports have prompted significant changes from government and HMRC.
- 4.13 For instance, on VAT the government immediately launched a consultation on the VAT threshold and subsequently published consultations on partial exemption, the capital goods scheme and penalties, and has made substantial progress on guidance and communication.
- 4.14 The Financial Secretary to the Treasury responded to the first of the OTS's two Inheritance Tax reports in March 2021 on behalf of the Chancellor, strongly supporting its key recommendations, and announcing that it would:
- change reporting regulations so that from 1 January 2022 over 90 per cent of non-taxpaying estates each year will no longer have to complete Inheritance Tax forms for deaths when probate or confirmation is required; and
 - make permanent the ability for those dealing with a trust or estate to provide an Inheritance Tax return without requiring physical signatures from all others involved, easing the administration burden in cases where an Inheritance Tax return is still required.
- 4.15 Other reports continue to be under active consideration from government and HMRC. For example, the OTS is encouraged that HMRC is continuing to explore simplifications to Corporation Tax for smaller companies.
- 4.16 One feature of a number of these reports is that it can be fruitful for long-standing tricky issues in the tax system to be explored by the OTS in an open-

ended way rather than for government to do so itself, as once a consultation is issued by HMRC or HMT there is that much more of an expectation that a change is both likely and imminent.

- 4.17 Examples include consideration of the level of the VAT threshold, whether to consider switching from Capital Allowance to accounts Depreciation, the Capital Gains tax treatment of assets on death in circumstances where an Inheritance Tax relief also applies, or policy choices about the mismatch of Capital Gains Tax rates and income tax rates. None of these changes will happen overnight – and perhaps not at all - but the OTS is pleased to have made a wider contribution to the ongoing debate.

Lifecycle reports

- 4.18 Another lens through which the OTS has approached tax simplification is through lifecycle or 'topic' based reports, such as those on the Business lifecycle, or exploring tax issues arising from Life Events. These have enabled the OTS to open up discussion of cross-cutting issues that are sometimes overlooked, including issues about how people starting new businesses can best be supported to engage with HMRC.
- 4.19 On Life Events the OTS is pleased that that the government has already sought to act on some of the recommendations. For instance, at Spring Budget 2020 HMT:
- launched a consultation on the potential for reducing or removing the differences in outcomes between net pay and relief at source schemes for people whose income is below the personal allowance, without making it more complicated for those affected,
 - announced changes to the annual allowance in response to the distortions (such as those affecting the National Health Service) that it can produce.

Technology and Tax Administration

- 4.20 The other main strand of our work has been through a variety of reports loosely linked by technological considerations. These include work on the Gig economy, Platforms and Technology, followed by more specific explorations of opportunities to improve Guidance, Tax Reporting and Payment, Claims and Elections and most recently the Smarter use of Third Party Data.
- 4.21 In line with OTS recommendations, HMRC has made good progress on administering and developing guidance since their new guidance team was formed. The OTS welcomes this and has held regular discussions with the Guidance Team. Their work has primarily focused on the new model envisaged by the OTS consisting of three levels of guidance which has at its heart the needs and wants of taxpayers, supported by a new external Guidance Strategy Forum to discuss high level issues about HMRC guidance, with ongoing OTS involvement.

4.22 In this context the OTS has increasingly championed a vision of the future of a Single Digital Account for taxpayers, and it has been encouraging to see this becoming more fully reflected in HMRC's future vision.²

Evaluation

- 4.23 Where a review was commissioned by the Chancellor, then the Chancellor makes a formal public response. Many of these responses, such as the one on VAT³, provide a detailed breakdown of the recommendations indicating which have been accepted, rejected, or are under review.
- 4.24 When the OTS was first set up it produced a rolling log of recommendations, progress with which was then updated. However, this approach became less satisfactory over time given the significant scale of some of the recommendations, the need to take account of changing circumstances since the original work was done, resource constraints on HMRC, and government policy and technology changes more broadly.
- 4.25 Also, in the early days, there was a good deal of interest in the length of the tax code (famously – and inaccurately - said to be the longest in the world, and on which the OTS published a specific analysis). However, complexity and length are not synonymous. The length of the tax code is not actually a pressing issue for the generality of taxpayers and business, whose contact with the tax system is either through online processes, guidance, contact with HMRC or their advisers.
- 4.26 More recently the OTS has begun to take a more thematic approach to evaluation, through periodic evaluation updates particular reports (so far on VAT, Corporation Tax and self-employed taxation and HMRC Guidance).
- 4.27 The OTS also includes a narrative in its annual report describing initiatives from government which have to a greater or lesser extent been driven or influenced by OTS work. In December the OTS published an updated list of past reports and the government's response to them in an Index.⁴

Influencing

- 4.28 In addition, the OTS and its work have a wider effect in informing, challenging and supporting simplification thinking within HMRC and HMT, both through its published work and the range of wider conversations that take place within those organisations and with members of OTS staff.
- 4.29 HMT and HMRC have regularly invited the OTS Tax Director to contribute to stakeholder panels or other fora on issues of wider interest (such as

² Building a trusted, modern tax administration system.

<https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system>

³ Chancellor responds to the OTS report on VAT.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/661062/Letter_from_the_Chancellor_to_the_Office_of_Tax_Simplification__OTS__web.pdf

⁴ Index of reports published by the Office of Tax Simplification

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/941972/Index_of_OTS_reports.pdf

membership of ABAB, the Representative Bodies steering group, and the Powers and Safeguards forum).

- 4.30 A wide range of articles in the national media and specialist tax, accountancy or legal press, and its use of Twitter, bring the work of the OTS to broader attention. The Office also holds public online events, such as its ten year anniversary conference or webinars on specific reports.
- 4.31 Collectively these informal methods supplement the reports that the OTS produce to advance the debate around the best ways to simplify the tax system.

The future of the UK tax system

Scope of future work

- 5.1 Projects that touch on or explore more politically sensitive areas benefit from being Chancellor-commissioned, because it provides assurance both that the OTS is operating within its remit in a way that has the support of the government, and that the work is indeed engaging with issues of significant interest to the government.
- 5.2 Reviewing an area of the tax system that is not of any particular interest to the government would be unlikely to lead to meaningful changes to the tax system and so be a poor use of OTS resources. Equally, it is possible that government might find it useful to have OTS involvement in considering the way forward with bigger picture policy changes.
- 5.3 Other work, formally-speaking carried out on the OTS's 'own-initiative', rather than commissioned by the Chancellor, is typically more administratively focused and touches more immediately on issues directly affecting HMRC, although it can also include legislative solutions.
- 5.4 There is a role for both types of report but it is for consideration, including through this review process, whether the balance between them continues to be right.
- 5.5 While the Chancellor is required to respond publicly to any review that he or she commissions, it is for consideration, including through this review process, whether there could be benefits in Ministers, the Treasury or HMRC sometimes responding publicly to OTS 'own-initiative' reports.
- 5.6 As the OTS turns 11 it expects to continue exploring features of the existing tax system to see where improvements can be made from a simplification point of view, including considering how to minimise distortions, resolve technical issues and ease administration.
- 5.7 Subject to government priorities, the OTS would welcome the opportunity to bring its expertise to bear on any of the following bigger picture issues, all of which are likely to become more rather than less prominent over the next decade:
 - Technology, data and digitisation,
 - Growth of self-employment and working through companies,
 - Pensions and savings,
 - Supporting small business,

- Environmental taxes

5.8 As ever the OTS welcomes suggestions from external stakeholders about what other themes are likely to be prominent over the next few years – although this will be kept under constant review as events and the political priorities of government change.

Technology, data and digitisation

5.9 Since the OTS was formed 10 years ago the world has continued to change. Even before the COVID-19 pandemic more people than ever were working from home and the number of self-employed people had grown rapidly. Government was considering different ways of stimulating investment. And people’s requirements for an effective tax system had also changed as they have increasingly looked to digital solutions to make the experience of paying tax easier.

5.10 Many of these developments will only become more important as the full impact of the COVID-19 pandemic is established. And HMRC’s 10-year vision, and advances in technology, make it clear that this will remain a key area of work for everyone involved in tax, and the OTS is clearly no exception.

5.11 It is a given in the UK that most people do not need to do a self-assessment return and that it is not desired that they should have to do so.

5.12 One of the recommendations in many OTS reports has been for HMRC to invest in the current personal tax account and business tax account – to merge them and turn them into the hub for all taxpayer-HMRC communication and compliance. The OTS first made this recommendation in its Tax Reporting and Payment report in October 2019 and it features in all its recent reports.

5.13 The OTS is accordingly excited to see that the Single Customer Account (as it is now known) is embedded as part of HMRC’s strategy for the next decade. The OTS firmly believes that the Account should help taxpayers understand the tax system better, help them meet compliance obligations and help HMRC engage with taxpayers. Once in place, the Account should help taxpayer trust in the tax authority and reduce costs for taxpayers and for HMRC. The Account should be able to present third party data to taxpayers, which ultimately could lead to greater pre-population of tax returns.

Growth of self-employment and working through companies

5.14 The Corporation Tax evaluation note 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.¹

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/954828/OTS_evaluation_and_stock_take_July_2020.pdf

- 5.15 This is one of the key areas where tax simplification is elusive, essentially because of the size of the potential impacts (both in practical terms for taxpayers and to the Exchequer) that addressing it could easily have.
- 5.16 Progress, and the usefulness of any significant OTS work in this area, will therefore depend on the government deciding to open up some potentially challenging policy issues. One of these is the possibility of creating a statutory employment test for tax purposes, which could remove some of the ambiguity and uncertainty that taxpayers and their engagers can often face.

Pensions and savings

- 5.17 Pensions and savings taxation are two of the most important issues affecting individuals and unfortunately also two of the most complicated.
- 5.18 There are significant political, economic, and fiscal implications of making any changes to pensions taxation.

Supporting small business

- 5.19 The Everyday Tax for Small Businesses report explored the many tax and regulatory challenges that small businesses face.² These challenges are most acutely felt at key growth stages, particularly:
- start-up, when the new business owner has to get, service and keep clients, get paid for their services, and develop a viable business model
 - registering for tax, and
 - taking on a first member of staff, which involves a significant increase in responsibility, administrative process and cost
- 5.20 The OTS expects that ways of making the UK an easier and more attractive place to do business will only become more important as the economy recovers from the effects of Covid-19.
- 5.21 As the OTS explored in the second Capital Gains Tax report, the government could encourage start-up businesses and support existing early-stage businesses through reviewing the rules for enterprise investment schemes, with a view to ensuring that procedural or administrative issues do not prevent their practical operation.³

Environmental taxes

- 5.22 The scope and breath of environmental taxes has grown considerably over the last 30 years – with Landfill Tax introduced in 1996, and Climate Change Levy as well as enhanced capital allowances for energy saving plant and machinery following in 2001.

² Simplifying everyday tax for smaller businesses: a further business lifecycle, OTS review https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817692/OTS_Annual_Report_2018-19_-_web_copy.pdf

³ Capital Gains Tax – second report: Simplifying practical, technical and administrative issues https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/987994/Capital_Gains_Tax_stage_2_report_-_May_2021.pdf

- 5.23 But as the Climate Change Committee (CCC) said that ‘the full range of policy levers, including carbon pricing, taxes, financial incentives, public spending, regulation and information provision [should be deployed]’, and the Treasury has accepted this recommendation, then further environmental taxes or reforms to existing ones could well follow.⁴
- 5.24 There may be scope for the OTS to explore the impact of environmental taxes on individuals and their understanding of the tax rules.

Wider issues

- 5.25 One other common theme, in relation to a range of the issues that keep coming up, is that many of them do not only involve tax.
- 5.26 One also needs to take wider considerations into account, such company regulation or employment law or features of the benefits system, and so there may be potential for the OTS to play a part in wider work that cuts across these areas.
- 5.27 That has the potential to widen the OTS’s liaison work within government considerably and there may be a need to define the boundaries of its role in relation to such work.

⁴ Net Zero Review: Interim report
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945827/Net_Zero_Review_interim_report.pdf