



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

Kathryn Cearns and Bill Dodwell

Office of Tax Simplification
1 Horse Guards Road
London
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30 November 2021

Dear Kathryn and Bill,

On behalf of the Chancellor of the Exchequer, I am writing to you regarding the conclusions of the first five-year review of the Office of Tax Simplification (OTS), and to respond to the OTS reviews into Inheritance Tax (IHT) and Capital Gains Tax (CGT).

Review of the Office of Tax Simplification and future work

The Government has today published the report of the Treasury's first five-year review of the OTS. As set out in the terms of reference published in March 2021, this examined the effectiveness of the OTS in advising the Chancellor on tax simplification, and what further steps should be taken to enhance the effectiveness of the OTS.

The review offers a clear endorsement of the importance of the role of the OTS and the work it does to advise the Chancellor on making the tax system simpler and easier for taxpayers to interact with. There are several recommendations in this report for the OTS to consider, and I look forward to discussing with you the implementation of these changes.

The review recommends that the OTS *"undertake a project to articulate its approach to and interpretation of 'tax simplification', including clarifying its aims as an organisation, and the success measures for assessing its progress"*. The Chancellor and I would like you to commence this work as a formal OTS review, focusing on conclusions that can inform how the OTS, and Government, should prioritise simplification efforts over the next five years. I look forward to agreeing the detail of the terms of reference in the coming weeks, and to hearing your plans for own-initiative work over the coming months.

Office of Tax Simplification Inheritance Tax review: Simplifying the design of the tax

The review of IHT was commissioned by the then Chancellor in January 2018. As you recognise, the combination of nil-rate bands, exemptions and reliefs means around 94 per cent of estates are forecast to have no liability over the coming years. However, IHT still makes an important contribution to the public finances and it is forecast to raise £6 billion in 2021-22 to help fund public services.

My predecessor provided a response in March 2021 to your report on the administration of IHT. HMRC continues to make progress on your recommendations, including by ensuring

that from 1 January 2022 over 90 per cent of non-taxpaying estates each year will no longer have to complete IHT forms for deaths when probate or confirmation is required.

The OTS also published a second report in July 2019 on how to simplify the technical design of IHT. The OTS outlined 11 recommendations for consideration, including those which it suggested could simplify lifetime gift exemptions and change the scope of reliefs such as those for business property and agricultural property. You acknowledged that some of these recommendations would have impacts on the Exchequer.

I apologise for the delay in providing the Government's response. It is clear from recent reports on this subject, such as those by the *Organisation for Economic Co-operation and Development* and the *All-Party Parliamentary Group on Inheritance and Intergenerational Fairness*, that there are a wide range of views about how to reform IHT. You will also be aware that the Budget in March announced that the nil-rate band and residence nil-rate band will be maintained at their 2020-21 levels up to and including 2025-26 to help rebuild the public finances and fund public services.

Any potential changes to reliefs and the regime for lifetime gifts must be considered in this wider context. As you acknowledged, the report also raised wider questions about policy issues. As a result, after careful consideration of your recommendations, the Government has decided not to proceed with any changes at the moment, but will bear your very valuable work in mind if the Government considers reform of IHT in the future.

Office of Tax Simplification Capital Gains Tax Review


I want to also thank you for your reports on CGT. The reports provide a thorough analysis of the design and operation of CGT, and I am grateful to you and your team for your work.

As you rightly highlight in your first report, these reforms would involve a number of wider policy trade-offs and so careful thought must be given to the impact that they would have on taxpayers, as well as any additional administrative burden on HMRC. The Government will continue to keep the tax system under constant review to ensure it is simple and efficient. Your report is a valuable contribution to that process.

I am pleased to announce the Government has accepted five recommendations from the second report on the technical and administrative issues with CGT, which we agree will offer some practical simplifications for taxpayers. I have also asked officials to consider the details of five more of the recommendations that you have set out and to keep these issues under review. The table attached (annex) sets out the Government's response to each of the recommendations and officials will continue to update you on our progress.

Thank you again for your work and that of your team in these areas. I look forward to your further contributions to the simplification of the UK tax system.

Yours sincerely,

A handwritten signature in black ink that reads "Lucy Frazer". The signature is written in a cursive, flowing style.

THE RT HON LUCY FRAZER QC MP

ANNEX: GOVERNMENT'S RESPONSE TO THE OFFICE OF TAX SIMPLIFICATION'S CAPITAL GAINS TAX REVIEW: SIMPLIFYING PRACTICAL, TECHNICAL AND ADMINISTRATIVE ISSUES

	Office of Tax Simplification recommendation	Government response
1	HMRC should integrate the different ways of reporting and paying Capital Gains Tax into the Single Customer Account, making it a central hub for reporting and storing Capital Gains Tax data.	Accept – The Government understands the case made to improve CGT and related services for customers and will consider this recommendation as part of the delivery of the Single Customer Account (SCA). SCA service development is a long term strategy for HMRC.
2	The government should formalise the administrative arrangements for the 'real time' Capital Gains Tax service, effectively making it a standalone Capital Gains Tax return that is usable by agents.	Consider – The Government understands the case made to improve CGT and related services for customers and will consider this recommendation as part of the delivery of the SCA. SCA service development is a long term strategy for HMRC.
3	The government should consider extending the reporting and payment deadline for the UK Property return to 60 days, or mandate estate agents or conveyancers to distribute HMRC provide information to clients about these requirements.	Accept – The Government announced at the Autumn Budget that the time limit for making a CGT return and associated payments on account when disposing of UK land and property has been extended from 30 to 60 days.
4	The government should consider whether individuals holding the same share or unit in more than one portfolio should be treated as holding them in separate share pools.	Consider – The Government understands the scope of this recommendation as set out in the detailed report but needs to consider this further to determine the implications of this proposal on all securities.
5	The government should consider adjusting Private Residence Relief to cover developments in a taxpayer's garden which the taxpayer subsequently occupies.	Reject – The Government has considered the application of Private Residence Relief (PRR) and is satisfied with the current rules. These provide consistency for individuals who construct a new residence for themselves which later becomes their main home, regardless of whether that residence is in the garden of an existing home or on land elsewhere.
6	The government should review the practical operation of Private Residence Relief nominations, raise awareness of how the rules operate, and in time enable nominations to be captured through the Single Customer Account.	Consider – The Government will review the position as regards PRR nominations further, taking into account existing guidance, the concerns raised, and the recent changes to the operation of the nomination rules in Finance Act 2020, which allow late nominations in certain circumstances. The Government understands the case made to improve CGT and related nomination services for customers and will consider their recommendation as part

		of the delivery of the SCA. SCA service development is a long term strategy for HMRC.
7	The government should extend the 'no gain no loss' window on separation to the later of: i) the end of the tax year at least two years after the separation event; or (ii) any reasonable time set for the transfer of assets in accordance with a financial agreement approved by a court or equivalent processes in Scotland.	Accept – The Government agrees that the 'no gain no loss' window on separation and divorce should be extended and will consult on the detail over the course of the next year.
8	The government should consider whether Capital Gains Tax should be paid at the time the cash is received in situations where proceeds are deferred such as on the sale of a business or land, while preserving eligibility to existing reliefs.	Reject – The Government has considered this recommendation and is satisfied with the existing rules.
9	The government should consider enabling an irrevocable provision in the documentation for a corporate bond to specify that it is subject to Capital Gains Tax, and for the absence of such a provision to mean that it is exempt.	Consider – The bond market and tax rules have changed considerably since the introduction of the CGT exemptions for both Corporate Bond and Government Gilt-edged Securities (Gilts). The Government intends to consider this point further within the context of a wider review into the purpose and functioning of those exemptions.
10	The government should review the rules for enterprise investment schemes, with a view to ensuring that procedural or administrative issues do not prevent their practical operation.	Consider – The Government recognises that a review of these schemes is advantageous. Whilst the Government will consider this recommendation further, it will do so in the context of the income and CGT functions of the relief.
11	The government should consider whether gains or losses on foreign assets should be calculated in the relevant foreign currency and then converted into sterling.	Reject – The Government has considered this recommendation and concluded that calculating gains and losses on foreign assets in their relevant foreign currency, rather than in sterling, would benefit some taxpayers and disadvantage others in comparison to the current rules, as currency fluctuations would continue to be a factor. As such, the Government does not intend to make this change.
12	The government should expand the specific Rollover Relief rules which apply where land and buildings are acquired under Compulsory Purchase Orders (CPO).	Accept – The Government agrees that expanding Rollover Relief to cover reinvestment in the form of enhancing land already owned meets the spirit of the initial rationale of the relief and will consult on the detail in due course.

13	<p>The government should consider exploring ways of removing inappropriate Corporation Tax or Capital Gains Tax charges where a freeholder is in effect only extending their own lease.</p>	<p>Reject – The Government has considered this recommendation and is satisfied with the existing rules.</p>
14	<p>HMRC should improve their guidance in the following specific areas</p> <ul style="list-style-type: none"> • The UK Property Tax Return. • Lodgers and people working from home. • When a debt is a debt on a security. • When a loan to a business becomes irrecoverable. • When Business Asset Disposal Relief could apply to farmers or others looking to retire over a period of time. • Enterprise investment schemes. • Land assembly arrangements. • Flat management companies. 	<p>Accept – The Government agrees with this recommendation. HMRC has already completed review and expansion of the guidance on the UK Property Tax Return which will be published shortly and will proceed to the other areas of guidance listed in due course.</p>