

AAT conference

Tax simplification: what is the OTS up to?

John Whiting, OTS Tax Director

29 November 2014

ots@ots.gsi.gov.uk

www.gov.uk/government/organisations/office-of-tax-simplification

- ***Independent office of HMT***
 - established by coalition agreement, expires May 2015
- ***Small central team***
 - ex-HMRC/HMT + private sector secondees (short term, part time, some unpaid!)...maximum 6 FTEs
 - consultative committees
 - roadshows, evidence gathering
 - lot of HMRC/HMT input/liaison
- ***What do we cover***
 - all HMRC taxes (not tax credits/benefits)
 - existing law
- ***Reports with recommendations***
 - balanced package (revenue neutral?)
 - reports inform Budgets (timing?)
 - evidence based

2010-2012

- (1) Tax Reliefs** – 1,042 reliefs...studied 155...40+ recommended for abolition, some for enhancement; NAO follow up report for PAC
- (2) Small business taxation** – stage 1
(areas of complexity; PAYE/NICs – Class 2 reform!; IR 35)
- (3) Proof of concept (unofficial) – done
- (4) Small business taxation** – stage 2 (i) HMRC Admin
(ii) Disincorporation (iii) Cash basis for ‘nano’ businesses)
(iv) Flat rate expenses – generally in FA 2013
- (5) Pensioners** (DWP60, P2C, simplify MCA & BPA, abolish 10% savings rate)
- (6) Share schemes** (stage 1 ‘approved’ ; stage 2 ‘unapproved’)

Stage 1 ‘approved’ (mostly FA 2013, from April 2014)

- SIP amounts increased, SAYE SO up from £250pm to £500pm
- No prior HMRC approval needed
- Simpler procedures (e.g. Online filing)

Stage 2 ‘unapproved’ (see FA14, some from April, some later)

- Changes to help international employees
- Share for share exchanges
- Some extensions to CT relief
- S222 modified (90 days after end of tax year)

[Employee ownership – CGT, IHT & income tax changes in FA14]

See also: discussion document on

- timing of charge (‘marketable security’)
- ‘Employee Shareholding Vehicle’ (safe harbour EBT)

OTS: projects to date (2)

2013-2014

(7) Employee Expenses & Benefits

Initial report Aug 2013; main report Jan 2014; final report Aug 2104

(8) Partnerships

Main report Jan 2014; update July 2014 – work continues

(9) Complexity

Various strands

(10) Improving UK competitiveness

Major project to look at competitiveness of UK tax administration

(11) Penalties

Small scoping project on penalties

New project

(12) Employment status

Where are the problems – and how do we solve or improve things?

(13) Evaluating the OTS and recommendations for the future

Questions:

- What are the causes of complexity?
- Can we tackle at source?
- Where are the complex areas?

Projects:

- Complexity index – version 2 published
- Length of legislation – is UK legislation really the longest?
- Thresholds – well over 600, many of them penalties
- Definitions – paper on common definitions; see now FA s301
- Starting work on link between avoidance and complexity

Major causes of complexity/difficulty *(from small business project)*

- Frequency of change
- PAYE/NIC issues
- HMRC administrative aspects
- Employed/Self-employed boundary issues
- Capital allowances/depreciation
- VAT (*boundary issues, international aspects*)

Partnerships issues include:

- Overall – no designed tax code, one size fits all, c10% of UK businesses
- Different types of partnership – large/medium/small/specialist
- Biggest practical issue – profit retention (possible radical solution?)
- Range of ‘short term’ fixes (e.g. HMRC partnerships manual)
- Range of medium/longer term issues (e.g. partners’ vs partnership return; overlap relief; partners’ expenses; international difficulties)

See update published July

<https://www.gov.uk/government/publications/partnerships-review>

More work on: SP D12, international issues, partners expenses, education for small partnerships, gift aid, AIA & mixed p’ships

EBE: main recommendations & responses

* = *condoc published*

Office of Tax Simplification

*Introduce **Voluntary Payrolling** – *consultation on proposal to introduce (voluntary for employers + benefits; all relevant employees)*

PAYE Settlement Agreements: widen substantially – *‘not consistent with purpose of PSAs’....but will look to improve*

***Dispensations:** exemption for reimbursed ‘qualifying business expenses’ – *consulting on designing exemption*

***£8,500 limit:** abolish & mitigate – *consulting on effects & mitigation*

***Trivial benefits:** need a standard amount – *consulting on design...includes proposal for annual limit*

Flat rate expenses: review, update, payroll – *HMRC will consider ways of improving*

EBE...travel & subsistence

Radical reform? Consider 'Reimbursed travel allowable'

In the meantime Retain current system but improve areas of difficulty:

- Permanent workplace/temporary workplace/limited duration
 - set a 24 month rule
- Multiple workplaces – one workplace or de minimis (30%?)
- Home workers – better definition & expense allowances
- Subsistence – clearer rules

Budget: *Government will undertake a review of principles and rules & consider how to simplify in today's working & travel patterns; call for evidence started (open to 31 January)*

- **Termination payments**

- Poor understanding of £30,000 exemption, difficulties with exemptions, PILONs, auto PILONs etc
- Simplification: link exemption to statutory redundancy....
-exemption becomes N x statutory redundancy
- The NIC position
- The admin side – HMRC guidance, timing of tax payments

- **Accommodation benefits**

- Existing rules anomalous, outdated
- Recommendations: (1) exclude basic accommodation
- (2) Base exemption round requirement to live in accommodation, working outside normal hours, regulatory requirements
- (3) Base benefit on open market value of rental

- **Other items:** Removal expenses, Long Service awards, etc

- **Measures of success**

- P11Ds – reduce to 40,000?
- Coding notices vastly simplified
- Employees understand what is going on
- More coherent system
- Significant reduction of burdens on employers/ees & HMRC

- **Overriding aim/question**

- Why should benefits be taxed differently from cash?

- **Bear in mind**

- This is based on a great deal of evidence gathering
- Revenue impact of changes...
- ...impact of changes (on HMRC, employers, employees)
- Winners & losers, transitions
- Our role: recommendations, catalyst...we don't make the rules!

EBE...longer term issues

NICs reform

- align underlying definitions
- resolve time period differences
- combine Class 1/1A...Class 1 on all benefits?
- what of Class 1B?

Definitely longer term...but see current NIC Bill changing Class 2

Mechanics and related matters

- what is a benefit...
- look at the benefit...not at payment route
- no benefit = no tax?

HMT call for evidence on remuneration policies and patterns

Project

‘What the government can do to further improve competitiveness of the UK tax administration....with particular regard to World Bank ‘Paying Taxes’ report...particular focus on SME sector ’

Work programme:

- Initial thoughts & Call for evidence published with Budget:
- Extensive series of meetings (c60: April-July)
- Researching particular issues, other countries etc

World Bank Paying Taxes

Three indicators: Total Tax/Time to comply/Number of Payments

Report now published (9 October)

Main themes:

Two distinct aspects to the work:

- Improving the World Bank rankings (particularly time to comply)
- Wider competitiveness issues

Findings in two broad areas:

- Short term: improving admin time, HMRC interactions
- Longer term: policy areas for study to make a real difference
- Overall 50 recommendations

Corporation tax/income tax

1. Align tax and accounting profits...(eliminate tax nothings, capital allowances - are they worth it? corporate capital gains: necessary?)
2. Trading/investment distinction – abolish
3. Debt cap, transfer pricing – streamline

VAT

4. Greater certainty needed: boundary issues, rulings

Payroll taxes

5. IT/NIC harmonisation
6. RTI – ‘on or before’
7. Extend short term business visitor rules

HMRC admin

8. Extend CRM model; explore how to give greater certainty to smaller businesses
9. Continue to improve call centre times etc; e mail service needed
10. Single tax account service for small businesses

Bringing it together

- Roadmap/framework for the major reforms
- HMRC/OTS to work together to develop a programme for the smaller ideas

Small scoping project on penalties

Aim: how are the 'new' penalties working

Issues/recommendations

- ITSA £100 penalty
 - better info, reminders etc.
 - completion of returns
- Consistency (e.g. suspension)
- Automation v judgment

Conclusion: need a full review

Background

- Changing working patterns
- Previous OTS reports highlighted difficulties for businesses
- Tax law vs employment law

New project to examine

- Areas of practical difficulty
- Sectors & types of arrangements
- Existing rules, guidance....
- ...how can it be improved
- International comparisons
- Digitisation

Report by Budget 2015

See: <https://www.gov.uk/government/publications/employment-status-review>

Areas to discuss:

- How have working patterns/arrangement changed?
- What uncertainties are there in the tax system?
- How does the tax system manage these problems?
- What is happening in practice? Views on ESI?
- International experience/comparisons?
- What about tax v employment law v benefits v NMW v...?

Comments to ots@ots.gsi.gov.uk

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....your input please!

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