

15 April 2014

David Gauke MP
Exchequer Secretary to HM Treasury

Dear David,

Thank you for your letter of 19 March 2014. We were very pleased with the profile given to tax simplification in the Budget, and are particularly grateful to the Chancellor for thanking us and the OTS team in his Budget speech. This has very usefully raised our profile as we prepare to go out and speak to businesses and tax advisers to gather ideas for our review into improving the competitiveness of the UK tax administration.

We thought it would be helpful to respond formally to your letter in a way that also gives you an update on our current work programme, including how the various recommendations in our Partnerships and Employee Benefits & Expenses reports are being taken forward. We intend to publish this letter on our website to inform our stakeholders.

Employee benefits and expenses

We were greatly encouraged by the Government's response to our second report on **employee benefits and expenses** and look forward to the four consultations being carried out by HMRC into voluntary payrolling of benefits, an exemption for trivial benefits, the abolition of the £8,500 benefits threshold and an exemption for qualifying business expenses reimbursed by employers. The call for evidence on wider benefits reform is also a very positive step.

It is, though, disappointing that our recommendation to widen significantly the scope of PAYE Settlement Agreements (PSAs) has not been accepted. We can understand that our proposal raised concerns around interactions with things such as Universal Credit and the high income child benefit charge, as we acknowledged in our report. But we would stress that widening PSAs was, along with payrolling, at the top of employers' lists for changes that would simplify their payroll administration. If complete freeing of PSAs is not possible, then we believe, as set out in our report, that some widening of PSAs is necessary and desirable. Two key changes would make a major difference:

- PSA rules should be written in terms of what cannot be 'PSA'd' (e.g. medical and car benefits), rather than the current (restrictive) list of what is allowed.
- The 'pre approval' requirement should be removed or at least streamlined, perhaps being replaced by simple reporting; this would also have the connotation that PSAs can then be used for 'tidying up' after the year end.

We are pleased that our discussions with HMRC show that they are receptive to considering such ideas in the light of evidence gained through the various consultations in the coming year.

On **travel and subsistence**, we did of course identify one possible route for radical reform. However, in making our report we were conscious that major reform would be a lengthy process and we therefore identified smaller changes that would solve some of employers' current difficulties with operating the system. We think these would be relatively easy to implement, would reduce burdens and be welcomed by employers. Whilst we welcome the prospect of a wider review, we think that serious consideration needs to be given to making some interim improvements, unless it is envisaged that full and fundamental reform can be effected quickly.

We are carrying forward our review of employee benefits and expenses by taking a more detailed look at **accommodation benefits** and **termination payments**. We plan to publish short reports in the summer with recommendations for simplifying these complex areas. We are aware that these are sensitive areas for some taxpayer groups, but think they are long overdue for simplification. Finally, we will be returning to one or two of the **minor areas** that were in Chapter 8 of our August 2013 report, such as removal expenses, where employers have told us subsequently that changes really are needed.

Partnerships

On **partnerships**, we are pleased that HMRC are quickly taking forward many of our short-term recommendations. We have already discussed our medium and long term recommendations with HMRC and it is gratifying that HMRC have already begun to take forward some of our medium-term recommendations, including finessing a digital solution to remove the requirement for the VAT 2 form.

We will work together with HMRC to explore more of the long term issues set out in our interim report, including reducing the administrative burdens for partnerships, researching the international administrative and technical issues partnerships face and finding a simple way to allow the AIA to apply to mixed member partnerships (something that is even more important in the light of the Budget announcements on AIA). We will also explore in more detail some of HMRC's concerns around partners' expenses and gift aid and do our best to gather further evidence: we believe they all offer scope for real administrative simplifications.

We expect to produce a final report, including an update on progress with our recommendations to date, in the summer.

Improving the competitiveness of the UK tax administration

Our **competitiveness** project is well under way and is attracting a good flow of input. We have an extensive programme of "roadshows" in hand, visiting businesses and advisers around the country to gather evidence. We are currently on schedule to report back with recommendations in the summer.

Other OTS projects

We were naturally pleased to see the reforms announced in the Budget to the **savings rate of income tax**. Although you will understand that we believe that our recommendation of abolishing the savings rate, with a balancing pragmatic increase in the ISA allowance, was a simpler route, we can equally understand the government's decision to follow another method. We agree that in practical terms this reform will achieve many of our

aims, provided the administrative rules are kept simple. We hope that some of our other recommendations in the area of **pensioners' taxation** will be kept on the agenda.

Similarly, we very much welcome your taking forward into a discussion document our **'marketable security'** and **'employee shareholding vehicle'** proposals. This announcement has already attracted a range of positive feedback, including at the recent launch of the new on-line HMRC share reporting systems.

We continue to explore the underlying factors for tax **complexity**, and aim to finalise our complexity index, a tool for assessing the relative complexity of different parts of the tax system. We are also looking at the link between tax avoidance and tax complexity.

We are exploring with HMRC and HM Treasury possible subjects for a **new simplification review**, to start this autumn with a first report by Budget 2015. These discussions are informed by input from our wider consultations; currently front runners are Employment status, Penalties, VAT boundary issues and Trust taxation. We will write to you separately about these with project outlines and would like to meet with you to discuss them in due course.

Finally, we will be, as previously discussed with you, developing a paper evaluating the work of the OTS and making recommendations about the future direction of the simplification project. The OTS Board are also now giving thought to the long term future for the OTS and before the year is out we will send you a paper on this matter.

Yours sincerely,

Rt Hon Michael Jack



John Whiting

