

Office of
Tax Simplification

**Review of the competitiveness of the
UK Tax administration:
final report**

October 2014

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Foreword

This is the final report for the Office of Tax Simplification's review into the competitiveness of the UK tax administration. It summarises what we've heard from people in our travels around the country, speaking to businesses (both small and large), tax advisers, representative bodies, and HMRC frontline staff. We have met with and received submissions from over 60 groups, and have spoken to 1,500 people over the course of the review.¹ What follows are their views and experiences, collated and tested by the experts on the OTS team and supplemented by our researches. The points within have been made separately and mentioned spontaneously by many people and were often felt passionately; we have made it clear where points have been made by only a few stakeholders.

Our brief was to look into how to improve the competitiveness of the UK's tax administration, with particular regard to the World Bank's 'Paying Taxes'² report. We have developed a wide range of recommendations. Many are small in nature and may be things HMRC can implement relatively quickly; others are potentially far-reaching and, if taken forward, will need time and much discussion to implement. All are aimed at improving the UK's competitiveness and most focus squarely on improving the time businesses take to comply with their tax responsibilities.

Because we include a range of major ideas, we are aware that it may be said that we have exceeded our terms of reference and strayed into policy areas. Our response is simply that any and every meeting we held to discuss how to improve competitiveness very quickly went into what might be termed policy areas. And it is clear to us that to make a significant difference to the key 'time to comply' measure, the UK will need to make some major structural changes to corporation tax (and in parallel income tax).

The starting point is that the UK does well in the 'Paying Taxes' rankings, coming in 14th. We can reasonably aspire to do better: indeed we must do as other countries are going to be trying hard to overtake the UK and others that are ahead of them. There is no magic bullet; no philosopher's stone that can be applied to the UK's tax system to improve our position significantly. We will never beat countries whose tax systems are bolstered by huge inflows from energy deposits. We should compare ourselves to countries with similar economies to us. But setting a target such as being the best in the G7 or in the top two in the G20 would be appropriate.

Taking this forward is probably for the UK's next government to consider. The corporation tax roadmap and its associated consultation process was widely acknowledged to be a success. Our recommendations could perhaps form the basis of a future road map for tax reform which, as before, will be require considerable amounts of time and discussion with external stakeholders to implement.

Acknowledgements

We must start by thanking again all those businesses, groups, teams (including many HMRC teams) and individuals who have met with us or written in with their comments. We write up all our meetings and carefully consider all the points made in these and in the formal submissions.

¹ A full list can be found in Annex A

² <http://www.pwc.com/gx/en/paying-taxes/> and chapter 2

Without all these, the project would have been abortive and we hope we have done justice to the vast range of comments, all delivered with great interest and enthusiasm.

We have also once again received valuable support from HMRC's (Knowledge, Analysis and Intelligence (KAI) team; they have generated some useful analyses for us, as well as doing more work on the World Bank's methodology.

The greatest thanks are due to our secondees Andy Richens and Tim Voak, and Gareth Jones on the OTS staff, who have together shouldered the main burden of work on this project.

We commend this report to Ministers and all others interested in improving the competitiveness of the UK's tax administration.



Rt. Hon Michael Jack
Chairman



John Whiting
Tax Director

Executive summary

Introduction

The UK undoubtedly has a competitive tax system. Many aspects – though not all – compare favourably with our competitors and this results in a creditable 14th place in the World Bank’s ‘Paying Taxes’ survey (the focus of the OTS’s project). The challenge to the OTS has been to find ways of improving that ranking.

We have carried out an extensive programme of work and have developed nearly 50 recommendations that we and the many people we have spoken to believe can make a difference to the competitiveness of the UK tax administration. But if the aim is to move up the rankings major changes are needed. Tinkering will not achieve anything and may even see the UK slip as other countries improve their systems. We can’t get to the top 5 but a place in the top 10 overall and top of the G7 countries are reasonable aspirations.

The prize is not just competitiveness. The areas we survey cost businesses some £750 million annually in compliance costs.

A full list of our recommendations follows this executive summary in chapter 1.

Our remit

The high-level goal of our project is to review what the government can do to further improve the competitiveness of the UK tax administration, with particular regard to the World Bank’s ‘Doing Business’ report.¹

¹ <http://www.doingbusiness.org/>

Extract from terms of reference

The review will:

- Identify and review what the UK has already done and is planning to do to improve the competitiveness of the UK tax administration, and the effect on the UK's ranking;
- Make recommendations as to what more could be done to improve the competitiveness of UK tax administration, building on the OTS's previous reviews of small business taxation;
- Focus on the administration of the taxes highlighted in the World Bank's report, namely corporation tax, VAT and employers' National Insurance, as well as on the administration of PAYE;
- Draw relevant lessons from key competitors who rank more highly than the UK in one or more element; and
- Take account of the opportunities offered by HMRC's plans for digital transformation.

All types and sizes of business are within the scope of the project and the report may recommend further work in some areas.

While our work has been informed by the desire to improve the UK's ranking in the World Bank survey and how it is calculated, this has not been an exercise solely geared to that end as it is only one measure of competitiveness. We want to produce recommendations which provide real and lasting simplifications for businesses, and to make it easier, cheaper and less time consuming for them to fulfil their tax obligations.

It should be noted that the emphasis in the 'Doing Business' report is on regulation faced by a medium-sized business.² In the UK they make up a small minority of businesses, as in fact the majority of UK businesses unincorporated and are neither VAT registered, incorporated, or employers, and so will not be concerned with the three principal business taxes³ that are measured in the report.⁴ However, for those businesses that do have to deal with them, their complexity and the burdens that they impose cannot be ignored.

Initial findings

The 'Paying Taxes' report focuses on three indicators for a standard case study company.⁵

- total tax contribution;
- time to comply; and

² i.e. one with a turnover of £21.5 million, with £1.07 million profit.

³ The three key taxes concerned are corporation tax, VAT, and employers' national insurance ('payroll' taxes)

⁴ Though such businesses will of course be concerned with income tax on their business activities and income tax and corporation tax computations follow essentially the same computational rules. Although we talk mainly about corporation tax in this report, we must make it clear from the outset that we intend our recommendations to apply equally to business income tax. We accept that our recommendations on payroll taxes and VAT will be of little relevance to the smallest businesses but many of our points around HMRC administration are going to be of relevance to businesses of all sizes.

⁵ Chapter 1 contains more details on the 'Paying Taxes' calculations and a full analysis of the UK's calculations for the report are in Annex B

- number of tax payments.

We need to say at the outset that the UK currently performs well in the World Bank survey. It ranks a very creditable 10th overall out of 189 countries and 14th in the 'Paying Taxes' section (which is the focus of most of this report). We are second (only Canada is ahead of us) among the G7 countries; we are third (beaten by Saudi Arabia and Canada) in the G20. We are similarly third (beaten by Ireland and Denmark) in the EU.

In recent years successive governments have introduced many changes that have improved the competitiveness of the UK tax system, including lowering the main rate of corporation tax to 20% and extending the scope of enhanced relief and tax credits for Research and Development. Businesses recognise this, and the 20% rate was commented on as being "about right" and we encountered no pressure to reduce it further.

As we describe in more detail in the body of the report, it quickly became clear that it is going to be extremely difficult to achieve an improvement in the 'Paying Taxes' ranking without a material reduction in the time taken for a business to comply with its tax obligations. To achieve this, it is going to be necessary to make some significant changes to the tax system. Hence our ideas which, if implemented, could provide substantial simplification for their areas of tax. These warrant careful consideration, and considerable amounts of time and discussion with external stakeholders to implement.

These may be seen as outside our initial remit of a focus on the 'UK tax administration'. However, the context of our work is that we were to focus on the competitiveness of the UK tax administration and as soon as we raise the subject, we were met with a range of ideas and suggestions of a policy nature. In summary our key recommendations are:

- 1 Review the rules for the basic corporation tax/income tax computation to
 - a align more closely accounting and tax profits and eliminate many sundry adjustments;
 - b consider replacing capital allowances with allowable depreciation; and
 - c test whether corporate capital gains can be largely abolished
- 2 Tax businesses on business profits rather than streaming trading and investment results.
- 3 Review debt cap and transfer pricing rules to test their effectiveness and reduce the burdens they impose.
- 4 Harmonise income tax and NICs and integrate as much as possible.
- 5 Review HMRC's Real Time Information (RTI) process particularly around 'on or before'.
- 6 Extend short term business visitor rules and easements.
- 7 Develop ways of giving greater certainty over VAT treatment for smaller businesses.
- 8 Build on the success of HMRC's Customer Relationship Managers (CRMs) by extending the coverage as far as financially viable.
- 9 Improve the assistance given to businesses, particularly through greater use of digital communications channels.
- 10 Consider streamlining tax payments through a single tax account.

These recommendations build on a number of themes:

- Recognising that the value of traditional adjustments to profits are much reduced with the reduction of corporate tax rates: so are they really worth it?
- Looking for ways that HMRC can help businesses, particularly over gaining certainty.
- Building on the possibilities of digitisation.

Over the course of the review we have also noted a range of small changes that can provide simplification in the short term. Most of these are within HMRC's administrative scope to deliver, though by no means all of them are simple or easy to effect.

Potential savings

Simplifying tax policy could generate significant admin burden savings for business, especially if corporation tax profits are aligned more closely with accounting profits and PAYE tax is aligned with national insurance. HMRC estimates the total administrative burden to businesses of computing trading profits at over £350 million. The burden for calculating capital allowances is £130 million a year, and the burden of reporting property income and investment income separately is over £70 million a year. On payroll taxes, HMRC estimates the annual cost to businesses of reporting NIC separately is over £200 million. Overall, the burden to UK business across the areas we look at in our report is over £750 million a year.

At this stage of development of our recommendations, it is not appropriate to try and put a figure on the savings that might result as too much depends on how our ideas are taken forward. But it will be appreciated that the figure of £750 million gives an idea of the administrative burdens we are reviewing and the target for potential savings that could result from our recommendations.

Key themes

There seem to be five main themes that emerge that are relevant to UK attempts to improve its rankings in the World Bank survey.

- 1 *Tax rates and overall tax revenues* are inevitably a significant factor, given the way the World Bank rankings are calculated. These are key policy matters and outside our remit. But we need to stress the importance of this indicator in the rankings – and the practical impossibility of the UK catching up with countries such as Saudi Arabia which are able to draw on massive energy revenues. Note that Canada, the one G7 country ahead of us in the rankings, effectively wins its position through this measure – which is due to the lack of a Canadian equivalent to employer's NICs.
- 2 *Investment in good IT systems is vital* and offers huge possibilities with digitisation. By this we mean good systems for making returns; good information systems to enable taxpayers to find relevant information; and using IT for communication. Ireland and Singapore are key examples, with innovative solutions and systems on offer (for example Singapore's duty refund). The Irish IT investment has also increased the scope for the tax authorities to do smarter reviews and interventions.
- 3 *Stability of the tax system makes the system easier to deal with.* The OTS has regularly pointed out that change is the biggest source of complexity in the tax system. The Irish tax system has many similarities to the UK's, yet the time taken to comply with corporation tax or income tax is much lower: the main reason given is

the lack of change. Contrast this with Brazil which is at the bottom of the World Bank rankings due to the impact of constant changes on time taken to comply.

- 4 *Cooperation and understanding from all those involved makes a difference.* In New Zealand we were told that both ‘sides’ – i.e. taxpayers/agents and tax authority – want to make the system work. Additionally, there is considerable movement of people between the two sides, so that tax collectors understand business issues and vice-versa. The Netherlands always comes out well in terms of the constructive, business-friendly attitude from the authorities; India has been cited as an example of a country that gets this wrong – i.e. the tax authority does not understand taxpayers.
- 5 *Eliminating incentives to avoid helps keep the system simple* - This was a point made strongly in our discussions about Canada, but it also comes up in the context of many other countries. The reverse point applies in the USA, according to many people. It is a policy/design point, but in terms of the World Bank rankings, having fewer special cases or anti-avoidance to worry about speeds up the compliance process.

In summary, we reiterate that the UK’s position in the 2014 ‘Paying Taxes’ survey at number 14 reflects well upon its business tax administration. It is also important to understand that maintaining our ranking will be a challenge: other countries are also actively seeking to improve their positions.⁶ We recognise that improving the UK’s ranking in the survey may be very difficult absent abolition of one or more taxes, and/or a significant reduction in the tax rate, and such measures are well beyond our brief. However, this survey is only one measure of competitiveness, and we have chosen to conduct a wide review of how businesses calculate and pay their taxes to see if we can identify ways in which the process can be simplified as an important element in achieving a more competitive tax system.

What is competitiveness?

In our report at Budget 2014⁷ we argued that the ‘Paying Taxes’ survey is a comparative measure of regulatory burden which does not sufficiently capture what ‘competitiveness’ is. We chose to define competitiveness of the tax system in terms of:

- how attractive a country’s tax system is in terms of attracting investment; and
- what administrative burdens a tax administration places upon businesses

Our review is focused primarily on the latter, as we wish to make recommendations to improve the UK’s tax administration. However, there may be administrative easements or changes which could be put in place which could also make the UK more attractive in terms of inward investment.

There is inevitably a degree of tension between the above two concepts. For example, research and development relief has a reputation for being difficult for some businesses to claim, but it is a competitive relief which adds to the attractiveness of the UK as a place to do business. While the tax system would be simpler if the relief was absent, it would also be less competitive. Our recommendations have been made with this tension in mind, and work towards both making the UK more attractive for inwards investors, whilst reducing the administrative burden on businesses operating in the UK.

⁶ Both Luxembourg and Switzerland, just below the UK in the World Bank ranking, could significantly improve their positions with the introduction of full e-payment facilities. That seems an easy step to take.

⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/292456/PU1647_OT5_competitiveness_review_call_for_evidence.pdf

One wider point that has come out strongly in our work is that tax competitiveness is not just about taxes on business. Businesses are run by people, and improving the competitiveness of the UK tax administration must include ensuring our system is competitive for people who want to come here to invest or work in UK businesses, particularly at senior levels.

Clearly a lot has been done to improve the UK's headline competitiveness, and to make the current tax system more accessible for small businesses in particular. The OTS's work on small businesses⁸ led to a programme of improvements in HMRC administration.

Our approach to gathering evidence

The report is based on intensive work carried out by the OTS from January to August 2014. It includes feedback from a large number of meetings, conferences, sessions and seminars we have conducted around the UK, mainly in the period April - July. In addition to this we have received submissions from a number of representative bodies and individuals.

We have talked to a large number of groups over the course of our review, with a staggering array of requirements of, wishes from and comments on the tax system. Inevitably representatives from the large businesses we spoke to from the Utilities Tax Group had different things to say than those from the Federation of Small Business or Haverhill Chamber of Commerce, and these will be different again from some of the mid-sized businesses we spoke to. Our review has taken us all around the UK, from Aberdeen to Brighton, to Cardiff and Exeter and then over into Ireland. We have also talked to a wide range of HMRC policy teams and operational staff.⁹

This report is based on what we have been told, as well as our research into tax legislation and administrative process. We have not carried out any formal surveys, and so cannot report in terms of what percentage of people have said what. But the high-level policy recommendations in the report are extremely well-founded, and many were spontaneously mentioned by a large number of stakeholders.

Structure of the report

Given that the World Bank Report on Doing Business provided the impetus for our work we start with a short chapter reviewing the findings and the factors that influence a country's position in the report, especially the 'Paying Taxes' section. We then cover the key taxes separately, so there are separate chapters for corporation tax, VAT and payroll taxes. We have also included a separate chapter on HMRC administration across a variety of taxes, a chapter which includes comments on taxes outside of the three key business taxes, and a brief chapter covering payment of taxes.

Our recommendations are listed below. In total we make some 50 recommendations, some in subsets. Some are policy suggestions for Ministers to consider; others could be implemented reasonably quickly to simplify the administration of the tax system for both businesses and HMRC.

⁸ <https://www.gov.uk/government/publications/small-business-tax-review>

⁹ We also had the benefit of a project carried out by a group of students at Manchester Business School. The third year honours degree course in accounting carried out a project in which they studied a wide range of countries' systems, following up the World Bank project, and developed posters summarising the systems and making points on competitiveness. We gleaned a number of useful points from these researches that we have followed up separately.

What has been achieved so far?

One of the points in our terms of reference was to assess the value of what had been achieved recently in improving the competitiveness of the UK's tax administration. We received a lot of positive comments on the changes to the corporation tax system, in particular the controlled foreign company reforms and the introduction of the patent box. The extensions to research and development relief also attracted favourable comment.

Inevitably the main issue raised by respondents under this general heading relates to the reductions in the headline rates of corporation tax. Rates of tax are outside our remit, but we must record the generally expressed view that 20% is a very competitive rate: we detected no pressure for further rate reductions. Some people did point to the lack of equivalent reductions in business income tax rates.

Less well received are the way that debt cap and transfer pricing rules have evolved. Many question whether the complexity they generate is necessary to achieve the anti-avoidance objective, even allowing for the EU concerns.

There was also strong endorsement of the use of the corporation tax road map and support for the government's approach to consultation on policy development. The existence of a framework for reform was seen as giving much greater certainty over how the tax system would develop. That certainty is seen as a competitive advantage and leads to a call for further frameworks – for corporation tax and other relevant business taxes (environmental taxes was the main other area mentioned).

We heard less about progress on payroll taxes and VAT. Discussion on payroll aspects generated much debate on RTI: the main message is that business is expecting efficiencies to flow back to them given the amount of effort they put in to make RTI work. We were naturally pleased to hear that the OTS's recommendations on employee benefits and expenses are seen as an excellent way to make payroll taxes more efficient. As for VAT, improvements in the registration process were acknowledged, and the general ease of compliance in 'normal' situations were noted, especially compared with some other EU countries.

On the service side, HMRC has clearly invested a lot of time and effort into improving its core services – notably there has been a substantial increase in the percentage of call attempts handled. HMRC has also invested heavily in providing digital services to taxpayers, including live and pre-recorded webinars for a variety of tax topics, e-learning packages, and an email subscription service.

Conclusion: what should the UK aspire to?

As we have noted, the UK's position in the World Bank 'Paying Taxes' report is currently a creditable 14th. The OTS does not think it is realistic to aspire to be in the top five overall: the only way we could achieve that is to eliminate many business taxes; that in turn would probably require the discovery of immense quantities of oil.

The UK currently ranks 2nd in the G7 behind Canada, 3rd in the G20 behind Canada and Saudi Arabia, and in the EU 3rd behind Ireland and Denmark. These are already admirable places for the UK to be, especially considering that those above the UK are there almost exclusively due to their lower tax rates. Such rates are outside of our remit; we should point out that without a reduction in tax rate it would be very difficult to substantially improve our ranking.

In the long term, without a reduction in total tax rate it would be possible (though difficult) for the UK, with the changes we have suggested, to improve its ranking to 10th place in the 'Paying Taxes' rankings. If this were coupled with a reduction in the rate of tax, it could be enough to improve the ranking to 8th, making it the most competitive tax system in the G7 and 2nd in the G20. This will be difficult to achieve and maintain, but willingness on behalf of the UK government to embrace the reform programme we have outlined would make these ratings - at the top of the G7, second in the G20 and in the top ten overall – realistic targets for the UK's tax system.

1

Recommendations

The recommendations below have been divided into two sections. The first section contains our key recommendations. Together these make up a significant package of reform to the tax system, which if implemented would make the UK tax system substantially simpler for taxpayers. They are also the recommendations which would make a large difference to our 'Paying Taxes' ranking. Cross references to the relevant paragraphs in the body of the report are given in brackets.

Box 1.A: Taking forward the key recommendations

We think a reform programme based on our key recommendations should be expressed in a roadmap for reform of the business tax system. That may be seen as simply presentational, but we think it is more than that: it would send an important message to domestic and international businesses that the UK is committed to steady improvement of the competitiveness of its tax administration. This is in many ways our overriding recommendation.

Box 1.B: Taking forward our other recommendations

The 'other recommendations' are often significant changes which would make the UK tax administration easier to navigate and comply with. Also less far-reaching than our key recommendations, they are still a substantial body of work and we recommend that we work with HMRC to identify those that would provide the most simplification and which could be implemented relatively quickly. Again we think there should be a published programme of improvements.

Key recommendations

Corporation tax (chapter 3)¹

- 1 There needs to be a review of the rules for the basic corporation tax and business income tax computations to consider:
 - a closer alignment of taxable profits with accounting profits thereby eliminating many 'sundry adjustments' and reducing the need to maintain additional accounting systems for corporation tax purposes. (3.21 onwards) A particular example is that following removal of the non-statutory renewals allowance, we recommend that relief be given for the cost of repairs and replacements as reflected in the accounts; (3.41-3.42)
 - b replacing capital allowances with tax relief for accounts depreciation including transitional rules. This review should also encompass other 100% allowances

¹ Most of our corporation tax recommendations apply equally to business income tax

- such as enhanced capital allowances for environmentally friendly spending; (3.43 onwards) and
- c what tax is actually paid by companies on chargeable gains and on what transactions to see if abolishing the general charge balanced with limited specific charges could deliver simplification. (3.86-3.94)
 - 2 The trading /investment distinction is outdated and businesses should be taxed on their overall business profits. This change should be coupled with a review of the implications of removing the streaming rules including the effect on loss offset restrictions. (3.21-3.25)
 - 3 The worldwide debt cap and UK-UK transfer pricing provisions are generally seen as burdensome with little net tax effect resulting. There needs to be a review of their effectiveness; at a minimum the threshold at which the transfer pricing rules apply to medium sized businesses should be raised or the rules otherwise simplified. In particular UK-UK transfer pricing for domestic companies can be a lot of work for no tax. We recommend that HMRC develop and administrative workaround to reduce the compliance effort, particularly for mid-sized businesses. (3.95-3.101)

VAT (chapter 4)

- 4 The UK's VAT system is already competitive in many ways. The main way to help smaller businesses is to look for ways of giving greater certainty over the categorisation of supplies. This is both in terms of rulings (see below) and at boundary issues (though we readily acknowledge the difficulties in making changes). (4.8 onwards)

Payroll taxes (chapter 5)

- 5 Income tax and national insurance should be harmonised and integrated as far as possible. This should extend to considering applying class 1 national insurance to all remuneration and benefits in kind, as discussed in previous OTS reports². (5.10-5.15)
- 6 HMRC should conduct a post-implementation review into Real Time Information (RTI), looking (in conjunction with the Department for Work and Pensions) at whether full 'on or before' reporting is necessary in all circumstances and what further scope there is to extend/harmonise easements for small employers. (5.7-5.8)
- 7 To help executives coming to the UK to work, the easement from PAYE for some short-term business visitors should be extended to cover **all** short-term business visitors to the UK, coupled with a general widening and clarification of the rules. This should include a streamlined national insurance application process introduced for incoming staff to avoid personal attendance at job centres; this should be linked to visa applications where these are necessary³. (5.20-5.26)

² <https://www.gov.uk/government/publications/small-business-tax-review>

³HMRC point out that responsibility for allocating NINOs to adults sits with DWP, who have provided a postal NINo application service for non-EEA nationals with a valid work visa entry on the Home Office Central Reference System (CRS) database since November 2008. Many senior executives will already be able to use that service.

HMRC administration (chapter 6)

- 8 Providing certainty
 - a HMRC should extend its Customer Relationship Manager model to as many businesses as is financially viable. (6.10-6.12)
 - b Depending on the results of (a), HMRC should continue to develop its new mid-sized business customer service, and expand the range of situations under which the service is available. (6.13-6.17)
 - c HMRC needs to explore how to increase certainty in their tax affairs for the vast majority of small businesses, particularly around VAT. (6.18, 6.52-6.54 and 4.8 onwards)
- 9 Providing assistance to businesses (6.18 onwards)
 - a HMRC must continue to strive to reduce the waiting times and improve the quality of its phone service ('once and done').
 - b HMRC should provide further training to contact centre staff including help for them to identify quickly more complex requests and the appropriate person to refer them to.
 - c HMRC should make greater use of email to deal with queries and review how to ensure that replies are based on best knowledge of the taxpayers' affairs
- 10 HMRC should explore creating a single tax account service for smaller businesses, to enable them to make regular payments to cover all taxes. (6.75 onwards)

Other recommendations

Corporation tax (chapter 3)

- 11 There should be a review around introducing a consolidated return for groups of companies, at least on an optional basis. (3.76-3.77)
- 12 Businesses should be able to agree a level of materiality with HMRC. (3.108-3.113)
- 13 The Annual Investment Allowance (AIA) should be set at a particular figure for a longer length of time. At a minimum the rules surrounding apportioning the AIA into different accounting periods should be simplified. (3.51-3.52)
- 14 Research and development (R&D) relief generally works well but we propose that: (3.80-3.85)
 - a more case studies on R&D be incorporated into the guidance,
 - b HMRC guidance makes clear what costs that are part of an R&D activity within the BIS guidelines do not qualify for R&D tax credits and relief⁴, and
 - c HMRC provides clear guidelines on what qualifies as R&D for software development particularly with regard to the capital/revenue distinction.

⁴ Although in principle HMRC and BIS use the same definition, we heard a number of times that differences are encountered in practice.

- 15 HMRC should continue their current work on streamlining the processes and tagging definitions for iXBRL and should publicise how iXBRL information is used and the benefit of receiving the returns and accounts in this form. (3102-3.107)

VAT (chapter 4)

- 16 The de minimis amounts for partial exemption need to be reviewed. (4.22-4.24)
- 17 HMRC should consider a simpler procedure for SMEs that are partially exempt. (4.22-4.24)
- 18 HMRC should allow scope for modifying partial exemption agreements in real time HMRC should establish a target for the time taken to agree a partial exemption method. (4.22-4.24)
- 19 The burdens imposed by the capital goods scheme (CGS) seem to be considerably out of proportion to the adjustments being generated. Now that HMRC have other protections, we think it is time to review whether the CGS is needed or, if it is, whether its scope can be reduced. (4.29-4.31)
- 20 Retail schemes need to have de minimis amounts for changes built in so that there is more leeway before a retailer needs to change their arrangement. (4.36)
- 21 It is probably time to review flat rate schemes and their rates. (4.37-4.38)
- 22 On clearance applications: (4.8-4.19)
 - a there should be guidance on how a trader can best protect themselves against incurring penalties from the time of making the clearance application;
 - b an email template should be developed for the clearance service; and
 - c rulings should be publicised, suitably anonymised to reduce future enquiries and to ensure consistency.
- 23 Once VAT returns have been submitted, they are only amendable through form VAT 652. It would be helpful if this form was given greater prominence or (preferably) if VAT returns could be amended online. (4.39)
- 24 The need to wait six months for VAT bad debt relief seems harsh, as it involves tracking a series of invoices over six months. Relief should follow the accounting with the VAT being restored if any of the bad debt is recovered. (4.39)
- 25 A few businesses remarked that they had had multiple audits and reconciliation exercises for VAT, Intrastat and EC Sales list where they had to produce the same information multiple times. We recommend that visits and audits in relation to these taxes be better coordinated and carried out simultaneously. (4.39)
- 26 There needs to be better guidance around property transactions, particularly aimed at smaller businesses, including better definitions of 'dwelling'. (4.32-4.33)
- 27 An option to tax register (i.e. a searchable list of properties that have been 'opted') would be very useful to business and is something that should be possible to develop with increasing digitisation. (4.34-4.35)
- 28 The changes to VAT place of supply rules from 1 January 2015 will lead to increased registration and return requirements from smaller businesses. The 'mini one stop shop' (MOSS) does not provide a complete answer and we encourage

HMRC to continue discussions with professional and trade bodies to address concerns. (4.52-4.54)

Payroll (chapter 5)

- 29 The existing programme of work to implement the OTS's recommendations on employee benefits and expenses should be carried through. This needs to extend to properly re-examining the OTS's recommendation on extending PAYE Settlement Agreements.(5.16-5.19)
- 30 Legislation needs to be amended to allow employers to give authority for 3rd parties such as software providers to deal with HMRC on payroll issues. (5.8)
- 31 One particular problem faced by businesses coming to invest in the UK is when they need to set up a payroll. Clearer guidance on this would be helpful. (5.21)
- 32 It should be possible to set up annual schemes through a structured email facility. (5.8)
- 33 The RTI reporting rules require a date of leaving employment to be no more than 30 days later. This may not agree with the actual date used for many employment entitlements and the guidance should reflect this. (5.8 and Annex C)
- 34 The ongoing HMRC programme of work on improving CIS needs to be carried through; ideally this would include an overriding review of the need for CIS in its current form. (5.30-5.35)

HMRC administration (chapter 6)

- 35 Any business that is being moved out of the CRM system (perhaps because it is shrinking) should receive suitable warning and support from HMRC about the transition. (6.9)
- 36 HMRC should investigate whether an advance tax ruling service would be advantageous for both the UK government and inward investors. (6.55)
- 37 We recommend HMRC scope out a charge-based clearance service, or issue a discussion document about how such a service might look. This might be combined with plans for increased working with agents as part of the developing agent strategy.(6.61-6.62)
- 38 HMRC should better advertise and target its current clearance service to taxpayers faced with genuine uncertainty. (6.55)
- 39 HMRC should take advantage of moving its guidance to gov.uk to make it more accessible, in particular to make it easier to obtain guidance on all of the tax issues for transactions in one place rather than separately under heads of duty. It should also be more dynamic with greater use of flow charts and animations. (6.67-6.74)
- 40 HMRC currently offers a wide range of webinars, which are broadly welcomed. Additional webinars on tax reliefs for businesses and start-ups on Seed Enterprise Investment Scheme and Venture Capital Trust schemes would be helpful. (6.67 onwards)
- 41 Non-resident landlords cannot do their tax returns online. Since they are by their nature non-resident the return has to be on paper, which is burdensome for this group. Can this form be moved online? (6.67 onwards)

- 42 HMRC should undertake a review into whether the SAO system has now completed its job, and whether it remains necessary. (3.113)

Other taxes (chapter 7)

- 43 HMRC should review the feasibility of raising the *de minimis* figure on stamp duty, with the aim of minimising administrative burdens. (7.7-7.8)
- 44 The rule that a company secretary commits an offence if they register an unstamped stock transfer form should be removed, or the process for stamping itself be simplified. (7.9-7.11)
- 45 HMRC should review whether the rules surrounding stamp duty reserve tax and interactions with stamp duty are in need of modernisation, including introducing group relief for SDRT. (7.12-7.13)
- 46 The requirement to make a stamp duty land tax return at the five year point for a lease with uncertain rent needs to be streamlined, as the amount of tax is typically small and there is no mechanism to remind taxpayers of the obligation. Consideration needs to be given to a form of *de minimis* to avoid the need to do such recalculations. (7.15-7.17)
- 47 The current discussions on streamlining ATED administration need to be carried through to simpler and less burdensome procedures, particularly around filing for exemption. (7.20)
- 48 As a general rule, it should be possible to complete all forms and returns online, with the facility to save part completed forms. We heard particular comments on Insurance Premium Tax and Customs Duty forms; indeed some procedures around Customs Duties are in need of modernisation. (7.24-7.29)

Payments (chapter 8)

- 49 There needs to be a review of quarterly instalment payments leading to an increase in the threshold or simpler procedures for the medium-sized companies increasingly drawn into the net. (8.7-8.9)
- 50 HMRC should develop a monthly payment option system for small business corporation tax/income tax along the lines used by utility companies. (8.11)

2

The 'Doing Business' report

2.1 The 'Doing Business' report is a survey conducted by the World Bank. It measures the burden imposed by regulation across 189 different countries. It looks at ten sub-indicators which represent administrative processes that a typical business will face over its life cycle. The UK already performs very well: in the 2014 report it was ranked 10th overall, which is up from 11th the previous year.

2.2 Two of the sub-indicators in the report are relevant to the administration of the tax system:

- Starting a Business; and
- Paying Taxes

2.3 The other eight factors are not relevant to taxation and include registering property investment protection, as well as the ease of connection to an electricity supply, where the UK scores surprisingly badly.

Starting a Business

2.4 The "Starting a Business" factor has only some elements related to tax administration, which are the time taken to register for PAYE and VAT respectively. These are currently shown as eight days and one day respectively. HMRC have recently put administrative processes in place to reduce substantially the time taken to register for PAYE, which should result in an improvement in the UK's ranking on the sub-indicator (currently 28th).

2.5 It is worth noting in passing that the Irish tax system offers new businesses a single registration form (normally completed online but four pages in length if completed on paper). This covers the equivalent of corporation tax/income tax, VAT and PAYE. HMRC's online registration service¹ offers a comparable single registration point and a good example of e-enabling. There seems to be scope for building on this to generate unique taxpayer references and NINOs.

Paying Taxes

2.6 Our review has used the 'Paying Taxes' survey as the starting point. The UK ranks 14th in the 2014 report, placing it 2nd in the G7 and 3rd in the G20. The 'Paying Taxes' survey is conducted by PricewaterhouseCoopers on behalf of the World Bank, and is made up of three individual factors which, when aggregated, aim to rank the ease of 'Paying Taxes' across different countries. The factors are:

- The total tax rate of the key taxes a business pays. For the purposes of the report there is a cut off rate of 25.5% with all countries at or below that rate scoring equally. As a result changes below this tax rate will not have an effect on ranking.

¹ <http://www.hmrc.gov.uk/online/new.htm>

- The total time taken to prepare, file and pay the profits, labour and consumption taxes.
- The number of payments a business has to make each year to the relevant tax authority².

2.7 These indicators are measured for a case study business: a medium size company, which for the UK is taken to have a turnover of approximately £20 million, profits of a little over £1 million and 60 employees. More information can be found in Annex B.

Aggregating the rankings

2.8 Once information for each of the indicators has been gathered for all the participant countries, the information is aggregated based on a simple average approach:

- 1 Each individual indicator is ranked based on percentage (so a compliance time in the top 15% would get a 15).
- 2 An average of each individual indicator is then taken.
- 3 The countries are then ranked in order based on the size of the aggregated number. This produces the final ranking.

2.9 Of the indicators, we have concentrated on the “time to comply” indicator. This is because the other two factors are largely outside our remit:

- The total tax rate is a matter of wider government policy and is not for us to comment on, though we make one or two points in the body of our report where we heard strongly-held views.
- The number of payments indicator includes a provision for digital payment that scores the payment of a tax as one, regardless of the number of actual payments made – as long as they can each be made electronically. This reduces the UK’s score for the number of payments substantially. Without abolishing one of the taxes the business pays it cannot be reduced further. We have, though, looked for ways of simplifying payment procedures beyond the requirements of the ‘Paying Taxes’ survey (see chapter 8).

2.10 The results for the UK time to comply section are shown in the table below

Table 2.A: UK time to comply results

Tax	Preparation Time (hours)	Filing Time (hours)	Paying Time (hours)	Total (hours)
Corporation Tax	28	8	1	37
VAT	19	5	1	25
Payroll Taxes	20	27	1	48

² Where payments can be made electronically the tax will score as one regardless of the number of actual payments

2.11 The UK generally compares favourably with similar economies on the time taken to prepare tax returns, but as it stands at 25th overall for the time to comply there is the potential to improve and many of our recommendations have this goal in mind.

Improving our ranking

2.12 Analysis of the 'Paying Taxes' survey suggests that improving the UK's ranking will be very difficult. The table below shows why, and gives the results for the countries ranked 1-20 in the 2014 'Paying Taxes' report, with the UK at number 14.

Table 2.B: Table

Country	Rank	Tax rate %	Compliance Time (hours)	Number of Payments
United Arab Emirates	1	14.9	12	4
Qatar	2	11.3	41	4
Saudi Arabia	3	14.5	72	3
Hong Kong AR, China	4	22.9	78	3
Singapore	5	27.1	82	5
Ireland	6	25.7	80	9
Bahrain	7	13.5	36	13
Canada	8	24.3	131	8
Oman	9	22.0	68	14
Kiribati	10	31.8	120	7
Kuwait	11	12.4	98	12
Denmark	12	27.0	130	10
Mauritius	13	28.2	152	8
United Kingdom	14	34.0	110	8
Luxembourg	15	20.7	55	23
Switzerland	16	29.1	63	19
Norway	17	40.7	83	4
Kazakhstan	18	28.6	188	7
Seychelles	19	25.7	76	27
Brunei	20	16.1	96	27

2.13 We do not pretend to have carried out an exhaustive analysis of tax systems in other countries. However, we have tried throughout this project to look for ideas from outside the UK, and in particular to answer the question 'why does Country X do so well (or badly) in the World Bank study?'³³

³³ See Annex D for our summary of 'Lessons from other countries'. We have had useful contributions to our work on other countries from the third year BSc Accounting students at Manchester Business School who carried out a project studying the leading countries as part of their degree course.

The oil based economies

2.14 The top three countries in the table (and six out of the top eleven) rely on their status as major oil and gas producers to provide the bulk of their tax revenues. The UK will never be able to emulate these countries. They have low rates, and in many cases fewer taxes, which translates into less time to comply and fewer payments. This is not always the case, and for example, with 27 payments there would seem to be considerable scope for Brunei to reduce the number and as a result move up the rankings.

A policy of low tax rates

2.15 Of the non-oil based economies, three stand out as having a clear policy of attracting investment through low headline tax rates. These are the Hong Kong SAR in China, Singapore and Ireland. They also score well on the time to comply and ease of payment measures, which is not surprising given their desire to attract inbound investors. While the UK may not wish to match these countries on their headline tax rates, there seems to be no reason for thinking that the gap on the time to comply could not be narrowed.

Others

2.16 It can be seen from the table that, with the exception of Norway, all countries in the top 20 have a tax rate that is lower than the UK's. Given the significant reduction in the main rate of corporation tax in recent years, this is somewhat surprising but it follows from the methodology that is used to generate the tax rate for the report. This methodology includes all those taxes borne by the business itself – principally corporate income tax, but also any irrecoverable VAT and employment taxes that are borne by the employer, as well as some smaller taxes. The example company in the UK has a profit before all taxes of £1,215,000, out of which is paid:

- £263,000 corporation tax,
- £129,000 employer's NICs, and
- £21,000 for other taxes,

making a total of £413,000 and a rate of 34.0%.

2.17 It is the combination of corporation tax and employer's national insurance contributions (NICs) that causes the UK's relatively high tax rate, and appears to be the sole reason that Canada and Denmark, which in many ways have comparable tax regimes to the UK, rank above us. They have similar rates of corporate income tax to the UK, and both have a VAT / GST and employer withholding obligations. However, there is no equivalent to employer's NICs in Canada, and in Denmark the relevant tax is levied at the rate of 3.6% (although the equivalent to employee's NICs is much higher).

Threats to the UK's ranking

2.18 Along with the UK, others will be seeking to make improvements to their positions. Of particular interest are the two countries immediately below the UK, i.e. Luxembourg and Switzerland. Both have lower tax rates and significantly better results for the time to comply. They are let down (as are others lower down the rankings) by the high number of payments that need to be made each year. We suspect that this arises from less developed electronic payment facilities, something that if remedied, might move them up the ranking at the expense of the UK.

Changes to the World Bank methodology

2.19 The 'Paying Taxes' methodology is being updated for the next iteration of the survey. These changes will be reflected in the 2015 survey; however, we should note them here as they could result in changes to the UK ranking.

2.20 The first change is a modification to the treatment of the total tax rate. Above a set threshold (25.5%), the total tax rate will enter the ranking in a nonlinear fashion, as opposed to the current linear fashion. This means that increases in the total tax rate near the threshold will have a smaller effect on the indicator score ranking than increases far from the threshold. This could be potentially very advantageous to the UK, as its tax rate of 34% (the 71st lowest, out of 189) is much closer to the threshold than many other countries. This could potentially reduce the advantage of some of the countries which rank above the UK because of their tax rates but which don't perform as well in other areas e.g. Mauritius and Denmark.

2.21 In addition, the team will collect data in early 2015 on aspects of post-filing for firms (audit, refunds, dispute resolution) to broaden the coverage of the 'Paying Taxes' indicators to these areas. This will affect the time to comply indicator. Anecdotally, we have heard that the UK compares favourably to other jurisdictions, so it is unlikely that recognising these in the survey would damage the UK's ranking.

Other surveys

2.22 Our remit has required that we pay close attention to the World Bank's PwC 'Paying Taxes' survey; however, we should note several other surveys which rank the competitiveness of various tax systems. Two other surveys are the KPMG Annual Survey of Tax Competitiveness⁴, and the Tax Foundation's International Tax Competitiveness Index⁵.

2.23 The former of these ranks the UK in 1st place, based on the perceptions of tax executives of large companies. It is encouraging that the UK is perceived as having such a good tax system by tax executives of large businesses, but this paints an incomplete picture as it does not include the perceptions of smaller businesses, many of whom may have a different perspective on what makes the UK competitive. The most recent report notes that one of the two key measures to improve UK competitiveness would be to "simplify, clarify, or reduce complexity".

2.24 The Tax Foundation's Index is more critical of the UK's tax system: it ranks the UK 21st out of the 34 countries surveyed. The Tax Foundation's survey is primarily concerned with the marginal rates faced by taxpayers; there is effectively no overlap with our remit, which is focused on administration, though we also have regard to the **total** tax burden and the tax payments made.

2.25 Due to the disparities between our perspective on competitiveness (one focused on administration) and the perspectives found in these surveys (one focused exclusively on large business, and one on tax rate), we have not chosen to look at these surveys in any more detail.

⁴ <http://www.kpmg.com/uk/en/issuesandinsights/articlespublications/pages/tax-competitiveness-survey-2013.aspx>

⁵ <http://taxfoundation.org/article/2014-international-tax-competitiveness-index>

3

Corporation tax

Corporation tax in the 'Paying Taxes' survey

3.1 The case study company in the 'Paying Taxes' survey is a straightforward manufacturing business, and requires 37 hours each year to comply with the obligation to file a corporation tax return. This includes the time taken to prepare and file the return, and to pay corporation tax (CT). Some 28 of the 37 hours are spent on preparation, including the time required to collect the information necessary to compute the taxable income and the amount payable. Where separate calculations are made (for example capital allowances), the time to do this is also included.

3.2 The balance of nine hours is filing and paying including: the time to complete the return form and file it, as well as tagging the accounts to enable submission using iXBRL. No account is taken of the time that may subsequently be required to reach agreement of the CT liability with the tax authority.¹

3.3 The 37 hours estimated for a UK company is similar to Canada (45), Australia (37) and Singapore (32) but longer than the time taken in Ireland (10), Switzerland (15) and Luxembourg (19).

3.4 The sample company has a turnover of £21.5 million and a profit of £1.07 million, meaning that the company is entitled to marginal relief under the rules for companies with small profits (s19 of CTA 2010). This has been identified by the OTS in previous work² as a complexity and it will disappear from April 2015 when the CT rates for small profits and large profits align at 20%. It is worth noting that, from April 2015, the associated companies' rules are also being simplified.

3.5 Additional background information on the company and assumptions that affect taxable income are provided as part of the survey and more on this can be found at the Doing Business website.³ The computations of the total tax contribution and the CT computation are provided in Annex B, the latter showing the adjustments which need to be made to the accounts profit to arrive at taxable income.

3.6 The 'Paying Taxes' case study is framed around a company and this chapter is about corporation tax. We are well aware though that the majority of businesses in the UK are unincorporated and pay income tax and not corporation tax, but we are not including a separate chapter on income tax for businesses. This is mainly because the process to calculate the profit chargeable to tax is fundamentally the same for both forms of business, and our recommendations would apply equally to them.

3.7 The starting point for the calculation of trading profits for corporation tax and income tax is the profit determined in accordance with generally accepted accounting principles (S25(1) ITTOIA and S46(1) CTA 2009) and much of the language governing what income is taxable and what deductions from profit are allowed is the same in both the Income Tax and Corporation Tax Acts. Some of the mechanics may be different, and there are some computational

¹ We understand that the World Bank plan to take account of post-submission settlement time from 2014 onwards.

² <https://www.gov.uk/government/publications/tax-reliefs-review>

³ <http://www.doingbusiness.org/methodology>

differences, such as indexation in calculating chargeable gains that apply only to companies, but much of the discussion below relates to issues that are common to the taxation of both companies and unincorporated businesses. Where we refer to CT this should be taken to include a reference to income tax where appropriate.

3.8 We have also covered much of the ground on unincorporated businesses in our partnerships reports⁴. One of the areas of continuing work is on international aspects, so there is scope for improving the competitiveness of the system through that work.

Our general findings

3.9 We have met with a number of companies varying in size from the small to the very largest as well as representative groups and professional bodies. Usually we started the discussions by focussing on the time taken to do corporation tax computations and how this could be reduced. Discussions invariably turned to some of the technical issues in corporation tax that take time to deal with which in turn raised general issues that affect UK competitiveness.

3.10 Our first observation is that while CT is often the tax that people think of when considering business taxation, and the one that gets the headlines, for most businesses it is the other main taxes – VAT, employment taxes, and business rates – that are of more immediate concern.

3.11 This was summed up by one comment from a business representative body that said:

Box 3.A: Quote from a representative body of businesses:

“For our members, generally small businesses, the number one issue is the difficulty in obtaining finance. Number two is business rates, which is by far the biggest tax issue with CT a long way down the list as “at least the business must be surviving and doing OK to have a CT liability”.

3.12 The next point to make is that the reduction in the main rate of CT to 20% is seen by companies as a very positive development, and that this rate is considered to be competitive. We did not find any pressure to go lower at this time.

3.13 Another common factor is that for many businesses, especially the smaller ones, responsibility for CT is usually left to their advisers⁵. Other than incentives that are well publicised at Budget time (for example, R&D credits or the AIA), or specific issues that affect their business, many small and medium size businesses have little in-house knowledge of CT. It is seen as something of a “black box” to be left to experts. The Finance Director of one medium sized firm told us that, although he would like to know more, he simply does not have the time on a regular basis and is restricted to one day each year with the firm’s accountant to go through the various adjustments that are made to get from the accounting profit to taxable profit.

3.14 This low level of day to day engagement is in contrast to the other main business taxes which are usually managed in-house with much greater knowledge and involvement. This may simply be because VAT and employment taxes are dealt with on a more regular basis and have an immediate impact, but CT is justifiably perceived to be more complex. The Corporation Tax Acts 2009 and 2010 as originally enacted, contain 2,515 sections between them and more have

⁴ <https://www.gov.uk/government/publications/partnerships-review>

⁵ HMRC figures estimate that 80% of businesses leave CT to their advisers

been added since. The two Income Tax Acts of 2003 and 2007 had 1,921 sections originally and they too have been added to since. In addition for those businesses with international operations, there are the 400 plus sections of TIOPA 2010 to contend with. For many, if not all except specialists, the effort to gain sufficient knowledge (or even to keep up to date) cannot be justified, especially to prepare a tax return for what is seen as an annual event. It is therefore hardly surprising that for most businesses it is more efficient, even if costly, to appoint an adviser to prepare the return and to supply them with whatever information is requested.

3.15 As a result most of the detailed comments that we have received about corporation tax have come from advisers and larger businesses. These are the people who actually deal with the mechanics of calculating the CT liability. Amongst this population there is a widely held view that many of the computational rules are out of date or overly prescriptive and complicated, and that they can produce unexpected or unfair results, or require a disproportionate amount of work for little tax. This is perhaps not surprising, given that many of the underlying principles were established in the nineteenth century. What is striking though is that, while the desire for something simpler is frequently expressed, it is often followed by a shrug indicating reluctant acceptance that CT is and always will be complicated.

3.16 This view is reinforced by recent developments, such as the UK-UK transfer pricing and debt cap rules, which apply only to companies and were criticised as imposing a heavy compliance burden, almost always for no net tax adjustment, and the new CFC rules, where despite the welcome policy development, the legislation is lengthy and complex and includes a number of new targeted anti-avoidance rules.

3.17 Some doubt that major reform can be achieved. We also noticed some concerns from companies with international operations about the implications of embarking on reform at this stage as they see the work on Base Erosion and Profit Shifting (BEPS), led by the OECD, as their most immediate challenge.

‘One thing to improve competitiveness’

3.18 When businesses were pressed on what their ideal CT regime would look like they typically requested something which can be summarised as:

Box 3.B: A summary of business views on corporation tax

CT should be a tax on business profits arrived at after deducting all legitimate business expenses, the profits being those disclosed by the business accounts. There should be a minimum number of adjustments and these should be in accordance with a clear and well understood policy.

3.19 In terms of our brief of improving the competitiveness of the UK tax administration, we interpret this as: **We are only going to make a real difference to the time taken on CT administration by making some significant reforms to the rules for the computation.**

3.20 We have explored the implications and possibilities of such reforms and much of the rest of this chapter discusses ideas which we are aware are policy matters, rather than simple administrative improvements.

The case for reform

3.21 At the last count we identified 81⁶ potential differences between taxable profits and accounting profits just for trading companies. These fall into two main categories:

- Those disallowed by the wholly and exclusively rule; and
- The treatment of capital expenditure.

3.22 This issue is, of course, not new. In August 2002 the government published the first of two consultation documents⁷ on corporation tax reform, covering in particular the schedular system and the treatment of capital assets. Following consultation a Technical Note was issued in December 2004. The response to the Note was unenthusiastic, with no real consensus from business, especially on capital allowances⁸. As a consequence the draft proposals to modify (not eliminate) the schedular system did not proceed and it was decided to retain capital allowances. There was also some consideration of greater alignment of taxable and accounting profit but, as the preferred approach was to move the accounting standards closer to tax principles, rather than the other way round, this received little support.

3.23 Although this exercise concluded relatively recently, we believe that now would be a good time to revisit the question of significant reform and simplification of CT, in particular to move the tax base much closer to the accounts. This is a trend that is already underway – for example CT relief for intangible assets and interests – and is supported by recent case law. In addition the tax landscape has changed significantly since 2002, in particular with the reduction in the main rate of CT from 30% in 2002 to 20% from April 2015.

Losses

3.24 One of the stumbling blocks in 2002 was uncertainty about the potential cost to the Exchequer from the use of the large pool of unrelieved losses. While this remains a valid concern, we believe that the GAAR and the various targeted anti-avoidance rules have significantly reduced the risk from the use of losses other than in accordance with policy.

3.25 Consideration could also be given either to applying a maximum to the amount of losses that could be carried forward or suitable transitional rules, though this would add complexity.

Capital allowances

3.26 Plant and machinery capital allowances are discussed in detail below but, in comparison to the position in 2002, the rate of writing down allowances has fallen from 25% to 18% or 8% and the cash value of capital allowances in the year of incurring expenditure has dropped from 7.5% to either 3.6% or 1.6%. This suggests that, with the exception of very long life assets, the difference between the value of capital allowances and the value of tax relief for depreciation has narrowed to the point at which we believe it is unlikely to influence the vast majority of business investment decisions.

3.27 For smaller businesses the AIA at its current level of £500,000 means that around 99% of businesses obtain immediate relief effectively putting them on a cash basis for new plant. Should the AIA continue at a high level, then this implies moving to tax-deductible depreciation

⁶ This is across Schedule D only; there are even more adjustments for other types of income

⁷ http://webarchive.nationalarchives.gov.uk/20061209025025/http://hmrc.gov.uk/consult_new/taxreform_final.pdf

⁸ There were naturally significant concerns about winners and losers. The key factor that has changed – and therefore encourages us to recommend a further review – is that the value of capital allowances has reduced, due to the reduction in corporation tax rates.

would not be popular with those businesses, but a key contextual point is the prospect of the AIA reducing from January 2016 to £25,000.

3.28 The whole area of capital allowances vs depreciation is discussed further below.

Capital v revenue adjustments

3.29 Many other adjustments to profits arise from the capital / revenue divide. HMRC has recently issued a capital v revenue toolkit to assist agents and advisers. It identifies 16 areas where errors are often encountered. It is a helpful document, but it also serves to illustrate the complexity in this area. As an example, the denial of full tax relief for the cost of repairs that have been incurred and charged against profit but which may include an element of improvement, is not easy for a business to comprehend.

3.30 In many cases such capital /revenue adjustments will be timing. For example, where a cost is expensed in the financial accounts but for tax purposes is considered to be capital and qualifies for capital allowances, it will be only a question of when tax relief is provided.

3.31 On the other hand there are permanent differences where no relief is provided for a business cost, often referred to as “tax nothings”. This could be the cost of abortive expenditure where there is no asset, or repairs to a building that are treated as improvements and so capital. In the great majority of these cases, the costs in question will be viewed as valid business expenses by the business concerned, with no apparent logic or fairness in disallowing relief.

3.32 Many of the adjustments will be quite small. Apportioning expenses from the profit and loss account such as legal fees to check for any that relate to capital was given as an example that is time consuming, yet yielded little above what had already been treated as capital in the accounts. Here too the reduction in the CT rate makes the transition to an accounts based approach for dealing with these items more manageable.

3.33 On the other hand there may be sound policy reasons for retaining some differences. An example could be to provide relief for contributions to pension schemes only for cash or preferably cash and in-kind contributions. Another area might be to retain the rules providing CT relief for share based payments with the link to the employment income charge. In both of these cases it would not be necessary for a business to retain additional records to determine the CT relief as the information is needed for other purposes.

3.34 Some rules that will remain necessary are sector specific; for example sections 55 to 179 Finance Act 2012. These concern the taxation of life assurance and other long-term business of insurance companies. We are advised by representatives of that business that these special rules work well and are necessary to reflect the long term nature of the business.

Conclusion on the basic computation process

3.35 In summary, we think there is a strong case for an overall review of the rules for the basic corporation tax (and business income tax) computation to consider, including:

- whether many of the ‘sundry adjustments’ could be eliminated;
- replacing capital allowances with a deduction for depreciation;
- a general move to taxing the accounting profits with minimal adjustments;⁹ and

⁹ We appreciate of course that the foundation of the tax calculation is the profit shown in the accounts, but we think that there is scope for real emphasis on taxing accounting profit with adjustments only where there is a good policy reason for doing so.

- minimising the need to maintain additional accounting systems for CT purposes.

3.36 We explore this further below and then go on to cover some specific areas that were raised in our meetings and submissions under the following broad headings.

- The need to monitor trades and investment businesses separately to track the use of losses – “the schedular system”.
- General issues of complexity, sometimes excessive for little return.
- iXBRL – the costs of tagging accounts and queries as to its value to HMRC.
- Materiality.

The Paying Taxes company CT computation

3.37 The computation is for the year ended 31 December 2012 and is included as Annex C. The business of the example company in the ‘Paying Taxes’ report is about as straightforward as can be encountered, yet its corporation tax return shows a number of adjustments to the accounting profit. The various adjustments, some of which are timing differences, result in a profit for tax purposes of £1,090,000, compared to the accounting profit before tax of £1,065,000. The tax due of £262,740 is calculated net of marginal relief for small companies and gives a rate of 24.1%, which is then taken forward to calculate the total tax contribution.

3.38 Applying the main CT rate, which was 24.5% for this period, to the accounting profit gives a tax liability of £260,925 which is very close to the actual liability calculated after the various adjustments and the marginal relief. The difference of £1,815 may well be smaller than the cost for an adviser to prepare the return.

Some examples of adjustments

3.39 We refer above to some 81 provisions, other than capital allowances, that can lead to the need to adjust the accounting profit of a trade for tax purposes. These include those that

- provide incentives or additional tax relief for certain expenses (R&D is a good example);
- are sector specific and can be traced to a desire to give relief for business expenditure that is classified as capital for tax purposes yet is clearly a cost incurred in carrying on the business. The provisions for allowing relief to cemeteries and crematoria are examples of this;
- have a clear public policy objective such as provisions denying relief for crime related payments, tax penalties, interest and surcharges and certain costs of business entertaining;
- are mechanical in that they deny deductions in calculating the profits of the trade but relief can be obtained under other provisions. A good example is S 1301A of CTA 2009 that states that no deduction for interest is allowed against any source of income otherwise than under the loan relationships provisions in Part 5 CTA 2009;
- place conditions on otherwise allowable expenses such as unpaid remuneration;
- are anti-avoidance provisions; or

- are concessions to provide relief and an efficient route to a practical answer. Following the *Wilkinson ruling*¹⁰ however, these are being withdrawn and legislated. The specific example of the renewals allowance is described below.

3.40 All of these could usefully be reviewed to check for relevance and how well they fit with the objective of minimising the need to make adjustments to the accounting profit. This work could build on the review of reliefs performed by the Office of Tax Simplification in 2011.¹¹

The non-statutory renewals allowance

3.41 We were referred to this particularly useful and longstanding concession that allowed the claimant to deduct the cost of replacing an asset used in a trade (but not the original purchase and with a deduction for any sale or scrap proceeds received), as an alternative to making a capital allowance claim. One hotel business told us they had used this basis to claim for the cost of replacing mattresses, curtains, cutlery and glasses. They fear that the withdrawal of the concession from April 2013 means that they will have to revert to capital allowance claims, resulting in a huge number of short life asset pools. The cutlery and glasses could possibly form a claim under the provisions of s68 CTA 2009 (replacement of tools of the trade), but not the mattresses or curtains.

3.42 We understand that HMRC plan to issue revised guidance shortly¹². However, we believe that the long term and better solution is to allow relief for the cost of repairs and replacements as reflected in the accounts. We recommend that a review to this end should be undertaken.

Capital allowances and accounts depreciation

3.43 A feature of the CT computation of almost every company is the adjustment to the accounts profit to replace the charge for depreciation with capital allowances. Historically capital allowances in a period have generally been higher than the depreciation charge, and so offered a cash flow benefit to businesses by providing tax relief at an earlier stage than would accounts depreciation. As is discussed below, following the reductions in the rate of writing down allowances this position is less clear cut than it was.

3.44 The benefit comes at the cost of complexity, as capital allowances are only available on some assets and not all of those which may be depreciated through the profit and loss account. Case law provides many examples where the boundary between what does and does not qualify for capital allowances was not clear, and we were told that new issues continue to emerge due to technological developments and changes in interpretation by HMRC.

3.45 It is the need to identify the qualifying expenditure (including separating out integral features) and to reconcile the capital allowances to the accounting records that takes the time. Once all this has been done the actual calculation of the capital allowances is straightforward, but to get there a business has to maintain a lot of additional fixed asset accounting records for tax purposes.

3.46 Examples described to us included determining the qualifying element of very large investments, such as an airport terminal building or a power station. One comment from a large energy company was that:

¹⁰ R v HM Commissioners of Inland Revenue ex parte Wilkinson [2005] UKHL 30

¹¹ <https://www.gov.uk/government/publications/tax-reliefs-review>

¹² In fact during the writing of this report HMRC have already updated the guidance at BIM 46960.

Box 3.C: Quote from a large energy company

Agreeing the amount of qualifying expenditure is a real pain and generates a lot of audit issues with HMRC but even so it is worth the effort [because of the value of the allowances].

3.47 For the largest companies, and especially those with high levels of capital expenditure, this complexity has been accepted as a fact of life and to date the accelerated tax relief that has come from capital allowances has been of benefit to many of them. However, this is changing with the reduction in the rate of writing down allowances and the parallel reductions in the rate of corporation tax. For smaller concerns, the net adjustment to profit can be quite modest and many of the businesses that we have spoken to question whether it is worth all the trouble.

3.48 The use of accounts depreciation would remove the necessity to carry out this analysis that allocates capital expenditure into categories beyond what has been done for the accounts. The overriding point that has been made forcefully to us in many meetings is that businesses carry out a lot of careful analysis to categorise assets for accounts purposes. Why then is there a need to rework the exercise under different rules for tax purposes?

3.49 There would presumably have to be some control to ensure that the accounts categorisation was in accordance with accounting standards in order for the depreciation to qualify for tax relief. Application of proper accounting standards requires careful consideration of issues such as:

- What can or should be capitalised (e.g. a reasonable analysis of refurbishment costs)?
- Which categories of assets to use (mainly building or plant)? and
- The expected useful life of the asset to underlay the depreciation charge/

3.50 The point to make is that in the normal course a business will not write off assets quickly because of the impact on profits. This may not be a control for smaller businesses, but then the AIA provides 100% relief already.

The annual investment allowance (AIA)

3.51 Retention of the AIA does not sit easily with a general move to accounts based depreciation and at the very least it would add complexity. Since its introduction in 2008 the allowance has varied between £25,000 and the current figure of £500,000. The higher figure is greater than the annual qualifying spend of almost all UK companies and while generally welcomed, only a small number of businesses that we spoke to said that it had been a consideration when investing in new assets.

3.52 By contrast, many of them say they are confused by the frequent changes to the limit¹³ and the complicated rules that have to be applied to reflect the date the AIA changes. They would prefer that, if the AIA were to remain in place, it be set at a level that might have to be lower than £500,000, but that it would then remain at that level for the future. This would certainly be a significant simplification for these businesses and we believe that it deserves serious consideration, independently of any wider decisions on capital allowances.

¹³ The AIA was £50,000 for the financial years 2008 and 2009, £100,000 for the financial years 2010 and 2011 and £25,000 for the financial year 2012. For 2013 it was increased to £250,000 and for the period from April 2014 to December 2015 is £500,000. Subject to further legislation it will reduce on 1 January 2016 to £25,000.

Enhanced capital allowances (ECAs)

3.53 We raised the issue of enhanced capital allowances for environmental expenditure in a lot of our meetings but, as would be expected, it was something that applied to a limited range of businesses. The general view was that they see the relief as essentially a post year-end compliance issue to be carried out during the course of preparing the CT return, rather than something that is actively considered during the purchasing or specification process. More than one respondent suggested that suppliers may increase prices once a particular product is on the approved list.

3.54 In conclusion we think that ECAs have marginal benefit. We rarely heard that they influence spending decisions, not least because the decisions are usually taken by purchasing or manufacturing teams without specialist tax input. We appreciate that there are policy reasons for promoting ECAs, but do not think that the existence of the 100% allowances should be a reason for not undertaking the wider review of the value of capital allowances that we have recommended above.

The value of capital allowances

3.55 At the present time there are four rates of allowances to provide tax relief for the cost of depreciation of capital assets used in the business, 100%, 18%, 8% and 0%:

- 100% annual investment allowance (AIA) for annual expenditure up to £500,000 until 31 December 2015 and £25,000 thereafter;
- 100% first-year allowances for certain energy saving expenditure, qualifying expenditure on assets used wholly in a North Sea ring-fence trade and qualifying R&D;
- 8% writing-down allowances (WDA) for integral features and long life assets (greater than 25 years);
- 18% WDA for other qualifying expenditure; and
- 0% on non-qualifying assets, notably buildings and structures.

3.56 Immediate 100% tax relief is clearly greater than the likely depreciation in accounts which is based on the useful economic life of the asset. On the other hand, the lack of any relief for non-qualifying expenditure, such as the building with an expected life of between 20 and 30 years constructed to house the new production line at Thatcher's cider¹⁴ is definitely less than the depreciation charge.

3.57 Whether the two rates of writing down allowance provide more or less generous tax relief than relief based on depreciation is less clear and will depend on the life of the asset and the depreciation policy adopted by the company. What can be said though is that any differences are considerably smaller now than they were in 2002 when moving to an accounts-based depreciation system was last looked at.

3.58 At that time the main rate of CT was 30%, and there was only one rate of WDA – 25%. This compares with a CT rate of 20% (from April 2015) and WDAs of 18% or 8%. Put another way, the cash value of the WDA in the first year of expenditure has fallen from 7.5% of the expenditure to either 3.6% or 1.6%. Its value then falls off quickly due to the reducing balance method of calculation and, assuming that the trade continues, is never fully relieved.

¹⁴ See page 11 of our interim report and call for evidence

3.59 The table below shows the difference between the amount of capital allowances and straight line depreciation each year for an asset with an expected useful life of 10 years.

Table 3.A: Table

Year	Depreciation	WDA	Difference at 20%
1	1,000	1,800	160
2	1,000	1,476	95
3	1,000	1,210	42
4	1,000	992	-2
5	1,000	814	-37
6	1,000	667	-67
7	1,000	547	-91
8	1,000	449	-110
9	1,000	368	-126
10	1,000	302	-140
Total	10,000	8,625	-276

3.60 As can be seen, the value of the WDAs falls away and after the first three years, the capital allowances have dropped below the depreciation charge. After 10 years, only 86% of the cost of the asset has been relieved. The remaining balance is in the pool and in normal circumstances will be relieved slowly over many years.

3.61 Using this same example and calculating the net present value with a 5% discount rate to the cash flow differences over 20 years, shows that for an asset costing £10,000 with an expected useful life of 10 years, the difference in value between obtaining tax relief based on capital allowances rather than relief based on accounts depreciation is just +£10. Put another way, capital allowances provide a cash flow benefit with a value of 0.1% of the cost of the asset.

3.62 A further development since the subject was last looked at is the extension of the availability of the short life asset rules to eight years expected life from four. This means that full tax relief can be obtained over the life of the asset under both the capital allowances (requiring extensive tracking and record keeping) and the much simpler accounts depreciation approach. Analysis of the cash flows for a variety of expected lives again shows that the value difference is very small and so unlikely to affect investment decisions.

3.63 The class of assets where the cash flow benefit from capital allowances may still be material are those where the 18% WDA is available on assets with a life of between 20 and 25 years and where the 8% special rate applies to very long life assets, typically over 40 years. These will be mainly infrastructure assets (especially utility businesses and for the North Sea oil sector) and we were advised by companies in that sector that loss of capital allowances would be seen as having a very negative effect on the competitiveness of the UK, with adverse consequences for the viability of some major projects. If there were to be change, there must be a suitable transition period.

Managing the system

3.64 Concerns were also expressed that depreciation rates chosen by individual businesses might distort competition. Others were worried that if a boundary between qualifying and non-qualifying expenditure was retained, then the scope for simplification would be limited as it is

the categorisation that is the time consuming aspect. In addition, there may be a risk of additional enquiries from HMRC about the depreciation policies adopted amid concerns that companies would change their policies to obtain accelerated tax relief. However, the 100% AIA, especially at its current level, gives HMRC protection against abuse by smaller companies, as if a company chooses to write off all its capital expenditure in the accounts this only gives the same result as the AIA. For larger companies (and LLPs) accounting rules would guard against abuse.

3.65 Some companies told us that they like the flexibility that the ability to disclaim capital allowances brings, as it enables them to manage the use of losses more efficiently. Put another way, it helps them get over the complications of the loss use rules that are considered in the next section. Our view is that, while we understand why companies have responded in this way, it should not impede change but should be addressed through reform of the loss rules.

3.66 We therefore conclude that a move to providing tax relief for the depreciation charged in the accounts would be a considerable simplification and that, given current tax and WDA rates, it would in most cases be close to revenue neutral for expenditure that qualifies for allowances at the present time

3.67 The greatest simplification would come from extending relief to all depreciating assets, which would have an Exchequer cost. On the other hand, it would remove one of the larger tax nothings, i.e. a genuine business cost for which no tax relief is available. The Thatcher's cider example referred to above is one of many such cases. It is also quite likely that many of the companies who currently benefit most from capital allowances are also those who incur the largest amount of non-qualifying expenditure, so there is likely to be an element of trade off.

Conclusion

3.68 We recommend that the replacement of capital allowances with tax relief for accounts depreciation be evaluated, including transitional rules. We recognise the difficulties of combining an accounts based depreciation approach with the AIA, particularly at its current high level. However the AIA is planned to fall to £25,000 from 1 January 2016 and it may be that to achieve simplification it would need to disappear completely, or remain in some form as a de minimis simplifying measure for small businesses.

The schedular system and use of losses

3.69 The computational rules for the calculation of taxable business profits, either incorporated or not, are detailed and complicated and are a mixture of historic and modern. Historic as the charge to tax under different schedules dates back to the re-introduction of income tax in 1803 (following its initial introduction in 1799, and subsequent repeal) and modern as even where the statute has been modernised or re-written, this approach has been retained. For example the loan relationship and derivatives legislation maintains the distinction between trade and non-trade expenses, and in the recent Tax Law Re-write the Schedules of the old ICTA 1988 are replaced by the various Parts of ITTOIA 2005.

3.70 These rules can be very confusing for business. To a certain extent they remain below the surface as, for many businesses, the calculations are performed by their advisers and there are usually more pressing matters to attend to than getting to grips with complex CT rules. Those companies using tax software will find that many of the adjustments are made automatically and often have no net tax effect.

3.71 Others say that they spend a lot of time managing the use of losses, including capital allowance disclaimers, which is something that they do not necessarily have to do for their operations in other countries.

3.72 Overall, this does not fit with modern business practice and a common theme in our discussions with businesses is that they see their activities as a single enterprise. In particular, the difference between trading and investment activities is far from obvious: they are all activities of the overall business. The scope may change in detail over time – new activities may be added or others discontinued – but in the words of one:

Box 3.D: Quote from a mid-sized business on streaming of profits

Streaming, especially of tax losses doesn't make sense. Also it is not clear why the tax system treats investment profits and trading profits differently. This could be a problem for the group, and it might drive commercial decisions on whether to acquire trading businesses or investment businesses in future. This has happened in the past.

3.73 Another private equity owned company told us that its advisers are engaged in a lengthy discussion with HMRC concerning the capital structure of the company and the amount of debt that qualifies for tax relief. The capital is used by the business in its trade, but the value of the tax relief that is eventually agreed will depend on the profitability of the company each year as any amount in excess of the trading profit for one year will not be available to offset against trading profits in a later year. While the need to establish the acceptable level of debt (the thin capitalisation aspect) is understood, the streaming implications of each year's trading performance are not and make no sense to the company concerned.

3.74 Limits on the use of acquired losses are accepted as being necessary to prevent tax motivated loss buying, but tracking the results of an acquired trade can be very difficult as it is often rapidly integrated into existing operations.

3.75 We think that it is time to look again at the need for streaming rules and loss offset restrictions in the current era of reduced tax rates, the GAAR and targeted anti-avoidance measures. We also think that the trading / investment distinction is outdated in the modern era and should be replaced with an overall business approach.

Consolidated CT returns

3.76 Some companies suggested that consolidated returns may provide the answer to some, if not all, of the streaming issues. Ideally the consolidated return would be on the basis of a single business carried on by all members of the consolidated group. A consolidated return may also deal with some the issues discussed under the section on over-complexity.

3.77 We are well aware the concept of consolidated returns has been examined in the past and not taken forward. Although not a unanimous call, we believe that there is sufficient support for a move to consolidated returns for groups, to justify a review of how such a system would work. It may be that the way forward is to allow consolidated returns on an optional basis.

Complexity

3.78 As stated above a degree of complexity is accepted as being inevitable in taxing a complex world but we kept hearing: *But does it have to be that hard?*

3.79 Some examples are given below illustrating how complexity arises in different ways. Sometimes it is beneficial (as in the case of R&D relief); sometimes there seems to be too much complexity to achieve the right answer (capital gains and roll over); and then again there are examples where the complexity seems to serve no useful purpose (UK-UK transfer pricing and the debt cap rules).

Research and development (R&D)

3.80 This was commented on by many businesses. Awareness of the relief and the government's desire to encourage R&D is high. Approximately 16,000 claims were made by companies in 2012/13 for R&D credits. These were based on qualifying spend of over £13 billion and the support claimed by way of tax credit had a value of almost £1.4 billion. Those with experience of claims are positive, yet we also encountered those who are reluctant to claim – either because they feel uncertain of what qualifies and / or they are reluctant to pay an adviser. Many of the specialist R&D advisory firms expect to retain a percentage of any successful claims.

3.81 Some businesses are reluctant to make contact with HMRC to discuss a claim as they fear that this might lead to an enquiry on other matters. The rationale given by one company was that HMRC would suspect that their lack of knowledge about R&D relief and credits implied a general lack of knowledge about tax and so would justify an enquiry.

3.82 This is unfortunate as HMRC has worked hard to overcome this perception. There are specialist R&D units across the country offering assistance with claims and advice on the records that are needed to support them. We met with some of the specialists and were impressed with their positive, supportive stance. They told us that the level of awareness and number of claims is increasing. The teams are always prepared to have a pre-claim discussion, although this is to help the business put its claim together rather than being a form of pre-clearance. Feedback from small businesses is that the process is easier than they had thought and the credits can be very useful in helping a company fund further R&D.

3.83 We believe that the issue here is how HMRC get best its message across. It has worked with the Department for Business Innovation and Skills (BIS), attending innovation workshops for small business (we attended one of these in Sheffield). The initial HMRC presentation of what is required to support a claim was somewhat daunting, but the subsequent discussion was very positive, leading one participant to comment that he felt able to put his own claim together based on what he had learnt.

3.84 Specific suggestions we would make are as follows.

- The official guidance would benefit from more examples and case studies of successful claims.
- This should include more guidance on software, where it can be particularly difficult to draw the line between qualifying and non-qualifying activity. The HMRC team in Cardiff said that around one half of the claims they receive relate to software.
- There is scope for better guidance and examples on what costs do and do not qualify. Most businesses say they can manage the costs that qualify for R&D easily once they know what qualifies, and the R&D teams report few issues with established businesses. The main uncertainties seem to be around HR costs.

3.85 The biggest issue revolves around the fact that there are currently at least three sources for what constitutes R&D - the accounting definition (SSAP 13), the definition on the BIS website which defines what an R&D activity is, and HMRC guidance which defines the expenditure that qualifies for enhanced tax relief. These resemble a funnel with the HMRC definition being the most restrictive. Businesses are often not aware of the distinction between the BIS and HMRC

definitions. Ideally the definitions should be harmonised, but at least the differences between BIS and HMRC should be minimised and explained clearly in the guidance.¹⁵

Chargeable gains for companies

3.86 Our final report on the review of tax reliefs published in March 2011 noted at paragraph 2.40 on the topic of company's chargeable gains:

3.87 We would also suggest that the review should look properly at what capital gains are actually paid by companies. With the advent of reliefs such as substantial shareholdings exemption and the longstanding reliefs such as rollover, the question has to be raised whether a more careful targeting of the tax on specific transactions could deliver simplification benefits.....

3.88 This observation is as relevant today as it was then. In addition to the exemptions and reliefs described, it should be noted that other than for a reducing number of pre-2002 assets, disposals of intangible assets are now dealt with as income, leaving property sales as the most likely events that will trigger chargeable gains for companies. For a trader it is very likely that any gain will be rolled over, so that there will be no tax liability at the time of disposal, if ever.

3.89 For companies with extensive property portfolios calculating capital gains can be a very time-consuming exercise. We met with one company where two and a half man years are spent each year calculating chargeable gains and identifying expenditure for roll-over claims. They explained the process to us as:

- first identify the date and amount of all qualifying expenditure;
- then ascertain the date of any enhancements;
- review the enhancements to check that they are reflected in the state of the asset at disposal;
- identify all expenditure upon which capital allowances or a revenue deduction may have been due;
- review the wasting asset rules; and
- calculate indexation allowance, if due.

3.90 Then if making a roll-over claim it is necessary to:

- check that the requirements for making a claim are met;
- identify the requisite expenditure;
- keep sufficient records to track the amended base cost of the new assets; and
- review for hold-over if needed.

3.91 Even where a gain cannot be rolled over because it does not qualify or because of insufficient new expenditure, companies often have sufficient capital losses to set against the gains. Again this requires considerable effort to make sure that all of the necessary claims and elections have been made within the right timescale, but assuming this has been done it will result in no CT being due.

¹⁵ We have been told by officials that the definitions in both cases are founded on the internationally agreed Frascati definition used by bodies such as the WTO and EU. It may therefore be that interpretations or guidance differ but we have heard too often from businesses that they see differences in practice. Thus we think that these apparent differences need to be investigated and addressed.

3.92 It is tempting to recommend a full exemption for the capital gains of companies. We have been told that few companies pay tax on chargeable gains, but we can see that full exemption could lead to abuse and put the capital / revenue distinction under even greater pressure. In addition, we understand from HMRC that data extracted from CT returns for 2009-10 to 2011-12 shows chargeable gains net of losses in the range of £4 billion to £5 billion. We do not know the extent to which reliefs such as group relief or non-trade loan relationship debits reduce the CT payable on these gains, but the tax could be of the order of £1 billion.

3.93 However this is an area crying out for simplification, and one suggestion was to use the accounting profit as the measure of the gain rather than using the capital gains computational rules. This would greatly reduce the amount of historical analysis needed and give a better view of the economic profit. It would be necessary to retain the substantial shareholdings exemption (SSE) as an important element in making the UK attractive to inbound investors. Business asset reinvestment relief would also still be important, but other capital gains would be taxed as shown in the accounts and be included as ordinary income.

3.94 Overall we think that our earlier recommendation is still valid. To rephrase it slightly: we recommend that a review should look properly at what tax on chargeable gains is actually paid by companies, and on what transactions. With reliefs such as the SSE and rollover, we think that a more careful targeting of the tax on specific transactions could deliver simplification benefits. In other words, the tax system would charge particular types of transactions instead of taxing all transactions subject to a raft of reliefs and exemptions.

UK-UK transfer pricing and debt cap

3.95 These two subjects were often mentioned in the same breath and accompanied by sighs. They were the most frequently mentioned examples of 'over-the-top' legislation. UK-UK transfer pricing incorporates testing for thin capitalisation. Not only was the degree of complexity challenged, but the work required to comply was felt to be totally out of proportion to the tax at risk. On debt cap we did not hear of any company where the computations had led to a restriction of tax deductible interest.

3.96 Application of the UK-UK transfer pricing rules occasionally gives rise to additional tax, but usually in circumstances where the streaming rules are in play, for example where interest expense is imputed to a company with trading losses brought forward and the income to a company that is unable to access losses. The changes were implemented in 2002, and were intended to ensure that the legislation would be robust against US legislation. However, there are mixed views as to whether or not the rules are necessary in order to be EU compliant if we have foreign transfer pricing rules. The view was expressed to us that judgments and AG opinions in the Thin Cap Group Litigation Order suggest that UK to UK transfer pricing rules are not necessary.

3.97 For both of these tests companies asked for the need to do the detailed compliance work to be removed in cases where it was obvious that there was no tax at risk. Even where a company has a CRM, and experience has shown that there is no tax at stake from UK-UK transfer pricing, the best that could be achieved was agreement that once it was shown that any adjustments would have no net tax effect, they need not be reflected in CT returns.

3.98 For the debt cap it is usually obvious from the financing profile of a group and its subsidiaries whether or not there is any likelihood of an adjustment to profits arising, yet companies say that they still have to do the detailed workings, not just for HMRC but (in the absence of any other way of agreeing the position) also to satisfy their auditors. Several companies queried the need for these rules on top of all of the other restrictions on tax relief for

finance costs. Others suggested a published safe harbour approach that would provide greater certainty and transparency.

3.99 We asked HMRC for their view of the world wide debt cap. In response they said that:

While we acknowledge the complexity and the existence of other provisions to limit tax relief for finance costs, we regard the debt cap rules as a necessary part of the overall corporation tax picture for interest deductibility. It should also be noted that the provisions are intended to deter large groups from introducing excessive debt into the UK. So, while there are relatively few companies for whom the deduction of interest is limited by the cap, this is not the only measure of its effectiveness. Consideration of best practice approaches to interest restriction is one of the workstreams under the OECD BEPS (base erosion and profit shifting) project.

3.100 In the meantime we recommend that HMRC review the operation of these provisions and consider what improvements in practice can be identified to assist companies with compliance. Consideration should also be given to raising the threshold at which the transfer pricing rules apply (to give businesses greater certainty), or otherwise making complying with transfer pricing rules simpler.

iXBRL

3.101 We were told by HMRC that over five million CT returns have been received so far using iXBRL, which is part of the overall digital initiative, and that receiving returns and accounts in this form has been of assistance in reviewing and identifying risks. This should improve compliance yields through better targeting of resource, and HMRC say that the early signs are encouraging.

3.102 The companies that we have heard from see iXBRL as an added cost and extra compliance burden, especially the need to tag the accounts. The cost is a large one - one company estimated the price of adding iXBRL to be between £300 and £1,000 per return every year. They emphasised that HMRC need to understand that iXBRL is not just a one-off 'sunk' cost, but a continuing annual cost. Another company said that it contributed at least an hour or two to the time taken to submit each return. They added that tagging of the accounts was not a popular task, and was done by junior staff in the accounts department. These people changed roles frequently, so there was a continuous need to explain what the process was about.

3.103 Whereas the tagging of the return itself is carried out within CT return software that is widely used either by the companies themselves or their advisers, accounts tagging is often carried out manually.

3.104 It is acknowledged by HMRC that there are a very large number of tags and that there are inconsistencies in tagging. To address this HMRC has recently established a forum on tagging to test how reliable the process is. The aim is to provide guidance to make the choice of the appropriate tag more obvious.

3.105 In the longer term, the data in iXBRL form may be used more widely, for example to enable companies to meet other regulatory requirements than tax. In the meantime, we believe that HMRC could do more to publicise how the information is used and what they consider to be the benefit to them of receiving the returns and accounts in this form, especially for larger businesses where comparison with others is more difficult.

3.106 The current work on streamlining the processes and tagging definitions needs to continue.

Materiality

3.107 For companies subject to audit there has always been a disconnect between the requirement for the accounts to show a “true and fair” view and the tax return to be “correct and complete”. To arrive at a “true and fair” view requires the information in the financial statements to be “correct and complete in *all material respects*”.

3.108 Thus the level of the test for materiality can be significant, and for large companies it can be set at a high level, which may be much higher than is acceptable for the tax return. This has always been the case, but for those companies affected by the introduction of the Senior Accounting Officer (SAO) rules in 2009 the issue of materiality has come into sharp focus.

3.109 Many companies told us that they have found the SAO requirements to be a useful tool in raising awareness of tax in their finance departments and that it has helped them obtain the information needed for the tax returns more quickly. Some added that the SAO rules had done their job and could now be dropped. Others are concerned that the increasing focus by HMRC on accounting systems and processes is developing into an audit with a much lower level of materiality, and that HMRC has unrealistic expectations. Much depends on the approach taken by individual CRMs.

3.110 Those companies without CRMs are likely to be outside the scope of the SAO regime, but will face the same problem without the ability to discuss their approach to materiality with HMRC. It has been suggested that such companies could prepare a short document describing their tax systems, processes and approaches, including the extent to which they will carry out a detailed analysis of certain items in the accounts – a sort of “SAO-lite”. This could be discussed with HMRC and, if accepted, would provide the company with assurance that the financial statements are acceptable as the starting point for the tax return.¹⁶

3.111 We believe all businesses should be able to agree a level of materiality with HMRC.

3.112 We also think that the SAO system needs to be reviewed to ensure that it is still delivering ‘value for money’. In essence, we think the comment by some companies that the SAO system has done its job has some validity and HMRC should be challenged to demonstrate that it remains necessary.

¹⁶ See for example ‘Corporation Tax computations: An alternative approach’, The Institute of Chartered Accountants of Scotland 6 March 2014

4 VAT

VAT in the 'Paying Taxes' survey

4.1 The case study company in the 'Paying Taxes' survey finds VAT relatively easy. The company does not have any boundary issues or partial exemption problems; it has no irrecoverable VAT, so this does not contribute to the tax rate. The result is that the survey measures VAT as taking 25 hours to do for the case study company in the UK, which is a very good result internationally. VAT only requires a single payment in the 'Paying Taxes' methodology. Looking at our EU and other close neighbours, the only countries which do better for VAT are Luxembourg, Estonia, and Switzerland.

4.2 As the case study company does not have any real problems with VAT, it is difficult to see on the surface how VAT could be simplified for this company. However, we have heard in our previous projects of a variety of problems with VAT, so we have researched widely views on ways of simplifying or streamlining VAT, usually starting discussions by asking:

- What is it that takes the time around VAT compliance?
- How could that time be cut?
- Where are the problem areas?

4.3 It is worth recording at the outset that, although our evidence gathering has unearthed a range of issues and areas for improvement, anyone we spoke to with experience of VAT in other countries invariably gives the UK system a good 'rating'. The UK's VAT return always wins praise for simplicity – as one person put it *'I support the idea of a common EU VAT return, but only if the return is based on the UK model'*¹. We were also told that the VAT refunds system is much better in the UK than other countries.

Outline of the main issues

4.4 The areas raised in our meetings and submissions fall under five broad headings:

- Getting certainty, particularly around the rate to apply to supplies.
- Issues with particular aspects, including partial exemption, retail schemes and capital goods scheme.
- General administrative aspects.
- Penalties.
- International issues, including EU matters.

4.5 The rate of VAT was rarely raised, perhaps because we made it clear that tax rates were outside our scope, being policy matters. However, on occasions we did hear – often forcefully –

¹ A key point being that the UK VAT return has many fewer boxes than the French or German equivalents, for example.

about how competitiveness could be improved by reducing the rate of VAT applying either to a sector or to particular transactions.

4.6 Whilst recognising our constraints, we should record the main example, which was around the hospitality industry. The point was made that other countries apply a reduced rate of VAT to hotels and restaurants; in the UK such supplies are standard rated which detracts from the attractiveness of the UK. The other area where rate issues were raised strongly was around repairs and refurbishment: the point made being that a lower rate would encourage these activities, rather than demolition and rebuild. Both these issues are no doubt well known to policymakers.

4.7 The only other rate-related point we would make is that we have heard a few times that it is time for a proper review and tidy up of VAT supplies in terms of where boundaries between standard and zero (or lower) rate falls. All concede this would not be easy, given the sensitivities involved, but particularly in technology-related matters, where advances have opened up anomalies, it seems overdue. This is also the foundation of the next section of the report.

Gaining certainty

4.8 A frequent issue raised in meetings was problems with sorting out what rate of VAT to apply to supplies². Inevitably this is mainly relating to smaller businesses and is usually in terms of new products or services³ (though property transactions are a significant source of uncertainty). The driver for finding an answer is simple: the need for certainty in the face of concerns about the risks inherent in getting the treatment wrong.

Box 4.A: Two quotes from business bodies on the importance of agreeing the VAT status of a supply quickly

It's crucial for businesses to be able to agree the correct rating quickly, because otherwise there is a risk they end up waiting to sell. This is clearly a real problem if the VAT rate cannot be decided easily and quickly.

There is a lack of commercial awareness and understanding of the time pressures that businesses operate under [from the HMRC policy team]. There were also concerns about the consistency of the advice given.

4.9 The routes for the trader needing to know the status of a supply are in essence threefold:

- information on the HMRC website;
- HMRC itself; or
- an adviser.

² A couple of times problems over sorting out VAT recovery – issues whether the item purchased carried VAT and whether that VAT could be recovered – were raised.

³ A nice example we were given was that of a child's birthday cake with a toy set in it: a mixed supply – but how to apportion the selling price? This came from a small business that was trying to sort out the position to be certain and avoid any risk of penalties. The HMRC team would no doubt argue that there is no real point of principle and the answer is just to use common sense and reasonable values. The problem seems to be that the HMRC guidance didn't say this – or the business couldn't find it – and so contacted HMRC.

4.10 Many people report problems with finding information on the HMRC website. We heard sometimes that HMRC guidance is very slow to update⁴. Some refer to difficulties in interpretation of what is found and so they resort to the second option above: calling HMRC.

4.11 HMRC have told us a number of times (and we have heard it from taxpayers as well) that VAT is a self-assessed tax and so it is a trader's responsibility to get the right treatment for supplies. We agree that the nature of VAT does mean that it is by nature a self-assessed tax, in that a trader has to do the accounting and make returns that HMRC can then check. However, practitioners to whom we have spoken agree that the emphasis on the self-assessment nature of VAT is something relatively new: perhaps the last five years. It is questionable how much traders really understand this and its implications.

4.12 We were often told (by businesses and agents) that calls to HMRC helplines too often end up with someone who has little knowledge of VAT, so cannot really help. The usual result is that the caller is referred to guidance material – which often has already been consulted and has not provided a clear answer.

4.13 HMRC offer a 'clearance' service, but it is poorly advertised and not well known. Signposting to it on the website could be improved. Traders (and agents) who have used it have reported that HMRC will not give definitive rulings (though most conceded that would be difficult without HMRC being able to examine the precise nature of the supply).

4.14 We met with the VAT Clearance team in Southend who operate the service.⁵ In essence, they seek to only have referred to them VAT issues that cannot be solved through consulting published guidance or where the taxpayer has already contacted initial helplines. A clearance would not be provided if the guidance had not been consulted; or if there is no uncertainty as to the correct tax treatment; or there has been insufficient detail provided. The team try to be helpful, for example by pointing out where the issue is covered in guidance, but there is a definite policy not to provide a clearance where the request is in essence simply seeking confirmation of the business's view of the correct VAT treatment.

4.15 It was also suggested in other HMRC meetings that the reason for some requests was for avoidance purposes, i.e. the trader was trying to construct a way of carrying out the supply in a way that would not carry VAT.⁶ Meetings with advisers and business groups rejected this: the driver for requests was achieving certainty.

4.16 It was suggested in a couple of meetings that a culture change is needed at HMRC to realise this is about helping business to get their obligations right. Having HMRC confirm that the trader has the correct treatment would be helpful and offer reassurance. As one person put it, 'it doesn't take long for HMRC to say: "yes, you're right"'.

4.17 The third route of getting certainty is to talk to an adviser, which carries a cost. Agents will still want to get clearance for a treatment in some cases, and they report some frustrations with HMRC helplines which refer them to guidance material which has already been consulted and found wanting. Some agents also express concern over the reducing amount of VAT experience and in HMRC.

⁴ Example given of public sector material – guidance for local authorities as displayed on the website is still waiting for updates two years after changes were agreed. Some practitioners who used to be in Customs Excise recalled a system that allowed virtually instant updates to guidance material.

⁵ We were told that the number of clearance applications were 380 in 2008/09, 580 2009/10, 720 2010/11, 800 2011/12, 790 2012/13, and 900 2013/14, with approximately one-half of these being rejected (260, 460, 500, 220, 290 and 420 respectively). There was currently no breakdown on the number of amended/repeat applications made.

⁶ We heard of a number of instances where property transactions were the subject of enquiries and they may clearly be the basis of HMRC concerns around avoidance. But the traders we spoke to who raised this issue were clear that they wanted to get the position right, though most agreed that being able not to charge VAT would help.

4.18 There is no easy answer to this issue, and we are sympathetic to both sides:

- the trader (or their agent) who needs to be sure, as a matter of commercial principle, over the VAT status of a supply; and
- HMRC, who cannot be expected to deal with endless queries and requests for rulings that simply aim to confirm what the trader/agent already knows.

4.19 Our conclusions are as follows:

- We think HMRC need to appreciate the motivation of these enquiries: the desire for commercial certainty. That is not to dismiss the possibility of avoidance, but the message we have heard is that is a minimal risk given the various protections HMRC have at their disposal.
- If VAT is to be a self-assessed tax, we think HMRC needs to accept that it has to give support – by way of rulings – to taxpayers to help them get it right.
- The HMRC clearance team needs to be properly staffed to give the service traders need, and the availability of this service properly advertised.
- To manage the potential flow of queries to the unit, clear protocols on prior work need to be agreed (we understand discussions are under way with HMRC's Joint VAT Consultative Committee and we would encourage this).
- As well as the telephone helpline – which should only be advertised as for the most urgent issues – an e mail service should be developed.
- In all cases there should be agreed targets for HMRC responses.⁷
- As one of the main reasons for seeking a ruling is to gain certainty over a supply's status and so avoid penalties, is it possible to generate guidance on how far the trader needs to go to protect against penalties in respect of prior years? This, we think, is the biggest concern of traders: that some years down the track they will be faced with a significant bill for past years' reclassified supplies. Changing a supply's VAT status for the *future* is rarely a problem; it is protection against past reclassification that is a key issue.
- It would clearly be helpful if 'rulings' are publicised, suitably anonymised.⁸ This would reduce future enquiries and help ensure consistency.⁹

4.20 One overriding point that was made is that SMEs are dependent on guidance; large businesses usually have internal resources and also CRM help!

Issues with particular aspects

4.21 In looking for ideas for improving the administration and ease of compliance of VAT, a number of discussions around more technical aspects of the tax arose. The most frequently raised issues were partial exemption and property-related transactions. Inevitably some of the points made are a mix of administrative and technical/policy.

⁷ We understand that the aim of the Southend team is to respond to 75% of clearance applications within 28 calendar days and that they are currently running at a commendable 88%. Whether 28 days is sufficiently speedy is for debate.

⁸ One SME suggested that HMRC had agreed treatment for some new products with supermarkets but had not finalised and communicated the ruling(s) generally.

⁹ We were told in some meetings that one could get differing opinions/ response to the same query on the HMRC help lines but this may equally be down to different explanations by the callers.

Partial exemption

4.22 Probably the most important point to make is that partial exemption is no longer only a financial sector matter. Retailers find it an increasing problem (due to in-house pharmacies, lottery, credit cards and insurance services) with even modest retailers partially exempt due to lottery sales. Farmers can be drawn in due to the increasing amount of rental income generated through the conversion of redundant farm buildings for residential use. Some businesses will find themselves caught by the equivalent on business/non-business sales (for example local small sports clubs and charities which are often run by amateurs)¹⁰.

Box 4.B: Quote from a partially exempt business

Each contract has to be reviewed in detail for VAT and the sales people have to be continuously reminded of the implications for pricing where a contract could give rise to an exempt supply. The trouble was that many customers are also not familiar with the VAT rules.

4.23 The level of VAT recovery is dependent on agreeing a partial exemption method. Views on how easy this was varied. We were told that *'bright and sensible people do it [at HMRC]'* by one expert but an industry group expressed concern that *'this always starts out in an adversarial manner'* and that *'minimising the amount of VAT that can be recovered seems to be the only goal'*.

4.24 The practical issue is that reaching agreement can be a drawn out process and with the speed of business change by the time an agreement is reached, it can be time to start again. This is exacerbated by the process requiring a legally binding agreement, though this clearly serves to emphasise the importance of the matter.

4.25 One point made to us was that HMRC have much more protection with the 'fair and reasonable' test and the possibility of retrospective adjustments. The suggestion was that there was much less risk of businesses trying to stretch their recovery percentage unrealistically. Thus HMRC could offer simpler processes.

4.26 We do not see any easy route to simplification here and are conscious that, despite its becoming more prevalent, partial exemption is far from universal. But we think there has to be scope for:

- reviewing de minimis amounts;
- considering a simpler procedure for SMEs that are partially exempt;
- allowing scope for tweaking agreements in real time; and
- having standards for the time taken to agree a partial exemption method.

Tour operators margin scheme (TOMS)

4.27 TOMS was raised with us in a few meetings or submissions, and we realise that it is a complex area with different views on the system.

¹⁰ We did try to find out how many businesses are partially exempt and how the figures have moved in recent years. Unfortunately HMRC do not collect such data and no estimates were possible. Given the number of times people have mentioned the point, we are confident that numbers of partially exempt businesses are increasing but we cannot say by how much.

4.28 One concern is around businesses that would not normally consider themselves to be ‘tour operators’¹¹. In practice it is possible to overcome the problem by the business acting as agent, so that the final client contracts direct with the hotel. We understand that the European Commission is aware of the problem and that proposals are likely to seek to tackle this issue in due course.

Capital goods scheme (CGS)

4.29 The CGS is something that aroused concerns, not least because of the potential for non-compliance, given that theoretically even fully taxable businesses should keep records of potential CGS items. The point usually made was that the value of adjustments for those that operated it was usually very small and tended to reverse quickly. Thus the whole rationale of CGS was challenged: in essence, does it justify the administrative burdens it imposes?

4.30 We asked those who raised possible abolition of CGS how they would control the sort of abuse that led to CGS’s introduction. The general reaction was that there were plenty of other protections in the system now for HMRC, though the way CGS is intertwined with the option to tax would cause practical difficulties to effect abolition.

4.31 In view of the administrative burden imposed by the CGS, we think it is time for a critical re-examination of the scheme by HMRC to ensure it is still needed and targeted as well as possible.

Property

4.32 Property matters are acknowledged to be complex, and there is undoubtedly a feeling that the HMRC VAT teams viewed property businesses with suspicion (perhaps inevitably!). Significant property transactions are undoubtedly a key area for advance clearance, because of the complexity and values involved. HMRC was acknowledged as being understanding and generally helpful in this area, but a major industry body questioned whether the processes could be streamlined. The point seems to be that if HMRC do not object to transactions being arranged in certain ways to reduce VAT, why does there have to be a large number of steps to get this result?

4.33 It was suggested that there needs to be better guidance around property issues, bearing in mind that there are many small builders affected. As an example, one meeting pointed out that there is no definition of ‘dwelling’ in VAT, though there is in the Annual Tax on Enveloped Dwellings.

Option to tax

4.34 The option to tax (OTT) is part of property VAT. Difficulties with the option to tax were not often raised with us, although a few times we heard that the OTT team is difficult to contact, which can hold up commercial transactions.

4.35 The other OTT point we heard concerned difficulties with tracking down old elections, normally when buildings change hands. A central register of ‘opted’ buildings was suggested, which could be searched by businesses and agents. This seems to be a real possibility with digitisation and should be considered.

¹¹ An example would be a business organising a conference that includes overnight accommodation.

Retail schemes

4.36 Retail schemes are useful in order to provide certainty. However, the drawback is the need to update them if things change (which often results in constant checking and updating). It was suggested to us that HMRC began a project to improve these schemes some years ago but concluded that they were satisfactory and left them unchanged. It seems there is merit in looking at de minimis amounts, so that there is more leeway before a retailer needs to change their arrangement.

Flat rate schemes

4.37 We didn't hear a great deal about flat rate schemes, which are clearly aimed at offering simpler VAT administration, but what we did hear offered an interesting contrast.

- We heard from HMRC that they estimated it provided about a £45 per year saving on average, although the aim is it is as revenue-neutral as possible to prevent it from being a tax relief. They were surprised to hear that stakeholders felt it did not offer a saving.
- One practitioner who raised the issue with us said that, although flat rate schemes ought to be a help, the percentage chosen rarely offers a better deal than a full calculation – with the implication that accounting systems are much simpler and cheaper nowadays, and that clients expected their agent to do an evaluation of the alternatives. Another adviser suggested that the way businesses were developing meant there were more that didn't fit easily into the categories.

4.38 We wonder if it is time for a review of the schemes and their rates.

General administrative issues

4.39 We probed in all our meetings for suggestions to simplify or streamline VAT administration. This provoked a range of points as follows:

- It should be possible to fill out and complete all forms online, with the facility to break off and save a form part way through, rather than have to start again; form VAT 1 had to be printed, filled in by black pen and sent to HMRC (this was seen as acceptable to get a signature).
- Information can be entered more than once and checked separately: procedures around Intrastat, EC sales lists and VAT returns need to be better coordinated.
- Notwithstanding the earlier comment about the general efficiency of HMRC making VAT repayments, it is perhaps inevitable that we heard some complaints about the time it can take to get a refund of VAT (especially following a disclosure), although it is understood that HMRC need to operate fraud prevention measures.

Box 4.C: Quote from a trade association

It is the perception of many members that HMRC tend to be much more prompt in pursuing minimal tax owed to them, while at the same time taking significantly longer to make repayments.

- The only way to make an amendment to a VAT return for errors is through form VAT652. Awareness of this process seems low as nobody we spoke to knew that this process existed. Either greater awareness of this process needs to be promoted, or a better, faster process should be created.
- Registration for VAT is normally praised as quick and easy. Difficulties seem to arise with property businesses where an option to tax is relevant. More significantly for UK competitiveness, we were regularly told that registration for a foreign business starting up in the UK can take too long. Whilst we were told by businesses that this is typically 5-6 weeks, HMRC's estimate is usually 15 days, though they do acknowledge that the registration process is not a smooth one. Again, fraud prevention is acknowledged as a reason for taking time and making checks.
- We were often told that there was a significant burden (out of proportion to the amounts involved) in obtaining and keeping petrol receipts. People questioned why it was necessary, given that all petrol retailers will be registered. This is an issue that the OTS has raised in previous reports and as we have found that this is an EU requirement there seems no scope for any change. It may be possible to publicise the requirement more¹², and of course continue to raise the issue at EU level as unduly burdensome.
- The need to wait six months for VAT bad debt relief was raised a few times, with businesses arguing for the relief follow the accounting (as with direct taxation).

4.40 HMRC organisation and support for VAT inevitably came in for a fair amount of comment. The CRM system is generally greatly valued, though an industry group questioned how well the CRMs were supported with VAT expertise. Others told us that they found that VAT support to non-VAT CRMs worked well.

4.41 A particular issue was transfer of a going concern (TOGC) where there is a real need to get to a position that HMRC are happy with; one adviser said that he could only get a TOGC agreement where a CRM was involved. Experience of other jurisdictions such as the Netherlands suggested that their authorities were more willing to give a decision/advance ruling.

4.42 One interesting point was raised in relation to HMRC doing more to educate other government departments on the correct VAT treatment when they bought in education and other services. HMRC could also try and smooth out what seemed to be anomalies within the public sector¹³.

4.43 As HMRC have limited resources when it comes to helping businesses, we agree with them that most problems arise with 'life events' e.g. new products, registration, or moving into new markets. That argues for ensuring guidance around these issues is as good as it can be and well signposted. We were referred to the Irish duty commodity code list which gave both the duty rate and the VAT rate for each item. The UK equivalent showed only the duty.

4.44 We are conscious that a lot of these points come back to resources: to progress them requires HMRC to provide more resources. But the comment we have heard in a range of meetings is that this is reasonable with a self-assessed tax and is simply sensible up-front investment to prevent later calls and problems. Many people hark back to the (relatively) early days of VAT and educational visits. These helped traders, but also meant that the first visit from

¹² One business told us that they didn't realise they could claim back VAT on petrol until they had a VAT visit by HMRC!

¹³ We were given the example of work done for the SFA (Skills Funding Agency) being exempt yet the same work for the DWP is standard rated.

a tax collector was not simply about control and penalties – it would help relationship building and again should be seen as sensible investment.

4.45 It has been suggested to us that adjustments for own consumption following the principle in the *Sharkey v Wernher* case should be made annually rather than monthly/quarterly to follow the VAT return timetable. That would mean a business did just one set of annual adjustments to deal with both corporation tax and VAT. That has some attractions but at the same time the requirement to make adjustments as the year progresses keeps the issue under review. We do not think there is a significant reason for change.

Penalties

4.46 We heard in a lot of meetings that VAT penalties were seen as unfair or harsh, but evidence of actual cases was rare. People accept that there have to be penalties for bad behaviour, but the concern seems to be that where VAT is concerned, the penalty can be for accidental errors. Although it is possible to argue against penalties for reasonable excuse, the point being made seems to be that VAT penalties tend to be raised too easily/automatically.

4.47 As discussed earlier in this section, the driver for rulings etc. is protection against penalties and retrospective bills. We think it should be possible to have a system that protects against past penalties for proper disclosure of facts and circumstances when a ruling is sought.

4.48 A more specific point made by a number of groups was that suspension isn't offered as widely as it should be¹⁴.

International aspects

4.49 As an overriding point, there were comments made about the 'meshing' of EU & UK law – why does UK have to rewrite EU law so much and make it a bit different – why not just adopt it (as EU law is supreme anyway)?

4.50 We noted in our initial report that small businesses found getting guidance on VAT requirements in other territories difficult. We have regularly probed for this issue during recent months, but it has rarely come up. The impression we get is that HMRC's improved guidance has helped. In addition, there is perhaps a greater willingness to take advice.

4.51 The main concern we heard is around the VAT changes from January 2015 to the place of services rules. This will affect a lot of small businesses and increase registration and returns requirements. HMRC's belief that such businesses could use the 'mini one stop shop' (MOSS) process was inaccurate, as that only applied to (UK) VAT registered businesses. This will clearly be either a financial or administrative burden, or cause a curtailment of business and create a barrier to intra-EU trade.

4.52 It was also pointed out that under the regime introduced by Directive 2002/38/EC from 1 July 2003, a non-EU small business is able to register for the non-EU MOSS scheme and be provided with a VAT registration number by HMRC. This will make it easier for such businesses than for their UK equivalent. We also heard that agents of small business will not be able to apply for MOSS registration on behalf of their clients.

4.53 As an illustration of potential difficulties, one meeting cited a magazine subscription that also brought with it access to the on-line version. The 'twist' is that the paper and on-line versions are supplied from different countries. This raises interesting questions on how the

¹⁴ The OTS has started a separate project on penalties: <https://www.gov.uk/government/publications/letters-between-exchequer-secretary-and-ots-employment-status-and-tax-penalties-reviews>

supply is to be treated and whether there is scope for a 'certificate of residence' for the supply in the MOSS context.

4.54 A final MOSS point is where a supplier has a mixed supply of, for example, hard copy and electronic business to customer supplies of publications, such as examination material and website access. Not only will this be mixed rate, but also mixed country of supply, so will have to split between VAT returns in two countries, one of which could be under the MOSS regime.

4.55 It is difficult to see how some of these problems can be resolved as they may require a change to the Directive. HMRC does need to do its best to alert and inform businesses of the requirements.

UK vs the rest

4.56 As a final point in this chapter, we should record that we asked in a number of meetings how the UK VAT system compared with equivalent systems in other countries, particularly around the EU. The general verdict was that the UK's was as good as any and better than most, and provided the easiest form to fill out. The main rivals seem to be the Dutch and Irish systems.

5

Payroll taxes

Payroll taxes in the 'Paying Taxes' survey

5.1 Within the 'Paying Taxes' survey, payroll taxes are a key area, with compliance time of 48 hours for the case study company, broken down as follows:

- 20 hours on preparation;
- 27 hours on filing; and
- 1 hour to pay.

5.2 This is considerably more than the time spent on either VAT or corporation tax. It is always going to be likely that payroll taxes take more time, as payroll is a monthly (or weekly) procedure, whereas VAT returns are usually quarterly and corporation tax only annual. In terms of our general objective of reducing time so as to improve the UK's standing in the 'Paying Taxes' survey, payroll taxes are an important area. The UK time of 48 hours to comply is behind Canada (36), Australia (18), Ireland and Switzerland (both 40) but ahead of Denmark (65).

5.3 We have researched widely views on ways of simplifying or streamlining payroll taxes. In doing so, we have built on the discussions and ideas that led to our Employee Benefits and Expenses reports¹, usually starting discussions by asking:

- What is it that takes the time around payroll taxes compliance?
- How could that time be cut?
- Where are the problem areas?

5.4 Payroll taxes contribute to the other two criteria in the 'Paying Taxes' survey, i.e. the total tax rate and the number of tax payments. The labour tax and contributions rate in the survey is cited as 10.6% (lower than the headline employer's NIC rate due to the exempt band), with one deemed payment.²

General findings

5.5 There are some general initial points to make about payroll taxes:

- almost all employers use software to do payroll matters;
- smaller businesses often outsource payroll to external advisers, who may be payroll bureaux or accountants; larger businesses invariably do the work in-house; and
- responsibility for payroll taxes in large employers is not necessarily with the tax departments but can be down to the HR department.

¹ <https://www.gov.uk/government/publications/review-of-employee-benefits-and-expenses-interim-report>

² See Annex B for information on why this only counts as one payment for the World Bank methodology.

5.6 Software is critical, and any changes to payroll taxes must allow plenty of time for software changes to be made and must have regard to what can be programmed in the first place. The additional point, as demonstrated in our recent report on termination payments,³ is that HR departments do not necessarily have expert tax knowledge to deal with the intricacies of tax rules.

Real time information (RTI)

5.7 The 2013 World Bank results – the starting point for the OTS exercise – were compiled for 2012, the year prior to the introduction of RTI from April 2013. The 2014 results will reflect the first year of RTI and may well show that burdens have increased.⁴

5.8 The introduction of RTI is the most significant change to the Pay As You Earn system since its introduction in 1944, so it is of little surprise it has prompted considerable discussion at the meetings we have held. The feedback that the OTS has received from businesses regarding the introduction of RTI has been largely positive, although all have incurred initial set up time and costs. Some have reported back that whilst RTI is not problematic, it is not beneficial to the business either. Given the volume of comments we received on RTI, we have put them in an annex to this chapter (Annex D) so as not to dominate all the other issues noted. Our recommendations around RTI are as follows:

- The OTS would like to see a post implementation review into RTI, looking at whether the ‘on or before’ reporting is actually necessary to operate the Universal Credit system, and to what extent monthly reporting could achieve this, with a view to making the current relaxation for smaller employers permanent, and extending to those employers in place at April 2014.
- Software developers had advised that HMRC staff frequently quote data protection as a reason for not being able to discuss a particular employer’s issues. The solution is for the employer to give their authority, and the OTS recommends that helpline staff and the HMRC guidance support this.⁵
- The OTS recommends that an annual scheme may be set up by a structured email facility, with written notification by HMRC that this has been set up.

Improving payroll administration

5.9 Despite payroll taxes being the biggest tax time commitment for businesses, it was not easy to find ways of cutting that time. The main conclusions we have reached are:

- the OTS’s recommendations on Employee Benefits and Expenses need to be followed through – they will make a significant difference;⁶
- combining income tax/PAYE and NICs is the way to make a significant difference; most accept that full combination is not practical, so this is a case of harmonising the taxes as far as possible;
- RTI is clearly a huge and dominating issue: employers are expecting efficiencies to flow from all the work they have had to put into getting ready for and

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/275795/PU1616_OTs_employee_benefits_final_report.pdf

⁴ If length of legislation were an indicator of administration burden, this would certainly be the case, with the Income Tax (Employments) Regulations 2003 at 118 pages being double the length of its predecessor, and now standing at over 150 pages.

⁵ It may be that this requires legislative change but that should not preclude making the procedure simpler.

⁶ We should stress that we did not seek this endorsement in meetings but it was made spontaneously and regularly. We are, however, naturally pleased to hear it!

implementing the system. There are strong, regular pleas for continuation of the easements around 'on or before' to save administrative effort; and

- the UK's competitive position can be enhanced by more attention being paid to the position of those coming to work in the UK at senior levels and/or for short periods. Improving the corporation tax system has been welcomed and is widely acknowledged as successful. But the point is that businesses depend on people to run them and a key competitiveness point is making things as smooth as possible for those who want to come here to invest, start a business or enhance its operation.

Tax and national insurance contributions

5.10 As is well known, the UK, in common with most developed countries, operates two types of levy on employees: income tax (operated through PAYE) and social security charges (NICs in the UK). The rules and procedures for the two levies differ, with NICs still not formally being treated as a tax.⁷

5.11 A complete merger of income tax and national insurance has been suggested by many commentators and in many reports.⁸ In the OTS Small Business Review paper,⁹ differences between the two were the second highest source of complexity for small businesses.¹⁰ Our report noted that maintaining two systems leads to a number of anomalies providing incentives to distort behaviour, including employment status, dividends or salary extraction, and differences in treatment of various benefits in kind.

5.12 A move towards a single tax and NIC system would result in significant simplification of payroll calculations for employers, and would also reduce HMRC administration costs. It is an area of simplification that repeatedly comes up at the meetings we have held. The comments we have heard echo those made during our small business project, which in turn were repeated during our employee benefits and expenses review. We fully appreciate the difficulties (both political and practical) in combining the two levies so, as before, we have asked people to be specific with the difficulties encountered and what takes time to sort out. These can be summarised as:

- Items that have different income tax and NIC consequences; and
- differing NIC administration (i.e. weekly vs annual).

5.13 Following the OTS small business report, the government did consult on integrating the operations of the two systems. That has resulted in proposals to combine the collection of Class 2 and Class 4 NICs. We are also aware that it is difficult to make further significant progress in this area until Universal Credit has been fully launched. However, in view of the comments received, we have to record that integration of PAYE and NICs does offer scope for saving time on payroll taxes. Accordingly, we have to repeat our earlier recommendations for a staged integration:

- Alignment of the underlying definitions of income and expenses, with some specific exceptions enabling the same rules to apply to each tax unless specified otherwise.
- Moving NICs to an annual, cumulative basis parallel to PAYE.

⁷ For example, changes to NICs cannot be made in the Finance Act but require separate legislation.

⁸ IFS: Integrating income tax and national insurance: an interim report <http://www.ifs.org.uk/wps/wp2107.pdf> and Mirrlees Report Chapter 5 Tax by Design: <http://www.ifs.org.uk/mirrleesreview/design/ch5.pdf>.

⁹ See our report on small business available at the following web address: <https://www.gov.uk/government/publications/small-business-tax-review>

¹⁰ The highest was change (i.e. the volume and frequency of change); the third was problems with HMRC administration, which has led to a programme of improvements.

- Abolition of the contributory principle.

5.14 These would mean a significant improvement in compliance burdens for employers. It would also enable social security treaty arrangements to continue for internationally mobile employees.

5.15 We would also repeat our recommendation in the second employee benefits and expenses report for a full review into the option of applying class 1 NIC to apply to all remuneration and benefits in kind. This could remove the distortive and complicated effect of Class 1A. As we stressed, it would increase the cost of NICs on benefits so is not something to be undertaken lightly, but it would result in a level playing field between paying in cash and through benefits. The reform could be made revenue neutral with adjustment to the general NIC rate.

Employee benefits in kind and expenses

5.16 At the meetings we held, employers and advisers were highly supportive of the proposals in the OTS Employee Benefits and Expenses (EBE) review:¹¹

- allowing voluntary payrolling of benefits such as private medical insurance;
- removing the £8,500 'lower paid' threshold and so abolishing form P9D;
- bringing in a rule for 'allowable business expenses' instead of the dispensations procedure;
- reviewing the level of the removal expenses exemption, particularly for inbound employees; and
- introducing a trivial benefits exemption.

5.17 The message we heard from our meetings was simply that these reforms need to be pushed through. The prospect of effectively abolishing P11Ds (with consequently far fewer tax code issues) would be a significant time saver for employers.¹²

5.18 If there was support for the OTS's recommendations on EBE, that support very much included the recommendation for extending PAYE Settlement Agreements (PSAs) to allow employers to meet more of their employees' benefits in kind liabilities. The OTS were very disappointed with HMRC's rejection of the PSA recommendation, and took the opportunity to ask groups that raised the issue again whether the recommendation was properly founded and correct in that it would make a useful difference to compliance time. The constant refrain has been that it offers simpler procedures all round coupled with (probably) increased revenues for HMRC. The point made in response to the OTS's recommendation that the OTS's proposal '...would not be consistent with the purpose of a PSA...' was met with comments from businesses that the purpose of a PSA is to simplify administration, and that the OTS recommendation should build on this appropriately.

5.19 We therefore hope that our evidence gathering for this project has only emphasised that the reforms to PSAs we set out earlier would save compliance time and may yet convince HMRC to look at this issue properly.

¹¹ Review of employee benefits and expenses: second report January 2014

¹² Note that as the World Bank case study employees get a private health care benefit, being able to payroll this will reduce the time needed for payroll taxes in the study.

Inbound business issues

5.20 If the UK is to be competitive, it needs more than a competitive business tax system. Businesses are run by individuals: so the competitiveness of the UK's tax system is in part down to the way its tax system taxes people who work and invest in the UK. Inevitably we received comments about the rates of income tax in the UK, particularly the additional rate. We stressed that rates of tax were outside our remit so, other than noting the (probably obvious) point that the rates of tax (including NICs) paid by executives are a factor in the UK's competitiveness, we will not address the issue.

5.21 There are, though, a range of administrative issues around incoming executives that deserve attention. Inbound businesses looking to invest have told us that it is not clear at what point a new payroll needs to be set up, and would like to see guidance improved to clarify this area.

5.22 Incoming executives understandably need to obtain a national insurance number (NINO). We understand this involves personal attendance at a job centre by the executive. We have been told that some executives have had to go some distance to have a token interview and also that some have even been turned away when no appointment was made. For a senior executive, sometimes the directing influence of major inward investment, to have to go through such routines seems inappropriate. The OTS recommends that a streamlined NINO application process be introduced, probably by allowing a nominated representative to attend the job centre. Ideally this should all be an online process rather than face-to-face. We understand there may be concerns about fraud prevention but these need to be examined carefully and a generally simpler system introduced. There has to be scope to combine the process with visa or work permit applications where these are needed.

5.23 If the executive is coming to the UK for a lengthy period, clearly normal payroll procedures have to apply. But procedures around short term business visitors (STBVs) are not straightforward. A STBV typically only has to come to the UK for a few days to do business with the UK, and there may be repeat visits or it may be one-off.

Box 5.A: Quote from a major international insurance group on STBVs

"The STBV rules consistently fall into the "very challenging" category in terms of corporate compliance, and with the best will in the world involves a significant and disproportionate degree of administration, management, monitoring and cost in terms of tax.... in essence, the way the rules currently operate, they penalise overseas business visitors from coming to the UK to do business with the UK"

5.24 The OTS has heard of a disproportionate amount of administration time being incurred when visitors come to the UK for a very short term to do business. PAYE is required to be deducted for each day of their visit. We have even heard an example of workers whose salary is not taxable as it falls below the personal allowance, but part of the travel and subsistence payment has to go through the PAYE system, with the visitor then needing to submit a self-assessment return in order to reclaim this tax borne.

5.25 Whilst the rules have been eased for those who are employed by non-UK branches in overseas treaty locations, this is not the case for non-UK residents employed by UK branches overseas coming to do business in the UK on short term business trips, nor for those visiting for business from locations overseas where there is no double tax treaty. It is understood and accepted that tax has to be paid, and there is no lack of clarity (once all information has been

gathered) around what tax has to be paid, but the problem is the amount of time it can take to generate little benefit for the Exchequer.

5.26 The OTS recommends that the easement from PAYE be extended to cover all short term business visitors to the UK – in essence there needs to be simpler procedures, possibly involving a de minimis. The risk is that the net effect of the system is to detract from the attraction to business of the corporate tax rates. It would probably be necessary to amend the legislation to allow this as HMRC's Personal Tax International Division is cannot simply extend the easement.

Employment status

5.27 Establishing the employment status of a worker is always a necessary step for employers – but it is not always easy.

5.28 The HMRC Employment Status toolkit is very useful, but we have heard that it needs some updating. We have also heard that there are some disparities between RTI and employment law.

5.29 This area is the subject of an OTS project later this year¹³, when these and other points will be fully reviewed. We therefore make no further comment or recommendations in this report.

The Construction Industry Scheme (CIS)

5.30 We are aware that HMRC have issued a consultation document 'Improving the operation of the Construction Industry Scheme', which was open for comment by 22 September 2014.¹⁴ However, we received a range of comments about the operation of the CIS system and summarise them below.

5.31 In our discussions with businesses and their advisers, it was difficult to find any positive comments on this scheme. It is clearly a huge administrative burden for those employers affected. It is said to protect £3.9 billion in tax,¹⁵ but we wonder if this may be achieved in another way. Many questioned whether it is still orientated towards managing a problem (admittedly a significant one) that now no longer exists to the same extent it once did. Essentially, such commentators were calling for a wide ranging review of CIS (wider than the scope of the current HMRC review) that would test:

- whether CIS was still delivering value for money; and
- whether its objectives could be achieved in a simpler way.

5.32 We were told that it was a particular burden for property investment funds developing or refurbishing properties, in that there was confusion as to why they were 'deemed contractors'. The structures used meant that there were complex inter-relationships between different partners and partnerships on who is a contractor/sub-contractor, which resulted in a large number of nil returns. The question was asked whether these could be some kind of group related provision for CIS.

5.33 Another problem area was non-resident groups of companies. It is not possible to apply for CIS until there is a signed building contract. The business would then need to apply for CIS immediately, which typically takes eight weeks. Upon the application being processed, the business can then incur automatic penalties for failure to file returns for the previous two months while registration was being processed. The well-advised should raise an appeal

¹³ <https://www.gov.uk/government/publications/employment-status-review>

¹⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325772/Improving_the_operation_of_CIS.pdf

¹⁵ CIS deductions in 2012/13 - Improving the operation of the Construction Industry Scheme consultation document, Annex A

resulting in a penalty suspension, but only following considerable time and expense. Those not so well advised no doubt incur the penalty charges.

5.34 One suggestion made to us was not to apply the scheme to payments to larger businesses, where the tax risk was considerably lower.

5.35 Given the existing HMRC review of CIS,¹⁶ it is not appropriate for the OTS to make formal recommendations in this area beyond:

- stressing that CIS imposes an administrative burden on many businesses, including inward investors; and
- drawing the attention of the HMRC review team to the points made above.

Auto-enrolment

5.36 Automatic enrolment of employers' staff into a pension scheme, with minimum compulsory employer contributions, is currently being implemented with staging dates dependent on the number of employees.

5.37 We understand that there is a debate whether contributions under auto-enrolment constitutes a tax for the purpose of the World Bank Report.

5.38 Our meetings and discussions have shown that businesses are very concerned about the level of administrative costs and expertise (often meaning consultant's time as well as in-house resources) involved in implementing auto-enrolment. They are also concerned about increases in employer pension contributions over the next four years, ongoing administration and penalties for non-compliance. We have even heard that small employers may need to reduce staff in view of the financial obligations.

5.39 Auto-enrolment is not yet with us; it is not strictly a tax matter and it is the responsibility of the Department for Work and Pensions. But given the concerns we have heard, we do need to record that it could well have an impact on the World Bank exercise, and is certainly seen as a problem by many employers.

¹⁶https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325772/Improving_the_operation_of_CIS.pdf

6

HMRC administration

In this chapter we consider what we've heard on HMRC's administration and customer service. We have included several recommendations on how to make interaction with HMRC and the tax system somewhat simpler and more effective for business taxpayers. The coverage of this chapter cuts across a wide range of taxes, duties and processes.

6.1 HMRC administration is a core focus of the competitiveness project: the time spent using HMRC's systems (or the taxpayer's own) to contact HMRC, file returns, and pay tax all affect the time to comply rating for each of the three key taxes in the 'Paying Taxes' survey. Beyond the 'Paying Taxes' survey, HMRC administration has an important impact on the general competitiveness of the UK system.

6.2 We heard repeatedly that businesses have two key requirements from a tax system and the authority that runs it, which can be summarised as:

- certainty: how easy or difficult, quick or slow, is it for a taxpayer to be sure of their tax bill for a period; and
- efficiency: how easy or expensive (in terms of time, resources and cognitive stress) is it for a taxpayer to fulfil their tax obligations.

6.3 These two factors are central to the provision of good administration, and neither of them is covered by the 'Paying Taxes' survey.¹

6.4 Over the course of our review we have repeatedly asked those with international experience whether other countries have better tax administrative processes than the UK. We generally heard good comments about the UK, although it was not, of course, seen as perfect, with other countries were cited as being better on certain aspects. Examples are:²

- Netherlands – for ease of dealing;
- New Zealand – for general understanding of businesses ;
- Ireland – for established relationships and stability; and
- USA – for the rulings culture.

6.5 There was no one country that consistently came up as better than the UK, though the Dutch system was most often referred to as the one to emulate.

Customer service

6.6 Current HMRC strategy is to provide taxpayers with a different level of service based upon the requirements of a taxpayer, the complexity of their tax affairs, and the revenue risk. As a result HMRC customer service is divided into three broad levels of service.

¹ We understand that the World Bank is extending the 'time to comply' aspect of their survey to post-submission settlement time for the 2014 survey. That will take into account some of these issues, though it will not give the complete picture of how a system really operates.

² For more information on these please see Annex D

6.7 This division of service levels is inevitable and appropriate. It is unrealistic to expect the same level of service for all businesses. HMRC need to target their resources where risk and complexity is greatest. The challenge is to ensure that all businesses receive an appropriate service and we discuss the particular advantages and disadvantages below.

6.8 We have been told by HMRC that the approximate dividing lines are:

- large is greater than £200 million turnover plus “complex” cases;
- medium covers companies with turnover between £10-200 million and more than 20 employees;³
- for partnerships the Large Partnership Unit gets all cases with 10 partners or more or turnover between £15 and £200 million as well as some smaller ones; and
- a medium sized partnership has turnover of £5 million or more if there are more than 5 partners. Other businesses are deemed small.

6.9 One point that was raised in a couple of meetings was that businesses can fluctuate between categories. Growing businesses will gain more attention from HMRC; the problem raised with us is of businesses that are contracting. We heard of instances where a business had dropped from large to medium in HMRC’s terms and suddenly found they did not get the same level of service, and in particular they lost their CRM. Whilst they could understand that HMRC would need to target its resources carefully, what surprised them is that there was no warning from HMRC or no process for easing their transition to their new status.

Large business customer service

6.10 Comments were almost universally positive about the customer relationship manager (CRM) service HMRC offers to the largest businesses. The CRM service offers them a single point of contact across all of their tax affairs, access (via the CRM) to technical specialists, someone at HMRC with an understanding of their business, and interactions across a variety of channels. It is a model of customer service, and should be commended. This high level of service offered to large business is justified given both the large amounts of revenue at stake and the high complexity of the tax affairs of these businesses.

6.11 There were a number of minor concerns expressed concerning the CRM programme as follows:

- Some businesses and advisers felt that CRMs had a gap in their knowledge concerning VAT, though this was not by any means a universal concern. HMRC have acknowledged this and have taken steps to remedy it, including changes to their current HMRC staff training programme. There is also a good network of contacts and support within HMRC and a number of VAT champions who spend time with businesses.⁴
- Some newer CRMs were less confident around taking ownership of the business’s tax affairs.

³ The World Bank case study company is ‘medium’ in these terms.

⁴ We met with representatives of the CRM network and talked to them about the VAT issue. They took us through the way they dealt with VAT issues and it is clear that where they do not have personal knowledge of VAT (one of the CRMs in the meeting had an indirect tax background) they are able to access expert support. One of the CRMs commented that she spent the majority of her time on VAT matters with her businesses, despite not having a VAT background. This seems to illustrate neatly the need for good VAT support through the CRMs as well as the support that is available to CRMs who need it.

- Some CRM positions had a high rate of turnover, which make it difficult to establish a continuous working relationship between businesses and HMRC. This can be especially problematic if an industry is complex and takes several years for a CRM to learn.⁵

6.12 Overall these are relatively minor points which are being dealt with and should not detract from the generally positive views of the CRM system we have heard. The CRM model has been extended into HMRC's Large and Complex division in Local Compliance and so covers more businesses⁶. Naturally we would like to see this trend continue as far as is viable.

Mid-sized businesses

6.13 Arguably mid-sized businesses (MSBs) have the greatest problems with the tax system. They can be of a size that brings complexities – particularly internationally – and are unlikely to have in-house specialist tax resources to any significant extent; yet they do not get the most extensive support from HMRC. We noted in our partnerships interim report that MSB partnerships can face problems in receiving support from HMRC and are in a worse position than small businesses.

6.14 Some of these businesses had an HMRC customer co-ordinator within the large and complex division of local compliance. This was a nominated person who took care of the business affairs, although as each customer co-ordinator was responsible for a large number of businesses, they could not develop the same level of knowledge of the business as a CRM within the large business service. Unlike the regular contact that takes place within the CRM model, we were told that only about one-sixth of the businesses that had been allocated a customer co-ordinator actually contacted them. Following on from this, HMRC undertook research to identify how best to handle them.

6.15 HMRC's research found that unlike larger businesses⁷, MSBs did not need sustained contact. However, there was a substantial variety in need for contact based on the size of the business and the complexity of their affairs. Often MSBs needed assistance with a single transaction (often referred to as 'life events'). Based on this, it was decided that a number of MSBs would be transitioned into the CRM programme dependent on their size and complexity of tax affairs, while the majority would only receive sustained contact from an experienced tax professional during difficult transactions.

6.16 We should note at this point a CBI survey and report, produced in association with Grant Thornton, 'Stuck in the Middle'⁸ which looked at the problems faced by MSBs. It echoed some of the points we had already heard a good deal about, and emphasised the needs of MSBs in complex transactions.

6.17 We are pleased to see the onset of a service to help MSBs during difficult transactions, which was launched in April 2014. It is too early to say whether or not it has been successful in improving the level of service HMRC offers, but we would be interested in hearing the experience of both HMRC and MSBs with this service over time.⁹ The programme should be extended to a wider range of transactions, perhaps to help MSBs take advantage of reliefs and incentives the tax system can offer.

⁵ Both this point and the one above were identified by Professor Judith Freedman's survey 'HMRC's relationship with Business', OUCBT, 2014

⁶ The programme has now been rolled out to more than 2000 businesses

⁷ <http://www.hmrc.gov.uk/research/report305.pdf>

⁸ Stuck in the Middle, addressing the tax burden for medium-sized businesses, published by the CBI in June 2014

⁹ It is too late for OTS recommendations concerning the transitory period; we should however note that more work could have been done to telegraph the onset of the service for some businesses. One group noted to us that they had rather suddenly lost their point of contact (who they relied on) with no warning.

Customer service for small businesses

6.18 A point we heard repeatedly is that small businesses tend to receive a lower level of service from HMRC than larger businesses. This was often felt to be unfair by many businesses: small businesses, we heard regularly, struggle to get their problem dealt with properly at HMRC. They do not have in-house resources and, whilst they can hire external help, they will often want to solve day-to-day issues themselves. We have therefore spent some time probing as to what it is that businesses really want or need and trying to assess how well existing HMRC services meet their needs.

What do businesses want?

6.19 The general request from smaller businesses is for someone resembling the classic model of local tax inspectors: a single point of contact with knowledge of a taxpayer's business, to manage all their interactions with HMRC. This was often the main request from businesses.

6.20 HMRC's own research shows that smaller businesses contact them infrequently. There is no need to provide a specialised personalised service if it is only going to be used once or twice – it would be inefficient to do so. In trying to probe what it is that businesses really want underneath this generic request, we heard these sort of points:

- an ability to contact someone who can help when help is needed, who can resolve things;
- that the person at HMRC knew what the business was concerned with and had access to relevant records;
- that if a query couldn't be resolved immediately, there was proper follow up from HMRC without chasing; and
- most queries revolve round unusual transactions or 'life events', but sorting out apparent HMRC errors also featured regularly.

6.21 Most of these features seem to be at the heart of the HMRC 'once and done'¹⁰ principle that is now being rolled out. We can only encourage HMRC to develop this approach and test that it is meeting the sort of needs we have expressed above.

6.22 We often heard comments that it was especially difficult for small businesses to get in touch with HMRC. For a typical small business, there are three routes:

- speaking over the telephone line;
- writing to HMRC;¹¹ and
- website guidance (which we discuss separately below).

6.23 Most comments we heard about HMRC's service revolved around the phone line.

How well are HMRC responding to calls?

6.24 HMRC's phone lines have a reputation in business and the media for being poor, although this seems to us to be undeserved. Many taxpayers have noted that they found HMRC's phone

¹⁰ <https://www.gov.uk/government/speeches/building-our-future-transforming-how-hmrc-serves-the-uk>

¹¹ HMRC are now contactable by both email and KANA (a structured email service) for some services. Overall, methods for contacting HMRC are inconsistent across taxes

lines extremely helpful, with good customer service,¹² though they often had to wait a long time to get through.¹³ However, others have been very critical.

6.25 There are of course two aspects to the phone service:

- Can the caller get an answer reasonably promptly?
- Does the caller's query get resolved?

6.26 HMRC have developed call waiting times and call answering as two key performance measures. This is appropriate, as the key complaint tends to be that waiting to speak to a HMRC adviser is a large time commitment and that a business' time is money.¹⁴ The general target is to answer 80% of calls: this is clearly challenging, though even when it is achieved it still means that 1 in 5 calls go unanswered. We also note that these statistics refer to all calls: as far as we know there are no separate statistics for business calls.

6.27 We had mixed reports of HMRC's intelligent telephony automation system. Almost all the feedback we have heard on it has been negative. Some suggested it was a further block to contacting HMRC, though we understand that it is still being developed.

Are the questions being answered?

6.28 A wider concern is the experience and knowledge of call centre staff. We heard regularly that too often call centre staff just read HMRC guidance to taxpayers. While this may be helpful for some small businesses, for those who have already read the guidance prior to calling, this is a waste of time, especially where the guidance is not clear.

6.29 We heard comments that the VAT helpline in particular was more difficult to deal with than HMRC's other helplines in this respect.

6.30 We also got mixed views about the Agent Dedicated Lines (ADLs). Many were positive, particularly about the ease of getting through to someone.¹⁵ However, where the system fell down was in accessing people with the necessary tax expertise. Most agents have a good knowledge of tax and will have already read the guidance: what annoyed some was then having call centre staff repeat back the guidance to them, or (in one case) be answered by staff who are not immediately familiar with even basic concepts such as what RTI or a limited liability partnership is. Agents did not expect all their queries to be solved immediately, but they do want a query followed up and resolved.

6.31 Call centre staff cannot be expected to handle more complicated specialist tasks. But one example that was cited to us was of call centre staff who were unable to transfer staff from one payroll to another. This is a problem for mid-sized and larger businesses, which need a mechanism to perform these tasks.¹⁶ Something put in place to deal with more complex enquiries would be welcomed. One potential way HMRC could do this would be to integrate this need into their wider digital programme.

¹² For January-March 2014, HMRC scored 75% for "ease of understanding what to do next" and 71% for "getting things right the first time"

¹³ For example, in March 2014 HMRC managed to answer 91% of calls. 66% of these were answered in less than 2 minutes. The calls which are the source of the typical complaints about waiting times are the 11% of calls which take more than 10 minutes to answer (and the 1% which took more than 20 minutes, especially as the average time before a call was abandoned was 5 minutes and 44 seconds. These statistics were taken from HMRC's quarterly performance indicators at <https://www.gov.uk/government/publications/business-plan-indicators>

¹⁴ Of course this is even more marked if the caller waiting is an agent who will be billing their client in due course: see below.

¹⁵ It has to be said that some agents were very supportive of the service they can obtain because they had tried to deal with HMRC as a 'non agent'. This is a somewhat double-edged point.

¹⁶ Though as above, even very small businesses can have complex tax affairs

6.32 We often heard complaints that call centre staff have limited historical knowledge of a taxpayer's affairs. Because there is little to no continuity between calls, a number of difficulties for taxpayers can be created:

- They can find themselves being 'passed around' by call centre staff over the course of a single call, which means they have to repeatedly explain their problem.
- The call centre staff they speak to will have limited understanding of the taxpayer's own affairs, which can result in repeat or incomplete information given.
- There is seemingly no record of what is said at each call, so if a taxpayer is having to repeat difficulties around the same issue, it can be frustrating to call HMRC multiple times and to receive the same answer each time, or sometimes even to receive different answers.

6.33 We do not know how prevalent this experience is, as we have not carried out a full survey. The views above also seem to conflict somewhat with HMRC's data and systems that operate to record the substance of calls and make those records available to call centre staff who take the next call from the business.

6.34 What it all seems to emphasise is the need for HMRC's 'once and done' principle. We also think there need to be proper measures developed to assess how well calls are dealt with. At the moment, HMRC's measures are *quantitative*; these measures need to be balanced with *qualitative* ones. This is not easy to do, but it is important to assess how well queries are dealt with. In particular, we heard many times about repeat calls, or calls to sort out issues that arose due to a previous call not being fully settled. The best way of answering these types of call is to prevent the need for them arising i.e. "once and done".

Questions in writing: post and e mail

6.35 We did not receive many comments about postal issues, perhaps reflecting that businesses do not use it for urgent matters. At the same time, the post service's target of a 15 day turnaround is satisfactory – assuming that the letter is answered properly.

6.36 The service to send emails to businesses on particular topics offers guidance for taxpayers on those topics, but of course cannot answer questions specific to a taxpayer's affairs. The HMRC guidance has good content overall but presents its own set of difficulties (see the section below).

6.37 There were many calls in our meetings for a general email service with HMRC. Most businesses and most agents operate through email: "why not HMRC?" we were constantly asked. The reasons for wanting email seem to be:

- it is the normal way of communication these days;
- it would give more assurance that a communication was received;
- it would allow HMRC a bit of time to consider the question before responding – something that is less easy via the helpline; and
- it gives a suitable 'trail'.

6.38 In response to the OTS's Small Business Review, HMRC agreed that there are occasions under which it would be appropriate for businesses to contact HMRC by email. We are glad to see that there are now mechanisms under which small businesses can now email HMRC, but would like to see that expanded to include a full range of services. Quick email responses would be particularly good for straightforward questions that businesses want to ask HMRC. For HMRC

this could greatly reduce the number of low-value calls they receive each year. For more technical queries it would offer greater scope for gathering views before responding.

6.39 We appreciate HMRC's concerns about security and that the route is likely to be a secure mailbox system for its customers. We think that businesses will be happy with this, assuming it meets the needs we have outlined.

6.40 There is also scope for HMRC to look at other digital methods of communication. A live chat function (with a real person rather than an automated link) could be useful in some circumstances. It could make waiting times less frustrating, as taxpayers would be able to do other activities more easily on their computers, while waiting to connect with someone from HMRC than they would on the phone. Transitioning between staff would also be smoother, as staff would just be able to read a record of the previous conversation.

6.41 We should acknowledge the excellent service provided by some of the teams we have encountered. In particular, the R&D tax credit teams and Small Company Enterprise Centre team we visited were commended for their excellent customer service to taxpayers, and clearly worked closely with taxpayers through a number of channels (including email) to help them claim reliefs and enrol in schemes which are sometimes considered difficult to deal with.

Summary

6.42 Whilst there is clearly scope for HMRC to improve service, we do not think we have heard messages that HMRC haven't already heard and largely have actions in hand to address. We do not think it is realistic to expect HMRC to give the same level of attention and service to small businesses as they do to the largest businesses. But, at the same time, we do think that the help that is available to support them in their efforts to comply with their tax responsibilities needs:

- to focus better on 'life events';
- to be available through email (or equivalent electronic means);
- to ensure that call centre staff have full access to the customer's history; and
- to embrace the 'once and done'¹⁷ ethos.

Post-filing process

6.43 As we have noted, the 'Paying Taxes' survey focuses on the time taken to file returns. While consulting on HMRC's administrative services during the tax filing process, we also heard plenty of feedback about post-filing process including how enquiries are raised, settling disputes, and debt collection. We heard comments that HMRC's compliance procedures were not even-handed, with disproportionate resource used to collect trivial amounts of tax.

How do businesses see HMRC?

6.44 It is inevitable that businesses will rarely see the tax authority as a friend. At the end of the day, the business has to pay significant amounts of money that it would no doubt rather keep for its own use. That said, whenever these issues came up in meetings it was readily acknowledged that taxes need to be paid to fund services; that businesses want HMRC to collect tax; that the UK needs a strong and efficient HMRC; and that those who do not pay what they should must be pursued. We detect a lot of goodwill towards HMRC, but at the same time there

¹⁷ 'Once and done' refers to a new HMRC approach, which involves resolving issues in one call, so taxpayers aren't passed from one part of HMRC to another and, where possible, issues are resolved at first contact.

are high expectations and concerns that the pressure on HMRC to collect larger amounts of revenue with fewer resources will lead to less attention to 'customer relations'. In short, the concern is that HMRC will not be even handed – that they will pursue the easy rather than the difficult. It is important that HMRC works to present the right message about how they operate, that they strive to be even handed, and that they are mindful of the psychological and financial costs debt collection and investigation place on taxpayers.

6.45 The nature of HMRC's compliance procedures can have a wider impact on taxpayer behaviour. Experiences with intimidating compliance procedures can in some cases cause taxpayers to express non-compliant or disadvantageous (to themselves) behaviour out of anxiety of dealing with HMRC. We heard a number of cases of businesses not pursuing possible claims for R&D additional deductions, due to a fear that doing so would cause an enquiry to be opened up. The R&D specialist units are doing their best to counter this belief but it is illustrative of a potential problem.

6.46 HMRC data suggests that the UK has one of the most tax-compliant populations in the world.¹⁸ This is an important and valuable asset for the UK. However, anyone reading stories about tax in the media may not get this impression. Instead, at times it appears that avoidance is rife (and easy) and that tax enforcement is weak. This is clearly an incorrect picture but it raises considerable concerns in two ways:

- UK taxpayers may lose confidence in the tax system; and
- in international competitiveness terms, those outside the UK may view the UK as an unattractive destination.

6.47 We know HMRC are well aware of the issue and are trying to address it.¹⁹ We can only emphasise the importance of building and maintaining confidence in HMRC and its running of the tax system as an important competitiveness issue. It is something that needs regular and continuing attention.

Debt collection and Time to Pay

6.48 Debt collection in particular raised a lot of worries for a number of taxpayers. Some businesses spoke of debt collectors intimidating them over very small amounts of tax, even when a taxpayer intended to pay but did not have the cash to do so. Such situations should be within the 'time to pay' arrangements, a service that has been widely praised as being constructive and helpful to many businesses. We have discussed this scheme and can only endorse it: the need seems simply to be to continue to make sure that businesses are aware of it and are encouraged to approach HMRC as early as possible if they foresee difficulties.

The Charter

6.49 HMRC operates a 'customer-centric strategy', which involves stabilising and improving customer experience to ensure as many willing and able taxpayers can get their tax affairs correct. This has manifested itself in the Taxpayers' Charter²⁰, which sets out the ways that HMRC wishes to treat taxpayers and at the same time sets out taxpayers' responsibilities towards HMRC.

6.50 The Charter includes behaviours such as treating taxpayers even-handedly, or treating them as honest and understanding of a taxpayer's affairs. In return, HMRC expect taxpayers to be

¹⁸ For comparison: according to internal analysis the UK has a tax gap of 7%. The US has a tax gap of 14.5%

¹⁹ Not least through very active participation in the OECD BEPS projects. A large proportion of the concerns over the way the tax system is operating seem to come back to the way the international tax system operates – something that HMRC cannot solve on its own.

²⁰ More correctly 'Your Charter' – see <https://www.gov.uk/government/publications/your-charter>

honest and responsible. We think that the Charter is an important document as it sets the tone for businesses' (and individuals') dealings with the tax authority. We note the publication by the CFE, AOTCA and STEP of a survey of charters²¹ in countries around the world which shows that charters are widespread (though by no means universal).

6.51 However, the Charter is not as well known as it should be. It is questionable how many businesses are aware of it. We can only encourage HMRC to continue to raise its profile and to see it as a way of demonstrating their wish to engage with taxpayers in a modern, even-handed way. In terms of our mandate to look at ways of improve the competitiveness of the UK tax administration, we think the Charter has a useful part to play, not least in helping to show those from outside the UK that the system here is a fair one that is well run.

Obtaining certainty

6.52 We have noted already in this chapter that one of the key needs for businesses is certainty over their tax affairs. They want to know:

- how much they have to pay;
- when they have to pay it; and
- that the position for the period is settled and will not be reopened.

6.53 We probed in many meetings for greater explanation of what businesses really mean by this and it can probably be expressed in two ways, which to a degree overlap:

- When embarking on an unusual transaction, they want to know how it will be treated for tax purposes; and
- once they have filed and paid their tax, they want to know that they will not face further tax bills (assuming of course that their returns and payments have been honestly made without errors)

6.54 The second of these aspects is mostly talked of in terms of VAT and we discuss it in depth in that chapter. Here we will consider the first issue further.

Clearance procedures

6.55 In each of the 'tax chapters' in this report we touch on aspects of clearance procedures. This is part of taxpayers achieving certainty in their tax affairs, whether it is certainty for businesses about how their investments will be treated, or certainty for agents on a key issue. But the tax system is fundamentally a self-assessed one; HMRC simply does not have the resource to provide certainty for the affairs of all taxpayers. Taxpayers can also go to agents (as many do) to obtain certainty.

6.56 Being certain about a tax result is advantageous, as it minimises risk to the capital available, allowing businesses to plan better for the future. If a business is looking to invest profits in a future project, unless they can be certain about their tax affairs there is a risk that their tax affairs may be incorrect, and they could be required to pay tax for previous periods that they didn't know they owed, possibly with penalties.²²

²¹ http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/good_governance_matters/platform/meeting_20140610/cfe.pdf

²² The OTS are currently undertaking a separate project on penalties. More details of this can be found at <https://www.gov.uk/government/publications/letters-between-exchequer-secretary-and-ots-employment-status-and-tax-penalties-reviews>

6.57 In addition to clearance procedures set out by statute e.g. the Enterprise Management Incentive Scheme, HMRC does have a mechanism for providing certainty in some cases. They offer a non-statutory clearance service when a taxpayer can demonstrate genuine uncertainty in how the tax rules apply to them. This service is not well advertised and is difficult to find in the HMRC website, so few taxpayers use it. Demonstrating genuine uncertainty is difficult: this does not provide a mechanism to reassure a taxpayer who just wants confirmation that they are doing the right thing.

6.58 This leaves some taxpayers in a difficult position: the onus is entirely on them to get their own affairs right. The tax system can be complex, and even confident taxpayers often do not have a full understanding of the tax system. This can leave them wondering whether they have missed any particular rules which could impact their tax affairs.

6.59 Intuitively this does not seem right to us; HMRC should have more responsibility for providing certainty to taxpayers. It is clearly not financially viable for HMRC to ‘rubber stamp’ every single tax return they receive. Instead we would like to challenge HMRC to consider how to make things much more certain for the vast majority of small businesses through more effective and assertive online guidance.

6.60 One suggestion would be to employ interactive guidance which can tell taxpayers that they’ve covered everything. Tools such as the employment status toolkit or tax calculator are particularly good at providing certainty for taxpayers. However, what these tools need is a set of ‘rules of engagement’: in short, how can taxpayers who use them be sure that their conclusions will not be challenged at a later date. Guidance which asks taxpayers for information and then gives them a firm answer would be a huge help in providing certainty. HMRC’s increasing use of digital services and outbound email would allow those tools to be targeted and promoted efficiently. HMRC should also better advertise their current clearance process, to assist taxpayers with issues of genuine uncertainty.²³

6.61 A more obvious suggestion would be to simply charge taxpayers small amounts of money for certainty. There was some appetite for this among taxpayers. We have raised this idea in the past and we know it is resisted within HMRC as not being in keeping with the general public service ethos. It also raises concerns over gearing HMRC to deliver such a service. But it is something that keeps coming up in our conversations, usually with comments along the lines of “It [would] seem to be sensible that those who need a particular service should pay for it, rather than the costs be spread over all concerned”. It does feature in some other countries tax systems.²⁴ We have to again recommend that HMRC consider scoping out such a service, or issue a discussion document about how such a service might look.

6.62 Another route that may offer possibilities is to build on the relationship with agents that most businesses have. We wonder if there is a way that ‘trusted agents’ could be empowered to give what would amount to firm rulings or clearances. Clearly there would have to be boundaries and a requirement for the agent to do appropriate work and follow agreed rules of engagement but this may be something HMRC’s Agent Strategy could explore.

International clearances and statutory rulings

6.63 Multi-national corporations thinking of investing in the UK will typically have disproportionately complex tax affairs due to the very nature of their business, particularly their international interactions. Because the tax system directly affects the profitability of the

²³ Originally raised in the OTS Small Business Review on HMRC Administration

²⁴ We have heard that Belgium operate a tax clearance system which is largely self-funded

investment,²⁵ certainty in how the tax system will treat their investments is especially important when choosing where to invest.

6.64 While HMRC is willing to engage in discussions with potential investors and their advisers, the UK does not offer a binding tax ruling on how investors' tax affairs will be treated. Removing the risk generated by tax uncertainty would potentially make the UK a more attractive place to invest. Following a ruling this would also cut down on compliance costs for both HMRC and for the taxpayer. This is seen as an important competitiveness issue by a significant number of the people we spoke to.

6.65 We think that an advance tax ruling system would be mutually beneficial for both inwards investors and the UK government. Other fiscal authorities offer such rulings, including New Zealand, Germany, Spain and (especially) the USA and the Netherlands. We were told a number of times that overseas investors find the lack of rulings in the UK strange, as many expect it.

6.66 The UK government should investigate whether an advance tax ruling system for investment from outside the UK would be advantageous for both the UK government and for inwards investors, to increase investment into the UK and provide certainty of their potential tax affairs for inwards investors.

HMRC guidance and the HMRC website

6.67 The actual content of HMRC's guidance was usually thought to be good, though highly technical in some places. The biggest issue was identifying and accessing the correct guidance; for example, smaller businesses had difficulty identifying what was relevant to them and what wasn't. Nowadays access to guidance is solely in terms of the HMRC website: printed material is not generated other than on occasions by helpful call centre staff.

6.68 HMRC's guidance design and layout is thought to be very poor by almost all of those we consulted with. It is difficult for taxpayers to find relevant guidance because it is poorly laid out. This difficulty with finding relevant guidance is compounded by the search function on HMRC's website, which often gives irrelevant (and often out of date) information. Browsing a chapter of an HMRC manual is impossible, as it is necessary to access successive sections one by one. This is neither efficient nor desirable.

6.69 The guidance appears to separate operational and technical processes, so taxpayers have to look in one place to identify the technical information about their tax treatment, and then have to look in another to identify which forms they have to fill out and what actions they have to take. This could be improved upon.

6.70 HMRC are well aware of these weaknesses in their guidance material. We think there is a need for a fundamental review of how HMRC provides guidance. At the moment this is at two broad levels:

- general material (which might at one time have been set out in printed leaflets); and
- technical HMRC manuals, of which there are now over 150 listed on HMRC's website covering all the taxes. Many of these were originally the inspectors' manuals.

6.71 One of the current issues is the move to the gov.uk website. The move to gov.uk presents an opportunity for HMRC to make their guidance more accessible for the majority of taxpayers; at the same time it is perceived as a threat (or concern) by those wanting access to the more technical

²⁵ Not just in tax rates, but also in what reliefs they qualify for and what expenditure is allowable or disallowable

material. We are aware of continuing discussions around the way tax material will migrate to gov.uk. From what we have heard, it seems to us that the ideal position would be for:

- general guidance material to be on gov.uk; and
- detailed technical material to remain on the HMRC website.

6.72 However, it seems this is not possible under the gov.uk strategy, which is that all material is on gov.uk, apart from HMRC tools such as ITSA. This does at least offer the opportunity to answer some of the criticism we have heard around the more technical material, such as:

- lack of browsing facility;
- lack of clarity over when the material was updated; and
- access to previous versions to deal with past year queries.

6.73 However, we think it is important that HMRC decides what its strategy will be over its detailed guidance material. In short, will it still produce it and make it available? If so, is this something that HMRC should do or should it work with a private sector partner?

6.74 As far as the general guidance material is concerned, we think the need is to make use of the gov.uk move to:

- make sure the general guidance answers the need we highlight above for help around 'life events', i.e. to put it another way, it should be set up by transactions rather than heads of duties;
- take advantage of the gov.uk search function to make guidance easily accessible to taxpayers; and
- design more dynamic guidance for some features of the tax system other than just blocks of text: more flowcharts or animations could educate taxpayers in different ways.

A simpler service for small taxpayers: emulating Sweden?

6.75 The above recommendations, if enacted, could provide some simplification for a large number of small business taxpayers when dealing with HMRC. However, real simplification would be to create an administrative system which removes tax as much as possible from the day-to-day activities of small businesses. HMRC aim to operate a 'once and done' procedure, with a taxpayer. The OTS would like to see this extended as much as possible, notably to tax returns and tax payments.

6.76 One possible way of doing this would be to create a single tax account service for small businesses, such as the one Sweden has. Under this regime, a small business would make a single monthly return of their income, expenses and other relevant information, and would receive a single tax bill covering as many taxes as possible. The aim is to remove the requirement for businesses to make multiple payments across taxes, and to treat tax like any other monthly bill.

6.77 This would provide considerable simplification to both unincorporated and incorporated businesses as follows:

- It would limit the amount of information they would be required to give to HMRC, by removing as much double-counted information as possible.
- It would remove the confusion of paying different taxes, and could limit the number of payments a business had to make each year.

- Underpayments and overpayments for taxes could be reconciled to ensure that a business would not be chased for one tax while being owed another (and vice versa).
- For individuals, the same information could be given for tax credit claims.
- Monthly payments would also align with requirements for universal credit.
- With respect to the 'Paying Taxes' survey, consolidating tax payments could reduce the number of payments required to three or four.

6.78 This system would require significant advances in IT on what HMRC currently has, as it involves aligning the heads of duty. HMRC is starting to take steps in this direction with services such as My Tax Account, which brings information about the various heads of duty into a single place for a business.

6.79 We strongly recommend that HMRC consider incorporating such a system into their long-term strategic direction for the smallest businesses. As discussed in the executive summary of the report, translating tax policy into a simple, easy to work system is extremely difficult and may require radical change, but if HMRC can achieve this, the administrative burden of the tax system could be removed from as many small businesses as possible.

7

Other taxes

7.1 Over the course of our review we received some comments on the administration of a variety of taxes other than those that contribute to the compliance time factor in the 'Paying Taxes' survey. Some of these taxes impact the total tax rate (e.g. insurance premium tax and business rates) and some do not (e.g. stamp duty and customs duty).

7.2 Even if there is no direct link to the 'Paying Taxes' survey, many of the comments on these other taxes relate to issues that impact on the competitiveness of the UK tax administration. We have therefore included these points on these taxes below, and, where relevant, have noted recommendations. In two cases there are reviews currently being undertaken by the UK government to simplify the relevant areas.

General

7.3 The ability to file returns and pay taxes on-line was widely appreciated and we strongly support the progress made by HMRC. However not all taxes can be dealt with in this way and we referred to Insurance Premium Tax and the returns by non-resident landlords as particular examples. We recommend that an on-line facility be made available for all taxes.

7.4 HMRC currently offers a wide range of webinars for the main taxes and these are generally well received. Expansion of this programme would be welcomed and examples of further topics were given that would be of particular value to start-ups. These were the Seed Enterprise Investment Relief and Venture Capital Trust Schemes. We recommend that HMRC develop further webinars to meet this demand.

Stamp duty (SD) and Stamp duty reserve tax (SDRT)

7.5 We were surprised at the large number of comments we received concerning stamp duty. There was more than one recommendation made that it would be appropriate for the OTS to carry out a review of stamp taxes, not least because the law dates from 1891 and much of the administration is outdated. Some argue that stamp duty could be abolished in favour of an adjusted SDRT. Such a review would, of course, be a full project in itself and is beyond our current brief, though we note it for future consideration.

7.6 In the meantime we note two particular proposals to simplify the administration, together with some smaller points.

7.7 First, since the rate of stamp duty is 0.5%, when there are low value transactions it is easily possible that the cost to the taxpayer of dealing with the relevant returns and payments could be larger than the amount of revenue brought in. To address this there is currently an exemption of £1,000 in place under which SD does not have to be paid. We have heard suggestions that this threshold should be raised significantly, as even at a threshold of £20,000 the revenue brought in may still be lower than the combined costs of HMRC and the taxpayer in submitting and reviewing forms and payment.

7.8 Although there is clearly a possible Exchequer cost (though small), we recommend that HMRC should review this exemption and consider raising it significantly in order to save administrative effort.

7.9 Our second recommendation revolves around registering stock transfer forms, which can present its own administrative difficulties. It is currently an offence for a company secretary to register an unstamped stock transfer form.¹ Over-the-counter stamping is only available in Birmingham; and that requires a taxpayer to book an appointment. If no appointment is booked the stock transfer forms must be sent by post, and it typically takes more than a week before the taxpayer receives the form back.

7.10 In cases where a document needs to be stamped quickly the logistics can cause problems for taxpayers. Immediate stamping is not needed very often, but a procedure that requires a trip to Birmingham, often from London, one of the world's leading financial centres, seems very outdated and a poor indicator of competitiveness.

7.11 It is questionable how necessary the rule is around the company secretary committing an offence if an unstamped document is needed, now that SDRT is in place. Repeal of this rule would mean that same day stamping would be unnecessary, and the existing procedures could continue. If it were not possible to repeal that rule, we would recommend that an administrative workaround be developed so taxpayers can get their forms stamped immediately if required – such as having a facility in London and, possibly, Edinburgh.

7.12 We also noted arguments for improving the interaction between stamp duty and SDRT. SDRT needs to be paid on the seventh day of the month following the agreement which attracts duty, whereas stamp duty can be paid up to 30 days after execution of a stock transfer form. Taxpayers can therefore be in default of SDRT pending submission of the stock transfer form.

7.13 It has also been suggested that group and reorganisation reliefs are needed in SDRT. The absence of these normal reliefs causes problems with SDRT and adds complexity.

7.14 Overall, we think that stamp duty and SDRT are in need of review and modernisation to improve administration and hence competitiveness.

Stamp duty land tax

7.15 Leases with uncertain rent can create difficulties for both taxpayers and HMRC. When taking out a lease of more than five years' duration with uncertain rent, a taxpayer should pay SDLT on an estimated basis on entering into the lease, and then file a further return after five years (or earlier if the rent becomes certain) reflecting the true position. This obligation is often forgotten entirely. HMRC have no systems in place to remind taxpayers of this obligation.

7.16 A particular instance of this issue concerns businesses with properties on rents linked to turnover. By definition the rents paid are uncertain, meaning that every five years the SDLT due has to be recalculated. Such businesses are certainly aware of the need to make recalculations and file returns, so the point alluded to in the previous paragraph does not apply. Instead, the issue is the amount of work involved for what is often a tiny adjustment to SDLT.

7.17 Whilst we can see the need for this rule in principle – without it there would be obvious scope for abuse – we think that there is a need for a rule that avoids the need for recalculation and filing where only small differences result. That has the potential to simplify and streamline administration. It is not necessarily a perfect solution: a de minimis in SDLT terms risks requiring

¹ S.17 Stamp Act 1891

calculations to prove that it applies; although the return and payment would not be needed, much of the work would still be required.

7.18 We would also note some further SDLT points relevant to the competitiveness of tax administration.

- We heard criticisms of the way the 15% SDLT charge on newly-enveloped dwellings was introduced. The way it was introduced applying to a wide range of transactions and then a year later scaled back was seen as a poor signal to the international investor community.
- HMRC's SDLT e-filing seems to cause difficulties for some advisers. We have been told that advisers purchase commercial software to handle the process so as to save time compared with using HMRC's systems alone.
- There is no 'white space' on a land transaction return for the taxpayer to make disclosure of the analysis behind a position taken. This can lead to unnecessary enquiries.
- There is also no space on the land transaction return to include a DOTAS number, if relevant. Again this can lead to inefficiencies around enquiries.

Annual tax on enveloped dwellings

7.19 The administrative processes surrounding the new annual tax on enveloped dwellings (ATED) were regularly raised with us by those affected as being burdensome. Notably, there are currently requirements to file for an exemption, and each exemption requires a separate return with very detailed information. Now that the threshold has reduced to £500,000, this problem will be extended to more taxpayers. House builders are concerned about reporting dates throughout the year.

7.20 At Budget 2014, the UK government announced that it would consult on simplifying the administration of ATED, especially for business properties eligible for reliefs. This consultation should help to reduce the filing requirements and administrative burden of ATED and answer the criticisms we have heard. Accordingly, we make no further comments in this report other than the need to make rapid progress with easing the administrative burdens.

Business rates

7.21 As previously mentioned in the corporation tax chapter, business rates are a great concern for many businesses. The absolute amount is naturally an issue, though being a rate of tax consideration is strictly outside our remit.

7.22 Many of the comments we have heard have focused around the appeals process: one group noted to us that businesses tend to appeal a 'significant percentage' (well over 50%) of business rates bills due to changes in circumstance. When combined with the large number of billing authorities, businesses can often struggle to understand how much they owe, particularly since the tax is not paid until after the appeal has been resolved (itself an issue for the authorities of course).

7.23 The UK government is currently reviewing the administration of business rates² in England after 2017 and will respond in due course. Accordingly, we make no further comments in this report.

² <https://www.gov.uk/government/publications/business-rates-administration-review-discussion-paper>

Insurance premium tax

7.24 Insurance premium tax (IPT) attracted a few comments, mainly, of course, from the insurance companies that have to administer it. The main point raised was around harmonising the filing methods between IPT and VAT. There was some suggestion of combining the taxes, but the key point was that currently it is possible to file VAT returns online but not IPT ones. This seems illogical and outdated.

7.25 IPT is a feature of a lot of tax systems and that raises issues for international insurance groups, in that there is little harmonisation across EU countries, unlike VAT. One potential way to simplify IPT administration would be to develop an overriding EU-wide system, though that would inevitably be a long term project.

Customs duties and forms

7.26 Customs duties came up a few times in our meetings. They were not a frequent source of concern, partly because they are a specialised issue (i.e. imports into the UK from outside the EU) and partly because they tend to be dealt with by specialised import agents. That said, the need for specialists in an area is telling: simpler procedures might mean more scope for in-house completion.

7.27 There were some general comments that the main problems are for businesses acting as one-time or occasional importers or exporters. The customs and excise forms were thought to be particularly difficult and time-consuming to fill out by a wide variety of taxpayers. In one case, not only was a mid-sized business attempting to apply for inward processing relief³ not only unable to fill out the form, but neither was the HMRC officer who came to help them.

7.28 Getting the right category for goods was not raised as a particular problem, as the directories are seen as comprehensive and HMRC as helpful where problems arise. However, two concerns were raised:

- Keeping directories up to date in the face of constant innovation and change is difficult and challenging.
- Although HMRC expertise is recognised, the worry is that there are few real experts and no obvious way in which such expertise is to be replaced.

7.29 We think that there is a considerable need to modernise customs duty administration with simpler forms and on-line systems. We are pleased to hear that HMRC is e-enabling customs forms where possible, by replacing them with iforms. This needs to be pushed through with the target of all forms and procedures being on line, together with a drive to simplify customs and excise forms for taxpayers. We note in passing that Irish forms can all be dealt with on-line, often remotely from Ireland, leading to quicker and simpler import procedures (and, we understand, better targeting of investigations).

Excise duties

7.30 This is a specialist area and we only received one set of substantive comments. However, the view was expressed by an expert in the field that the law on excise duties is out of date and in some cases wrong or impenetrable. The Hydrocarbons Act 1979 is seen as not being consistent with EU law. The law is made to work because those involved (on both sides) are few and know what is meant.

³Form CE810

7.31 Similar points were made in relation to excise warehouse rules.

7.32 It does sound as if excise duties are in need of review and modernisation. We have heard before in an earlier project that the variety of excise duties is itself a problem: indeed it was suggested as a useful area for the OTS to review generally. We can understand if HMRC do not see it as a priority, if it is an area that generally works.

8

Payments

Introduction

8.1 Numbers of tax payments is one of the three indicators in the World Bank methodology. The UK already does almost as well as is possible in the survey: each tax already contributes the absolute minimum towards payments due to the provision for digital payment in the survey.¹ We have had a few comments about payments issues and this short chapter summarises the issues.

Methods of payment

8.2 It is unlikely that making changes to the way taxpayers pay their taxes would have an impact on the 'Paying Taxes' survey. Each of the three key taxes only takes one hour to pay, so there is no scope to reduce the time to comply. Improvements cannot reduce the number of payments for survey purposes due to the World Bank methodology. The only way to reduce payments further would be to:

- abolish a tax outright, which is clearly a major policy matter; or
- combine taxes into a single tax account/payment.

8.3 The latter idea has some potential and is something that, for example, Sweden and Italy have introduced. We think it is something that is worth looking at as a longer term project for the UK. We discuss this in much further detail at paragraph 6.75 in the HMRC administration chapter.

8.4 There are further issues with payments that can cause confusion for taxpayers:

- payment dates and timing; and
- payment methods.

Payment dates and timing

8.5 Having to remember to pay a large number of different taxes clearly creates complexity. A typical small business with even relatively simple affairs will still have to pay VAT quarterly, corporation tax yearly, and PAYE monthly (with reporting as 'on or before' dictates). This assumes no additional taxes such as business rates or vehicle excise duty, are paid. Without a clear programme to align payment dates as much as possible, this will remain difficult for any other than the most organised taxpayer. HMRC have informed us that they will be helping businesses handle this difficulty through a new digital tool, which will enable SMEs to view a personalised tax calendar with digital alerts.

8.6 The timing of payments is also clearly important: there is a clear trade-off between paying small amounts on a frequent basis and large amounts infrequently. Infrequent payments provide businesses with a cash flow advantage, but requires saving up for a larger tax bill every six

¹ If a tax can be paid digitally, it is counted as only requiring a single payment each year, no matter how many actual payments are needed: see Annex B for more details

months.² This is the potential issue with unincorporated businesses and their business income tax payments. We received a number of suggestions that being able to spread the payments over the year – probably through monthly payments – would help many small businesses with their planning.

Quarterly instalment payments (QIPs)

8.7 Companies with profits above a certain threshold make four quarterly payments of corporation tax. As the CBI point out in a recent paper³ the current threshold of £1.5 million has not changed since its introduction.⁴ They call for a significant increase in the threshold to £5 million, to exclude more medium-sized businesses from QIPs.

8.8 QIPs are not an issue that has come up in many meetings, perhaps because it is a stable system that businesses are well used to. Clearly more businesses are being dragged into its net, and seasonal and fluctuating businesses generally do have problems with calculating the necessary QIPs. The underlying problem is the need to project the current year's profits and tax bills to arrive at the QIPs: in discussion with the CBI and others, this is the nub of the problem. If in-year payments could be based on the previous year's tax bill, rather than estimates of the current year's life would be much easier.

8.9 A 'prior year basis' was considered when QIPs were introduced but, despite considerable pressure from businesses and advisers, rejected by the then Inland Revenue. We think that the basis of QIPs needs to be reviewed:

- Is the policy to allow inflation to gradually draw more businesses into the net?
- If not, then the threshold needs to be increased and kept under review.
- If so, then the case for 'prior year' for smaller businesses at least needs to be reviewed.

Payment methods

8.10 The payment methods can also cause confusion for taxpayers. There are different accepted payment methods across the taxes. To give some examples:

- The main taxes (Corporation Tax, PAYE/NI and VAT) all allow payment by direct debit, online by debit/credit card (subject to a 1.4% fee for credit card), or by cash/cheque at a bank offering the bank giro service. HMRC are keen to enrol more businesses in direct debit but we have been told in no uncertain terms in meetings that few would sign up for such a system (or advise their clients to). Sadly, HMRC is not trusted to get the bills right.
- On other VAT payment methods, the online guidance is silent on payment by BACS/faster payment/CHAPS, and payment by cash/cheque at the post office, all of which are allowed on the other taxes.
- The payment method that businesses have told us they would still like is posting a cheque. This remains possible for PAYE/NI and CIS, ATED and SDLT. However, the service is not available for payment of CT, and only available for paying VAT where HMRC have confirmed the business is exempt from submitting online returns.

² Not to mention that it reduces the familiarity a business will have with a tax, so they are less likely to treat it as business as usual

³ 'Stuck in the middle: addressing the tax burden for medium-sized businesses': <http://www.cbi.org.uk/infographics/stuck-in-the-middle/>

⁴ It would be £2.25-2.5m if it had increased with inflation.

8.11 Another payment method that gets mentioned periodically is the monthly standing order for a set amount, which is then reviewed/topped up at intervals. This would parallel the method typically used by utility companies. We think that it would be seen as more attractive by many than direct debit and should be explored by HMRC.

8.12 Where possible, payment methods across taxes should be harmonised. We have noted that there is a strong preference for all payments to be electronic where possible, though as mentioned above, some businesses have expressed a preference to be able to pay by cheque. There should be a wide range of flexibility in payment methods where possible.

A

List of meetings and submissions

A.1 At most of the meetings below there were several people present, ranging from 2 to 50. We estimate that in total we have gathered the views of more than 1,500 people including HMRC staff, practitioners, businesses, and tax advisers.

Meetings and workshops

Accountex

Administrative Burdens Advisory Board

Association of British Insurers

Birley Manufacturing Ltd

BIS Entrepreneurs' Forum

Bishop Fleming Payroll, VAT, Accounting and Audit

British Chambers of Commerce

British Hospitality Association

British Property Federation

British Retail Consortium

Canadian Tax Foundation

CBI

Chartered Institute of Taxation- London, South-west and Merseyside branches; corporation tax sub-committee, indirect taxes sub-committee, employment taxes sub-committee, owner-managed business sub-committee

City of London Law Society

Deloitte

Freeagent Ltd

Employment Tax Forum

ESG Holdings Ltd.

ESOP Centre

Federation of Small Businesses

Haverhill Chamber of Commerce

HMRC teams: Agents' Online Policy; Business Customer & Strategy; My Tax Account, Corporation tax, International and Stamps; Indirect Taxes; iXBRL product owner; R&D

Manchester and R&D Cardiff; RTI programme director; Large Business Service; SCEC; Product and Process Owners' Group; VAT Clearance.

HMT- Employers' NIC, Corporation Tax Strategy, Capital Allowances

Institute of Chartered Accountants in England and Wales

Institute of Chartered Accountants of Scotland

Institute of Taxation in Ireland

Irish Revenue

Law Society of Scotland

PwC- London and Cardiff

RTI Taskforce

Quoted Companies' Alliance

Smith and Williamson

Telefonica

Tesco

Thatcher's Cider

Train Operating Companies
Una Group
Utilities Tax Group
VAT in Industry
Westaway Sausages
Westbrook Resources Ltd.
We also met with a further 3 individuals.

Submissions

Association of Taxation Technicians
British Chambers of Commerce
British Vehicle Rental and Leasing Association
Chartered Institute of Taxation
City of London Law Society
Institute of Chartered Accountants of England and Wales
Reed Elsevier
Quoted Companies' Alliance
And 4 individuals

A.2 We again thank all the groups and individuals who have given us their time and input so freely and apologise if we have omitted any contributors from the above listing.

B The 'Paying Taxes' survey results for the UK

B.1 The 'Paying Taxes' survey is made up of three individual factors which, when aggregated together, aim to rank the ease of paying taxes across different countries. The factors are:

- total tax rate;¹
- the total time to comply meaning the time taken to prepare, file and pay the various taxes on profits, labour and consumption; and
- the total number of payments a business has to make each year. However, for each tax which has a digital payments system, the number of payments only counts as 1. So even though RTI may require 12 monthly payments, it only counts as 1 payment overall. Similarly VAT is treated as requiring just one payment despite payments being required either monthly or quarterly.

B.2 The factors are measured for a detailed case study business. This is a ceramics manufacturer located in a principal city. The numbers vary depending on the particular country and whether it is a high, medium or low income country.

B.3 For the UK the details are that the company has a turnover of £21.5 million, earns £1.07 million profit and has 60 employees. It is a very straightforward operation with easily categorised deductible expenses and payroll. There are no exports and the activity is fully taxable for VAT.² The factors are then aggregated under a formula to arrive at an overall ranking.

B.4 The two tables below show the total tax rate results for the UK in the 2014 survey. They are computed for the year ended 31 December 2012.

Table B.1: The total UK tax rate for the period

Profit per accounts		1,065,000
Employer NICs	129,000	
Business rates	17,000	
Vehicle taxes	1,000	
Insurance premium tax	2,000	
Landfill tax	1,000	150,000
Profit before all taxes		1,215,000
CT as above	(263,000)	
Other taxes	(150,000)	(413,000)

¹ This is the taxes the company bears – in UK terms corporation tax, employer's NICs, irrecoverable VAT, IPT, landfill tax, vehicle excise duty and business rates. Fuel duty is included for payments but not for tax rate. The World Bank methodology treats all total tax rates that are at or below 25.5% as being equal to 25.5%.

² Further details can be found at <http://www.doingbusiness.org/methodology>

Profit per accounts	1,065,000
Total UK tax rate per the report	34.0%
Profit after all taxes	802,000

Table B.2: The UK CT computation for the year ended 31 December 2012

Profit per accounts		1,065,048
Add back depreciation	328,430	
Set up costs	20,460	
Entertaining	818	
Pension provision	13,708	
Interest on loan treated as equity	12,276	375,692
Deduct gain on land	(23,938)	
Capital allowances	(283,884)	(307,822)
Taxable profit for the year		1,132,858
Less loss from previous year		(41,739)
Profit chargeable to CT		1,091,119
CT due net of marginal relief for small companies	24.1%	262,740
Tax charge as a percentage of accounts profit	24.67%	

B.5 Note that the accounting profit of £1,065,048 times 24.5% equals £260,936



Real time information

C.1 In the majority of our meetings, real time information (RTI) was a significant topic of conversation in the payroll taxes area. In view of the volume of comments received, and to avoid unbalancing the payroll taxes chapter, we are summarising the comments on RTI in this annex.

Background

C.2 Following HMRC's go-live pilot, which ran for 12 months from April 2012, all employers (excepting those notified otherwise) officially moved to RTI from 6 April 2013. This entails submitting payroll information, a full payment submission (FPS) to HMRC 'on or before' the date payment is made to the employee, replacing one annual return (form P35) following the end of the tax year. Where no payment is made in the month, or to enable recovery of statutory payments, an employer payment summary (EPS) must be submitted.

C.3 HMRC has announced that existing employers with nine or fewer employees, who need more time to adapt, can report PAYE information on or before the last payday in the month until April 2016. Whilst this relaxation is welcome, it only applies to those micro-employer PAYE schemes already in place at 6 April 2014, a distinction not always understood, although the penalty easement mentioned below may assist here.

C.4 The easement follows a wider relaxation in place until April 2014, for employers with fewer than 50 employees, who found it difficult to report every payment to employees at the time of payment, and were allowed to send information to HMRC by the date of their regular payroll run, but no later than the end of the tax month in which the payments are made (a tax month always ends on the 5th of a calendar month).

Feedback from stakeholders

C.5 The feedback that OTS has received from businesses regarding the introduction of RTI has been largely positive, although all have incurred initial set up time and costs. The comments were usually in terms of 'not as bad as expected/feared'.

C.6 Some have reported back that whilst RTI is not problematic, they cannot see – or have so far not seen – any benefit to the business. Other businesses have told us that RTI has increased the payroll compliance burden. In the vast majority of cases, employees' pay is predictable and reporting on or before it is paid, i.e. when the payroll is run, is relatively straightforward. However, for employers who make frequent (daily or weekly) payments the 'on or before' rule is proving to be a problem, particularly for businesses with varying payments on each occasion. Those with casual staff have greater difficulties here, and the RTI system captures more of these groups than the previous system (we were given the example of farms using beaters for harvest, previously outside of payroll). Previously, the employer needed to report payments to casuals below the lower earnings limit once per year, but under RTI an FPS is required on or before payment is made.

C.7 Agents acting for employers have advised us that they may not be aware of the actual payment date, e.g. small employers varying the payment date, or staff, paid in cash, being paid

on their shift on a Wednesday in order that they do not need to make a special trip in on the official pay date on the Friday. Easing the filing date to on or before the expected pay date would be of some assistance here.

C.8 It is quite normal for agents to require clients to sign off on payroll data before payments are actioned; similar sign off would be normal before submitting the FPS.¹ Where an agent is responsible for a large number of payrolls, the administration burden has significantly increased, especially for clients who make frequent payments to staff (as opposed to simple monthly payrolls). We were given one example where the agent takes the payslips and payroll report to the client for approval by car each week (for payment that day) but may not get approval until late that evening. This example illustrates that unrealistic burdens can be imposed on employers and agents in some circumstances by the requirements of 'on or before'. Whilst there are legislative situations allowing reporting within seven days rather than 'on or before', these exceptions will not encompass all situations.²

C.9 Our initial report identified a small business with 13 weekly paid employees, where two-thirds of a staff-day per week is now spent on RTI compliance. Feedback was that it was still possible to run the payroll yet forget to file the return, and the suggestion was made for software providers to issue automatic reminders, particularly once penalties for late filing are introduced.

C.10 The delaying of in-year penalties, until October 2014 for late submissions and April 2015 for late payment, has assisted considerably here.³ Nonetheless, many businesses and advisers fear the impact of penalties when they do start. However, the main problem is clearly over the 'on or before' rules which cause problems for some types of business (agricultural and hospitality and the main ones that have raised concerns with us). We are aware of the easements that have applied and that there has been considerable debate about their continuation.

Problems with running RTI

C.11 Despite the general comments to the effect that RTI is running successfully, we have inevitably heard of a range of difficulties. Given the scale of the project, this is unsurprising and usually accepted as such by employers. However, what seems to exacerbate matters is where businesses have not received proper responses to their issues from HMRC. There have been a number of cases reported to us along the lines of employers having to operate RTI with penalties in the offing whereas there is no equivalent obligation on HMRC.

- Our discussions with HMRC have confirmed that in a limited number of cases, duplicate records are set up. This can occur, for example, on setting up a new employment where full ID details are not provided, or in some circumstances when reporting one-off payments. The existence of duplicate employments can cause year to date figures to be pulled from two employments, rather than one, resulting in double counting and an underpayment.
- We have been told that RTI appears to have delayed the time when a leaver or starter employee is notified to HMRC, which may also have contributed to this issue.
- Whilst overall the introduction of the RTI system has been a success, issues that have arisen do not always appear to have been communicated to front line staff. As a result, the employer helpline staff can sometimes appear unsympathetic to

¹ Appendix B6 of 'Engagement Letters for Tax Practitioners' issued jointly by ATT, CIOT, ICAEW, ACCA and ICAS, updated 25 February 2013.

² <http://www.hmrc.gov.uk/payerti/on-or-before-exceptions.pdf>

³ It has now been announced that employers with fewer than 50 employees will not be subject to late filing penalties until 6 March 2015.

employers and payroll bureau making enquiries. The helpline speech recognition does not always recognise non-standard queries, and stakeholders have advised us that this can be a hindrance rather than an improvement. We feel the system needs an urgent critical review on whether it is fit for purpose.

C.12 A specialist disputed charges team at Newcastle are dealing with a backlog of these cases (12,500 out of a total of 1.8 million schemes), and aim to review these cases, clearing where possible by September 2014 with all default action held until that time.

C.13 The existence of this unit (with contingencies put in place beyond September 2014) was not widely known about when we conducted our research, but we understand that it, and the issues underpinning the underpayments, have been communicated to employer helpline staff, together with an improvement to guidance to help prevent recurrence of these issues for new employers.

C.14 Software developers advised us of difficulties they have encountered in working with HMRC staff to resolve these issues, something that is very difficult to do without reference to specific cases. They are told that data protection prevents HMRC discussing a particular employer's issues by reference to particular employees. HMRC have drawn our attention to their guidance at IDG30210 on confidentiality and the problem seems to be the requirement that each person to whom the information relates must give their consent to HMRC before they can discuss anything with the agent or software developer. While obtaining the consent of the employer should be straightforward, obtaining consent for individual employees (potentially all of them) will in almost all cases be impractical. The solution would be for just the employer to give their authority but we are advised that this would require additional legislation. In the meantime this remains a source of frustration for many.

C.15 The most frequently raised point at our meetings is that of the Tax Dashboard⁴ not being immediately updated to reflect tax payments made. Instances have been reported of HMRC pursuing payments that have been made because of the lack of updating, and it is clearly a source of resentment for some employers that they have to report in real time yet HMRC does not have to update its records in the same way. The OTS understand the reason the dashboard is not updated until the end of the month, while the RTI submissions are made in real time, is that the tax liability is not due until the end of the month even though returns are due during the month. HMRC have already improved their guidance in this area.

C.16 It is also a source of frustration to agents that they cannot currently access this dashboard, although there are plans to allow for this.

Recommendations on RTI

C.17 One general point we would make is that HMRC need to treat problems with RTI with urgency and make it clear to employers that they are doing so. This is about improving communication and guidance in those cases where problems occur.

C.18 The OTS would like to see a post implementation review into RTI, looking at whether the on or before reporting is actually necessary to operate the Universal Credit system, and to what extent monthly reporting could achieve this, with a view to making the current relaxation for small employers permanent, and extending to those employers in place at April 2014.

⁴ The HMRC Business Tax Dashboard is an online service that enables a business to its tax position in one view across PAYE for employers, corporation tax or income tax, and VAT (if the business is VAT registered).

C.19 The use of the information by HMRC should also be reviewed, to see whether immediate use is being made for in-year coding adjustments. The objective has to be to reduce the number of end of year under/overpayments, with 5.5 million expected for 2013/14.⁵

C.20 We have been told that the end of year declaration is a difficult compliance requirement, and businesses wonder whether this could be produced internally. We were also asked why it was necessary to make a nil payment submission after a 'final' submission had been made. We understand the 'logic' for the internal systems will not support this, but a workable solution is for the nil returns to be submitted in advance at the same time as the final submission.

C.21 The OTS would like the recommended post implementation review to look at the FPS and EPS submissions, with a view to reducing the number required, combining where possible, and in the short term, to allow a nil declaration EPS to cover a full year, rather than the current six months at present.

C.22 An annual scheme may be set up where the following conditions apply:

- all employees are paid annually;
- all employees are paid within the same single tax month; and
- the employer is only required to pay HMRC annually.

C.23 At present, an annual scheme may only be set up telephone, and no formal notification is made by HMRC that this is in place. We have therefore heard from businesses making nil EPS submissions, unaware whether their application has been set up. The OTS recommends that an annual scheme may be set up by a structured email facility, with written notification by HMRC that this has been set up.

C.24 We have had reports that there are disparities between RTI and employment law on reporting the date of leaving – the date to be entered must be in the period of 6 years up to the start of the related tax year to 30 days after the current date. Employers are facing difficulty for final payments to individuals as often notice periods can extend beyond 30 days into the future. The date to be entered may conflict with continuous service rights, for example pension entitlement. The online guidance needs to reflect this conflict.

⁵ Source: CIOT response 22 July 2014 to OTS call for evidence

D Lessons from other countries

D.1 During the course of our review we had discussions with tax professionals in and about a number of other countries. Although the starting point was the World Bank survey we took the opportunity to ask about the good features of the local tax system and what might be the reason for a particular country ranking above the UK.

D.2 We started by talking to tax professionals in three of the countries that ranked above the UK. These are Ireland, Canada and Denmark. We also spoke to a senior official in the Irish Revenue. In many of our general evidence-gathering meetings one or more international points came up. Our standard agenda included asking for comments based on experiences with other countries' tax systems: were there points we should emulate or avoid in the UK? Points that emerged have been reflected in the various main subject chapters where relevant as well as adding to the notes that follow.

D.3 We also had the benefit of a project carried out by a group of students at Manchester Business School. The third year honours degree course in accounting carried out a project in which they studied a wide range of countries' systems, following up the World Bank project, and developed posters summarising the systems and making points on competitiveness. We gleaned a number of useful points from these researches that we have followed up separately.

D.4 Notes follow on the three main rival countries to the UK (i.e. Ireland, Canada and Denmark) and New Zealand, often cited as an exemplar.

Ireland

D.5 Ireland ranks sixth in the 'Paying Taxes' survey. The basic question that we asked was 'what makes the Irish tax system good'.

General tax administration

D.6 There has been a significant investment in IT to enable 'electronic by default'. The aim is that all returns etc. are done on line (there is a good recent example with the new property tax). The Irish Revenue do operate helplines but people who call are checked as to why they are calling and are often helped to solve their query themselves via the website and there is a good feedback loop to improve systems/forms/website to facilitate online interaction. The form to register a business is a good example of this stance. There is one 4-page form to complete to register for CT/IT, PAYE and VAT plus the relevant contracts tax.

D.7 In summary, there is a lot of investment in the Irish Revenue's website reflecting the commitment to doing things digitally.

D.8 The self-assessment system is backed up by risk assessment and intervention. There is very good integration of data sources and systems across government which enables the Revenue to do a lot of connecting up of data and really target their enquiries. Returns are pre-populated where possible. But the real benefit is that the crosschecking/matching that goes on means that risk assessment really works so interventions, aspect or full, are really targeted and any intervention is expected to yield an adjustment.

D.9 The overall aim is voluntary compliance but if something goes wrong there will be penalties and interest, but only if wrongdoing. Irish Revenue staff have limited discretion to vary penalties but will try to investigate into why the error has occurred and help put things right.

D.10 An adviser stressed that changes to the tax system involved good teams experienced in policy and operational matters. People rotate between these areas and there is a real aim to ensure consistency and coordinate the impact. The Irish Revenue has a reputation for efficiency and common sense.

Legislation

D.11 Legislation is changed only if it has to be and much is old and familiar. For example the definitions of plant or industrial buildings are well known and cause no real problems in calculating capital allowances in practice.

D.12 New legislation is kept brief. An example was given of introducing an allowance for intellectual property which was done by a single short section that deemed IP to be plant.

D.13 The consensus is that the GAAR introduced in 1989 has worked as a deterrent and reams of complex anti-avoidance legislation are unnecessary. One comment made to us was

"...don't keep trying to write the rules in 200 pages: keep it simple and keep to rules that work pretty well – don't try and solve/cater for everything."

Corporation tax/income tax

D.14 The policy aim is to eliminate reliefs as far as possible accompanied by a broader tax base.

D.15 The system is simpler than in the UK. For example there are no CFC rules, transfer pricing applies only on trading transactions. There are no debt cap rules. We were asked why the UK does not operate a safe harbour system.

D.16 There are still the traditional capital/revenue adjustments (which add little value) but we were told that these are well established and understood and generally parallel the distinctions for VAT. The capital allowances system is a flat rate and has been in place for many years – so easy and understood.

D.17 R&D uses similar categories of activities and costs to the UK system and is well established although the incremental spend approach does cause some problems.

D.18 The Irish Revenue considers that the low CT rate is just one part of a package to enhance competitiveness that includes up to date systems and a tax authority with a good workforce that understands companies and their business.

Payroll taxes

D.19 In principle the Irish system is complex – PAYE, PRSI (NIC equivalent) and a second social insurance USC. The first two have a very similar base whereas the latter is very different. Despite this there are few compliance problems, put down to good engagement with the software industry and software generally manages everything (almost all employers use software directly or via agents).

VAT

D.20 There is a helpline system who will give guidance on classifications but not definite rulings as they can't examine the product. Traders are encouraged to do their homework and are often referred to guidance. VAT rates are published alongside customs duty classifications.

Canada

D.21 Canada ranks eighth in the World Bank 'Paying Taxes' report due to its low tax rate and ease of filing and paying, but less so for the time taken to prepare returns. When we discussed this good performance, we got the impression that the ranking had come as something of a pleasant surprise but it is clear that there are many positive aspects to the way tax is administered in Canada.

D.22 With Canada's mix of federal, state and local taxes there is clearly scope for burdens of business taxes to increase considerably compared with centralised countries such as the UK. The fact that this is not the case (in contrast to, say, Australia) is testament to the way that there is a very clear aim to make sure that burdens are minimised and that systems are harmonised/streamlined where possible. The OTS understands that there are pressures growing in Canada for an equivalent to the OTS.

D.23 One comment made was that company and individual income tax are well integrated so there is little tax incentive to prefer one business form over another. Thus there is much less anti-avoidance legislation, simplifying the system.

General tax administration

D.24 As is the case in Ireland, there has been a significant investment in IT to enable as much as possible to be done online. The Canada Revenue Agency has a well-designed website to make the filing and paying of taxes as straightforward as possible. There are easy to see links for paying, filing and finding forms or publications. There are also links to videos and local information sessions making it simple for new businesses to access the various forms that it needs. Each return has a guide to completion that would be sufficient for a simple business.

D.25 In addition to return guides, the Agency publishes a large number of technical interpretation notes which perform the same role as HMRC briefing notes and guidance manuals. They are comprehensive and an index note is provided listing them out in numerical order, by subject matter and by reference to the relevant tax code section. At the time there did not seem to be hyperlinks from the index to the notes or between them, so the process is less slick than it could be, although we were advised that there is currently a project to better integrate the notes into the website.

D.26 Relationships between taxpayers and the tax authority are generally good and are often closer in the smaller communities. Rulings are available but the dedicated rulings group deal mainly with larger businesses.

Legislation

D.27 The legislation itself is complex and follows the UK pattern in that each year there is legislation to enact budget measures by amending the latest consolidated acts for each of the main taxes. In addition there is an occasional Technical Tax Amendment Act, the most recent being the 2012 Act. The style of legislation is all too familiar and is similar to UK pre-rewrite, and in many areas is as impenetrable. There are English and French language versions included in the annual legislation but even allowing for this and the fact that not all measures included are tax, the length is substantial – the 2011 Act runs to 658 pages.

Corporation tax/income tax

D.28 Companies pay income tax rather than a separate corporation tax. The corporate income tax return is quite lengthy and the detailed guide to filling it in runs to 120 pages. There are numerous schedules that have to be obtained and then filled in to either provide information,

claim reliefs or show differences between accounting and taxable income. Many of the book versus accounts differences that arise are similar to those in the UK CT system. UK case law is still relied upon to define capital / revenue boundaries.

D.29 By no stretch does this look particularly easy and the form is considerably longer than the UK's CT600.

D.30 The tax authority was said to take a pragmatic approach and follows the accounts for most purposes. The capital cost recovery system is quite complicated but as the depreciation rates are considered to be generous this is accepted by business. There are some complaints about income tax compliance but it is not very specific and the complexity is accepted as either providing advantages or as a response to avoidance.

Payroll taxes

D.31 The process for employment taxes is similar to UK PAYE although there are two levels of income tax (federal and provincial). In addition, companies are required to collect state pension plan contributions, employee insurance and, in some provinces an additional health premium. Employees have codes that determine the level of withholding for all of the taxes and the website provides either tables to follow or an on-line calculator. Alternatively taxpayers can use proprietary software.

VAT

D.32 The equivalent to VAT in Canada is GST at 5% plus a local sales tax in some provinces and the Northwest Territories, or a harmonized GST and sales tax (referred to as HST) in other provinces. The procedures look very similar to those in the UK, with the emphasis on electronic filing and payment. There is guidance and an introductory video for new businesses on the website.

Denmark

D.33 Overall, Denmark is ranked 12th in the World Bank 'Paying Taxes' report, two places above the UK. However, the UK performs better on both the number of tax payments (10 for Denmark, 8 for the UK) and the time to comply (130 hours Denmark, 110 hours UK). As is the case for Canada, the reason that Denmark is placed above the UK is the lower tax rate, in particular the labour taxes – where the UK rate of 10.6% is considerably higher than the Danish rate of 3.6%. CT rates are broadly similar, and both are reducing while other taxes are lower in the UK (3.1% Denmark compared to 1.8% UK).

D.34 We did not speak to anyone directly about the tax system in Denmark, and the following comments are based on information available on the official website (www.skat.dk) and from publications available from the large accounting firms. Based on this high level review we believe that Denmark's better ranking in the 'Paying Taxes' survey can be attributed to the lower rate of labour taxes.

General administration

D.35 There is general information on starting a business on the Danish Ministry of Taxation website which would be useful to the layman. It provides advice and the means to register which must be done no later than eight days before commencement of trading. A trader needs to register separately for VAT, payroll tax, duties and A-tax (PAYE) for employees.

D.36 VAT is payable monthly, quarterly or biannually, employment taxes monthly and business profits taxes biannually based on average of tax paid over previous three years.

D.37 The income tax return is due on 1 July (tax year runs to 31 December)

Corporation tax/income tax

D.38 Taxable income is based on profits reported in the annual accounts, which are prepared in accordance with generally accepted accounting principles. For tax purposes, several adjustments are made, primarily concerning depreciation and write-offs of inventory.

D.39 Expenses incurred to acquire, ensure and maintain income are deductible on an accrual basis. Some expenses, such as certain gifts, income taxes and formation expenses, are not deductible. Only 25% of business entertainment expenses is deductible for tax purposes.

Depreciation

D.40 Immediate deductions are available for new acquisitions not exceeding DKK 12,300 (2013 amount), or with useful lives not exceeding three years are 100%. Computer software is also deductible in the year of purchase.

D.41 Other depreciable assets must be allocated among four asset classes with different rates of allowances and additional allowances are sometimes available. Buildings used for commercial and industrial purposes may be depreciated at an annual rate of up to 4%, using the straight-line method based on the purchase price, excluding the value of the land.

D.42 In terms of complexity and the time taken to do the calculations the system in Denmark appears to be similar to UK capital allowances.

D.43 Our view is that when you do drill down into the Danish system, the departures from accounting profit appear to be as numerous as in the UK.

Groups of companies

D.44 Joint taxation of Danish affiliated companies, Danish permanent establishments of foreign affiliated companies and real properties of foreign affiliated companies that are located in Denmark is compulsory. The jointly taxed income equals the sum of the net income of the jointly taxed companies, permanent establishments and real properties. An affiliation generally exists if the shareholder is able to control the company (for example, by holding more than 50% of the voting rights).

New Zealand

D.45 New Zealand ranks 23rd in the World Bank 'Paying Taxes' report. We mention it here as the tax authority has a good reputation and a tax system that seems to work. This note is based mainly on a conversation with a tax practitioner and former Treasury official in New Zealand.

General administration

D.46 NZ has the advantage of being a small, fairly homogenous economy. It has not experienced an economic crisis as has the UK, nor a banking crisis comparable to ours. These factors were mentioned as background to a more relaxed attitude to tax enforcement. At the same time, there isn't the avoidance industry the UK has, and the tax and legal professions have a strong public service ethos- they want to make the tax system work.

D.47 The tax system is pretty stable, with a generally good political consensus about how it should develop. One example is GST (equivalent to VAT) which applies to everything except financial services. There have been arguments for excluding fresh fruit and vegetables from the tax, but this has not been pursued and its broad nature is generally preferred and accepted. Another stabilising feature is political continuity with the same Minister for the Revenue for a decade; he had a real interest in the long term health of the tax system.

D.48 Most senior NZ IR people have worked in the private sector, and there is easy and regular movement between public and private sectors; salary packages are comparable at manager/senior manager level. This helps people in the tax authority understand what drives business, and what their difficulties are etc. There is a good atmosphere of trust and cooperation between tax authority and profession. The tax community is described as 'tight and small'.

Corporation tax/income tax

D.49 On income taxes, the rates of income (and capital) taxes (individual and partnership) and corporation taxes are very similar (although beginning to diverge) so there hasn't been the incentive to 'game' the system that the UK has experienced.

D.50 NZ has a clear policy aim of getting the tax system to be competitive. NZ IR wants the system to be easy to comply with and demonstrate this by trying to integrate tax compliance with normal business procedures as far as possible.

GST/VAT and employment taxes

D.51 The aim is to make accounting and taxable profits and incomes for PAYE etc. as common as possible. PAYE aims to be the final tax bill and IR has a reasonable de minimis approach to avoid small reconciling differences. The GST rules are simple and lack the boundary issues found in the UK, enabling compliance to fall out of normal accounting.

D.52 For CT, NZ has the same sort of adjustments as the UK with R&D, tax vs. accounting depreciation and other sundry adjustments. However, we were told that businesses tend to use tax depreciation rates in their accounts so avoiding the adjustments the UK has.

Payments

D.53 Electronic payments are the norm, with cheques largely being phased out. NZ IR are encouraging the use of intermediaries (accountants but more so software providers) to help those who can't comply easily or pay electronically.

D.54 There is a real effort to coordinate tax payments so that a business can pay its CT (they make three 'provisional tax' payments and then one final payment) and GST at the same time. Interestingly, a small business can calculate its provisional tax based on GST measures.

Conclusions

D.55 We do not pretend to have carried out an exhaustive analysis of tax systems in other countries. However, we have tried throughout this project to look for ideas from outside the UK and in particular to answer the question 'why does Country X do so well (or badly) in the World Bank study?' There seem to be five main themes that emerge that are relevant to UK attempts to improve its rankings in the World Bank:

- 1 Tax rates and overall tax revenues are inevitably a significant factor

As the 'total tax' is one of the three WB indicators, low tax rates inevitably makes a significant difference in the rankings. Denmark is a good example. However, the key point is that many of the countries ranking higher than the UK are oil-rich and simply do not need to raise comparable revenues (e.g. Saudi Arabia, Qatar). The UK will never achieve higher placings than these countries in the survey (unless of course we discover comparable quantities of energy!). However, it must be noted that high oil revenues and consequent low taxes do not guarantee a high ranking in the survey results: see Brunei for example, which seems to be the result of a relatively clumsy tax system that imposes significant admin burdens for modest revenues.

2 Investment in good IT systems is vital and offers huge possibilities

By this we mean good systems for making returns; good information systems to enable taxpayers to find relevant information; and using IT for communication. Ireland is a good example, but countries such as Singapore have made IT investment and 'clever' systems a priority¹. It is also worth noting that this is not just about making things easier for taxpayers: the Irish system offers considerable scope for the tax authorities to do smarter reviews and interventions.

3 Stability of the tax system makes the system easier to deal with

The OTS has regularly pointed out that change is the biggest source of complexity in the tax system. The Irish tax system has many similarities to the UK's, yet the time taken to comply with corporation tax or income tax is much lower: the main reason given is that lack of change in the Irish system which means people are familiar with it and find annual compliance easy. Contrast this with Brazil which is at the bottom of the World Bank rankings due to the time taken to comply, itself a product of the frequency of change of the tax system at federal, state and local levels.

4 Cooperation and understanding from all those involved makes a difference

One point that came over strongly from New Zealand is that both taxpayers/agents and tax authority – want to make the system work. Additionally and importantly, there is a lot of movement of people between the two sides, so that tax collectors understand business issues and vice-versa. Similar points have come up, in relation to other countries. The Netherlands always comes out well in terms of the constructive, business-friendly attitude from the authorities who are praised as understanding why business wants to get rulings and agreements. India has been cited as an example of a country that gets this wrong, i.e. the tax authority does not understand taxpayers.

5 Eliminating incentives to avoid helps keep the system simple

This was a point made strongly in our discussions about Canada but it also comes up in the context of many other countries. The reverse point applies in the USA, according to many people. It is a policy/design point but in terms of the World Bank rankings, having less special cases to worry about, or fewer anti-avoidance measures to consider inevitably speeds up the compliance process.

¹ We were given the example from the Singapore authorities of the duty refund system for goods purchased for personal export. At the departure airport, the visitor can, once airside, use a terminal and the credit card used for the actual purchase to access the system, confirm the goods are being exported and initiate a repayment of the duty. The duty repayment should be in their bank account before they land! We accept that designing such systems is easier in a smaller, modern economy such as Singapore rather than the UK but the point is the drive for such innovation and willingness to invest.

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