



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

14 August 2017

Angela Knight and Paul Morton  
Office of Tax Simplification  
1 Horse Guards Road  
London  
SW1A 2HQ

*Dear Angela & Paul*

Office of Tax Simplification report on simplifying the corporation tax computation

I am writing to thank you for your report on the simplification of the corporation tax (CT) computation, which was published in July. The government aims to make the tax system simple to understand and easy to comply with, helping ensure the UK remains an attractive location and conducive environment for enterprise. Your report includes valuable analysis about factors to consider when calculating CT liabilities, and I am grateful to you and your team for your work.

I have responded below to the seven recommendations you identify as making the greatest improvement to the CT computation. I understand my officials continue to work with you on the feasibility of a further 25 proposals in your report.

1. I agree with the report findings that there is value in promoting a stable and certain tax system, with a tax policy-making process that allows for more open consultation. This has been one of the driving factors in my decision to move to a single major fiscal event. This timetable will help me to deliver the ambition, which I share with the OTS, to have as much early and open consultation on tax policy changes as possible. This included my recommitment to the business tax roadmap published in March 2016.

2 & 3. I agree that your recommendations to minimise the number of adjustments required to calculate taxable profits, and to align tax definitions with accounting definitions, would help simplify the regime for small companies. I strongly support simplifying the tax code for smaller businesses. These recommendations should be considered further, but must be considered in the light of their potential impact on the Exchequer, and the possible synergies in simplifying tax for unincorporated business. I would encourage the OTS to continue to engage with my officials on the implementation of Making Tax Digital for Business.

4 & 5. I recognise the complexities associated with the existing schedular regime, and find your recommendations sensible long-term objectives. However, such reform would necessitate significant change to the existing CT calculation, likely to produce uncertainty and transitional burdens. I therefore have no current plans for reform, but rather wish to understand better the challenges involved over a longer timeframe, including work by my officials to gauge the Exchequer costs, risks and impacts upon customer groups.

6. Your recommendation to explore the use of accounting depreciation instead of capital allowances is dependent upon resolving a number of significant issues arising from the change, including fiscal cost, avoidance opportunities and likely winners and losers. I therefore request that the OTS explores these challenges in greater depth, including comparison with any potential gains, and I look forward to us agreeing the terms of reference for this review in the coming weeks.

7. With regards to large business taxation, I encourage the OTS to engage with the consultation announced at Spring Budget 2017 on the risk profiles of large business and promoting stronger compliance. As part of that, my officials will explore fully potential opportunities to promote taxpayer certainty.

Thank you again for your work and that of your team in this area. I hope the OTS will continue to contribute to the government's thinking on how to create a simpler CT system that benefits taxpayers and the UK as a whole.

A handwritten signature in blue ink, appearing to read 'Philip Hammond', written in a cursive style.

PHILIP HAMMOND