



**HM Revenue
& Customs**

Making tax easier, quicker and simpler for small business

**Response to the Office of Tax
Simplification's Small
business tax review: Final
report**
HMRC administration

March 2012

Introduction

At Budget 2012 HMRC published *Making tax easier, quicker and simpler for small business*¹. This document responded to the Office of Tax Simplification's (OTS) review of small business taxation² and set out how the Government and HMRC are making the tax system easier for small businesses to understand and simpler to deal with.

HMRC is publishing a consultation document today (27 March) on a simpler cash basis for small unincorporated businesses to calculate their income tax. A detailed consultation on integrating the operation of income tax and National Insurance will be published shortly and a further consultation will take place over the summer on making disincorporation easier.

Chapter 3 of *Making tax easier, quicker and simpler for small business* sets out seven broad areas in which HMRC will be delivering improvements for small businesses:

- i. Improving guidance, education and support
- ii. Getting our core services right
- iii. Delivering improved digital services
- iv. Making paying taxes easier
- v. Supporting agents
- vi. Improving the 'tone' of the relationship with SMEs
- vii. Delivering a level playing field

The Budget document responded in broad terms to many of the OTS's proposals for administrative improvements to the tax system. This separate paper provides a comprehensive response to all of the OTS's specific tax administration recommendations. The table below shows HMRC's detailed response to the OTS proposals, which fell into four main categories:

- o Education and Support
- o Communication
- o Certainty
- o Other Specific burdens

In the vast majority of cases we agree with the OTS's analysis and conclusions, and with their recommendations (although in some instances we need to look more closely at the detail of how we best deliver the desired improvements). HMRC will take forward implementation of the OTS's recommendations, as part of our wider commitment to delivering improvements in the experience of SMEs. We will do so, continuing to engage with OTS (as appropriate) and using our Administrative Burdens Advisory Board (ABAB) to provide external scrutiny and challenge. ABAB will, in

¹ [Making tax easier, quicker and simpler for small business](#)

² [Small business tax review: Final report HMRC administration](#)

particular, help us to prioritise those changes and improvements which can make the most difference to small businesses.

Office of Tax Simplification (OTS) Small Business Review – Tax Administration Issues
HMRC response to principal recommendations

OTS Recommendation (ref in OTS report)	Response (ref in Making tax easier.. document)
Education & Support	
<p>Proactive provision of the guidance, tips, and tools that are available to assist small businesses, starting at the time the business registers, and including those without internet skills or access. (4.7- 4.14)</p>	<p>HMRC is expanding the range of educational products we offer; building on the success of new channels we're using and are increasing the awareness of what's available. In particular, the development of mobile apps, the Single Government Domain and the increasing use of e mail will all help to ensure small businesses get the help and support they need in ways and at times to suit them. (3.4-3.5)</p>
<p>Extending the current initiatives on tailored support through intermediaries, to include more trade bodies (4.47).</p>	<p>We continue to develop our work with an expanding range of intermediary partners. (3.4)</p>
<p>Introduction of panels, forums, webinars and workshop training, and actively encouraging those who have made compliance errors or appear to have problems with their tax obligations to take advantage of these. (4.32)</p>	<p>Our education and support programme includes workshops and new webinars held out to those identified as needing help with their tax affairs. (3.5)</p>
<p>General improvements to web-based guidance including:</p> <ul style="list-style-type: none"> o Improvement of the 'search' function o Displaying 'What's New' by subject area (so that relevance is clear – and include a short summary, and signpost to further help (4.43) o Improved layout of Frequently Asked Questions (FAQs). 	<p>We are working with the new Government Digital Service to help develop the new Single Government Domain, and OTS's recommendations will help to inform this (3.11). In addition we will improve HMRC site search results, for example by continuing our work to de-clutter the site of historical information and by continued monitoring of the top search terms.</p>
Communication	
<p>Introduction of two way email communication, response within set timeframe.(5.2)</p>	<p>We interact with SMEs through an expanding range of electronic contact solutions from structured forms (eg for VAT enquiries) which can be submitted via email through to using two way email contact. Acknowledging that email contact can be insecure and is not suitable for all communication, we are running a number of small pilots</p>

	exploring the further use of two way email in different scenarios with different customer groups. We will then assess how we might expand email usage.
Targeted and personalised updates on tax changes and on relevant events in the annual tax calendar. If by email, equivalent support will be needed for those without access to e mail. (4.33)	Through a tool on Businesslink.gov customers can create a personalised calendar of key tax deadlines just by answering a few simple questions. The calendar can be printed or saved. Customers can sign up to receive e mail alerts as each deadline approaches.
Email notifications to agents when correspondence is issued to clients. (5.23)	This is not something that HMRC have previously heard from its discussions with agent groups. However, we are interested in exploring it further as part of 'Digital by Default' and will be looking at how to use emails effectively to facilitate agents' work on behalf of their clients.
Improved tracking of correspondence and introduction of facilities to view more correspondence online so that contact centre staff can see scanned copy correspondence. (5.26)	We acknowledge that scanning has the potential to improve the tracking of post and to make it easier for our staff to see particular items of correspondence where that would be helpful. We are currently looking in more detail at the costs and benefits of such a change, to see if there is a solid financial case for the investment required.
Improvements in telephone waiting times, with the introduction of a dedicated small business helpline. (5.8)	We acknowledge the need to improve the phone service and have a comprehensive plan to do so. In addition we are improving our products, processes and guidance to reduce the need to contact us in the first place. Given the considerable work we have in place to address the issues that the OTS identifies, we do not believe that it is necessary to create a dedicated SME helpline. (3.8)
Undertake more work to make language on forms, letters and statements more taxpayer focused, using language that is easier to understand and less confrontational. (5.14)	Our aim is to communicate with our customers in as simple a way as possible and we will continue to make our forms, letters and statements more taxpayer-focused, using language that is easier to understand and less confrontational, and tailored to the needs of recipient. We will seek feedback from SME and agents bodies, as well as from ABAB, as

	we do this, to ensure that the changes we propose will make a difference to SMEs.
Businesses with a complex or involved tax issue should be able to deal with one named person at HMRC. (5.26)	This is appropriate in certain limited situations and we recognise that tax agents play a key role here. Developing a one to one relationship with HMRC more generally could not be justified on cost grounds.
Certainty	
Improve awareness of the business clearance facility and clarify the scope of the service and the alternatives available where the issue is outside the scope. (6.11)	We are currently reviewing and updating our guidance. We will use the publication of revised guidance later this year to raise awareness of this service, and how it can be used by small businesses to get the certainty they need in these circumstances.
Extending business clearances to improve coverage of VAT questions and incorporate written confirmation of rulings. HMRC needs to be able to give clear guidance on the VAT status of a new or unfamiliar product, which can be relied on by the business. (6.6/6.7)	VAT questions are included within the clearance process and the revised guidance will ensure that this is clear.
Improve the training provided for HMRC staff with a view to improving the quality (accuracy and consistency) of their answers so that businesses may have confidence in the information provided. (6.5)	We train our staff dealing with SMEs to understand small businesses particularly in terms of the commercial and business challenges they face in running a business. That helps us better understand where tax sits in terms of relative priorities for many SMEs – dealing with it is a necessity, but one that competes with other demands and concerns. In our (externally accredited) tax training, we build in scenarios that look at business decisions from the business's perspective, which helps our staff to better understand issues from the business's point of view. We are also currently developing additional material, with welcome input from external parties, such as the Law Society, CIOT and ICAEW, addressing how disagreements might arise and how they can be resolved. We also continue to invest in the professional and technical training of our staff.

Introduce a timetable for enquiry work settlements to be reviewed quarterly. (6.13)	We are currently piloting a new Single Compliance Process (SCP) will give a clearer view of how long the compliance check will take to complete. Subject to the evaluation of the pilot, we will roll out the SCP across HMRC, beginning in our Local Compliance division later this year.
Make checks to ensure that penalties have been suspended where appropriate. (6.15)	We are clarifying the guidance for caseworkers on suspending penalties and have almost completed a training programme for all caseworkers on the application of penalties for inaccurate returns.
Reducing the burden of specific obligations	
Make the default period end for a new unincorporated business 31 March or 5 April (7.18 and 7.19)	We have discussed this further with OTS and are exploring how their aims can be achieved.
Make paying tax easier: Facilitate reallocation of tax payments that have been allocated incorrectly e.g. through structured email. (7.4 and 7.5)	HMRC is committed to working with the business community and industry experts to make paying tax a smoother process. We are addressing the problems with payment allocation at source.
E-mail acknowledgement of payments received by HMRC (eg when online banking). (7.16.4)	From April 2012 the Business Tax Dashboard will enable businesses to see tax payments that have been received.
Facilitate payment of tax once a return has been submitted for example by having a direct link from the page which confirms a return has been submitted. (7.16.3)	Once a return has been submitted a direct link is available to the 'How to Pay' pages of the HMRC website (which we intend to review). We have established a working group in HMRC to work with SMEs and banks to make paying tax a smoother process.
Review the need to re-input user and password when making payment. (7.16.5)	HMRC's password security arrangements in payments follow industry best practice. This will, however, be kept under review as part of our work with the Government Digital Service.
Introduce an online facility to request duplicate personalised Bank Giro Payslips using a single click box. (7.16.1)	This will be considered by the HMRC payments working group in discussion with ABAB about relative priorities.

<p>Overhaul the payments screens which businesses see when they make online payments to make them easier to understand.(7.16.2)</p>	<p>This will be considered by the HMRC payments working group in discussion with ABAB about relative priorities.</p>
<p>Review national insurance processes for the self-employed, to</p> <ul style="list-style-type: none"> o include the collection of class 2 and class 4 as part of self assessment. or o Remove requirement for annual class 2 and 4 deferment applications and small earnings exception applications for those with class 1, 2 and 4 earnings which would result in overpayment of NI (7.41) <p>Consider converting the process to an online one.</p>	<p>Budget 2012 announced that HM Treasury will consult on detailed options for the integration of income tax and national insurance. This will include options for simplifying the collection and deferment processes for the self employed.</p>
<p>HMRC consider whether it is really necessary for employers to submit nil PAYE returns. (7.13)</p>	<p>OTS acknowledge that HMRC need to know a businesses PAYE position and we have put in place a facility for those who do not owe any PAYE for a period to notify us of that fact. We will look to see if the process can be simplified, in discussion with employers' representatives, but some form of notification is fundamental to the proper operation of the tax.</p>
<p>HMRC should review form P11D and underlying guidance (7.22) And recommends that (some at 7.28) :</p> <ul style="list-style-type: none"> o reimbursed expenses should be excluded from the form o consider whether reimbursed expenses and employee expense claims should both be included on the form o improve guidance notes on completion of the form o proactively encourage the use of dispensations o enable amendments online o consider introducing a simplified short version of the form for some users. 	<p>HMRC has recently carried out a review of the P11D process with employers and payroll providers. A number of improvements were identified, including many of those recommended by the OTS. Some of these improvements are already in train while others require investment and need careful consideration before we proceed.</p>
<p>Businesses should be able to choose a VAT stagger (quarterly return period) and elect for Flat Rate scheme as part of the registration</p>	<p>From November 2012 the Online Tax Registration Service will include VAT and businesses will be able to request their accounting period</p>

<p>process. (7.9)</p>	<p>(stagger) and apply to use the Flat Rate Scheme as part of the registration process.</p>
<p>Guidance on VAT international issues should be improved, and HMRC should provide more guidance to those businesses who may need to be registered abroad to help them find the right points of contact in the overseas authority. (7.34)</p>	<p>We acknowledge that information could be more helpful to SMEs who may be unfamiliar with cross-border VAT matters. In consultation with BIS, we will consider whether we can make any interim improvements, or provide any other guidance.</p> <p>The UK is supporting European Commission development of an EU Web portal that will give businesses easy access to key information about VAT requirements in each Member State (eg VAT registration thresholds, VAT rates, invoicing rules etc) – planned to launch 2013/14. In addition, by 1 January 2015 the VAT Mini-One Stop Shop (MOSS) will enable businesses making cross-border Business to Consumer supplies of telecoms, broadcasting and e-services (such as website supplies, computer software, DVDs etc) to register and account for the VAT on all their cross-border supplies in just one Member State – greatly simplifying their VAT affairs. We shall begin publishing further information about the VAT MOSS later this year and engaging with small businesses and their representatives on implementation issues.</p>