

Tax simplification: from policy inception to implementation

Policy briefing # 10

"Tax simplification is not something that can be considered in isolation, it needs to be a golden thread running through all areas of tax, from policy inception to implementation."

Tax simplification has been high on the agenda for a number of years. With large scale changes to the tax system imminent – not least from devolution and implementation of the OECD recommendations to update the international tax rules – tangible tax simplification risks being a distant dream despite the efforts of the Office of Tax Simplification (OTS). As we have worked through this series of papers, we have concluded that tax simplification is not something that can be considered in isolation, it needs to be a golden thread running through all areas of tax from policy inception to implementation.

This paper, the tenth and final in our series ahead of the Business Tax Roadmap, sets out the benefits that tax simplification can bring. It brings together the simplification policies we have proposed from other papers in this series, and underlines how important the tax policy making process is in capitalising on the opportunity that tax simplification presents.

We set out the importance of tax simplification, highlighting the distraction tax complexity causes for businesses of all sizes; and how tax simplification can enable HMRC's scarce resources to be put to better use, focusing on high risk rather than low value, highly complex areas and bring about greater public confidence in the tax system.

The importance of tax simplification

As the tax code becomes longer and more convoluted, it is harder for taxpayers to comply and for HMRC to enforce. The introduction and permanence of the Office of Tax Simplification (OTS) has been a positive step, recognising the importance of the issue and the scale of the challenge.

From the CBI's perspective the importance of tax simplification is threefold:

1. Complexity is distracting for firms wanting to grow their business
2. HMRC scarce resource could be put to better use, focusing on high risk rather than highly complex areas
3. An opportunity to bring about greater public confidence in the tax system.

Complexity is distracting for firms wanting to grow their business

The CBI has talked about the cumulative burden of recent policy measures facing businesses, adding £29bn over the course of the Parliament¹. However, this figure only counts the direct fiscal impact, and does not include the cost of compliance associated with new policy measures and indeed others already within the tax system.

Even where businesses might see merits in individual policies, most policy changes bring with them the need for businesses to invest in their tax teams and systems to ensure they are fully compliant with the new rules. This takes time and money away from more productive investment opportunities. Many businesses we speak to just want certainty about tax and stability in policy, and in a complex, ever-changing system it is very hard to obtain that certainty and stability.

“Policy changes bring with them the need for businesses to invest to ensure they are fully compliant with the new rules”

In 2014 the CBI and Grant Thornton² asked growing businesses whether tax slowed down their decision making. 45% of respondents agreed that the tax system got in the way of commercial decision making.

¹ <http://news.cbi.org.uk/news/9-billion-a-year-policy-burden-could-weigh-on-businesses-ability-to-deliver-jobs-and-investment-cbi-director-general/>

HMRC scarce resource could be put to better use, focussing on high risk rather than highly complex issues

In our view, an overly complex tax system is in no one's interest, not least the Government's. It makes it much more difficult to police to ensure taxpayers pay the right amount of tax at the right time. Even in the UK, with a compliant taxpayer population by international standards, the complexity makes it more difficult than is necessary.

HMRC is undergoing considerable change with staff numbers reducing. We are supportive of the changes necessary to make HMRC more efficient, but given the raft of complex tax changes on the horizon businesses are worried about whether HMRC will have the resources and capabilities to deal with these issues effectively.

If real simplifications are made to the tax system – reducing the number and length of interactions taxpayers require with the tax authority – we see some real opportunities for HMRC to capitalise on this, and focus resources on high risk, high return areas.

An opportunity to bring about greater public confidence in the tax system

The tax simplification agenda has a great opportunity to bring about greater public confidence in the tax system.

Some tax laws and regulations are unnecessary, and we are supportive of the role the OTS has taken so far to tackle this. By bringing greater public participation into the question of what a simpler tax system looks like and what the tax system should achieve there is even more potential for a simpler tax system to be achieved.

The speed of change often means the bigger questions get left on the shelf as too difficult to answer. As tax is often seen as an easy and quick policy lever, it is used to address a wide range of policy issues, resulting in a web of complex tax legislation. In the long run, more effective policy making (as we discuss later) and bringing the public into the debate should build a simpler and more effective tax system that all taxpayers trust.

² Stuck in the Middle: Addressing the tax burden for medium sized businesses, CBI, 2014

Policies to drive tax simplification

Through the CBI's comprehensive Business Tax Roadmap papers, we have identified a number of policies that we believe would drive tax simplification to the current tax system.

Paper #2: Building Trust in the international tax system

On building trust in the international tax system we said it was in everyone's interest that tax systems are understood and are perceived to be effective. We suggested more work could be done on simplifying intra-EU trading and ensure the EU tax directives remove cross-border double taxation. We also said that the UK system could be simplified by reducing the compliance burden to access cross border tax reliefs and tax rulings; remove obsolete or duplicative provisions following the BEPS project implementation; and harmonise the regulatory requirements for tax and those required by other regulatory bodies to reduce complexity and sharing of information between different UK Government departments.

Paper #3: Race to the top: Developing a Corporation Tax regime to support sustainable growth

We noted that the current rules on Capital Allowances were well understood, so would not advocate any major changes to the way in which the relief is obtained. There is scope to improve the effectiveness of Enhanced Capital Allowances to meet their full policy objectives. To side step their perceived complexity we propose aligning qualification with external standards such as BREEAM.

The CBI has been a longstanding supporter of getting rid of 'tax nothings'³, items of genuine business expenditure, often sundry in nature, that do not qualify for tax relief. We have also argued that greater simplification can be made through abolition of the schedular system with its separate sets of rules for different classes of income, removing restrictions on the utilisation of losses, alongside an elective group taxation regime. With proper consultation, a consolidated group taxation regime would remove the need for UK/UK transfer pricing, group payment arrangements and group relief. This less burdensome type of corporate tax regime is widely available among the UK's main competitor jurisdictions.

Paper #4: A vision for a simpler, fairer, more competitive business rates system

The business rates system is often a barrier to entrepreneurship so we have argued that businesses with a 'rateable' commercial property value of less than £12,000 should be removed from the system altogether.

Paper #5: Employment taxes to support job creation and attract global talent

The volume and timing of change on the employment taxes front has created a lot of complexity. The CBI is supportive of alignment of Income Tax and National Insurance, and sees benefits to ultimately a full merger. Smaller businesses find operating two systems challenging and is often a barrier to taking on the first employee. Consideration to move the tax year in line with the calendar year would put the UK in line with international competitors, and ease difficulties in accessing double tax treaty reliefs and reduce administration apportioning income and reliefs by the number of days.

Paper #6: Tax devolution: making growth the goal

In this paper, we argue that devolved nations' tax collection regimes should be simple and effective for businesses. New tax authorities should work with HMRC on how devolved taxes can support not impede business operations, in particular avoiding duplicated function and activities. Any major changes to devolved tax rules should be based on UK coordinated consultation allowing sufficient time to develop consistent and fair compliance frameworks, for example a UK wide approach to DOTAS and GAAR. The OTS should be empowered to comment on changes to taxes by devolved governments to highlight whether the risks outweigh the potential benefits.

Paper #7 Indirect taxes: improving the business environment at no cost to government

There is opportunity to simplify the tax collection of indirect taxes to ease the compliance burden these taxes present to businesses. We argue for harmonisation of VAT rules at the European level over the longer term to help supercharge the single market. An EU-wide VAT threshold aligned with the maximum €100,000 permitted by the EU would help exempt

³ UK business tax: a compelling case for change, CBI, 2008

many SMEs. Alternatively, consideration should be given to allowing suppliers to follow the VAT rules in their country of establishment. These are the rules most small businesses are familiar with and therefore able to comply with. A single mini one stop shop (MOSS), which allows for a single VAT payment for all cross-border transactions by a firm within the EU can significantly improve the business environment for UK exporters. MOSS supported by an easily accessible and user-friendly database providing information on different VAT rates and rules would be valuable for all sizes of businesses before any of the more fundamental proposals take place.

Paper #9: No Holding Back – how the tax system can support scale-ups with their growth ambitions

The growth orientated business community, those who are ambitious to employ, to export and make profit, want to see tax simplification and a reduction in compliance.

In this paper we argue that the moves towards the digital agenda by the Government must keep simplification in mind, and take account of the actual processes involved for businesses in paying tax. The earlier businesses have full clarity over what the quarterly update involves, the better. We also argue that existing Government incentives should help growing 'scale-ups' in managing cash-flow. For example, allowing smaller firms below Quarterly Instalment Payment thresholds to benefit from the R&D Tax Credit as they innovate, rather than waiting until the end of the tax year.

Embedding tax simplification in the policy making process

A clearly articulated vision and effective legislative process that promotes predictability, stability and simplicity was the CBI's starting point for the Business Tax Roadmap, through our first paper, *Vision and process in tax policy making: key ingredients for investment*.

There is enormous potential to simplify the tax system to ensure it minimises the burden on businesses of all sizes. The formation of the OTS during the last Parliament and the permanence of the Office has been a welcome step. We look forward to working collaboratively with the OTS and the Government to ensure reforms to the tax system minimise the burden of complying with the tax system.

“...fresh impetus needs to be given to simplification as a key objective in the formulation of new tax policy”

However we believe that fresh impetus needs to be given to simplification as a key objective in the process of formulating new tax policy. There may be merit in considering whether there is an increased role for the OTS at the start of the tax policy making process, assessing policies on a real-time basis, to alleviate what we fear is a perpetually complex tax system.

A policy making process that embeds simplification will go a long way to creating a tax system that is easy to navigate, encourages long-term investment in the UK, and ensures the UK is seen as a good place in which to do business.

For further information or a copy in large text format, please contact:

Rhiannon Jones, principal policy adviser, CBI

T: 020 7395 8234

E: rhiannon.jones@cbi.org.uk

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