

Tax Administration Conference 2016

Practical Tax Simplification

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<https://www.gov.uk/government/organisations/office-of-tax-simplification>

Practical Tax Simplification

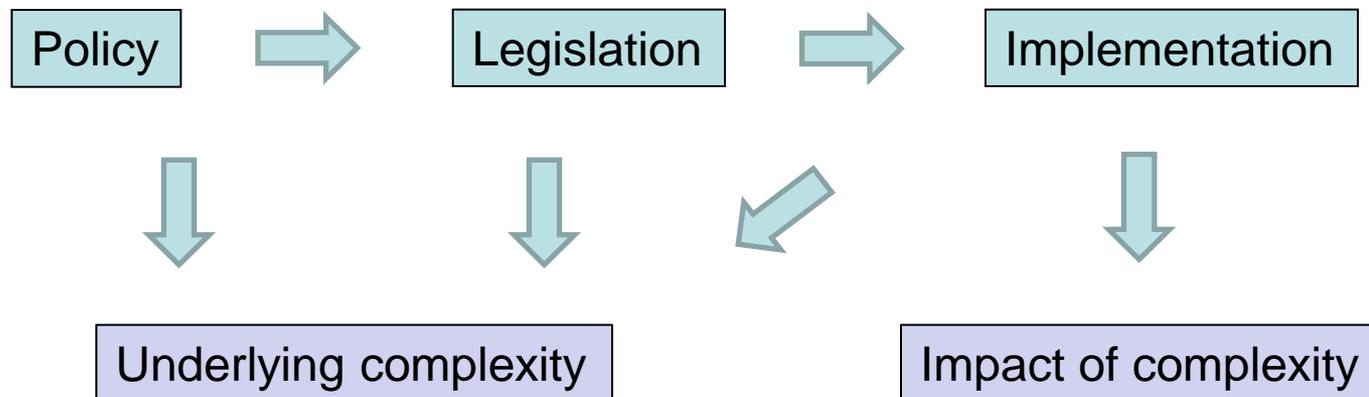
- 1.Aspects of tax complexity
- 2.Introduction to the UK's Office of Tax Simplification
- 3.Some examples of its work
- 4.Has it made any difference?
- 5.Does Australia need an Office of Tax Simplification?

Aspects of tax complexity

- What do we mean by tax complexity?
 - the **inherent design of the tax system**, the laws and rules that define the rates and scope of taxes paid by people and businesses at home and abroad.
 - the **administrative processes**: information and tax returns, payments and audits.
- The dictionary defines “complex” as “**difficult to understand**” or “**made up of many connected parts**”.
- OTS favours “**usability**” – we look at the users of the tax system. Can they realistically understand and do all that they have to in order to comply?
- Professor David Ulph distinguishes between “**necessary complexity**” and “**unnecessary complexity**”

Aspects of tax complexity

Complexity in one part of the system will often (but not always) lead to complexity in subsequent parts, as a complex policy invariably requires complex legislation, which may need to be interpreted into a complex administrative process. The administrative process is usually (but not always) the key interaction with the user.



Necessary complexity

- Political/social aims
- Economic aims
- Fairness
- Certainty
- Avoidance
- Boundaries/definitions
- Low cost processes for collection and enforcement
- Change

Unnecessary complexity

- Too many taxes
- Too many reliefs and deductions
- Too many boundaries and “cliff faces”
- Trying to cover every possible situation
- Asking for unnecessary information
- Excessive change

Why is tax so complicated?



Lobbyists want tax concessions and special treatment



Tax policy makers can have a complexity mindset, producing legislation based on government's needs and culture, not the users' needs



The media use tax to sell papers, and are interested in controversy not detail

Tax complexity is caused by **people** with a vested interest in complexity



Tax advice industry can drive complexity and makes money out of it



The tax system has evolved over 200 years, and has been stretched to cover things it was never intended to.



Tax is highly politicised. Politicians use it to deliver political, social and economic aims. They want good news stories and to avoid "losers".

Why bother about tax complexity?

It doesn't really matter

- The tax system seems to work – it brings in the money
- IT can hide underlying complexity
- Tax has always been complex, it's not going to go away
- There are bigger regulatory burdens – employment law, health and safety, pensions
- Complexity can help disguise tax rises or unfair taxes, or lead to people paying too much tax
- Complexity keeps the tax world in a job – revenue officials, tax advisers, lawyers and academics

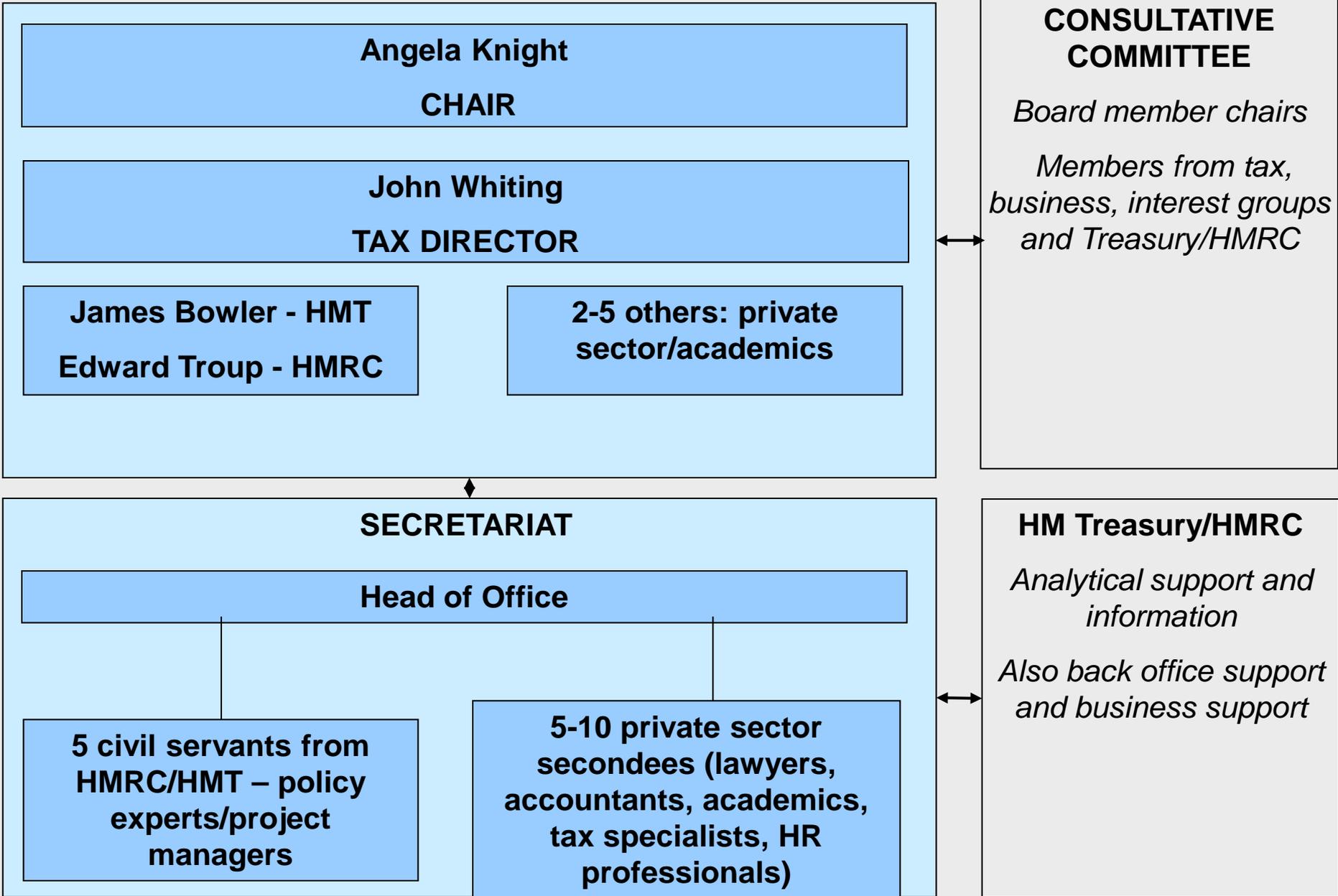
It matters

- There is a substantial economic cost to tax complexity, but it is hard to estimate
- Greater complexity creates more errors and higher Government administration costs
- Complexity creates more opportunities for tax avoidance
- Research suggests people are more likely to comply if they understand their obligations and feel good about the tax system
- Tax complexity wastes the lives of some very talented people

The UK Office of Tax Simplification

- A completely independent Office of Tax Simplification was recommended by ex-Chancellor Geoffrey Howe in a 1998 speech
- This was picked up by the Conservative-backed Forsyth Review in 2008
- 2010 Manifesto commitment by Conservatives to establish the OTS
- 2010 Con/LibDem Coalition Agreement established the OTS as an arm's length body of HM Treasury for the lifetime of the Parliament
- 2015 Conservative manifesto promised to expand the role and capacity of the OTS and make it permanent.
- 2016 Finance Act sets up the permanent Office of Tax Simplification on a statutory basis

The Office of Tax Simplification – Organisation Chart



OTS Projects 2010-2015

Finished:

- (1) Tax Reliefs – completed March 2011
- (2) Small business taxation – 2012
- (3) Pensioners – completed March 2013
- (4) Share schemes (two stages) – completed March 2013
- (5) Employee benefits and expenses – completed July 2014
- (6) Tax penalties - completed October 2014
- (7) UK Competitiveness – completed December 2014
- (8) Partnerships – completed January 2015
- (9) Employment status – completed March 2015

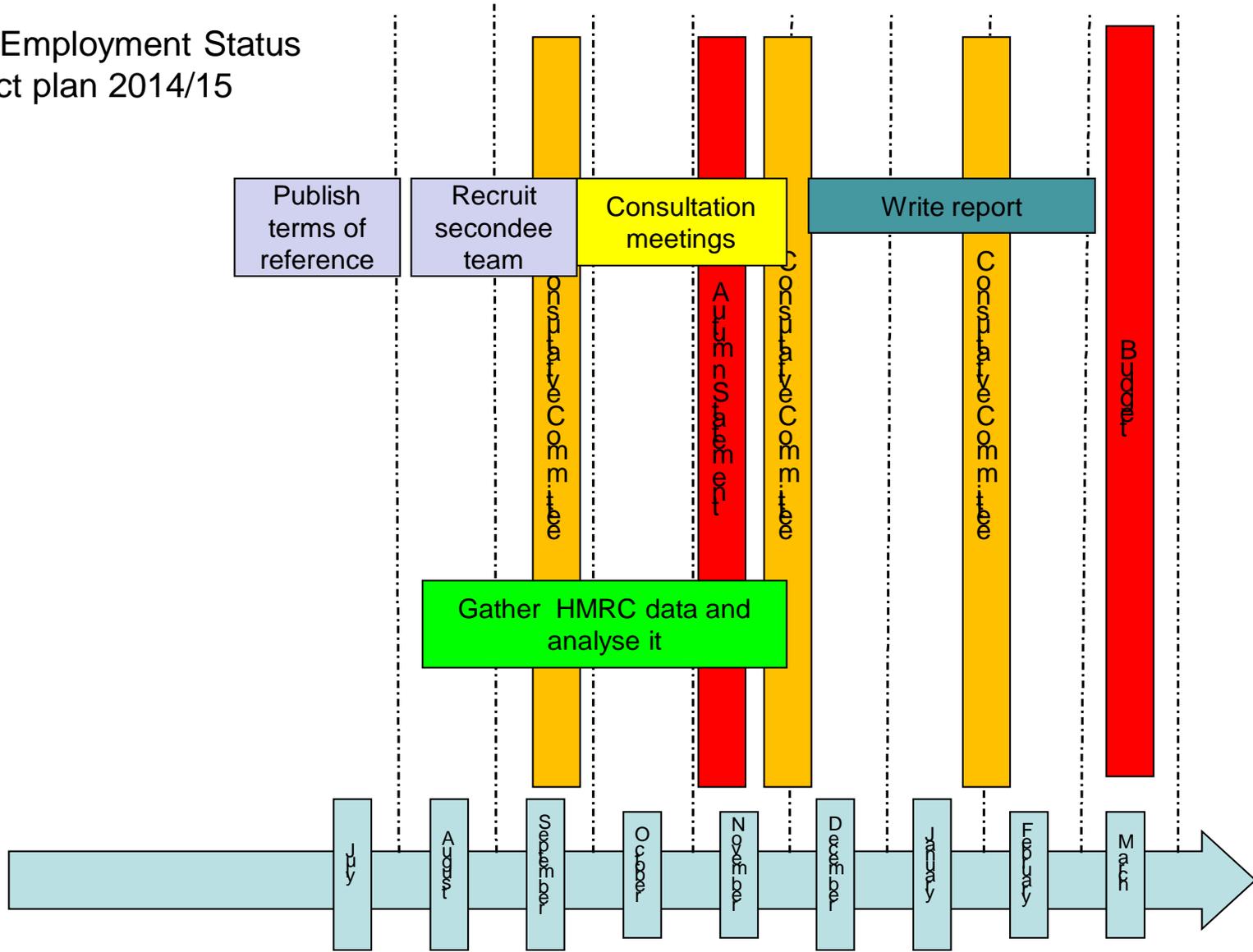
Ongoing:

- (10) Tax complexity (*exploring the causes of complexity and measures of complexity*)
- (11) Income tax/national insurance alignment
- (12) Small company taxation

OTS project methodology

- projects take 6-24 months and terms of reference are agreed with Ministers beforehand
- 4 main stages are scoping, evidence gathering, analysis, report writing
- Wide consultation: typically 50+ meetings around the country, meeting 1,000 people
- Also analyse HMRC internal and public data
- All pulled together in evidence-based practical recommendations, working closely with HMRC/HMT.
- Sometimes external research is commissioned, or informal surveys are used.

OTS Employment Status project plan 2014/15



Tax Reliefs project

In 2010, the UK had 1,042 tax reliefs and expenditures.

The Chancellor asked the Office of Tax Simplification to carry out a review of these reliefs, recommending which to retain, simplify or abolish.

“The creation of reliefs or exceptions in the tax system can add to complexity. Consistent with the broader regulatory reform agenda, the Government will consider proposals for new reliefs carefully, and will want to satisfy itself that there is **a strong and proven case**. To help inform these decisions, the Government **will develop a framework for the introduction of new reliefs**. It also proposes to make greater use of **sunset clauses** and **post implementation evaluation**...”

HM Treasury, Policy Making – A New Approach (2010)

The OTS reviewed 155 reliefs in detail, and recommended that 54 remain unchanged, 37 be improved, 17 simplified, and 47 abolished

Tax Reliefs project

“Most tax reliefs exist to make the tax system fairer and simpler, and tax reliefs can be important tools in ensuring that the Government is able to use the tax system to achieve wider policy objectives... But all exemptions must be paid for by other taxpayers, and, in the long term, reducing the number of exemptions in the system will lead to a simpler and more stable tax system with lower headline rates.

In Budget 2011 we announced the withdrawal of 43 tax reliefs. This will remove over 100 pages of tax legislation, and is a significant reduction in complexity.”

Tax Reliefs project

By 2015, the UK had 1,156 tax reliefs and expenditures, a net increase of 114.

“HM Treasury and HMRC do not keep track of tax reliefs intended to change behaviour, or adequately report to Parliament or the public on whether tax reliefs are expensive or work as expected. We found some examples where HMRC and HM Treasury proactively monitored and evaluated tax reliefs, but in general the Departments do not test whether their aims for the reliefs are being achieved.”

Amyas Morse, head of the National Audit Office, 21 November 2014

Improving UK tax competitiveness

‘What the government can do to further improve competitiveness of the UK tax administration....with particular regard to World Bank ‘Paying Taxes’ report...particular focus on SME sector ’

World Bank paying taxes

Three indicators: Total tax/time to comply/number of payments

Work programme:

- Recruited the former Head of Tax at Tesco plc and a SME tax specialist
- Initial thoughts & call for evidence published with Budget in March 2014:
- Extensive series of meetings (c60: April-July), met most of FTSE 100 plcs
- Researching particular issues, other countries etc.
- Report published October 2014, Government response in December

Improving Tax Competitiveness: Top 10 recommendations

Corporation tax/income tax

1. Align tax and accounting profits...(eliminate tax nothings, capital allowances - are they worth it? corporate capital gains: necessary?) **(Consider)**
2. Trading/investment distinction – abolish **(Consider)**
3. Debt cap, transfer pricing – streamline **(Consider)**

VAT

4. Greater certainty needed: boundary issues, rulings **(Accept)**

Payroll taxes

5. Income tax/National insurance harmonisation **(Consider)**
6. Real Time Information process – review including ‘on or before’ **(Accept)**
7. Extend short term business visitor rules **(Consider)**

HMRC administration

8. Extend Customer Relationship Manager model **(Reject)**; explore how to give greater certainty to smaller businesses **(Consider)**
9. Continue to improve call centre times etc; e mail service needed **(Accept)**
10. Single tax account service for small businesses **(Accept)**

...50 recommendations in all...49 being taken forward

Employee Benefits project

- Aim was to look at the tax rules of all employee fringe benefits and allowable expenses.
- The review took over 2 years – three reports were published.
- The main outcome was a radical reform to the process of reporting employee benefits to HMRC.
- Other policy changes were the introduction of a statutory de minimis benefit, and the abolition of different rules for employees earning under £8,500 a year.
- A thorough review of accommodation benefits was recommended, but politically difficult to implement.
- Aligning tax and national insurance on termination payments – partially adopted in Budget 2016

The Office of Tax Simplification – has it made any difference?

- 402 recommendations in 2010-2015 (60 ‘big picture’, 342 other)
- around 54% accepted wholly or partly, 24% under consideration
- (45% of the big picture proposals were partly or wholly accepted)
- Proposals included policy, legislative and administrative changes
 - Merge tax and national insurance
 - Introduce a cash accounting basis for small businesses
 - Introduce a self-certification process for employee share schemes
 - Improve clearance procedures for VAT
 - Carry out a full review of tax allowances for travel and subsistence expenses
 - Radical reform of the process for taxing employee fringe benefits

The Office of Tax Simplification – has it made any difference?

- It has punched above its weight: In 2010-15 the total operating cost of the OTS was £1.7 million. The estimated value of free secondees was £500,000, and HMRC/HMT costs in implementing OTS reviews was estimated at around £5 million.
- The OTS has raised the profile of simplification in HMRC and HM Treasury and given it a greater focus. Anecdotally, it has acted as a “conscience” for ministers.
- It has helped build stronger relationships between tax officials and the tax profession, with both sides gaining a better understanding of the other.
- It has developed practical expertise in tax simplification that is attracting interest around the world.

The Office of Tax Simplification – has it made any difference?

- It hasn't stemmed the tide of tax legislation: In 2010-2015, UK tax legislation grew by an average of 900 pages a year
- It hasn't abolished any taxes: In 2010-2015, one tax was abolished (bank payroll tax) and 3 new taxes were introduced (bank levy, annual tax on enveloped dwellings, diverted profits tax)
- It hasn't reduced the number of tax reliefs: In 2010 there were 1,042 tax reliefs, in 2015 there were 1,156
- It hasn't made much impact with the public: After an initial flurry of interest, its media profile has been low, and some commentators have criticised its apparent lack of activity.

The OTS – improving the model

Strengths

- Independence
- Public/private sector mix
- Strong links to HMT/HMRC policy advisers and analysts
- Confidence of tax profession
- Wide consultation
- Buy-in from Ministers
- A focus on practical proposals
- Quality of work

Weaknesses

- Too small
- Remit is restricted to stock of legislation, no ability to influence new policy
- Only an advisory role
- Public sector staff too junior
- High turnover of staff
- Can be difficult to attract staff to some projects
- Low media profile

Lessons from the OTS: How do we make tax simplification work?

1. Understand who holds the keys to tax simplification and **persuade them it is worthwhile** for them.
2. **Engage with Government** and stay engaged. Otherwise nothing will happen.
3. Quickly establish and maintain your **credibility** with Government, senior officials, the tax profession and the media.
4. **Choice of personnel** is absolutely essential.
5. **Move quickly** – reforms need to fit into the political cycle.
6. **Keep momentum** – early and regular success maintains the profile of simplification and credibility of the office.
7. Don't be too ambitious – **aim for bite-sized chunks** that can be implemented relatively quickly.
8. Anticipate and **engage with likely “losers”** – understand their issues and try to mitigate them if possible.
9. **Challenge the status quo** in a forensic and professional way, informed by balanced evidence and practical taxpayer experience

Does Australia need an Office of Tax Simplification?

The history of tax simplification in Australia hasn't been very inspiring – why has it gone so badly?

Do Australians really want tax simplification?

- Politicians
- Treasury/ATO
- The media
- The public

What is currently happening?

- Tax reform programme looking at policy
- Reinventing the ATO to be “contemporary and service-orientated”
- MyTax – streamlining tax for simple businesses

Does Australia need an Office of Tax Simplification?

- Does simplification need new impetus/focus?
- Could it be done using existing structures?
 - Australian Treasury/ATO
 - Board of Taxation
 - Inspector General of Taxation
 - Productivity Commission
- Factors to consider, based on the OTS experience
 - Constitution – how independent should it be? Does it need a statutory basis?
 - Remit – policy, administration, or both? Existing policy only, or a role in new policy? Advisory only?
 - Size and funding – what is the optimum size?
 - Staffing – how do you attract the best public and private sector people?
 - Managing the media and public expectations
 - Propriety and conflicts of interest
 - Where do you start? Small business tax? CGT? GST? Negative gearing...

And finally...

‘The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing’

Jean Baptiste Colbert

