

IFA REPRESENTATION 05/21



The IFA welcomes the opportunity to provide feedback to the Call for Evidence: Review of the Office of Tax Simplification published by HM Treasury on 12 May 2021

We would be happy to discuss any aspect of our comments and to take part in all further consultations in this area.

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1. Purpose

The views contained in this report are those of the IFA as a body and do not represent the views of any one person. Feedback was taken from a number of IFA members and supporters to form the basis of this report.

We have also taken account of the evidence presented by the Office of Tax Simplification (OTS) to feed into the [2021 Statutory review of the Office of Tax Simplification](#), and comment on that evidence where appropriate below.

2. Executive summary

The reforms the IFA would like to see for the OTS are:

- The OTS to be given a formal role in the tax consultation process for all proposed changes in tax policy and changes in tax compliance mechanisms.
- Appointments to the OTS board and staff to be made independently of government.
- Include experts from non-tax disciplines on OTS staff
- The OTS to be given the authority to access all government data without having to justify its need for that data.
- Treasury Ministers to respond publicly to all of the OTS reviews and give either:
 - Reasons why particular OTS recommendations are rejected or will not be taken forward at this time.
 - The next steps for implementation the OTS recommendations that are accepted.
- Rename the OTS to align the name with its advisory role
- Highlight the work of the OTS to the wider public and indicate the changes it has achieved alongside the recommendations which have been left on the shelf.

3. Detailed response

Role of OTS

The mission of the OTS is to speak publicly with an independent voice about tax simplification. It is an adviser to government, but not an independent policy think-tank.

There is a view that the OTS should make more powerful and direct statements about how tax policy could be changed to make the outcomes for stakeholders easier to understand and simpler to comply with.

The OTS cannot change tax policy - that is the role of government ministers. However, there are often many alternative options for the implementation of tax policy which can either further complicate the tax system for stakeholders, or provide a simple mechanism that aids compliance. The design of tax policy cannot be completely divorced from implementation mechanisms.

If the OTS was to be consulted during the formation of tax policy it may be able to avoid implementation mistakes such as those relating to The High-Income Child Benefit Charge (**HICBC**).

Suggested reforms

- Give the OTS a formal role in the tax consultation process for all proposed changes in tax policy as well as changes in tax compliance mechanisms.

Independence

The OTS is a valuable source of advice to HM Treasury, but it also creates tax research which could be used by regional governments and for other academic tax researchers. However, it must be seen to be independent of HM Treasury and HMRC, otherwise the recommendations it makes could be regarded as been biased to some degree.

The current structure of the OTS has a tendency to undermine its independence. The OTS needs to be able to speak truth to power without restrictions.

The OTS staff are employees of HM Treasury and as such are presumed to be within the employee evaluation system for the Treasury and the Civil Service. This may put some unseen pressure on staff to avoid asking difficult questions of civil servants who hold more senior roles within the Treasury or in other Government departments.

The Chancellor of the Exchequer is responsible for the appointment of the OTS Chair and Tax Director and for appointing senior HM Treasury and HMRC executives to the OTS board. In addition members of the eight-member OTS board are appointed by the Chancellor after nomination by the OTS chair. Recently vacancies on the OTS board have been filled through an open recruitment process.

The close integration of the OTS staff and board with HM Treasury and Ministers means that the staff and board may come under pressure to change or modify parts of its reports which are likely to be unpalatable to Treasury ministers.

The OTS has not recruited staff from other disciplines such as data scientists, behavioural science or tax technology experts, although it has made use of academic research in areas such as wealth distribution. The OTS has also commissioned external research analysis where government data is not available, such as on the number of people who have multiple employments or self-employments.

Suggested reforms:

- All members of the OTS board to be appointed after an open recruitment process.
- OTS staff to be employed independently by the OTS and not be part of the Treasury structure.
- Review the OTS staffing model and take more people on secondment from the private sector as well as from non-tax disciplines such as economics, technology and behavioural scientists.

Powers

Tax policy that achieves its aims through simple and effective compliance mechanisms can only be built on a solid base of reliable and detailed data. The OTS collects the data for its research through a variety of ways including research groups, surveys, and formal consultations.

Data held by HM Treasury and HMRC as well as other government departments such as DWP, BEIS and DEFRA is key to the OTS research. The Knowledge, Analysis and Intelligence Directorate (KAI) controls much of the government data that the OTS may wish to use.

The OTS needs to have open access to government data held within all government departments and by KAI which is relevant to tax research. At present the access to such data on a timely manner depends on HM Treasury and HMRC staff facilitating access for the OTS. This sets a barrier in the way of the OTS to complete an independent report on the scope of a particular tax issue and to cost suggested changes to policy or procedures.

Suggested reforms:

- The OTS should be given access to government data without having to justify its need for that data, or to rely on assistance being provided by HMRC or HMT for access.

Transparency

The general public, and accounting professionals who are not closely involved with the OTS, tend to believe that that role of the OTS is to simplify the tax system, but that is not strictly the case.

The role of the OTS is to advise HM Treasury and Ministers on aspects of the existing tax system which could be simplified, but it has no powers to make those suggested simplifications happen. It also has no official role in shaping new tax policy to make it simple from the start.

The experience of ordinary taxpayers when interacting with the tax system leads them to believe that tax is becoming progressively more complex and the administration of tax is more difficult to navigate. The common view is thus that the OTS has failed in its role as a simplifier of the tax system.

In truth the OTS has achieved much with small and significant changes to the tax system, such as implementation of the cash basis for self-employed businesses. However, those simplifications are drowned out by new complexities added to tax policy and processes by each new Finance Act.

The OTS has also produced reports on large and complex problems in the tax system such as the closer alignment of income tax and NIC, the corporation tax computation, and capital gains tax. Such big picture reports can prompt government to consult on specific details to change, such as it has done on VAT partial exemption.

The OTS publishes an [index of all the reports](#) it has produced since its inception, including links to the government responses to each report. Treasury ministers are only required to respond to OTS reports which it has commissioned and not to every OTS report.

This index of reports is a useful resource but it does not give the reader an understanding of how much of each report has been actioned or rejected. It would be useful to have a rolling log of recommendations from each report as to what has been actioned, what aspects have been ignored, and whether the OTS conclusions in the report now need updating. There are a number of reasons why the OTS recommendations are not actioned including; cost/ benefit analysis, resource constraints at HMRC, Parliamentary time, and technology restrictions. All of these reasons can change over time or with a change in government.

Suggested reforms:

- Rename the OTS: “Advisory board on tax simplification”. This name would more accurately reflect what the OTS can achieve.
- Give more prominence to the index of OTS work, highlighting areas or reports which have not been actioned or which need updating.
- Require government to respond to every OTS report in a timely manner.

Contact details

Should you wish to discuss our responses further, please contact Anne Davis, Director of Professional Standards, by email at anned@ifa.org.uk