



Association of Accounting Technicians (AAT) response to the HM Treasury Review of the Office of Tax Simplification

1. Introduction

- 1.1. Association of Accounting Technicians (AAT) is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide.
- 1.2. Of the full and fellow members, there are more than 5,000 licensed accountants who provide accountancy and taxation services to over 500,000 British businesses.
- 1.3. Approximately 60% of AAT's members work for or own their own small business and its licensed accountants provide tax and accountancy services exclusively to individuals and small businesses. At the other end of the scale, 80% of the FTSE 100 has an AAT apprentice working within its finance function.
- 1.4. The work of the Office of Tax Simplification in simplifying the tax system is therefore of considerable interest and highly relevant to AAT and its members.

2. Executive summary

- 2.1. **AAT believes that the OTS has proven itself as a very successful adviser on tax reform and would therefore like to see it provided with additional resources to enable it to make an even greater contribution.**
Given the huge array of taxes there is no shortage of areas on which the OTS could be set to work to make improvements but it is currently only able to look at a limited number of issues given its limited resources.
- 2.2. **AAT would like to see the OTS become involved in the development of new taxes rather than looking exclusively at existing tax reform.**
This should help minimise complexity and increase effectiveness but again would clearly require additional resources.
- 2.3. **The OTS board may be enhanced with the addition of a professional with considerable communications experience.**
This is because of the clear need to both effectively communicate the recommendations it makes and to raise awareness and understanding.
- 2.4. **Whilst some may have concerns around the independence of the OTS, these are not shared by AAT.**
The OTS guards its independence rigorously and has successfully demonstrated this impartiality with every report produced.

3. AAT response to the consultation paper

What do you think the functions of the OTS should be? Why should they be a priority for government?

- 3.1. The primary function of the OTS, to provide advice on tax simplification to HM Treasury Ministers both on request and as the OTS considers appropriate, is one that it has met and appears to work well. It is essential because without such advice it is unlikely that many of the tax simplifications that have taken place over the last decade would have occurred – meaning taxpayers would have faced unnecessary complexity and wasted time and energy seeking to do nothing more than pay the right amount of tax at the right time.

- 3.2. AAT notes that the OTS also takes into account the potential impact of options it puts forward on the Government's other objectives for the tax system, especially with regard to revenue implications. This may be something that it could expand on going forward given the nation has amassed a £400bn Covid-19 related debt, that this has already pushed national debt beyond 100% of GDP for the first time since 1961¹ and it now stands at more than £2 trillion for the first time in British history.

How have you understood the OTS to interpret their remit (or in other words define 'tax simplification') and does this match your own interpretation of the OTS's remit and definition of 'tax simplification'? If not, how does this differ?

- 3.3. In its simplest form, "simplification" means making something easier to understand. The OTS quite rightly take a wider view and interpret their objective as not just making tax easier to understand but seek to reduce compliance burdens on businesses and individual taxpayers – something AAT very strongly favours.
- 3.4. Much is made of the fact the tax code more than doubled in length between 1997 and 2005² and that the UK has had the largest tax code in the world since 2009 when it overtook India in that regard.
- 3.5. This phenomenon has also misleadingly been used as a criticism of the OTS. The argument being that as the tax code has lengthened since the OTS was created, it has clearly failed in its objective to simplify taxation. Such criticism fundamentally misunderstands the remit of the OTS or much of its good work over the years.
- 3.6. Whilst the length of the tax code may be far from ideal, AAT contends that it is not a useful measure of success as far as the end user, i.e. the taxpayer, is concerned. The most important issue is simplicity from the taxpayers' perspective, not from the perspective of an accountant or tax expert.
- 3.7. A smart phone is easily used by hundreds of millions of consumers but very few of them have any understanding of how the 1,500+ component parts actually work. The complexity of its workings in no way prevents the user from having a simple and easy to understand experience.
- 3.8. Similarly, as the OTS review of tax reliefs in 2010 concluded, longer legislation can often be clearer and easier to use and, "...in general terms the length of the legislation does not add to complexity, although there are some exceptions."³

Do you think the OTS has the right breadth of expertise on its board? If not, what sectors need additional representation and why?

- 3.9. The OTS board has very strong board members with considerable experience in their chosen fields. However, a Board of only four individuals is very small and may mean there is not sufficient breadth. For example, there is probably room for a communications professional to join its ranks given the need to effectively communicate its analysis, recommendations and results to broaden support for its activities, demonstrate its independence from government and minimise misrepresentation in the media and by policymakers as has occurred on a number of occasions, for instance with regard to the recent CGT report published in 2020.
- 3.10. Doubling the number of Board members to 8 or at least increasing it to 6 would undoubtedly strengthen the breadth experience of and the value it can offer

¹ Office of National Statistics, July 2020:

<https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance>

² The Times, September 2005:

<https://www.thetimes.co.uk/article/tax-law-doubles-in-size-under-browns-chancellorship-0pq2m3jmsj5>

³ Length of Tax Legislation as a measure of complexity, OTS, April 2012:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/603470/OTS_length_of_legislation_paper_published_Apr12.pdf

Given its role as the Chancellor's independent adviser on tax simplification, do you think the OTS is sufficiently independent from government?

- 3.11. The OTS probably is sufficiently independent in practice but perhaps less so in appearance. This is because of both the location of the OTS and the fact that many of its staff are on secondment from HMRC and HM Treasury.
- 3.12. To relocate simply for the purposes of increasing the appearance of independence would not be a good use of taxpayer's money. Likewise, access to HMRC and HM Treasury staff is an undoubted positive, especially when combined with the wide range of external stakeholders that the OTS engages with.
- 3.13. The OTS service level agreements (SLAs) appear to be fairly standard practice. Similar SLAs exist with executive agencies like the Valuation Office and Adjudicators Office but also independent organisations like the Adjudicators Office. The existence of a Memorandum of Understanding (MoU) in relation to data access in no way compromises independence, indeed most professional accountancy and tax bodies, AAT included, have MoUs with HMRC but that has never in any way led to questions about independence.

Can you give examples of OTS work which you felt was particularly successful, or alternatively, where you would have liked the OTS to have taken a different approach?

- 3.14. One of the very first reports of the OTS, reviewing tax reliefs, could be deemed successful given it directly led to dozens of reliefs subsequently being abolished. However, the same report was largely ignored on big issues like IR35 and merging tax and NICs.
- 3.15. This appears to be a frequent pattern followed by Government i.e. accept straightforward recommendations for reform from the OTS but park more challenging issues in the "too difficult" pile. Government could perhaps better utilise the OTS reports as justification for action, citing their evidence base, impartiality and expertise as strong foundations for implementing more OTS recommendations than has been the case to date. This would also help to increase visibility of the OTS and further enhance its credibility.

Does the OTS engage with, and consider the views of, an appropriate number and variety of stakeholders when conducting a review?

- 3.16. Yes. The introduction of online public surveys has been a welcome addition and proved successful as demonstrated by the 3,000+ who participated in the OTS survey on Inheritance Tax. This also evidences the high level of public interest in certain areas of the tax system.
- 3.17. With regard to tax experts, AAT has been pleased to engage with the OTS on numerous occasions and knows that most other professional bodies do the same.
- 3.18. Furthermore, AAT is aware that engagement extends well beyond professional bodies to academia, business groups and a wide range of individual experts.

Who do you think OTS reports focus on recommending simplifications for? Who should the OTS focus on offering simplifications for?

- 3.19. The existing OTS principle to, "*make recommendations which affect the greatest numbers of taxpayers on the largest number of occasions*" appears perfectly reasonable and is very much supported by AAT. That said, where obvious simplification opportunities exist in niche areas there is no reason why these could also not be made and are allowed for given the second principle of the OTS relating to quick wins.
- 3.20. In essence the current approach appears to work well and should be maintained.

To what extent should the OTS take account of wider policy objectives outside of simplification and the impacts of suggested changes on households and businesses, when making recommendations to government?

- 3.21. AAT is supportive of the OTS approach to simplification. However, there are two factors that AAT believes must always be taken into account in addition to simplification, when proposing recommendations for tax reform.
- 3.22. AAT notes that the Call for Evidence references the fact that changes to simplify the tax system are part of wider tax policy decisions and need to be considered alongside other objectives including the promotion of fairness. AAT very much agrees but would suggest an additional consideration – effectiveness.
- 3.23. The simplest taxes may not be the fairest and vice versa, and similarly the most effective (in terms of revenue raising) may be neither fair nor simple.
- 3.24. Recognising these often competing interests, AAT believes that striking the right balance between these three objectives, which the Call for Evidence rightly highlights as often being in tension, is essential to success.
- 3.25. Following on from these tensions, what makes perfect sense economically may not make any sense politically and this is also a considerable challenge for the OTS.
- 3.26. Such decisions about political acceptability must remain for Government to consider rather than the OTS, although there is nothing to stop the OTS from at least highlighting such realities.
- 3.27. In addition to the above, an increased focus on the interaction between taxes might be helpful rather than focusing solely on single heads of taxation to replicate HMRC/Treasury silos. This was successfully achieved with the OTS business life cycle review but could be adopted elsewhere. For example, the interaction between IHT and CGT rather than two separate reviews.

Can you provide examples of where you think the work of the OTS has led to genuine improvements regarding simplification for taxpayers, and if so, for which groups of taxpayers?

- 3.28. Several years ago, the OTS examined both approved and unapproved share schemes and recommended changes that were subsequently accepted and benefitted the UK's 2m+ employee shareholders.
- 3.29. Similarly, the recent review into claims and elections should see HMRC improve the functionality of the personal tax account and the business tax account as well as ensuring HMRC improves its online forms and supporting guidance. This will have a significant impact on hundreds of thousands of taxpayers, both personal and business.

How influential do you think the OTS is, including regarding:

- a) political decision-making**
- b) policy development**
- c) public debate in the media**
- d) academic or tax specialist debate**

- 3.30. AAT believes that the OTS is influential in relation to political decision making, very influential in relation to policy development and successful in prompting and developing academic and tax specialist debate.
- 3.31. The OTS has certainly prompted public debate in the media, notably around IHT and CGT but has had less success in proactively shaping and guiding such media debate.
- 3.32. Given the Chancellor is obliged to publicly respond to OTS reports that have been instigated by the Treasury, it would make sense for the same obligation to exist with regard to reports that the OTS has itself instigated.
- 3.33. Ending this anomaly would enhance the policy making process as well as political decision making and in addition, could positively impact public debate in the media.

Are there any particular issues or areas of the tax system which the OTS have not considered, which should be examined by the OTS?

- 3.34. The OTS has proven particularly good at highlighting distortions in the tax system and recommending sensible, proportionate solutions. The OTS has publicly stated that distortions – being encouraged to go down a non-intuitive path by the tax system – are an important cause of complexity.
- 3.35. With this in mind, an overarching look at environmental taxes would appear long overdue. The recent Public Accounts Committee report into HMRC and HM Treasury’s approach to environmental taxation⁴ ably demonstrates the scale of problems here.
- 3.36. As AAT has repeatedly highlighted, there are an increasing number of distortionary tax decisions that whilst potentially raising some revenue, appear entirely at odds with the Government’s target of achieving “net zero” by 2050 and instead actively discourage the greening of the British economy.
- 3.37. For instance, the October 2019 decision to increase VAT from 5% to 20% on numerous low carbon items, including most solar panel installations, domestic wind turbine systems and heat pumps, whilst VAT on coal provided to residential properties remained at 5%. Likewise, Government is currently consulting on reducing Air Passenger Duty for domestic flights, which in addition to contradicting and greatly weakening government policy on seeking to reach “net zero” by 2050, flies in the face of a wealth of national and international evidence about the damaging impact of short haul flights and seriously undermines the UK’s credibility ahead of COP26 in November 2021.
- 3.38. This is an area that would easily satisfy the three principles employed by the OTS when considering what work to undertake:
- i) Given their nature, environmental taxes impact a very large number of taxpayers at all times
 - ii) There are several quick wins that would deliver practical benefits for taxpayers - VAT on low carbon items being just one.
 - iii) This is a difficult area – balancing economic needs with environmental – that will perhaps make one of the biggest differences to the future of the nation in the longer term.

What other further steps, if any, could be taken to enhance the effectiveness of the OTS in performing its functions as the Chancellor’s independent adviser on tax simplification?

- 3.39. One of the most obvious changes would be to ensure the OTS is involved in the development of any new taxes at the earliest available opportunity (ideally before they are publicly announced), with a view to minimising complexity and increasing their effectiveness. This would also avoid the need for the OTS to consider the particular tax policy at a later date when changes may be more problematical.
- 3.40. It is somewhat curious that the OTS is fighting a tide of tax complexity in current legislation on the one hand, whilst Government continues to create more of the same with the other.
- 3.41. Naturally an expansion of the OTS remit, to cover any new tax measures, would require a concomitant increase in staffing and resources. This would be a very significant undertaking, may well change the dynamic of the OTS and would need to be very carefully managed to ensure no loss of effectiveness in the areas it already serves well. It could also lead to greater challenges in ensuring the OTS not just retains its independence but retains the appearance of such independence.
- 3.42. Finally, HM Treasury may like to consider expanding the OTS remit to having an additional responsibility to assess Budget tax measures.

⁴ Public Accounts Committee, 28 April 2021:

<https://committees.parliament.uk/committee/127/public-accounts-committee/news/154874/lack-of-understanding-leadership-and-coordination-at-hmt-and-hmrc-in-face-of-global-climate-storm-breaking-all-around-us/>

- 3.43. The Office of Budget Responsibility (OBR) scrutinises the Government's costing of individual tax and welfare spending at each Budget. The OTS could scrutinise the simplification or complexity of each individual tax measure and report accordingly. This would enhance the effectiveness of Government tax measures, raise the profile of the OTS, and address the point made earlier in this consultation response about involving the OTS at an earlier stage in the tax policy setting process.

4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 5,000 licensed accountants who provide accountancy and taxation services to over 500,000 British businesses.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

- 5.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy:
- 5.2. E-mail: phil.hall@aat.org.uk Telephone: 07392 310264 Twitter: @PhilHallAAT
- 5.3. Association of Accounting Technicians, 140 Aldersgate Street, London, EC1A 4HY

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