

Review of the Office of Tax Simplification: Call for Evidence

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Sent to: otsreview@hmtreasury.gov.uk

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General Comments

We welcome the opportunity to respond to the HM Treasury 'Review of the Office of Tax Simplification: Call for Evidence' ('the Call for Evidence').

As the UK looks to maximise opportunities for inward investment and growth to support our post-Covid recovery, we need to have a taxation system that makes the UK an attractive place from which to do business and in which to reside. It is important to recognise that there are many aspects of a country's tax system that can attract, or deter, business and investment, including the costs of tax compliance and the perception of the tax environment.

The complexity of the UK tax system is well documented. For businesses and individuals alike, it is a time-consuming and costly challenge to grapple with the complicated, vast, and ever-increasing UK tax code. The Office of Tax Simplification ('OTS') performs a necessary and valued role in objectively and independently assessing tax policy and administration in the UK and proposing recommendations for improvements.

Specific Questions

Question 1 What do you think the functions of the OTS should be? Why should they be a priority for government?

The current functions of the OTS as set out in section 185 and 186 of Finance Act 2016¹ would appear to be appropriate.

We would, however, suggest that there is also a case for an additional function of the OTS to be considered. When HM government consults on policy initiatives that are deeply flawed, it compromises the perception of the government and its understanding of the implications of its policies. The 2020 consultation on the 'Notification of uncertain tax treatment by large businesses' is a recent example of a policy initiative that created considerable consternation amongst the business community. Reflecting on the proposal, the House of Lords Economic Committee, Finance Bill Sub-Committee concluded: "We welcome the Government's delay to the start date for the requirement to notify uncertain tax treatment and its commitment to engage with stakeholders to get the policy right. However, the Government should learn the lesson from this episode: until a measure complies with the policy principles set out above in Chapter 2, it should not be proposed."² We

¹ <https://www.legislation.gov.uk/ukpga/2016/24/part/12/enacted>

² <https://committees.parliament.uk/publications/4097/documents/40546/default/>

consider that there should be a role for the OTS to publish, alongside the assessment of impacts contained within consultation papers, an assessment or grading of the policy's adherence to a set of core policy principles, such as simplicity and proportionality. It would be helpful where the OTS provides a low score, that the proposing policy team could rethink their policy before proceeding to publish the consultation.

Such a measure is necessary to prevent taxpayers, representative bodies, and even parliamentarians, expending considerable time and resource on trying to resolve inconsistencies and technical deficiencies in policies that are not well conceived. It is also necessary to maintain a perception of HM Treasury, HMRC and the UK tax system as 'world class'.

Question 2 to Question 4

No comment.

Question 5 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?

Whilst we are supportive of the OTS maintaining independence from HM Treasury and HMRC, we do think that greater efforts could be made to prevent overlapping initiatives. While the OTS was undertaking its 'Third Party Data Reporting Review – Call for Evidence', HMRC was simultaneously working on updating its Bank and Building Society Interest (BBSI) reporting guidance and simultaneously holding data quality workshops with industry to discuss improvements to the reporting regime and the data to be reported. HMRC were seemingly unsighted on the OTS review. Both the HMRC and the OTS teams also seemed to be lacking a corporate memory in relation to the 2016-18 discussions on Making Tax Digital.

Question 6 Does the OTS engage with, and consider the views of, an appropriate number and variety of stakeholders when conducting a review?

No comment.

Question 7 Who do you think OTS reports focus on recommending simplifications for? Who should the OTS focus on offering simplifications for?

It is appropriate for the OTS to undertake thematic work, and this will necessarily require a focus on a particular segment of taxpayers. It would also be appropriate for a rotation of thematic work to ensure that no one segment is omitted from the OTS's consideration over a cycle.

Question 8 to Question 10

No comment.

Question 11 Are there any particular issues or areas of the tax system which the OTS have not considered, which should be examined by the OTS?

One potential area of improvement in the taxpayer experience that we think may be appropriate for the OTS to review is the difference in the taxation of savings interest and compensatory interest. We believe that customers/taxpayers are confused regarding why the former is paid gross, without the deduction of any withholding tax, but the latter is not, being subject to 20 per cent withholding.

In addition, this is likely to mean that a significant proportion of taxpayers receiving compensatory interest, because the amount of such interest is within their Personal Savings Allowance (PSA), are required to go through a tax refund process to end up in the correct tax position.

The taxpayer experience could be improved by abolishing the withholding tax on compensatory interest thus aligning it with interest and other annual interest payable to individuals by financial institutions on savings accounts. This would return to the position in place prior to 2013 when banks could usually pay compensatory interest gross.

We believe the requirement for banks to withhold tax from compensatory interest was introduced in 2013 to align it with the treatment of savings account interest in force at that time as it was subject to withholding under the Tax Deduction Scheme for Interest (TDSI) legislation. The TDSI requirements were subsequently abolished from April 2016, but the obligation to withhold on compensatory interest was not, thus meaning they are once more no longer aligned.

Question 12 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?

No comment.

If you have any questions relating to this response, please contact Sarah Wulff-Cochrane, Principal, Taxation Policy, UK Finance (sarah.wulff-cochrane@ukfinance.org.uk).