

Office for Tax Simplification (OTS)

Business Lifecycle Review

OMB

01 January 2019

The CIOT met with the OTS in November to discuss its recent call for evidence on the Business Lifecycle.

The OTS was seeking views about tax as it impacts on businesses as they engage with the tax system throughout the business's lifecycle – from start-up and registration, taking on a first employee, through calculating and paying tax, to business closure/transfer. The review was focussing on the practical issues facing smaller businesses in particular, including the self-employed, and followed a previous review of the business lifecycle that had focussed on tax reliefs and charges that apply to a business throughout its life.

Our discussion with the OTS considered the initial start-up period, taking on an employee, claiming capital allowances and how HMRC could improve its support for tax agents.

There was general agreement that it is not always clear what a business needs to do when it first starts up, and in what order. Once it starts to register for different taxes, it is not always obvious what it has registered for once it accesses HMRC's systems because it may have registered for different things at different times, and because often a business will use an agent for some taxes but not others, and they will have registered, not the business. Often set up processes take too long, especially where the business has to wait for a registration code to be sent in the post. We agreed that getting rid of unique taxpayer reference numbers (UTRs) for income tax and corporation tax, if that was possible, would help smooth the process.

We discussed whether HMRC could design an interactive 'customer journey' checklist for businesses starting up to help guide them through the various steps and processes needed for successful registration with HMRC and other Government

departments. We understand such a tool is already available for driving licences.

We noted that there is guidance on setting up a business already available on GOV.UK but queried how easy it is for start-ups to find it and understand it. We agreed that it is important that the right information is available at appropriate places; for example, taxpayers setting up as self-employed for the first time would no doubt find it useful to access information through Job Centres, public libraries, Citizens Advice Bureaux and mentoring organisations such as the Prince's Trust.

We discussed the challenges of taking on a first employee but acknowledged that often the 'fear factor' is greater than the reality. There was general agreement that outsourcing payroll functions to an adviser can be very cost effective for the business, and that there is good quality reasonably priced payroll software available for the business which chooses to deal with payroll 'in house'. There was little support for payroll benefits. We felt that only very large businesses will do it, with the rest preferring to continue to use the P11D process. So long as payroll benefits is voluntary, we do not see this changing.

With regard to capital allowances, it was recognised that the annual investment allowance (AIA) will usually cover capital expenditure incurred by a small business. In addition, many small businesses, especially those without an adviser, will use the 'cash basis' under which capital expenditure on plant and machinery is an allowable expense.

Difficulties caused by changing the rate of AIA were touched upon. It was noted that significant investment in plant and machinery of the kind which is envisaged by an increase of the AIA to £1,000,000 for two years from January 2019 will have to be carefully organised, probably over several months. Regular changes to the amount of the allowance produce some undesirably complex capital allowance calculations, particularly for the accounting periods straddling the start and end dates when the maximum allowance is changed.

On how HMRC can improve its support for agents, we raised the issues that arise from agents not having easy access to the same information as their clients, particularly data that is in their personal tax accounts such as PAYE codes and pay and tax details. There are similar issues with the business tax account. We mentioned how important it is for HMRC to consider agents at the very start when putting in place new processes and systems. We do not want to see a repeat of the

significant problems that occurred when the Trust Registration Service was introduced in late 2017.

The OTS will publish its report at the Spring Statement.