

# [Press release: The OTS points the way to simplify corporation tax](#)

The Office of Tax Simplification (OTS) is the independent adviser to government on tax simplification. The OTS responds to calls for corporation tax to be modernised and simplified in its report [Simplification of the Corporation Tax Computation](#) published today 3 July 2017.

This report sets out some significant steps towards creating a 21st-century corporation tax system in the UK, responding to calls from businesses of all sizes to make the calculation of corporation tax simpler, with fewer changes and more time to plan. It also recognises the importance of reducing the burdens on small business, and keeping this country an attractive destination for trade and investment in a post Brexit world.

The report takes a bold look across four broad themes

- simpler tax for smaller companies
- aligning the tax rules more closely with accounting rules where appropriate
- simplifying tax relief for capital investment
- a range of further issues affecting the largest companies

It also highlights the links with HMRC's work on Making Tax Digital, which offers a real impetus to move towards a simpler system by use of technology.

Angela Knight CBE, Chair of the OTS Board, said:

Despite the attention corporation tax has received in recent years, in particular regarding multi-nationals, there has been little focus on making the tax simpler. In response to a clamour from companies of all sizes and types, the main recommendation is that the government should develop a clear and coherent roadmap for corporation tax simplification to give certainty for all companies.

Paul Morton, Tax Director, said:

A simpler approach would be to align the tax more closely with a company's accounts, making it more intuitive, reducing compliance costs and saving time. This is particularly attractive for smaller

incorporated businesses, which represent the overwhelming majority of companies.

The report makes recommendations to achieve this objective in a variety of innovative ways. In addition, it sets the scene for further work on the costs and benefits of moving to a depreciation-based approach to giving relief for capital expenditure which could offer a significant simplification for companies of all sizes.

## **Main recommendations**

### **A corporation tax simplification roadmap**

#### **Small companies**

- For the very smallest companies, to use the accounting profit prepared under accounting standard FRS105 as the taxable profit without any adjustments.
- For slightly larger companies, the proposal is that companies should only need to consider a set list of five or six potential tax adjustments.

#### **Aligning tax with accounts**

Across the whole range of companies, for

- the tax definition of capital and revenue to be more closely aligned to the accounts definitions,
- the rules for trading and management expenses to be aligned
- the 19th century schedular system (under which different types of income are calculated separately subject to slightly different rules) to be replaced with a “whole business” approach, in line with most other countries

#### **Capital expenditure**

For the OTS to undertake further work on capital expenditure to explore the issues involved in replacing the present capital allowances system with an accounts depreciation approach, recognising the need to consider the impacts on particular industry sectors.

## **Large companies**

For improvements to be made in a number of technical areas, in the context of promoting stability and certainty in the corporation tax system.

## **Notes for editors**

The OTS advises the Chancellor on tax simplification, challenging tax complexity to help all users of the tax system; it does not implement changes – these are a matter for government and for Parliament.

The OTS team is led by Chairman Angela Knight CBE and Tax Director Paul Morton and has a small staff drawn from HM Treasury, HM Revenue & Customs and the private sector.

The OTS works to improve the experience of all who interact with the tax system. It aims to reduce the administrative burden – which is what people actually encounter in practice – as well as simplifying the rules. Simplification of the technical and administrative aspects of tax are each important, both to taxpayers and HMRC.

The vast majority of companies are small: Of the 1.75 million UK private sector companies in 2016: 1.5 million have under 10 employees.

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