Think Ahead ACCA

Simplification of the Corporation Tax computation

A call for evidence issued by the Office of Tax Simplification

Comments from ACCA to the Office of Tax Simplification
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ACCA welcomes the opportunity to comment on the proposals issued by the Office of Tax Simplification (OTS).

COMMENTS

ACCA strongly supports the OTS' work on simplifying the corporation tax system. In particular, we welcome the cost-benefit approach to identifying potential areas for reform in this progress report. Our engagement with tax practitioners and experts on our Global Forum for Taxation has led us to conclude that tax simplicity is a fundamental principle in the design of any tax system.

An outline of our key positions is set out below. We would be pleased to engage further with the OTS on this topic, to discuss in detail specific reforms which should be considered.

Tax law simplification

The current low rate of corporation tax in the UK provides the ideal opportunity to consider the simplification of tax legislation. Our members have consistently emphasised to us the importance of tax stability alongside tax simplicity: at times, favouring the removal of tax deductions whose rules are complex and liable to change from one year to another. At today's low main rate of corporation tax, the financial effect of such tax deductions, including certain capital allowances, is diminished, therefore allowing changes to be made without significant Exchequer or taxpayer impact. It is important to stress, however, that real simplifications must be achieved – merely changing tax legislation to fit new tools or processes will both fail to deliver simplification, but also fail to provide the stability and certainty that taxpayers sorely need in the current uncertain economic climate.

Since the implementation of any tax measure is based on tax law, it is essential that draft legislation is published sufficiently in advance to allow taxpayers to prepare for the changes. The abolition of the Autumn Statement will help to deliver tax certainty. However, the delayed publication of a number of tax measures that become effective in April 2017 – including those relating to restrictions on tax deductions in relation to corporate interest expense and corporate loss reform – could prove harmful to the business environment, and we argue that the Government should make minimising such delays a priority.

Making Tax Digital

The simplification of corporation tax should not only focus on the mechanics of the preparation of tax computations, but look more widely at the reporting and compliance processes. This is particularly important as Making Tax Digital ('MTD') will require businesses to report more detailed information to HMRC than will be required for the corporation tax computation. Research has shown that, while businesses and tax practitioners welcome the potential efficiency gains of tax digitalisation, many, notably SMEs, are ill-equipped to report information to HMRC on a quarterly basis.

MTD is the most far reaching reform to the UK tax system in this parliament and indeed for generations. The proposed changes will affect all UK businesses and a significant proportion of taxpayers. We have received an unprecedented level of input from our membership and concerns about the potential impact of mandatory integrated accounting software designed to HMRC specification for every business taxpayer have been universal. Given the impact of the project, it is vital that enough time is allowed to understand the implications and properly develop the legislation and systems required. As the OTS' progress report states, tax measures should add material value either to the business or to the Exchequer[1]. Given that HMRC have not performed an impact assessment of the associated economic cost, significant uncertainty remains whether MTD will bring a proportionate benefit to the wider UK economy.

We would urge that the adoption of quarterly reporting for business be voluntary. Further, as noted above, it is vital that taxpayers are given sufficient time to prepare for the new requirements under Making Tax Digital. Given the significant impact of the project on HMRC and taxpayers, ACCA has consistently argued that the timetable should be reset with more time given to developing solutions.

The Schedular System

In principle, ACCA welcomes the increased flexibility introduced by changes to corporation tax loss relief set out in Finance Bill 2016. However, the potential benefits of the reform are reduced by the complexity of the rules concerning pre-2017 losses and the anti-avoidance provisions.

Specifically, the measures in Finance Bill restrict the use of pre-2017 losses to 50% of trading profits and 50% non-trading profits. Given that the reform aims to pool losses and profits from different categories of income, it seems counter-productive to restrict the utilisation of losses on a scheduler basis, rather than on 50% of total taxable profits.

[1] Progress report and call for evidence on Simplification of the Corporation Tax computation, paragraph 2.4

This, compounded with the changes to interest relief reflecting the BEPS Action Point 4 requirements regarding interest deductibility, will add considerably to the potential complexity faced by larger groups in correctly calculating the available reliefs.

In addition, we note that a number of anti-avoidance provisions, including expanded loss-buying rules and provisions to deal with non-trade deficits or non-trading losses on intangible fixed assets when trade ceases or becomes negligible, will not be published until January 2017. Given that tax law is central to driving tax simplicity, this delay in the publication of draft legislation – without a corresponding delay in implementation timetables – risks eroding tax certainty and stability.

We look forward to engaging further with you to further develop an approach to tax simplification that benefits businesses and tax administrations alike.