HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Harriett Baldwin, MP
Chair of the Treasury Committee
via email

12 December 2023

Dear Harriett,

Following your considered report on tax simplification earlier this year, my predecessor committed to write to you every tax year to provide an overarching summary of the Government's progress on simplification. I am pleased to provide you with the first update of the Government's work and wanted to thank you for your continued interest on this topic.

At Autumn Statement the Government reiterated its mandate to make simplification central to all work on tax policy and has set out four objectives it is aiming to achieve when simplifying the tax system. These objectives are:

- Tax rules have a clear consistent rationale and are easy to understand.
- The burden of compliance and administration is proportionate for taxpayers and HMRC and it is easy for taxpayers to get their tax right.
- Taxpayers understand their obligations and options particularly at key lifecycle points, such as when they do something for the first time or infrequently.
- Tax policy does not unnecessarily distort the decisions of taxpayers and result in poorly informed choices.

The Government wants the tax system to be simpler, fair and to support growth. This is why, building on Spring Budget measures, at the Autumn Statement the Government announced a comprehensive set of changes to make it easier for businesses and individuals to interact with the tax system reducing the time and money spent on tax administration, allowing them to focus on their businesses and daily lives.

The Self Employed and Small Businesses

The Government will reform the tax system by abolishing Class 2 self-employed National Insurance contributions (NICs). This will simplify the experience for the self-employed who currently have to pay two NICs charges to access contributory benefits. From 6 April 2024, no one will be required to pay Class 2 self-employed NICs. Those who pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension, will continue to be able to do so. This will simplify the system for self-employed taxpayers, reducing needless complexity by abolishing the obligation to pay a whole Class of NICs, and freeing up valuable time for them to grow their businesses. Alongside these changes to Class 2, the main rate of Class 4 self-employed NICs will be cut from 9% to 8% from 6

April 2024. Together, these cuts will benefit around 2 million self-employed people and the average self-employed individual on £28,200 will see a saving of £350 in 2024-25.

The Government also announced it will be expanding the 'cash basis' – a simplified way for over 4 million smaller, growing traders to calculate their profits and pay their income tax. From April 2024 three of the main restrictions preventing businesses from using the cash basis will be removed completely, based on feedback received during consultation, and the cash basis will be set as the default method for calculating profits – ensuring that businesses start out on the simpler regime as standard.

To simplify and improve the design of Making Tax Digital (MTD) for Income Tax Self Assessment (ITSA) the Government announced a number of process changes responding directly to feedback from the accountancy profession, business representatives and software developers. These improvements include simplifying end of year processes, reducing touchpoints and simplifying processes for landlords with jointly owned property. These design improvements will benefit roughly 1.7 million businesses and landlords set to be mandated to use MTD.

The Government will also be merging the R&D Expenditure Credit (RDEC) and the Small and Medium Enterprise (SME) scheme. This will simplify and improve the system, helping to drive innovation in the UK. Under a merged scheme there will be a single set of qualifying rules for the vast majority of R&D tax relief claimants, removing the situation where companies have to transition between the SME and RDEC schemes.

At the Autumn Statement the Government also updated on HMRC's systematic review of guidance for small businesses, announced at Spring Budget, where we frequently hear that greater clarity, interactivity and advertising of changes would improve the taxpayer experience. As my predecessor set out in her letter to you in August, HMRC has worked with external bodies to identify over 700 opportunities where small businesses can be helped by guidance improvements and will address these over the next 18 months – ending April 2025. These opportunities vary from addressing an issue with a particular page on GOV.UK, to larger problems such as where new businesses cannot easily find all the guidance they need to be compliant. This review has already resulted in immediate improvements, including enhanced guidance when checking if you need to submit an ITSA return; new interactive guidance to help businesses register for ITSA; and improved guidance making it easier to report VAT errors.

Large Businesses

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The Government announced it will be simplifying the capital allowances system for large businesses by making full expensing (100% capital allowances in the year of purchase) permanent. As with the Annual Investment Allowance - which already simplifies tax treatment for 99% of businesses - this removes the need to claim capital allowances year-on-year. This significant milestone in UK capital allowances policy presents an opportunity to review and simplify the existing capital allowances legislation and the Government has published its plans for a technical consultation on this topic in 2024.

Individuals

The Government has already increased the threshold for individuals with income taxed through Pay As You Earn to file a Self Assessment return to £150,000. At AS23 it announced that from April 2024 it is abolishing the threshold altogether. These changes combined are estimated to remove the requirement for up to 338,000 taxpayers to submit an ITSA return. This will reduce the administrative burden for both taxpayers and HMRC, whilst maintaining collection of the correct amount of tax. This change to Self Assessment policy puts individuals who pay all their tax through PAYE on the same footing regardless of level of earnings.

The Government is also making changes to ISAs to make them simpler and provide more choice, making it easier for people to choose the best ISA accounts for their needs and move money between them. This will include digitalising the ISA reporting system to make it more effective and expanding investment opportunities in ISAs.

Customs

On 7 December, the Government announced next steps on a package of measures to simplify customs processes first announced at Spring Budget earlier in the year. These measures will make it easier for businesses to import and export goods to and from the UK whilst simultaneously upholding the UK's high regulatory and security standards at the border. This package had been shaped by businesses, traders, and the border industry as part of a programme of engagement taken over the summer.

Measuring Progress on Simplification

As outlined earlier in the year, the Government is considering how to develop a suite of metrics to measure progress on simplification and improving the customer experience. The Government will measure annual progress against its four objectives for simplification, focusing on taxpayers' experience and prioritising the impact of complexity

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on individuals and small businesses. I look forward to providing you with more detail in due course.

I hope this will reassure you and Treasury Committee colleagues of our ongoing commitment to tax simplification and the Government's continued openness to external challenge.

I look forward to our ongoing engagement as the Government continues to deliver on its ambition for a simplified tax system.

Yours sincerely,

NIGEL HUDDELSTON MP