



HM TREASURY



HM Revenue  
& Customs

# Simplification review:

corporation tax calculations and returns for smaller companies – summary of responses

---

**July** 2009





HM TREASURY



HM Revenue  
& Customs

# Simplification review:

corporation tax calculations and returns for  
smaller companies – summary of responses

---



Official versions of this document are printed on 100% recycled paper. When you have finished with it please recycle it again.

If using an electronic version of the document, please consider the environment and only print the pages which you need and recycle them when you have finished.

© Crown copyright 2009

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to Office of Public Sector Information, Information Policy Team, Kew, Richmond, Surrey TW9 4DU or e-mail: [licensing@opsi.gov.uk](mailto:licensing@opsi.gov.uk)

ISBN 978-1-84532-618-0  
PU827

# Contents

---

|           |   | Page |
|-----------|---|------|
| Chapter 1 | Background to the CT calculations simplification review   | 3    |
| Chapter 2 | Views on Statutory accounts incorporating tax obligations | 5    |
| Chapter 3 | Views on calculating tax on a cash flow basis             | 7    |
| Chapter 4 | Other suggestions received and next steps                 | 9    |
| Annex A   | List of respondents                                       | 11   |



# 1

# Background to the CT calculations simplification review

---

**1.1** The Government is committed to ensuring that the UK is a world-class environment in which to do business. Tax simplification can play an important role in achieving this through helping business to interact more efficiently and effectively with the tax system, for example by removing unnecessary complexity and reducing compliance and administrative costs.

**1.2** Simplification is a priority in designing and reviewing tax policy. Alongside sound public finances and fairness, the Government is committed to working in partnership with business to identify opportunities to simplify the tax system and to share its findings on the viability of options for tax simplification.

**1.3** As part of the ongoing programme of tax simplification, at Budget 2008 the Government announced a joint review by HM Treasury and Her Majesty's Revenue and Customs (HMRC) of the scope to simplify Corporation Tax calculations and statutory return obligations for smaller companies. The review focused on companies with a turnover of less than £750,000 and fewer than 10 employees. The Department of Business Innovation and Skills (BIS) have been close partners in this work, reflecting the fact that all three departments share a commitment to reduce the burdens of both tax and statutory accounting requirements.

**1.4** Following Budget 2008 the Government drew on ideas from discussion and responses to an on-line survey and published, at the Pre Budget report in November 2008, a discussion document to explore whether these ideas, if developed further, could deliver a noticeable reduction in burdens on smaller companies. This discussion document can be found at;

[http://www.hm-treasury.gov.uk/d/pbr08\\_simplificationreview\\_267.pdf](http://www.hm-treasury.gov.uk/d/pbr08_simplificationreview_267.pdf)

**1.5** The discussion document sought views on two areas which might offer potential for further consideration:

- statutory accounts incorporating tax obligations; and
- calculating tax on a cash flow basis

Whilst remaining open to any further ideas new suggestions from respondents, the document proposed that two other suggestions - statutory accounts profits being used as taxable profits and flat rate tax allowances – would not be pursued further.

**1.6** To seek the views of business, some 500 smaller companies were contacted by e-mail to bring the discussion document to their attention and invite comments. And as part of the discussion process, in January, HMT, HMRC and BIS held a workshop that brought together a wide range of stakeholders to discuss their initial thoughts on the ideas in the discussion document. The workshop was intended to help stakeholders develop their formal responses to the questions raised in discussion document.

**1.7** 37 formal responses to the discussion document were received. A list of respondents is set out at Annex A.



# 2

## Views on Statutory accounts incorporating tax obligations

---

**2.1** This proposal is based on the idea of introducing a new accounting standard that incorporates existing tax obligations applying to smaller companies. Accounts prepared under this new standard would then meet both the statutory reporting obligations, and also be the basis for assessing tax payable without any further adjustments. Although, under this 'tax based accounting' idea, a company's liability to corporation tax would be the same as under current rules, the need for a company to prepare a separate tax computation would be removed.

**2.2** The discussion document asked:

- would moving to a new statutory accounting standard which incorporated tax rules as outlined above deliver real simplicity and savings for smaller companies?;
- where and for whom would the benefits and savings occur in practice?;
- what drawbacks, if any, do you see with this approach to integration of statutory reporting and tax calculation obligations for smaller companies?; and
- what other user interests must the development of such a standard for smaller companies consider?

**2.3** This proposal received no overall support from respondents. The overwhelming majority thought that it would result in little overall simplification, and would tend merely to shift burdens around rather than reduce them. Respondents also raised the question of how such a new accounting standard would be maintained, and who would be responsible for maintaining it.

**2.4** There was little detailed comment from individual business respondents on this proposal, but where comments were made they were uniformly negative, sometimes strongly so. One business respondent summed the option up as little more than technical tinkering. Others thought that this option would increase the very administrative burdens that it sought to reduce.

**2.5** Amongst business representative bodies, there was some tentative support for this option but most also thought that the overall benefit would be very small compared to the risks and costs of change.

**2.6** Accountancy and other Professional Bodies were unanimously against the introduction of such a standard. Their views echoed those of individual accountants and businesses, namely that the suggestion would produce neither material savings nor simplicity, and should not be pursued.

### Conclusion

**2.7** The overwhelming feeling amongst all respondents was that a 'tax based accounting standard' option did not offer any prospect of significant simplification, was unlikely to reduce administrative burdens on smaller companies and therefore should not be taken forward.



# 3

## Views on calculating tax on a cash flow basis

---

**3.1** This was the more radical of the two proposals in the discussion document. It was based on the idea that a tax regime might be devised which was based more on a company's cash flow rather than on the current measure of accounting profits. Under such a regime, while retaining the need for certain expenditure to be excluded, tax would be paid on the difference between a company's actual receipts and its outgoings paid. In principle, this could integrate all the potential elements of a taxable profits – trading income, property income, capital gains etc.

**3.2** It was recognised at the outset that the inherently radical nature of this option raised many detailed issues which would have to be addressed if it were to be taken further. But the overriding consideration was whether such a regime could deliver significant simplification and savings for smaller companies.

**3.3** The discussion document therefore asked respondents:

- could introducing a new cash flow based tax regime deliver real simplicity and administrative savings?;
- where and for whom would the benefits and savings occur in practice?; and
- what are your views on the various issues this approach raises, and ideas on how a workable regime could be constructed?

**3.4** Business respondents did not generally support a cash-flow system and some were decidedly against the idea in principle, emphasising the need for accruals accounting to be retained. Others suggested that, in common with the overall view on the 'tax based accounting standard' option discussed above, this cash option would increase burdens and complexity. Other business respondents made the point that smaller businesses were probably operating on a near cash basis anyway and any change could probably be accommodated in existing accounts software packages.

**3.5** Business representative bodies differed in their views on this option. Some thought that the idea was worth further exploration for the very smallest of companies. Others were more strongly of the opinion that there are currently wider simplification priorities than either option presented, and several emphasised that there should be a fundamental review of how all small businesses are taxed, to include both companies and the unincorporated sector.

**3.6** Some business groups were against the introduction of a cash-flow basis for companies, for example because they felt that the change of basis and consequent disruption of a cash-flow scheme would make the option unviable. The point was also made that small companies' accounting requirements for tax purposes were, generally speaking, fairly minor and there was a danger in assuming that any new regime would automatically reduce accountancy costs.

**3.7** Respondents also raised the need to consider other 'third party' users of accounts, such as banks and investors, as well as HMRC and Companies House.

**3.8** Also, some felt that the need for certain business expenditure to remain excluded for tax purposes (for public policy reasons) would ultimately limit the ability of this option to deliver significant simplification.

## Conclusion

3.9 The cash-flow option did not have convincing overall support. There was some limited support for exploring the cash option, but this was not widespread and even this support tended to lessen when the detail was considered. Therefore this idea will not be pursued further.

# 4

## Other suggestions received and next steps

---

**4.1** The Government made clear at the start of this review that it would only take this work further if it was convinced that there was real support for the ideas outlined in the discussion document. The formal responses received, along with the views gathered at the January workshop and from stakeholders in the earlier part of the review, clearly show that there is not a convincing level of support for either idea. Therefore, neither option, as set out at Budget 2009, will be pursued.

**4.2** However, there was clear agreement amongst respondents that whilst the two specific proposals outlined in the discussion paper found little favour, simplification of the tax system nevertheless remains a priority for business. The Government shares this aim and is committed to simplification of the tax system where it can.

**4.3** As well as considering the two main proposals outlined, the review team was open to other ideas which might produce simplification and significant reductions in administrative burdens in this area. Respondents made a number of suggestions, and whilst many of these related to areas of taxation that were outside the immediate scope of the review, some themes emerged.

**4.4** Overall there was a widely shared view amongst respondents that making Corporation Tax calculations and complying with company tax return obligations is not, in itself, seen as particularly onerous or burdensome. Stability and certainty in this area were seen as being at least as important as simplification.

**4.5** But it was also evident from respondents that significant burdens can be imposed by the initial preparation of statutory accounts and the statutory filing and reporting rules themselves, which have to be followed irrespective of tax calculations. Some respondents felt that this was the case even at the smaller company level, with accounts preparation and reporting being a more costly and burdensome exercise than those attributable to subsequent tax calculations and returns.

**4.6** There is a clear appetite for further work to address these burdens and to simplify statutory accounts preparation and reporting. These areas are governed by Company Law and current EU Accounting Directives, but proposals being discussed at EU level could result in Member States having the option to relax the reporting obligations imposed by those Accounting Directives. If approved this could reduce regulatory and administrative costs and the UK strongly supports the proposals. If the EU proposals are agreed, further work will be taken forward by BIS and would involve HMRC so that any opportunities for tax simplification can be considered in parallel.



# A

## List of respondents

---

There were 37 responses received to the discussion document. The following professional and representative bodies submitted responses, the remainder being received from individual respondents.

Professional Contractors Group

Federation of Small Businesses

Institute of Directors

Law Society

Accounting Standards Board

Chartered Institute of Taxation

Institute of Chartered Accountants Scotland

Institute of Chartered Accountants England and Wales

Association of Chartered Certified Accountants

### **HM Treasury contacts**

This document can be found in full on our website at:  
[hm-treasury.gov.uk](http://hm-treasury.gov.uk)

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit  
HM Treasury  
1 Horse Guards Road  
London

SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: [public.enquiries@hm-treasury.gov.uk](mailto:public.enquiries@hm-treasury.gov.uk)

ISBN 978-1-84532-618-0



9 781845 326180 >