

Simplification Review: tax calculations and returns for smaller companies

March 2008

SIMPLIFICATION REVIEW: TAX CALCULATIONS AND RETURNS FOR SMALLER COMPANIES

INTRODUCTION

1.1 HM Treasury and HMRC are in regular contact with a wide range of businesses, many of whom have made it clear that simplification of the tax system is one of their major priorities. The Government is committed to simplifying the tax system within the framework of:

- raising revenue for essential public services and investment in business infrastructure;
- delivering fair outcomes for taxpayers; and
- supporting wider Government objectives such as enterprise, social welfare and the environment.

PURPOSE OF THE REVIEW

1.2 At present companies in the UK have to prepare statutory accounts in accordance with generally accepted accounting practice (GAAP), and file these, or an abbreviated version, with Companies House. They are then required to make a number of adjustments to the profit shown in these accounts in order to calculate and report their Corporation Tax liability in accordance with the Taxes Acts.

1.3 The administrative burdens of complying with these two requirements are proportionately more significant for smaller companies, who have the least capability or resources to cope. This review therefore aims to **explore the feasibility of simplifying obligations and procedures for smaller companies in calculating their Corporation Tax liabilities**.

1.4 The Government will provide an update on the progress of this review at the 2008 Pre-Budget Report.

POTENTIAL PRIORITIES FOR THE REVIEW

1.5 The review will build on the then Inland Revenue consultation in 2001 which explored options in this area. HM Treasury and HMRC believe the areas where simplification could now be of most benefit to smaller UK companies include:

- whether statutory accounts and tax requirements could be more closely aligned by looking at the range of adjustments that smaller companies are required to make in arriving at their taxable profit;
- comparing the different tax obligations of smaller companies and comparable unincorporated businesses to see if there are any areas where aligning these obligations more closely would deliver simplification;

- considering whether any potential EU developments might have an impact on the simplification agenda for smaller businesses.

1.6 Over the summer, the review will evaluate whether these reflect the concerns and priorities of smaller companies. Businesses, their representatives and tax professionals are invited to comment on these priorities and to suggest other potential areas for discussion, consistent with the framework outlined above.

SCOPE OF THE REVIEW

1.7 To ensure it remains appropriately targeted on tax simplification for smaller companies, the review will:

- focus on those companies with fewer than 10 employees and less than £750,000 turnover; and
- will not consider wider reforms of Corporation Tax such as schedular reform, Corporation Tax rates, reliefs, or deductions.

1.8 Tax simplification reviews provide considerable opportunity for constructive discussion with business on how to simplify particular areas of tax. However, areas where Ministers have already made political or manifesto commitments, or policy decisions to protect or raise public finances, will be out of their scope.

HOW TO TAKE PART IN THE REVIEW

1.9 HMRC and HM Treasury would welcome views on the appetite for taking forward simplification priorities of smaller companies in such a way that companies will actually see a noticeable simplification, and therefore a reduction in their compliance burden. To participate in this review, including commenting on the priorities, respondents are invited to complete by 30 April 2008 the online questionnaire available at http://www.hm-treasury.gov.uk/budget/budget_08/bud_bud08_index.cfm or to respond by email or post to:

- ctcalculations.simplification@hm-treasury.gsi.gov.uk;

CT Calculation Review Team, HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

1.10 HM Treasury and HMRC will also be discussing simplification priorities with business through existing forums and other events.

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