

# Press release: OTS publishes its first review of VAT

The Office of Tax Simplification (OTS) will shortly publish a report setting out a range of proposals for simplifying VAT.

After over 40 years, the tax is showing its age. What was meant to be a simple tax has become highly complex and it has not kept pace with changes in society.

**Angela Knight CBE, Chair of the OTS board, said:**

This report presents an opportunity to start addressing the many anomalies of VAT. The tax is awash with layers of complexity reflecting both its evolution over the last 45 years and aspects of the Purchase Tax that VAT replaced. For small businesses, this report will propose ways of simplifying many irritating administrative technicalities and kick off a debate about the registration threshold.

**Paul Morton, OTS Tax Director, said:**

This report will flag up the effects of the registration threshold, how entry into the VAT system might be smoothed and many other areas where simplification would be beneficial, particularly the complex and often subjective boundaries between those supplies which are standard rated and those which fall within the reduced or zero-rates or which are exempt. In addition, there will be opportunities to build on the good work of the last few years in improving the administrative aspects of the running of the VAT system.

The OTS's core recommendations will include:

- that the government should examine the current approach to the level and design of the VAT registration threshold, with a view to setting out a future direction of travel for the threshold, including consideration of the potential benefits of a smoothing mechanism
- that HMRC should maintain a programme for further improving the clarity of its guidance and its responsiveness to requests for rulings in areas of uncertainty
- that HM Treasury and HMRC should undertake a comprehensive review of the

reduced rate, zero-rate and exemption schedules, working with the support of the OTS

The most significant issue identified in the report is the VAT registration threshold – the turnover level above which a business must enter the VAT system and charge VAT on its sales. At £85,000 the UK has one of the highest levels in the world.

By enabling many small businesses to stay out of the VAT system the high threshold is a form of simplification, but it's an expensive relief, costing around £2bn per annum, and evidence strongly suggests that many growing businesses are discouraged from expanding beyond this point. The report looks at options for reducing the current 'cliff edge' effect resulting in a very visible bunching of businesses just before the VAT threshold, and an equally large drop off in the number of businesses with turnovers just above the threshold. Also examined are the advantages and disadvantages of lowering or increasing the threshold.

VAT has many 'quirks'. For example, it is well known that a Jaffa cake is a cake (zero-rated) rather than a chocolate-covered biscuit (taxed at 20%). Less well known is that while children's clothes are zero-rated, including many items made from fur skin, items made from Tibetan goat skin are standard-rated. And a ginger bread man with chocolate eyes is zero-rated but if it has chocolate trousers it would be standard rated. VAT zero rates cost over £45bn per annum to maintain. EU law limits options to make changes in this area but there is a longer-term opportunity to significantly improve the efficiency, simplicity and fairness of the UK VAT system.

The report also

- makes recommendations for improving the day to day administration of the tax, including better and more accessible guidance and a less uncertain penalty system. This would particularly benefit small businesses
- considers specific areas of technical difficulty, including the partial exemption regime, the capital goods scheme, the option to tax and other special schemes

## **Notes for editors**

The OTS is the independent adviser to government 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.

This report takes a wide-ranging look at the potential for VAT to be simplified, based on feedback from over 80 trade associations, businesses, professional bodies and individuals.

The report is expected to be published on 7 November.

VAT was introduced in 1973 on entry of the UK into what is now the European Union. VAT is the third largest source of tax revenue collected by HMRC after income tax and National Insurance Contributions, raising £120bn in 2016-17 which amounted to 22.5% of all taxes.

The partial exemption regime covers businesses that make a mixture of taxable and exempt supplies and thus cannot reclaim all VAT that is charged to them.

The capital goods scheme monitors the use of certain capital assets over periods of 5 or 10 years, in case the use changes: changes of use alter the tax that can be reclaimed.

The option to tax regime allows a business to make certain supplies of land taxable, which would otherwise be exempt, thus allowing it to reclaim VAT charged to it.

The £2bn cost for the threshold is an estimation based on the difference between the current threshold of £85,000 and the EU minimum threshold of €10,000.

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 and 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 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.

Press enquiries only please contact Ed Rowley, OTS Press Officer – Phone 03000 585 028

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## **[News story: New information note issued on cartel leniency applications](#)**

The Competition and Markets Authority (CMA) recently consulted on a proposed information note setting out the arrangements for the handling of leniency applications between the CMA and sector regulators with full membership of the [UK Competition Network](#): Ofcom, Ofgem, Ofwat, Financial Conduct Authority, Office of Rail and Road, Civil Aviation Authority, the Northern Ireland Authority for Utility Regulation and the Payment Systems Regulator.

These sector regulators have powers alongside the CMA to enforce competition law in their respective sectors, and to impose financial penalties when the

law has been broken. When setting any penalty, the CMA and the sector regulators are required to have regard to the published [CMA guidance](#).

The CMA's guidance includes provision for granting reduced penalties to companies who come forward with information on cartel activity, and who then co-operate fully with any subsequent investigation. The first company to apply for leniency can receive a 100% reduction in the penalty and successive applicants may receive deductions of up to 50%, depending on the added value of the material they provide. As cartels can be difficult to detect, leniency applications play an important role in uncovering this illegal activity.

To date, informal arrangements have been in place and have operated on a case-by-case basis. These have involved the operation of a 'single queue' system, in which applicants need only apply to one authority in order to secure their place in the queue for leniency.

Following [consultation](#), the CMA is now publishing an [information note](#) explaining its arrangements with the sector regulators and stating that the CMA will now be the first point of contact for all leniency applicants for the purpose of the single queue system. This is an approach that was supported by consultation respondents, as it gives certainty to businesses who might otherwise be unsure whether to apply to the relevant sector regulator or the CMA in any particular case.

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## [News story: Multi-Agency Flood Plan \(MAFP\) Review: Terms of Reference](#)

The Environment Secretary, Michael Gove, has made a [Written Ministerial Statement](#) in parliament announcing that Defra and the Environment Agency (EA) will be undertaking a review of multi-agency flood plans produced by local resilience forums (LRFs).

These plans are used by local responders (including the emergency services, local authorities, local NHS and others) to coordinate their response to flood incidents.

The MAFP Review is part of the government's ongoing work to address flood risk. We are investing £2.5 billion to better protect the country from flooding: this includes over 1,500 flood defence schemes, which will better protect more than 300,000 properties by 2021. As we approach winter, we have improved our capability to deploy military assistance and invested in our ability to respond to flooding: the Environment Agency now has 25 miles of temporary barriers and we have 1,200 military troops trained to assist in flood response.

## **Terms of Reference – Multi-Agency Flood Plan (MAFP) Review**

The MAFP Review is a Defra and Environment Agency review initiated by the Secretary of State for Environment, Food and Rural Affairs.

The review will be led and overseen by an independent external reviewer, Major General Tim Cross CBE (retired). General Cross will be supported by a steering group of external experts in resilience and emergency planning, including from LRFs.

The review will address the question, 'Do LRFs have robust plans in place to respond to flooding incidents in their respective areas?' It will have three workstreams:

- Workstream 1: Assessment of current MAFPs. This will be taken forward by the EA. It will involve the assessment of around 30 strategic flood plans and over 600 tactical flood plans related to specific districts and communities.
- Workstream 2: A qualitative review led by the external reviewer, supported by Defra and the EA. This will involve visiting LRFs, identifying good practice, identifying issues and obstacles, and forming views and recommendations on the way forward including criteria for new guidance.
- Workstream 3: Revision of Defra guidance to LRFs on how to produce good MAFPs, taking into account lessons learnt and experience since 2011 when the guidance was last reviewed. This will be undertaken by Defra and the EA, overseen by the external reviewer.

The review is due to be completed by the end of May 2018, culminating in the publication of revised guidance and a report of findings.

The external reviewer will be supported throughout by Defra and Environment Agency staff. It is envisaged that the external reviewer's focus would be primarily on workstreams 2 and 3.

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## **[Press release: Claiming a Funeral Payment to be made easier](#)**

Improvements to make it easier to claim a Funeral Payment will be brought in

next year, the government has announced.

Funeral Payments are available to people who receive certain income-related benefits to help pay towards the cost of a funeral for an immediate friend or relative.

The government consulted on reforms to make it clearer who is eligible for a payment and make it easier for people to claim.

Minister for Family Support, Housing and Child Maintenance Caroline Dinenage said:

Losing a loved one is a sad and difficult time and we want to make the process of claiming a funeral payment as simple as possible.

I want to thank those who responded to our consultation and I am pleased that we will be bringing in all its recommendations to make it easier for people to make a claim.

The improvements include:

- allowing recipients of a Funeral Payment to receive contributions from relatives, friends or charities without it being deducted from the payment
- extending the claim period from 3 to 6 months from the date of the funeral
- allowing applicants to submit evidence electronically to speed up the processing of claims and get decisions to claimants sooner
- introducing a shorter application form for children's funerals

[Funeral Payments](#) can help pay for the costs of a simple, respectful funeral for people on qualifying benefits. This includes:

- burial fees and exclusive rights of burial in a particular plot
- medical certification fees needed for cremations, including the cost of the doctor's certificate
- travel to arrange or go to the funeral
- the cost of moving the body within the UK, if it's being moved more than 50 miles
- death certificates or other documents
- up to £700 for other funeral expenses, such as funeral director's fees, flowers or the coffin

People in receipt of the following benefits may be eligible for a Funeral Payment:

- Income Support
- income-based Jobseeker's Allowance
- income-related Employment and Support Allowance
- Pension Credit

- Universal Credit
- Housing Benefit
- Working Tax Credit which includes a disability or severe disability element
- Child Tax Credit

The changes will be brought in next year.

Follow DWP on:

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## **[Press release: A57 Mottram bypass in £242 million Trans-Pennine plans](#)**

Highways England today announced its preferred route for the A57 Mottram bypass which will cut congestion and improve safety.

The company also confirmed it would deliver improvements at Westwood roundabout at Tankersley in South Yorkshire which links the A61 and A616, and would do further work to refine options for the dualling of the A61 between Westwood roundabout and the M1.

All 3 improvements were part of a consultation held earlier this year.

Tim Gamon, Highways England's Regional Delivery Director for the North West, said:

More than 1,000 people attended the public information events we held on both sides of the Pennines earlier this year and almost 900 people responded to the consultation – with half backing the option selected for a new link from the M67 terminal roundabout to a new junction at A57(T) Mottram Moor – near Back Moor – and a link from there to a new junction on the A57 at Brookfield.

Most people felt these improvements struck a good balance in terms of convenience for drivers, reduced impact on local communities and improved safety. So we will present them in a statutory consultation next year with a plan to starting construction in early 2020.

Plans for climbing lanes on the A628 are also being considered further following the recent consultation.

Highways England is already starting to deliver some localised safety schemes along the Trans-Pennine route.

More information on the announcement and on the timetable for statutory consultation and project delivery can be [found on the scheme website.](#)

### **General enquiries**

Members of the public should contact the Highways England customer contact centre on 0300 123 5000.

### **Media enquiries**

Journalists should contact the Highways England press office on 0844 693 1448 and use the menu to speak to the most appropriate press officer.