

**Held on:** Wednesday 6 March 2019, 9.00am – 10.30am  
**Venue:** CMS, Cannon Place, 78 Cannon Street, London, EC4N 6AF

**Present:**

Paul Fay (Chair)	Crowe UK LLP	PF
Paul Attridge	Beavis Morgan LLP	PA
Mark Joscelyne	CMS	MJ
Daniel Hawthorne	Dechert	DH
Joanne Varia	Fox Williams LLP	JV
Emma Locken	PwC	EL
Yuri Hamano	Moore Stephens	YH
Dan Robertson	RSM	DR
Matthew Rowbotham	Lewis Silkin	MR
Tim Ward	Quoted Companies Alliance	TW
Anthony Robinson	Quoted Companies Alliance	AR
Jack Marshall	Quoted Companies Alliance	JM

**In attendance:**

Bill Dodwell	Office of Tax Simplification	BD
Nigel Mellor	Office of Tax Simplification	NM

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- 1. Welcome to Bill Dodwell, the new Tax Director, and Nigel Mellor, Senior Policy Adviser, at the Office of Tax Simplification (OTS), to give an update on the OTS's priorities and relevant issues to smaller companies.**

PF welcomed BD and NM to the Tax Expert Group meeting.

#### Overview of the OTS

BD and NM briefly summarised their roles within the OTS and gave an overview of the OTS's work. The key points included:

- BD is the head of the OTS and has been in the role since 10 January 2019
- The OTS consists of nine full-time employees
- The OTS has a mix of public and private sector employees
- Generally speaking, the OTS work on three reports at a time
- The OTS works very closely with the Chancellor, HMT and HMRC, and often has their work commissioned by the Chancellor/HMT, but does have the ability to commission its own reports

#### Current focus of the OTS

BD outlined the reports the OTS were currently focussing on, these included:

- A second Inheritance Tax Review, which is due to be published in the summer and will focus on the policy aspects of inheritance tax
  - The first Inheritance Tax Review was published in November 2018 and focussed on providing an overview of the tax and dealing with the administrative aspects of it
- A report on the Business Life-cycle
  - The primary focus of this report will be on looking at micro-businesses, how people deal with tax throughout the business life-cycle and how it impacts on their business
  - The report will also involve looking into pensions, especially for lower paid workers

#### Scope and guidance function of the OTS

The OTS published a report in November 2017 on routes to simplification for VAT. Within the report, the OTS submitted 22 recommendations and 21 of these recommendations were approved by the Chancellor, highlighting the traction that the OTS's reports receive.

In addition to producing reports, the OTS also has a guidance function. In October 2018, the OTS published a report offering a strategic review of the general approach to providing guidance for taxpayers. Whilst guidance had always been a significant feature in reports produced by the OTS, this was the first report which solely focussed on issuing guidance for taxpayers. The report aimed to re-calibrate the administrative aspects of HMRC's work in order to make the tax system easier for businesses and individuals.

#### Size of companies and the OTS

A question as to whether the OTS would divert their focus to small and mid-cap companies was raised. BD indicated that the first business life-cycle report touched upon small and mid-sized companies. He then explained that the tax system for smaller companies was not as complex as it was for larger companies. However, it was highlighted that difficulties arise for smaller organisations over issues relating to compliance and that these smaller companies often do not have the capacity to focus many resources on compliance because they do not have the relevant in-house departments.

BD explained that companies were struggling to work within the guidance frameworks due to their limited capacities. He also mentioned that he believed CIR was disproportionately administered.

A point was raised that tests to establish the size of companies and, thus, their categorisation into thresholds was often different for different types of taxation, such as CIR and DPT. BD explained that the threshold of £2m for CIR was a global threshold, something that would not be adjusted.

A point was raised that HMRC needs to be clear on how a tax will apply. Currently, there is a great deal of uncertainty surrounding the fiscal landscape in the UK, which is exacerbated due to the complexity of tax. It was asked as to whether there was any likelihood of change, on a policy level, with Brexit on the horizon. BD explained that there was a lot of change within HMRC, as a lot of their staff had moved across to the Brexit team. With regards to state aid rules, these would remain if the UK were to enter a transitional period, as opposed to leaving the EU without a deal or a very 'hard' Brexit. It was added that state aid restrictions would also likely remain and that it was unlikely for these restrictions to be re-calibrated.

BD explained that deductions for raising finance cause problems, specifically in how to deal with companies and ensuring proportionality. BD stated that the costs of raising equity are disproportionately high.

#### Potential future OTS research

The OTS's plans going forward were to look at intermediaries and platforms to provide HMRC with. In particular, OTS would look at self-employed individuals and their desire to make their tax payments more regular.

A point was raised that corporation tax only constitutes a small proportion of tax, is complex and expensive to collect and, thus, it was asked whether there was any scope for change. BD thought that corporation tax would never be retired. NM added that for UK PLC's, the Budget reps were an opportunity to submit proposals on the restructuring of costs.

Upon publishing the VAT review, it became evident that exemptions do not achieve policy aims and that they are outdated. During the VAT review, the OTS received significant feedback from businesses on partial exemption but declared that it would take between 6 and 18 months to decide what deductions are most appropriate after Brexit. According to the review, many were stuck in partial exemption that shouldn't be, something of which creates issues because it fosters uncertainty and increases exposure to penalties.

BD mentioned that tests to determine an individual's employment status were vague and that this has resulted in there being a large grey area. To resolve this issue, a clear line would be necessary.

BD expressed his desire for the OTS to look into the tax claims/elections system, explaining that CIR would be the perfect option to explore and mentioned that if automatic systems were in place it would be more efficient.

#### Process for OTS reports

The OTS team can propose topic areas or companies can write to the OTS. The topics raised have to be about simplification in order to be considered, rather than relating to policy change. If the proposals are reasonable,

the OTS then puts them forward to either the Treasury or HMRC. Once approved, the OTS embarks on gathering evidence from across the UK. Launching surveys is the best way to receive input from companies as they naturally receive a lot of input from advisers regardless.

Submitting proposals to the OTS operates on a rolling basis, but the timing of delivery is negotiated. The standardisation of tax limits for smaller companies is a simplification issue that could be addressed. The OTS needs the help of these companies in order to collect data and the views of these companies in order to create a report in this area. Information and data from the public is essential for putting to Ministers in order to get a proposal commissioned.

PF thanked BD and NM for their time. BD and NM left the meeting.

## 2. APOLOGIES

Apologies were received from Mark Allwood, Emma Bailey, Alex Barnes, Edward Brown, Tom Gareze, Oliver Gutman, Hannah Jones, Zoe Peck, Ray Smith, Andrew Snowdon and Peter Vertannes.

## 3. MINUTES OF LAST MEETING (7 November 2018)

The minutes of the last meeting were approved.

## 4. ISSUES FOR DISCUSSION AND NOTING

	ITEM	ACTION
a)	<p><b>2019 Budget: preliminary thoughts of QCA members</b></p> <p>Key areas of focus:</p> <ul style="list-style-type: none"> <li>• Simplification;</li> <li>• Entrepreneur relief;</li> <li>• Clearances; and</li> <li>• A level playing field for debt and equity.</li> </ul> <p>It was suggested that the group split its direction into simplification and policy and do one submission to the OTS as well as one to the annual budget.</p> <p>In terms of clearances, there needs to be clarification on how HMRC interpret the phrase business and what the features of a business are, as not knowing this creates uncertainty because of differences between the likes of entrepreneur relief and BDR.</p>	<p>Conference call with TEG members if anything comes out of the Budget.</p> <p>TEG members to start working on Budget reps.</p> <p><b>PF</b> to meet with <b>PA</b> and <b>DR</b> to discuss corporation tax and shareholder investment.</p>
b)	<p><b>Smaller company issues - what are the issues that cause the most problems? For example CIR, compliance requirements etc.</b></p>	None.
c)	<p><b>Implications of Brexit for smaller companies</b></p>	

	PF asked for the groups thoughts on state aid. It was determined that any potential adjustments to state aid would depend on the outcome of Brexit and that there was limited scope to do anything as of yet, or if the UK enters a transitional period.	None.
<b>d)</b>	<p><b>Future meetings and speaker priorities for 2019</b></p> <p>The group expressed an interest in having someone from the major political parties to attend a meeting, particularly within the Treasury/Shadow Treasury, such as Mel Stride MP or Anneliese Dodds MP.</p> <p>As well as this, the group expressed an interest in having someone from HMRC that has a focus on small business to come to a meeting.</p>	<b>AR/JM</b> to contact potential guest speakers.

## 5. COMMUNICATIONS (INFORMATION ONLY)

	ITEM	ACTION
a)	<p><b>QCA review of which corporate governance codes AIM companies follow found that:</b></p> <ul style="list-style-type: none"> <li>i. <b>89% follow the QCA Corporate Governance Code (823 companies)</b></li> <li>ii. <b>6% follow the FRC's UK Corporate Governance Code (55 companies)</b></li> <li>iii. <b>4% follow the code of another country or territory (34 companies)</b></li> </ul> <p>This was tabled for information only and not discussed.</p>	None.
b)	<p><b>The QCA/Peel Hunt Mid and Small-Cap Investor Survey was published in February. Some of the key findings include:</b></p> <ul style="list-style-type: none"> <li>i. <b>62% of investors report that there is less research being produced on small and mid-caps since MiFID II came into effect.</b></li> <li>ii. <b>86% of investors expect there to be fewer broking houses in the next 12 months as a result of MiFID II.</b></li> <li>iii. <b>Companies are taking action – 90% say they either have, or plan to, develop their corporate website to improve visibility to investors. Investors say that holding a capital markets day is the best way to improve visibility.</b></li> </ul> <p>This was tabled for information only and not discussed.</p>	None.
c)	<p><b>The results of the QCA's Small &amp; Mid-Cap Sentiment Index for H2 2018 were released in December. Findings included:</b></p> <ul style="list-style-type: none"> <li>i. <b>Small and mid-caps remain optimistic about their own prospects - 74% expect to increase the number of employees in the next 12 months</b></li> </ul>	None.

	<p>ii. <b>47% of small and mid-caps plan to raise capital in the next 12 months</b></p> <p>iii. <b>67% of companies and 72% of advisors believe the new AIM Rule 26 (requiring companies to adopt a recognised corporate governance code) will improve the integrity of AIM.</b></p> <p>This was tabled for information only and not discussed.</p>	
d)	<p><b>The project for updating the QCA Committee Audit Guide is progressing and is on course for release in the first half of this year.</b></p> <p>This was tabled for information only and not discussed.</p>	None.
e)	<p><b>Henley Business School have been commissioned by the QCA and Downing LLP to undertake a research project to understand the role that NEDs play in smaller, growth companies. They are currently in the process of collating the findings from the interviews and focus groups they conducted and will be released in the first half of this year.</b></p> <p>This was tabled for information only and not discussed.</p>	None.

## 6. ANY OTHER BUSINESS

The new QCA Policy Adviser, Jack Marshall was introduced to the group.

## 7. NEXT MEETING

Wednesday 5 June 2019, 9.00am – 10.30am (Venue: Crowe UK LLP, St Brides House, 10 Salisbury Square, London, EC4Y 8EH)