



## BUSINESS LIFECYCLE REVIEW: CALL FOR EVIDENCE

Issued 19 December 2018

ICAEW welcomes the opportunity to respond to the **business lifecycle review** call for evidence published by the Office of Tax Simplification in October 2018. This representation is further to the three separate meetings we have had with the OTS during autumn 2018 in which members have related their own experiences and views.

This response of 19 December 2018 has been prepared on behalf of ICAEW by the Tax Faculty. Internationally recognised as a source of expertise, ICAEW Tax Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world. Appendix 1 sets out the ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark proposals for changes to the tax system.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

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## MAJOR POINTS

1. ICAEW welcomes the opportunity to comment on the OTS **business lifecycle review** call for evidence, published in October 2018.
2. Many of the questions raised by this call for evidence are addressed to individual agents or small businesses themselves. We dealt with these by arranging round table meetings with our volunteers who were able to make comments based on their own clients and experiences. This paper answers only those relating to us as a professional body.
3. Each year the UK tax system grows in complexity as we see new policy decisions introduced, making it more and more difficult for a small business owner to tackle their tax affairs alone. As such many businesses will look to an accountant or agent to advise on tax matters and prepare the tax return.
4. We are encouraged to see that simplification of the tax system is being considered for small businesses before the anticipated introduction of Making Tax Digital for income tax and corporation tax in April 2020 at the earliest.
5. The focus of the call for evidence is weighted towards simplifying the corporation tax computation with less consideration for how the tax computation for an unincorporated business could be simplified. Many of the rules for companies apply equally to sole traders and partnerships so thought must be given as to how any potential changes to corporation tax would impact these other business structures.

## RESPONSES TO SPECIFIC QUESTIONS

### Questions relevant to agents and representative bodies

#### **Q9: What is the composition of your client base/membership**

6. ICAEW leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. The UK membership comprises of 63,000 members working in industry (23% of which work in companies employing between 0-50 employees), and 42,000 working in UK practice firms which advise over 2 million businesses.

#### **Q10: Is there scope to streamline the corporation tax computation? If so, how, and for what size of company?**

7. We welcome simplification wherever possible but we are concerned that too many different sets of rules can lead to complexity and confusion. If any did propose any simplification measures for corporate entities it would be necessary to consider how these changes are relevant to other business structures, in particular unincorporated businesses.
8. In response to the OTS call for evidence, simplification of the corporation tax computation, we submitted **ICAEW rep 198/16** which set out various adjustments which could be removed to simplify the corporation tax computation. These are reproduced below.

#### **Accrued pension contributions and remuneration**

9. We believe that simplification could be achieved by removing the need to disallow accrued pension contributions not paid by the year end and accrued remuneration that has not been paid within 9 months of the year end. The record keeping burden is disproportionate and tax rules should follow the accounting principles in this particular area.
10. We accept that these rules were originally introduced as anti avoidance measures, but any abuse is likely to be possible only by smaller owner managed enterprises and the restriction should not be necessary for larger companies. One solution might be to extend the time periods for payment to have been required.

### **Pension spreading**

11. Given that the pension annual allowance has reduced over the years we think that the pension spreading rules for companies should be re-evaluated. This is an issue more for close company contributions to participants pensions than for larger entities.

### **Legal and professional fees, capital or revenue**

12. A disproportionate amount of time is spent determining whether legal and professional fees are capital or revenue in nature. The rules are based on legislation and facts of case law. A refined set of rules would reduce the administrative burden.

### **Payment of interest**

13. From 6 April 2016, banks and building societies are no longer required to tax individuals at source on their interest income. The rules have now been extended to other common interest sources such as open ended investment trusts, authorised unit trusts and investment trust companies.
14. We believe the rules should be extended to companies to remove inconsistencies in the treatment of interest payable. This would remove the need for many companies to complete and file forms CT61.

### **Sundries and materiality**

15. Much time is spent analysing small balances on sundry expenditure accounts and small provisions. While we accept that materiality in the context of large businesses could mean that large sums are involved in absolute terms, for small companies the amounts are trivial.
16. Accounting adjustments will always have been subject to materiality and it would be helpful to explore how tax might follow this to save the administrative burden for smaller companies.

### **Reforming the scheduler system**

17. For smaller entities the scheduler system can be an overly time consuming activity whereby the various forms of income and expenditure are split out into their respective schedules only for the resulting total taxable profit to be the same as they would have been had the process not been carried out.
18. For these smaller companies in particular, relaxing the rules on the schedules would reduce the burden that these businesses face, making compliance simpler and reducing the administrative cost burden.

### **Entertaining expenses**

19. We understand the original purpose behind disallowing the provision of basic meals was to prevent corruption. This aim is now better fulfilled by the Bribery Act and so in practice, the corporation tax disallowance is targeted only at minimal sums for 'hospitality', much of which is reciprocal in nature so has no significant beneficiary

### ***Q3: In your experience, have the recent dividend tax changes impacted on client's decisions about whether or not to incorporate a business, and where incorporated, the remuneration strategy?***

20. Despite the reduction in the dividend allowance from £5,000 to £2,000 there is still a tax saving to be had at a given level of profits, and therefore incorporation remains a favourable option for many businesses, see [ICAEW TAXguide 18/18](#).

## OTHER COMMENTS

### Registering for VAT

21. Many small businesses manage their own VAT affairs, particularly where the business structure is relatively simple, ie, UK only sales, no partial exemption and no VAT schemes. In these situations, registering for VAT and completing the VAT return are usually straightforward.
22. Given the introduction of Making Tax Digital from April 2019 (for VAT registered businesses with turnover above the threshold) this may of course change as businesses will be required to record each business transaction in MTD compatible software, and a VAT return that might have taken 20 minutes at most to complete will now take longer as the business owner is required to update the accounting records as near to real time as possible.
23. We think that more guidance could be available to explain what a business must do in the period between registering for VAT and receiving its VAT number from HMRC.

## DEALING WITH TAX

### Questions for all

**Q12: Which taxes, if any, do you, or businesses in general, deal with directly, as opposed to using an agent (for example, ITSA, NICs, PAYE, VAT, CT, Customs)? Are any taxes easier for a business to do themselves?**

24. No comment.

**Q13: What is your experience of registering for the various tax regimes (ITSA, NICs, PAYE, VAT, CT, Customs)? Looking across the process of registering: finding out what to do, accessing the relevant forms, filling them in, receiving registration details, completing the process - a) Is this a quick process? b) Is it easy to do? c) What works well? d) What could be improved?**

25. No comment.

**Q14: Do you use HMRC's online Personal Tax Account or Business Tax Account? a) What works well? b) What could be improved?**

26. These accounts are a positive step towards giving taxpayers information about their tax affairs in a clearer and more accessible digital format. However, the accuracy and completeness of this information is essential if taxpayers are to have confidence in it.
27. Agent access to the personal and business tax accounts of clients is also essential if an agent is to give tax advice to clients in a timely and cost effective manner.

**Q15: What is your experience of accessing HMRC's online services (for example, filing VAT, ITSA, PAYE, or CT returns online)? a) Which services do you use? b) Do you find them simple and quick to use? c) What works well? d) What could be improved**

28. The nine box VAT return is straightforward and we have had no problems reported by members who use this service.
29. The ITSA online service also works well for small businesses who manage their own tax affairs. Although some of the sections, for example those asking about tax collected through the PAYE code and tax underpaid generally, are confusing, most taxpayers get used to questions over successive years' returns. It is change which causes most problems.
30. For PAYE please see Appendix 1.

**Q16: What is your experience of paying tax? a) Is this a simple process? b) Is it a quick process? c) Do you have any suggestions for improvement?**

**Q17: Do you use HMRC guidance to help with your business's or your clients' tax affairs? a) If not, why not? b) If yes, what do you find helpful, and what could be improved?**

31. HMRC's guidance, especially for employers, leaves much to be desired, being frequently inaccurate, published too late, and/or incomplete. Guidance seems to be published as an afterthought, whereas it should be published when a policy is announced so everyone knows the policy intent and how people are supposed to comply.
32. HMRC's bi-monthly Employer Bulletin is not always accurate. Representatives on HMRC's Umbrella Group used to help the former Inland Revenue by proof-reading it. We have suggested that the Employment & Payroll Group be invited to become similarly involved.
33. HMRC's guidance on optional remuneration arrangements, payrolling of BiK, and termination payments was published virtually on the morning that the new rules came into effect in April 2017 and 2018, and was incomplete.
34. Guidance for BiK needs to be published before the start of the tax year, so employers can set up procedures to collect the correct information in-year. This applies as much to those who report BiK at the end of year on forms P11D as to employers who payroll BiK.

**Q18: If your business (or a business you advise) has employees, how does being an employer impact on the administrative burden? a) Do you/your clients offer employee benefits? (For example, private medical insurance, childcare, season ticket loans, company vehicles, or staff parties?) Have the benefits changed following tax changes? b) Do you/your clients make use of voluntary payrolling of benefits, or the low value benefits allowance (£50 per benefit)? If so, do you find it reduces your administrative burden?**

35. Please see appendix 2

## APPENDIX 1

### ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

- **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
- **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
- **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
- **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
- **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
- **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
- **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
- **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
- **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
- **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see <https://goo.gl/x6UjJ5>).



## APPENDIX 2

## ADDITIONAL QUESTIONS

The questions below were posed by the OTS and discussed in meetings on 11 and 12 December 2019.

**Q1: Taking on an employee - what could be done to reduce the tax administrative burden? We understand that a good number of small employers don't payroll benefits and prefer to pay agents to do an annual P11D. Is that your members' experience? What are the main challenges members see in their everyday work? How could the RTI/PAYE process be improved?**

1. Taking on the first employee is a big step for a business. Of course, where the business is a company, it will already have at least one employee – a director – from day one. There are many obligations that must be complied with which, if only taking on one employee, can add a disproportionate burden to a small business, both in terms of time and financial cost. Some of the common employer obligations are set out below:
  - a) Where the employee is paid (which might not happen from day one in an owner-managed company start-up), a payroll must be set up and registered with HMRC. Getting HMRC to set up a PAYE scheme in advance of an employee starting can be difficult. Once a PAYE scheme is set up, employers need to remember to submit a nil payment employer payment summary (EPS) for tax months in which no employees are paid.
  - b) Income tax and Class 1 NIC must be accounted for online under PAYE in real time on or before the contractual payment date, so payroll software is needed. Employers can do it themselves using private sector software or HMRC's basic PAYE tool or can instruct an agent, for example their accountant, to run the payroll and submit the necessary returns to HMRC.
  - c) Statutory payments, such as sick pay and maternity pay, will need to be accounted for through payroll.
  - d) If the employee meets the criteria, they will need to be auto-enrolled into a suitable workplace pension scheme to which the employer must contribute at set rates, unless the employee chooses to opt out. Auto-enrolment is very complicated; it is not intuitive and there are no helpful tools. Employers must be aware of, inter alia, postponement periods, how to choose a fund, and the definition of employee start date (HMRC and the Pensions Regulator (tPR) have divergent views of when an employee starts – tPR and the law say it is when the employee starts employment and HMRC thinks it is when the first RTI full payment submission is received).
  - e) If the employer provides any benefits-in-kind (BiK) including expenses to the employee, the employer will need to account to HMRC for tax due on these either via end-of-year form P11D or in real time through the payroll. Class 1A NIC will need to be accounted for to HMRC via form P11D(b). In some cases (eg, payment of employees' pecuniary liabilities) Class 1 NIC will need to be accounted for via the payroll instead of Class 1A. Grossed-up tax and Class 1B NIC will be due where the employer chooses to pay tax on BiK on behalf of employees (this is most simply achieved by way of a PAYE Settlement Agreement).
  - f) When HMRC's employee and employer records do not agree with the data that the employer/agent has submitted to HMRC, the employer or their agent needs to spend a lot of time trying, frequently in vain, to make HMRC desist from chasing non-existent PAYE liabilities and procure corrections to HMRC's records. See further under Digital below.
2. As well as tax and NIC, statutory payments and pension scheme auto-enrolment, taking on the first employee also necessitates the employer complying with employment laws, which

include providing paid holidays, paying remuneration at not less than national minimum wage rates (in broad terms set according to the employee's age and status), and complying with anti-race, age and sex discrimination legislation, notice periods and health and safety requirements to name a few. Although seen as burdensome, these obligations are there to ensure that employees are not exploited, even if unintentionally. The employee may need training as part of their job and will probably expect the employer to pay for this.

3. After the first employee, taking on subsequent employees does not add appreciably to the burden.

**Q2: A PAYE-like experience for self-employed individuals - we know that many of the smallest businesses find tax obligations a burden and source of worry: there is appetite from self-employed individuals for a PAYE-like experience, where an engager or a standalone application processes their sales and expenses, calculates and pays tax on a regular basis (e.g. monthly). Such a process could fit with MTD and make tax simpler and less burdensome for self-employed individuals. OTS would welcome members' thoughts on this matter.**

4. We have been asked by the OTS to comment on the idea of a PAYE-like experience for self-employed individuals.
5. We understand that a PAYE-like experience for some self-employed individuals could bring certainty about the amount of tax they owe, and that it would remove a lot of anxiety and stress if the administration and payment of tax were passed on to the engager.
6. Many small businesses in self assessment are surprised that their first payment on account is 1.5 times their annual tax liability. Rather than introducing a new monthly PAYE-like deduction it should be possible for businesses to open an optional 'certificate of tax deposit' account into which they are able to deposit money to build up reserves to pay their tax.
7. There is a risk that these individuals may expect employee rights to match the fact that they are being taxed in a manner which appears very like an employee. This is already evident where individuals are treated as deemed employees for tax purposes as a result of the off-payroll working rules in the public sector, although they are not employees for employment rights purposes.
8. While this could be relatively straightforward for some engagers, for example, those in the private car hire sector, it would be more complicated for other trades where annual accounting and tax adjustments would be required to determine the taxable profit figure.
9. The introduction of a PAYE-like experience would need to be voluntary with individuals being able to opt-in. However with choice comes the likelihood of confusion and complexity and we would not recommend an option like this being introduced at this time.
10. Consideration would also need to be given as to how this system would interact with universal credit and MTD for income tax and MTD for corporation tax.
11. Before the introduction of any new system it is important to address the existing PAYE RTI issues which were identified in the recent post implementation review of RTI and which have still to be addressed.
12. On balance we would strongly caution against introducing a PAYE-like experience for self-employed individuals at this time.

**Q3: Errors in pension tax relief – how widespread is confusion between relief at source (pension contribution to pension provider made after basic rate tax deducted) and net pay (pension contribution made directly from pay by the employer before operation of PAYE/NI) arrangements? Would it be simpler if the net pay arrangement was the only one?**

13. Confusion between relief at source and net pay is widespread, even amongst professionals. This is partly because the terminology suggests the opposite of what it means. There is room for both systems. The simplest way to ease confusion would be to change the nomenclature.



**Q4: International staff – what issues arise? Is the process of taxing such staff relatively straightforward or more complex than it needs to be?**

14. Dealing with international staff is complex. HMRC has procedures such as modified payrolls and tax equalisation (to ensure for example that expat employees' take-home pay is not adversely affected by different countries' tax rates). Some of the difficulties, eg, net of tax credit relief, arise because the UK has a different tax year end from virtually every other country.

**Q5: Digital - do the PAYE online tools work well? RTI – OTS has heard of difficulty in correcting errors, in year changes, payroll numbers, duplications, interaction with Universal Credit. Does this list capture the key issues – have we missed anything?**

15. PAYE in real time (or PAYE real time information (RTI)) system does not work well, mainly because HMRC habitually misprocesses data submitted by employers and HMRC's internal rules for calculating PAYE codes do not always generate sensible code numbers. This results in, inter alia, duplicated employee records on HMRC's systems, HMRC issuing incorrect employee code numbers, employer records differing from HMRC's records, universal credit (UC) means being based on incorrect figures, and employers being pursued for non-existent debts by HMRC's debt collection officers. Examples of code number difficulties are basic rate codes for second jobs, and where a form P11D is processed by HMRC in the same month as a one-off bonus is reported, HMRC treats the bonus as a regular monthly payment when updating estimated income which affects the code number. These outcomes sour relationships between employers and their payroll agents and employees and their employers. Added to this, non-existent PAYE liabilities, known as disputed charges, can take years to resolve.
16. RTI started in 2012/13, but despite the first year being a pilot year and HMRC at that time having an RTI customer user group on which we were represented, no substantive improvements have been made since go-live in 2012. Two years and eight months on nothing has changed, save that we understand that the earlier year update is to be replaced by reporting prior year changes on the full payment submission from April 2019. HMRC published its post implementation review (PIR) in December 2017. We then wrote to HMRC in February 2018, published as ICAEW REP 15/18 offering our help with implementing the PIR and suggested some quick fixes. We regret that apart from being told that budgetary constraints are a major factor in determining HMRC priorities, our services have not been called upon.
17. RTI does not interact well with UC because of payment dates. UC is payable based on calendar months (the date is based on the date the individual first claimed UC). Employees who are paid weekly receive in some months five weeks pay and in other months four. This results in the UC award being amended so that in a month following one where an employee received five weeks pay the UC award will be reduced, even though the employee is receiving only four week's pay. This problem was raised by representatives on the customer user group in 2012. The difficulties for UC claimants are exacerbated where employers bring forward the date on which they pay employees when the contractual payment date is on a non-banking day such as a weekend or at Christmas. Employers are supposed to cite the contractual payment date, not the actual payment date, on the RTI full payment submission. However, this rule is not always reflected in HMRC's guidance for employers, eg, Employer Bulletin, which often refers to payment date. Employers who follow this guidance and do not cite the contractual date on the FPS will report two lots of salary as having been paid in a calendar month, which may cancel the UC award in the following month so the employee will need to reapply for UC.
18. HMRC's RTI PIR said that employers on the whole get RTI right. The Chairman of HMRC has in evidence to Parliamentary select committees criticised employers for making mistakes. It would be helpful if HMRC published a list of the top ten errors stating why they arise.

**Q6: HMRC support for tax agents - agents play a major role in supporting compliance with the tax system. Do members think HMRC could do more to support them in this work? What are members' top 3 suggestions for improvement?**

19. Agents need to be able to see the same information that their clients see in their online tax accounts and access all the online services that are available to taxpayers. HMRC has been expressing this as an aspiration for almost a decade but has yet to deliver in any meaningful way. For example, an agent might deal with an individual's income from self-employment but would be unable to see whether the individual had received any employment income or pension income. The position is even worse for agents acting for individuals who are not in self assessment; agents have access to no online services for such clients. One of the biggest gaps in agent services is that only the very smallest agents have access to Employer PAYE payment and liability data.
20. Agents spend a vast amount of time extracting information from clients that HMRC already holds on its systems. Pre-population of this information would save a lot of time and costs and would make a significant difference to practical day-to-day work. HMRC has started to develop self assessment pre-population APIs but there are significant issues with the current release.
21. We understand that the digital tax account is designed to help achieve this by bringing together the business tax account and personal tax account, however the reality of this working in practice is still a long way off.
22. The processing of the agent authorisation form (the 64-8) can be particularly slow which is a source of frustration for many agents and their clients. We are also aware of instances where HMRC lose authorities which are already in place meaning that HMRC cannot communicate with the agent because there is no 64-8 in place. Having said that it is important that a paper authorisation option remains available and that HMRC does not mandate a digital process for clients authorising their agents as is currently being planned for MTD for VAT.
23. HMRC has stopped sending copy letters to agents meaning that clients receive communication from HMRC which is often not shared with the agent. For example, revised 2016/17 SA302 forms were only sent to clients meaning agents were unaware and unable to deal with the matter swiftly.
24. It would be helpful, in particular for smaller practices, if there was an equivalent of an HMRC Customer Relationship Manager who would be able to signpost the agent to the appropriate specialist within HMRC in relation to a specific client issue. A lot of agents time is spent on the phone to HMRC, often speaking to someone who is not able to assist fully with the issue. HMRC must invest in appropriate staff training to ensure those manning the helplines are able to assist with queries as opposed to filtering calls through where there are often long waiting times. Reinstating a fully efficient agent dedicated line would resolve this.
25. It should be possible for an agent to apply online for a unique taxpayer reference for clients who have not previously been within self assessment. The current process is laborious as the agent must instruct the client how to apply, then HMRC sends the registration details to the client who then has to forward them to the agent.
26. The process for agents that need to register a new client for a number of different taxes is even more laborious. It would be helpful if agents could register a new client for all taxes with just one submission, instead of following a separate process for each tax.
27. Agents have to submit separate authorisation requests (64-8 or online authorisation code) for each tax that a client is registered for. HMRC cannot process authorisation requests until the client has registered for the particular tax.
28. It would be simpler if agents could both be authorised and register a new client for multiple taxes in one joined-up process and if HMRC could keep agents informed of the registration details and accept agents as being authorised if they submit the registration via our agent account with HMRC?

**Q7: Initial start-up period - accepting that most early stage businesses have other priorities than tax in their initial start-up period, what could be done to help ease them into the system? More education? A start your own business pack with lots of ideas and maybe some software (planning spreadsheets)? Mentoring – from whom?**

29. It is relatively straightforward for anyone to set up a company but very difficult to get out of a corporate structure. Many individuals going into business will set up a company when in fact operating as an unincorporated business would have been a perfectly suitable business vehicle. A lot more could be done to educate potential small business owners about the advantages and disadvantages of setting up a company, for example, a checklist on GOV.UK and Companies House website to highlight the administrative and reporting requirements that a corporate wrapper requires.
30. There should be a simple mechanism to allow a business to be transferred from a corporate structure to an unincorporated business. We are aware that the take-up of disincorporation relief was relatively low (only about 50 companies claimed relief in its 5 year existence) but there is merit in considering a more straightforward replacement.
31. Many small business owners will not know the date they started to trade, possibly because the activity began as a hobby and later grew into something more substantial or because they were unaware that this information would be required. Of course for those in a corporate structure it is most likely that the date of incorporation will be treated as the day the trade began but for an unincorporated business it could be one of many dates.
32. HMRC guidance in the Business Income Manual is not terribly helpful. **BIM70505** states that “the courts have distinguished between preparing to commence business and actually commencing business. As a general rule a trade cannot commence until the trader:
  - is in a position to provide those goods or services which it is, or will be, his or her trade to provide, and
  - does so, or offers to do so, by way of trade.”
33. Although this may seem a trivial point, there is little guidance or case law to assist those trying to determine the date the trade commenced. The move to MTD means establishing this fact will become vital if up-to-date business records are to be maintained online.

**Q8: Capital allowances - the new Structures and Buildings rules are a welcome additional relief, but we continue to hear complaints about the complexity of capital allowances. We think the main challenge is around definitions – what is P&M and what is part of a building. How might these margins be clarified? Are there any other aspects of the treatment of capital assets that are particularly complex?**

34. For the majority of small businesses the annual investment allowance (AIA) is sufficiently high enough to provide tax relief on capital expenditure, therefore capital allowances are generally not considered complex.
35. Guidance could be improved to highlight the importance of tax planning, for example, the timing of an asset purchase to ensure the AIA is maximised. The temporary increase in the AIA from £200k to £1m, introduced in Finance Bill 2018-19, could see some small businesses worse off if they purchase assets just before the allowance reverts to £200k .
36. Identifying what does and does not qualify as installation costs can be difficult and often professional advice would need to be sought.
37. The small pool writing down allowance was introduced at £1,000 but has never been updated. Increasing the allowance to £10,000 would bring further simplification to many small businesses.