Tax Representation

ICAEW TAX FACULTY

TAXREP 11/09

SIMPLIFICATION REVIEW: CORPORATION TAX CALCULATIONS AND RETURNS FOR SMALLER COMPANIES – A DISCUSSION DOCUMENT

Representations submitted on 20 February 2009 by the Tax Faculty of the Institute of Chartered Accountants in England and Wales in response to a discussion document issued jointly by HMRC and HM Treasury on 24 November 2008

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SIMPLIFICATION REVIEW: CORPORATION TAX CALCULATIONS AND RETURNS FOR SMALLER COMPANIES

INTRODUCTION

1. We welcome the opportunity to respond to the HM Treasury and HMRC discussion document published on 24 November 2008 at *http://www.hm-treasury.gov.uk/prebud_pbr08_simplificationreview.htm*.

2. Details about the Institute of Chartered Accountants in England and Wales and the Tax Faculty are set out in Annex 1. Our Ten Tenets for a Better Tax System by which we benchmark proposals to change the tax system are summarised at Annex 2.

3. The Institute of Chartered Accountants in England & Wales is fully supportive of the Government's stated aim in relation to simplifying corporation tax calculations whilst saving businesses compliance and administrative costs.

4. Paragraph references and the extracts below refer to the current discussion document.

5. The discussion document details several key ideas which have been considered by the review, of which two are explored further. In framing our response, we have considered the benefits and drawbacks of each of these two proposals and have also looked again at one of the suggestions which the review has rejected.

6. The two proposals being taken forward in the discussion document are:

- Alignment of current statutory accounting and tax calculation obligations into a new accounting standard incorporating tax obligations.
- A new tax regime based around company cash flow.

Changes in European Union accounting requirements

7. The current debate about what accounts small companies need for tax purposes takes place against the background of potential, and major, changes in the European Union (EU) reporting requirements and rules for businesses.

8. The European Commission launched an Action Programme in 2007 to reduce administrative burdens on businesses in the EU by 25% by 2012. We understand that in February 2009 the Commission will propose an overhaul of the Fourth and Seventh Company Law Directives (Accounting Directives) which regulate all limited companies in the EU, and will announce that Member States will be permitted to exempt micro-entities (defined as businesses with less the 10 employees, balance sheet total and annual turnover below € 500 000 and €1 million respectively) from the scope of the Accounting Directives. The Member States taking up the exemption would then be able to put in place a national regime without a reference to EU financial reporting requirements. Thus Member

States would no longer be under an EU obligation to require businesses to file annual accounts. .

9. The UK has been among the leading Member States supporting the EU simplification proposals. In its report, '25 ideas for simplifying EU law' (July 2008), the UK government strongly backed the proposal on micro-entities, noting that in the UK alone this would deliver savings of €317.5 million (based on estimates that 90% of companies in the UK employ less than 10 people). The government has also argued that the principle of exempting small businesses from specific requirements should be extended ‘as much as possible’.

KEY POINT SUMMARY

The European accounting dimension

10. Whilst this latest simplification review sets out some interesting proposals, we believe that its publication is premature given the potential developments at the EU. First, the EU position on financial reporting must be finalised and its applicability to the UK, including whether the statutory accounts of micro companies should still be required to provide a true and fair view. This will include the responsibility for setting the requirements for those accounts. Only then can the tax treatment of small businesses be considered further.

The entities to be covered by the review

11. At that time, the tax treatment of small businesses generally should be reviewed rather than merely focussing on administrative cost savings for corporation tax. Any proposals for a new system should take into account all forms of business, incorporated and unincorporated.

The rationale for preparing accounts

12. The primary reason for preparing accounts is to provide financial information to assist the management in running the business and other stakeholders in monitoring its performance, both during the year and by reporting on its performance after the end of the year. Establishing the amount of tax payable on those profits is secondary.

Who should set accounting standards?

13. Whether HMRC or government should set down and control the form and content of small company accounts, rather than an independent accounting standard setting body, will need very careful consideration.

What is to be considered to be small?

14. Small should be defined and restricted to micro companies only.

Aligning accounting and taxable profits

15. We believe that the case for basing taxable profits on accounting profit has been dismissed prematurely. There could be administrative savings for smaller businesses by adopting a more pragmatic approach to provisions and disallowable expenses. However we do not think it would be sensible to retain

significant tax obligations which are different from accounting requirements and define statutory accounts by reference to those tax obligations.

Other current developments need to be borne in mind

16. Compulsory e-filing for corporation tax returns using the XBRL standard for submitting accounts comes into place in 2011. For this reason it does not seem the time to be changing the form and content of company accounts, nor the basis on which tax is charged.

17. Further points in summary:

- The review should consider the needs of all potential users of accounts, including banks, credit rating agencies, employees and pension funds.
- If there is an element of choice between paying tax under an alternative method or the standard method, 'better off' computations will be necessary, which will actually increase the administrative burden.
- There are few differences between accruals accounts and cash accounts for most of the smallest businesses. Because they are so similar, we are not convinced that the benefits outweigh the disadvantages of a different system based on cash flow. If this is to be taken further, it should only apply to micro companies.
- Lack of tax relief for interest paid is a barrier to acceptance of the cash flow method.
- The most important consideration for business at this time of financial crisis in the economy is to have certainty. Accounting change should not be implemented lightly as the process of change will itself bring complexity and involve retraining and administrative costs.

DETAILED COMMENTS

Comments applicable to both proposals

Purposes of accounts

18. In our opinion, the primary reason for preparing accounts is to provide financial information to assist the management in running the business and other stakeholders in monitoring the performance of the business both during the year and by reporting on its performance after the end of the year. Business owners need meaningful and certain information about the true financial position of the business and this includes information on debtors, creditors and stocks etc; an approach based merely on cash flow would not provide this information, while the alignment option would detract from this as the main objective.

Accounting standard setting process

19. Before major changes are made to the tax system it is necessary for the EU position on financial reporting to be finalised and its applicability to the UK to be

considered properly. This includes agreeing the responsibility for setting the requirements for those accounts. Whether HMRC or government should set down and control the form and content of small company accounts, rather than an independent accounting standard setting body, will need very careful consideration..

Scope

20. The discussion draft refers only to companies and not to unincorporated businesses.

21. Any new system should apply to all forms of business to ensure that the tax system neither encourages nor discourages incorporations.

22. Different entities are subject to different forms of taxation on their profits, income tax, national insurance and corporation tax. Extending the scope to all entities would need to take this into consideration.

23. Any proposals which affect only companies should be accompanied by a mechanism for disincorporation, together with associated reliefs.

Users of accounts

24. The review should consider the needs of all potential users of accounts, including banks, credit rating agencies, employees and pension funds.

Distributable profits

25. If dividends can only be paid by companies which have adequate distributable profits and the latter profits are likely to be lower under either of the current proposals then this could be a drawback. The view of ICAEW, as explained below, is that distributable profits should be based on a solvency declaration by directors made at the time the dividend is being declared.

Transition

26. The transition between regimes when thresholds are breached will add complexity. This will apply not only in the year of breach, but also to monitoring in the years leading up to the breach. Prior year comparative figures in the first year of change will be meaningless unless also restated, which will create more work.

27. Use of existing losses and reliefs would be an added complication.

Choice

28. If there is an element of choice between paying tax under an alternative method or the standard method, 'better off' computations will be necessary, which will actually increase the administrative burden.

29. It will be difficult to make comparisons between companies/businesses operating in the same sector but which are using different bases for accounts and tax computations. This will affect all third party users, including HMRC, whose risk assessment techniques will be affected and also credit rating agencies.

Using Statutory accounts for tax purposes

Other possibilities

30. In para 2.3 the case for basing taxable profit on accounting profit is dismissed. One of the reasons given for this is that companies would neither benefit from the Annual Investment Allowance (AIA) nor from other targeted allowances for environmentally beneficial plant and machinery. This will always be the case where government seeks to use the tax system to encourage specific types of behaviour. An alternative approach would be to provide these allowances by way of grants rather than using the tax system.

Government policy

31. In our view the key impediment to simplification is that successive governments have adopted policy positions (some of which are longstanding) which, while they may be perfectly justified in policy terms, are incompatible with genuine simplification. The key areas are:
    - capital allowances versus depreciation
    - The 'Green agenda' eg in relation to cars
    - disallowed expenditure on entertaining
    - disallowed expenditure on parking fines, etc
    - disallowance of general provisions
    - disallowance of 'capital' expenditure
    - non recognition within the tax system of the concept of materiality

    A radical approach to simplification needs to consider whether there is scope to remove some or all of these differences.

32. The Government needs to look at whether it can simplify the tax rules for smaller companies without significantly changing its tax receipts or allowing widespread avoidance. If this could be achieved, then real savings could be made.

Disallowable expenditure

33. Para 2.5 raises the issue of dis-allowing entertainment and other non-business expenditure. Para 2.13, 3rd bullet point, recognises that an accounting standard based on tax rules would also not solve this problem.

34. In either case, adjustments will be needed which cancel out any administrative savings. Most of the time spent computing corporation tax for small companies is

in analysing expenses such as ‘general expenses’ and legal fees. Unless this requirement is abolished, the cost savings will be restricted.

35. It would be useful if the Government could quantify the current level and value of disallowances so that we can assess whether they are really a problem for small businesses and if any of the options that have been dismissed might actually be viable.

Other areas to consider

Small business tax review

36. We consider that the tax system for small business needs fundamental review rather than a review which is based merely on administrative cost savings in respect of one area of taxation. Any such savings are more likely to be an exercise in applying economic principles rather than actual time and cost savings for real small businesses.

37. By focussing only on the administrative burden for small companies, the review misses the opportunity to modernise the tax treatment of small businesses as a whole. For some time the ICAEW has been calling for HM Treasury to revisit its small business review, which had promised a radical review of the way that small businesses were taxed.

38. For example, tax transparency for small companies would remove the need for tax motivated incorporation. It could also remove the need for a PAYE scheme for employee shareholders resulting in a considerable administrative saving since PAYE is arguably more burdensome than corporation tax. There are also a growing number of businesses opting to use LLPs as the legal form for business, bringing in senior people as members rather than employees for the same reason. See Annex 3 for further details about this suggestion.

Certainty

39. Business calls for certainty at all times but it is particularly relevant in the current economic climate. Accounting change should not be implemented lightly as the process of change will itself bring complexity and have retraining and administrative costs.

Compulsory e-filing for corporation tax

40. The Finance Act 2007 introduces the requirement for all corporation tax returns to be filed using the XBRL standard from April 2011. In addition, the Government has promised a joint filing facility for HMRC and Companies House by 2011. Software for these projects is already commissioned and early prototypes are being tested. The cost of revising these programs will be considerable both for HMRC and for third party software providers.

41. By way of comparison, we experienced many problems with the 2008 version of the SA100 self assessment return which had been redesigned in the same year that the personal tax filing dates were changing and e-filing became mainstream. This caused considerable uncertainty and wasted much time.

42. Changing the underlying basis for the way in which accounts are prepared at the same time as the way that they and the tax computations are filed will have serious training cost implications for business and for HMRC.

43. E-filing must be allowed to proceed unimpeded if it is to have the best chance of successful implementation to the timescale set by Government.

Statutory accounts - incorporating tax obligations

Benefits

44. It is possible that if other users of financial statements are satisfied that statutory accounts based on tax obligations would satisfy their needs, then only one set of accounts would save time. However, we think that this is unlikely and have severe reservations. Other users of financial statements should be consulted.

Drawbacks

45. The vast majority of the feedback we have had from our members is that they do not see a problem with the current system. Accounts for the smallest businesses are in general already simple and inexpensive to prepare.

46. Producing tax compliant accounts which must then be adjusted for non tax items is effectively doing the same work as now, but in a different order. At best, this would be the same amount of work for a small company, but with a less meaningful result.

The annual Budget cycle

47. Accounting requirements would change each year following the Budget. Not only would this be administratively costly, but it would also render comparative figures less meaningful.

Accounting issues

48. We note that it is intended that the corporation tax liability under this new accounting standard would be the same as under the current rules. Tax law would inevitably dictate the content of the accounting standard.

49. It is not easy to see how the current Accounting Standard setting process could accommodate the requirements of the Treasury, whilst still retaining its independence. Who would create Tax GAAP and who would maintain it?

50. The reputation of accounts which have been prepared in accordance with GAAP has been built up over many decades. People trust accounts even if they do not understand them. Although an employee, for example, may not understand them, that person will usually trust the process used to prepare them. They trust the accounting standard setters to require certain minimum standards of care in the preparation of accounts; that the business is a going concern means job security. Although few may notice immediately that the rules have changed, there is a danger that in say 10 years time those involved in this exercise may be accused of accepting watered down accounting requirements for small businesses.

51. The measurement of profit under UK GAAP is important to the owners of a small business. It provides a measure of performance and a benchmark by which managers can plan to operate the business more profitably. It is a guide to personal consumption and the amount which can be prudently withdrawn / retained in the business. A business which is built upon good financial practices and controls is more likely to survive and grow.

52. Although we understand that disallowables would be added back as a separate line in the profit and loss account, this is not apparent from reading the consultation paper. It is not easy to see otherwise how non-deductible expenditure would be treated. Clearly it could not be carried on the balance sheet, so it would presumably have to be an additional adjustment to profit or dealt with through reserves. Neither treatment will result in a simpler system.

Definition of small

53. ‘Small company’ would need to be defined.

54. In group situations, applying a definition immediately becomes more complex. Group companies which are not small would be consolidated with those which are not requiring accounts to be restated.

55. When a company ceases to be small, or becomes small for the first time, comparative figures would need to be restated. A company which is small if its accounts are prepared using GAAP may not be if accounts had been prepared using the new tax accounting standard and vice versa.

Distributable profits

56. The impact of any changes on distributable profits needs to be assessed. Capital expenditure benefiting from the AIA would have a significant impact on distributable profits. This could lead to under or delayed investment in plant (ie the AIA will not meet policy objectives) in order to maintain distributions.

57. Policies which give tax relief in excess of expenditure will have a significant impact on the financial statements. These could produce some strange results leading to complexity, confusion and uncertainty.

58. The ICAEW view is that the current regime on distributable profits should be changed to require directors to make a solvency declaration at the time they declare a dividend, so that the ability to pay a dividend will no longer depend on having distributable reserves to support it. If such a change were to be introduced then what is, or is not, in the accounts will no longer be so important

Other points

Size of business to which this could apply

59. The proposed definition of 'small' is too large. The EU micro tests may be a more appropriate measure of eligibility.

60. If assets are written down by the AIA, there may be few assets on the balance sheet so that the micro tests will always be met. This raises the question of how to apply the micro test - is it with or without this standard?

Type of business to which this could apply

61. People businesses, service businesses, tradesmen with few fixed assets or borrowing requirements might find this method appropriate, but we are unhappy with the idea that special accounting principles could be used by certain businesses only. This is likely to lead to disputes over how certain businesses are classified and business splitting.

62. It would not be suitable for property investment companies because capital gains would still be need to be computed separately.

Impact on other users

63. Banks and credit agencies should be consulted. If they will still require something different and a separate set of accounts, then there would be no savings. A recent survey (Quarterly Survey of Small Business in Britain) by the Open University Business School (OUBS) enterprise research team found that 30% of businesses employing 1 to 2 people had had bank finance. This rose to 53% of businesses employing 5 to 10 people. Many banks will require monthly or quarterly management accounts to monitor the performance of these businesses. The role of the annual accounts is to confirm the accuracy and reliability of the management accounts. The annual accounts would have to be prepared on the same basis as the management accounts. If proposals for a new accounting standard incorporating tax obligations are implemented businesses requiring finance will be required to prepare accounts using current statutory accounting standards in addition to the 'tax accounts' reducing the administrative burden savings.

64. It has been suggested during discussions that there might not be a requirement for a balance sheet. We consider that a balance sheet is a good indicator of the ongoing liquidity of a business. Although it may be several months out of date by

the time it is published, trends and comparatives are useful. There has been a suggestion that some other form of statement of indebtedness could be a requirement, but this merely replaces one statement with another.

Cash flow basis

Benefits

65. For micro businesses, cash based accounts are easier to prepare and to understand. This is unlikely to be the case for larger businesses.

66. There are occasions when cash accounting can be useful for tax purposes. For example, cash accounting rules for VAT are simpler and can reduce administrative costs. However, VAT is a transaction based tax rather than a profit based tax. VAT is paid shortly after a transaction whereas corporation tax is paid many months later so they are not directly comparable.

67. Accounts could be prepared based on bank statements and invoices without having to worry about year end accounting adjustments such as apportionments, timing issues or recognising liabilities. This may be quicker, easier and cheaper, but often, it is analysing the bank statement entries of small businesses which takes the time. Also, accounts prepared on such a basis could not really be considered to show 'profits' accurately.

68. The rules on what is considered to have been paid and received can be clear and unambiguous.

69. There is automatic bad debt relief.

70. This method gives early tax relief for investment by new or growing businesses.

Drawbacks

Will it save much time?

71. For most of the smallest businesses, there are few differences between the work required to produce accruals accounts and cash accounts. Because they are so similar, we see no benefit in having a different system.

72. The option of cash accounting would just add another layer of complexity.

73. It would still be necessary to separate revenue and capital receipts and payments.

Unacceptable tax avoidance?

74. Taxable profits based on cash are easy to manipulate. Increasing stock at the end of a period would reduce the amount subject to tax. Would this be

acceptable tax avoidance? Such a practice, if encouraged, may cause a company to over stock.

75. Non cash transactions would not appear in cash based accounts. This implies that they would be outside the scope of tax, which seems unlikely and would be a huge boost to the black economy. However, unless they are, adjustments would be needed to the cash accounts, backed by anti avoidance provisions.

76. HMRC has traditionally been resistant to calls from the accounting profession to accept accounting provisions and estimates for such items as bad debts, even though these merely change the timing of tax payments and to accept them would achieve an easy saving in administrative time.

Are cash based accounts good enough to run a business?

77. Good business management dictates that some form of additional statement or record keeping for debtors and creditors will still be needed. This will create an additional administrative burden.

78. Cash based accounts can be misleading. Undisclosed liabilities or commitments would be dangerous, although we accept that this is arguably less important for micro businesses.

79. Members whose clients use cash accounting for VAT are familiar with clients recording expenses as early as possible, while not chasing unpaid bills at the period end. This leads to manipulation of earnings and poor cash management practices. Depending on the definition of 'cash' a further manipulation might be to delay banking cheques received or to write out cheques earlier than usual before the year end, but to delay posting them. In the absence of an audit, this would be difficult to identify.

80. Cash accounts are poor indicators of a business' potential success or failure. If a business buys stock for £200 and sells half for £200, they haven't actually made a cash profit (even though it is accepted that they have made a £100 accounting profit).

81. Suppose the remaining stock is never sold. How will the accounts illustrate the difference between a business which made a poor purchasing decision to buy too many goods which would quickly go out of date, as opposed to a business which still has the remaining stock for sale, but has poor selling techniques?

82. This method skews the tax liability to the final period of trading when all assets are realised.

83. Once again, capital gains remain a complication.

Interest relief

84. Interest relief must be reconsidered. Lack of such relief is a barrier to acceptance. If stock is purchased for cash on the first day of the accounting period and sold on credit the following day, the business will have to fund the transaction until the debtor pays. The rationale being given by the Treasury for denying tax relief on this interest does not seem to work in practice. This also discriminates between different types of business.

85. Will interest received be tax free?

Government policy initiatives

86. Cash accounting does not enable Government policy to influence spending for example through enhanced research and development relief. How would such tax credits be dealt with?

Other points

Size of business

87. This method could be suitable for businesses up to the VAT registration threshold. Applying cash flow techniques for both taxes should simplify the process.

Type of business

88. Cash accounting could be suitable for straightforward micro businesses where there are few debtors, creditors or stock and which have a limited need for controls.

Impact on other users

89. The accounts will not present the full picture of the business if there are substantial debtors, creditors or stock.

90. The accounts will not provide warning of a change in the business' liquidity position.

91. We need further consideration of what other users need. Banks may actually prefer the focus to be on cash flow, but it will not always be the case.

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20/02/09

ANNEX 1

WHO WE ARE

1. The Institute of Chartered Accountants in England & Wales is a professional body representing some 128,000 members. The Institute operates under a Royal Charter with an obligation to act in the public interest. It is regulated by the Department of Trade and Industry through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy (which includes taxation).

2. The Tax Faculty is the centre for excellence and an authoritative voice for the Institute on taxation matters. It is responsible for tax representations on behalf of the Institute as a whole and it also provides services to more than 11,000 Faculty members who pay an additional subscription.

3. Further information is available on the ICAEW Tax Faculty website at www.icaew.com/taxfac or telephone 020 7920 8646.

ANNEX 2

THE TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.

2. **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.

3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.

4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.

5. **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.

6. **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.

7. **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.

8. **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.

9. **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.

10. **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 TAXGUIDE 4/99; see http://www.icaew.co.uk/index.cfm?route=128518**.**

ANNEX 3

A NEW TAX SYSTEM FOR SMALL BUSINESS

Our tax system is very prescriptive, requiring in most cases for income tax to be charged on unincorporated businesses and corporation tax to be charged on companies.

In the USA where the owner of a company can opt to be taxed using the personal route, most do.

> [Technical note re US tax and the S corporation model
>
> The S corporation begins as the C Corporation. After formation, form 2553 (a subchapter S election) is filed with the Internal Revenue Service. From there on, instead of being taxed at the corporate level, the company's income 'passes through' to the individual shareholders. Any income or loss generated by the S corporation is reported on the individual tax returns of the shareholders.
>
> The S corporation election is a popular choice for most small businesses. Such corporations cannot have more than 75 shareholders and there are restrictions regarding who may and may not own stock; generally non resident aliens, trusts, other S corporations and C corporations (with a few exceptions).
>
> It is useful for small business owners who want the continuity and liability protection of a company but wish to be taxed as a sole proprietorship or partnership.]

A similar approach could be used in the UK.

The US model with a development reserve

A possible refinement to the US model, which found favour with a number of Tax Faculty volunteers who attended our workshop, would be to allow the company to transfer a % of profits into a development reserve which isn't taxed until it is distributed. The remaining profits would flow through to the owners and be subject to income tax in a manner similar to a partnership. There would probably need to be a limit on this tax free reserve. This limit could be a fixed amount, which would be simple, or it could be linked to some other aspect of the company's balance sheet.

Similarities can be drawn between this approach and saving for a pension. Many business owners already transfer funds from their taxable profits into pension funds. Following the 2006 rule changes for pensions, this is now subject to a lifetime limit. The same limit could be used for the company's development reserve.

Advantages and disadvantages

Advantages
- Individuals who elect for this model would be taxed at the same rate before and after incorporation so aiding planning and continuity.
- Individuals who have to operate through a company because of the nature of their work, would be neither advantaged nor disadvantaged eg IT companies.

- A one person company taxed as an individual would have less administration. PAYE processes would not apply.
- It would no longer be relevant to debate earnings vs dividends for individual clients.

Disadvantages

- Transitional rules could be complex.
- We would need a mechanism to claw back any excess development reserve, although as before, there is a parallel with pension fund surpluses.
- Multiple income sources could be a problem.
- Shared ownership of a company would need to be considered.

ANNEX 4

ANSWERS TO QUESTIONS IN DISCUSSION PAPER

Statutory accounts profits to be used as taxable profits

1. *Would moving to a new statutory accounting standard which incorporates tax rules as outlined above deliver real simplicity and savings for smaller companies?*

We do not think that such a scheme will deliver the simplicity and savings anticipated.

2. *Where and for whom would the benefits and savings occur in practice?*

We do not think that this proposal would result in savings or benefits.

3. *What drawbacks, if any, do you see with this approach to integration of statutory reporting and tax calculation obligations for smaller companies?*

Numerous - see main body of response.

4. *What other user interests must the development of such a standard for smaller companies consider?*

In addition to the business owners, interests of banks, creditors, employees, credit agencies and pension schemes, may also have to be considered. In addition to Companies' Act reporting requirements, there also those required by charities and for businesses such as registered social landlords.

Calculating tax on a cash flow basis

5. *Could introducing a new tax regime incorporating cash flow deliver real simplicity and administrative savings?*

In general, we believe that this would have to be optional and that flexibility invariably leads to complexity. Although it could be used by micro businesses without significant levels of debtors, creditors and stock, at this level, accruals and cash based accounts are too similar to be worth differentiating.

6. *Where and for whom would the benefits and savings occur in practice?*

Small business owners and HMRC could achieve marginal savings, but only by exposing many of the businesses themselves to financial risk.

7. *What are your views on the various issues this approach raises, and ideas on how a workable regime could be constructed?*

We do not believe that this regime will bring sufficient savings to be worth pursuing.

8. *Do you feel that either, or both, of the approaches outlined above should be pursued further?*

No.

9. *What are your views on the size and type of business to which any new regime should apply?*

Not applicable.

10. *Could introducing new approaches on an optional basis provide sufficient stability and certainty where this is the priority for businesses?*

No. Options only complicate and confuse.

11. *Are there any other possibilities that you feel the review should examine?*

We think that this review is premature. When the EU position on financial reporting has been finalised and its applicability to the UK has been considered properly, the tax treatment of small businesses can be considered further. At that time, the tax treatment of small businesses generally should be reviewed.