



Accounting Standards Board

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John Harnedy
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HM Treasury
1 Horse Guards Road
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Dear John

SIMPLIFICATION REVIEW

The UK Accounting Standards Board (ASB) welcomes the opportunity to comment on the discussion document '*Simplification Review: corporation tax calculations and returns for smaller companies.*' The ASB supports the aim of the Review, which is to consider whether it is possible to make it simpler for smaller companies to comply with their statutory accounting and corporation tax obligations.

The comments made in this letter are made in the context of the ASB's statutory responsibilities as the UK's accounting standard-setter. We are grateful to the Review team for discussing their proposals with ASB staff and the Board's Committee of Accounting for Smaller Entities (CASE). We look forward to contributing further as the Review team take this project forward.

Tax based statutory accounts

We are concerned this option is not compatible with the need for smaller companies to prepare annual accounts in accordance with the Companies Act that present a "true and fair" view. Our standards underpin this requirement and, whilst the Financial Reporting Statement for Smaller Entities (FRSSE) demonstrates there is scope for a simplified regime for smaller companies, there is a limit to how far the accounting can be simplified without departing from fundamental accounting principles and the requirements of the Companies Act.

There may however be scope to make presentational changes to the statutory accounts that ring-fence any adjustments to the GAAP based accounts figures for tax purposes; perhaps in a separate statement that reconciles GAAP based profits to the equivalent figure required for calculating corporation tax. There may also be scope for the FRSSE, which already provides a “one-stop-shop” for company law and accounting, to include tax requirements. If either of these options were to be developed, responsibility for addressing the tax differences, and for drafting any additional text for the FRSSE, would need to rest with HMRC.

Calculating tax on a cash flow basis

We note the potential benefits of this option will not be fully achievable whilst there remains a legal requirement for smaller companies to prepare true and fair view accounts. Introducing a cash-flow basis for tax accounting could also be perceived to be an additional burden, especially when the FRSSE does not require smaller companies to include a cash-flow statement as part of their statutory accounts.

We therefore agree with the discussion document that a change in the legal requirements for smaller companies to prepare annual accounts is needed before it would be worthwhile considering a cash-based tax regime for these smaller companies. We would also note that, if micro entities were to become exempt from preparing Companies Act accounts, the ASB would no longer have a statutory responsibility for setting accounting standards for these companies.

If you would like any further information on the comments made in this letter, then please contact me or Alan O’Connor on 020 7492 2421 or a.oconnor@frc-asb.org.uk.

Yours sincerely



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