

Think Ahead

ACCA

Tax administration UK

Budapest 2016

Engagement with HMRC

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Overview Of Presentation

The UK tax system

- Types of taxes
- The tax authorities

ACCA's role in influencing the agenda

- Interaction with Government Departments
- Use of the media

The UK Tax System

Different types of taxes

Four key taxes

- Income Tax
- Corporation Tax
- Value Added Tax
- Capital Gains Tax

The Tax Authorities

The tax authority HM Revenue and Customs merged April 2005

Inland Revenue - Outline and taxes collected

Customs & Excise - Outline and taxes collected

The Budget Process

A relentless on going process

There is no start or finish but there are pinch points in the system

The pinch points are more or less synchronised with the seasons

Autumn a possible starting point in the cycle

- some Autumn Statement representations
- consultation from also published from Autumn Statement
- draft finance bill clauses published December.

The Budget Process

Winter

- the budget representation season begins
- professionals should always be feeding into your professional body but especially in this period
- formulation of policy may take around 3 months
- most reps. e.g. by ACCA based around annual theme
 - complexity, tax burden, small business help

The Budget Process

Spring

Budget Representation submissions

Other key issues may also be separately represented

- e.g. Move To Digital (MTD)

Meeting on reps with HMRC

ACCA revised strategy to deal with switch to PR

The Budget Process

Spring/Summer

The Budget - But further consultation

Further budget comment and feed back mainly press releases

Finance Bill published by late April

Rep. bodies comment in detail on the Finance Bill

- very short response timetable and usually only technical
- new tax law has to pass through parliament

The Representative Bodies

Who are they

- ACCA, ICAS, ICAEW, CIMA, CIPFA

All professional firms will be members of the first three

Each has secretariat and technical committees

Input usually directed to technical secretariat - taxation, audit, financial reporting etc. issue dependent

Important for members to input - the professional body can only be as good as the input it receives

Case study

Making Tax Digital in the UK

Six consultation Documents

Starting with smallest first

Tax Gap driven 51% of gap from SMEs
- But no granularity

Making Tax Digital in the UK

No impact assessment but claim of extra £600m pa

No matched costs

Media comments

Evidence before Treasury Select Committee

Responses to all six consultation documents.

Making Tax Digital in the UK

- Fundamental reform of every aspect of the UK tax system to utilise benefits of digital processes
- Massive changes to HMRC backend systems
- Proposals to significantly change businesses' day to day operations
- Ambitious timetable for implementation
- Concerns in accounting profession about speed, scope and proportionality of the changes

Making Tax Digital in the UK

Key points and timeline

- The death of the tax return
- Shift to real time updating (and potentially payment)
- Timetable
 - November 2016 Consultation period ends
 - December 2016 Draft legislation
 - April 2017 Final legislation laid; public beta software testing
 - April 2018 First compulsory business reporting (unincorporated)
 - April 2019 Compulsory reporting for VAT
 - April 2020 Compulsory reporting for corporation tax

Ongoing enhancement of HMRC services and gathering of third party information
Digital reporting for individuals not compulsory
Some limited exemptions for business

Making Tax Digital in the UK

Tax simplified

Taxpayers should not have to give HMRC information that it already has, or should be able to get from elsewhere — for instance, from employers, banks, building societies and other government departments.

Taxpayers will see the information that HMRC holds through their digital tax accounts, and be able to check at any time that their details are complete and correct. HMRC will use this information to tailor the service it provides, according to each taxpayer's individual circumstances. In 2016, HMRC will consult on how information from more third parties might reduce the reporting burden on taxpayers.

Making Tax Digital in the UK

Making tax digital for businesses

Businesses should not have to wait until the end of the tax year or even longer before knowing how much tax they should pay.

HMRC will collect and process information affecting tax in as close to real time as possible, to stop tax due or repayments owed from building-up. From April 2018, businesses, including everyone who is self-employed and those letting out property, will update HMRC at least quarterly where it is their main source of income (or a secondary source of income above £10,000 and their main income is from employment or a pension).

Making Tax Digital in the UK

Tax in one place

At the moment, most taxpayers cannot see a single picture of their liabilities and entitlements in one place. HMRC is changing that.

By 2020, taxpayers will be able to see their complete financial picture in their digital account, just like they do in their online banking. And they will be able to set an over-payment of one tax against the under-payment of another: it will feel like paying a single tax.

Making Tax Digital in the UK

Making tax digital for individual taxpayers

Individual taxpayers will interact with HMRC digitally, and at any time to suit them.

By April 2016, every individual and small business will have access to a digital tax account. The digital accounts will present individual taxpayers with a personalised picture of their tax affairs, along with prompts, advice and support through webchat and secure messaging.

Making Tax Digital in the UK

What the digital system would mean for business

- For the taxpayer
 - The end of the tax return
 - The ability to pay tax based on business activity during the year
 - The ability to upload or update the business tax account in real time
 - All of the business tax information in one place
- For the tax authority
 - The end of the tax return
 - Smoother processing of data by removing peaks
 - Better interaction with taxpayers
 - Ability to support taxpayers to “get it right first time”

Making Tax Digital in the UK

The digital tax account

- For the taxpayer
 - All tax information and interactions are in one place
 - No separate notifications of change of address or other details
 - Easy payment, time to pay and other options
 - Less direct contact with HMRC
 - The ability to appoint an agent for the services the business chooses
- For the tax authority
 - Merging many back end systems to make a seamless front end
 - The “Customer Golden Record” – all of the information about a business in one place
 - Therefore the ability to target information and support much more directly

Making Tax Digital in the UK

Making tax digital for business

- The key elements
 - Businesses REQUIRED to keep digital records
 - Businesses to update HMRC quarterly with summary data
 - The annual taxable profit calculation
 - Commencement for income tax from April 2018 for unincorporated businesses; April 2020 for incorporated (based on accounting period)

Various measures to soften the blow for small businesses

- For the tax authority
 - Merging many back end systems to make a seamless front end
 - The “Customer Golden Record” – all of the information about a business in one place
 - Therefore the ability to target information and support much more directly

Making Tax Digital in the UK

Making tax digital for business

- Digital record keeping
 - Use any internet enabled device – most apps will be cloud based
 - Record income and expenditure as near to real time as possible
 - The option of free software for the smallest businesses
 - Other support from HMRC with transitional and ongoing costs
- Quarterly updating
 - Rests entirely on digital record keeping
 - Looking forward – will also capture VAT data
 - One month to submit, no more than 3 months after the last; more frequent updates possible
 - Summary level data only – but more detail in transactions
 - Option to capture accruals, stock, tax adjustments if desired
 - Will produce a tax calculation and business can pay early if they want to
- Finalising the year
 - Stand alone process but for some could be done with Q4 update
 - 9 months after the end of the accounting period
 - Accounting simplification (see later) might make this much easier

Making Tax Digital in the UK

Simplification

- Cash Basis
 - Much simpler and a more natural fit with MTD
 - Ability to tailor capital allowance claims is lost
 - Interest and related costs capped at £500
 - No loss relief other than carry forward
 - Delay in paying tax for many businesses – but this is temporary
- Basis periods reform
 - Choose any consecutive accounting periods; maximum length of 12 months
 - Tax for a year is based on the accounting periods ending in that year
 - Can end accounting periods on any date they choose –no fixed “year end”
- Simpler reporting outside cash basis
 - Reducing the GAAP adjustments required
 - Retain capital/revenue divide and long term (>1 yr) accruals and prepayments

Making Tax Digital in the UK

Voluntary pay as you go

- Offered as an option
- No current plans to change payment dates
- Some businesses have requested this
- Voluntary payments at a time chosen by the taxpayer
 - In line with quarterly updates?
 - Regularly by direct debit?
 - Variable as and when?
- Design principle – simple, flexible, voluntary
- Transition for current businesses will be complex due to payments on account
- Facility for earlier repayments based on quarterly updates
- Later on – single payment to cover all taxes

Making Tax Digital in the UK

Tax administration

- No new compliance powers to look at quarterly updating
 - Tailor existing compliance powers to mesh with the new regime but not regular updates
 - Retain all existing taxpayer safeguards
- Late submission penalty – move to a points based system
 - No immediate penalty
 - Penalty imposed once a certain level of points accrued
 - Some recognition of compliance history
 - Two suggested models – Basic and Escalator models
- No mention in consultation of required changes to:
 - Notice to file a return
 - Format of supporting computations
 - Crystallisation of liability
 - Record keeping requirements

Making Tax Digital in the UK

Better use of information

- Better and more effective use of third party information to keep the tax collected closer to the correct liability
- Taxpayers update their digital tax account regularly – nearer to real time
- From April 2017 digital tax accounts will include information from employers and pension providers – easier to allocate allowances across multiple PAYE sources
- From April 2018 include savings income (only relevant where > Personal Savings Allowance) and adjust code