



**Making a difference: building
effective relationships with
large business**

Supplement to the Departmental Report 2009

Contents

Page

Chapter 1.	The Review of Links with Large Business	3
Chapter 2.	What we have achieved so far	4
Chapter 3.	Large Business Survey results	6
Chapter 4.	The way forward	8
Annex A	Measuring our progress	9
Annex B	International review	14

Chapter 1. Review of Links with Large Business

For our largest business customers¹, dealt with by our Large Business Service (LBS) or within Local Compliance (Large & Complex), we have a well developed strategy in place based on the principles developed in the 2006 Review of Links with Large Business. This Review gave us the benefit of our customers' views on how we could develop and improve our tax administration. We are continuing to deliver against 14 proposals spread across the four themes that our customers told us would make a difference:

- certainty on the tax outcome of significant issues;
- resourcing to risk – proportionate engagement;
- speedy resolution of issues;
- clarity through effective consultation and dialogue;

underpinned by improving our commercial understanding and professionalism.

This report sets out the progress we have made since Budget 2008.

Led by our network of Customer Relationship Managers (CRMs) for the largest 2,000 companies, we have created **a new approach to our engagement with our large business customers**, enabling us to build much more open and proportionate relationships with them.

The aims of Review of Links continue to be relevant for us and for our largest businesses. The principles are consistent with [HMRC's purpose, vision and way](#) and continuing to build stronger relationships with business is key to our delivery of [HMRC's Objectives](#), enabling us to improve the extent to which businesses pay the tax due and to improve our customer's experience of dealing with us.

The results of the recent independent survey, in Chapter 3, show that business think we are making good progress. However there are areas where we can continue to improve and this report also explains how we will be taking this forward in the coming year.

¹ A turnover of more than £30m and /or more than 250 employees

Chapter 2. What we have achieved so far

At Budget 2008 we published a package of measures based on the Review of Links themes that would challenge the Department, provide assurance to our customers that we are accountable, and encourage and reward the right behaviours in our staff. Our progress against these measures is set out in Annex A.

More proportionate engagement - resourcing to risk

In 2006 our customers were sceptical about how we would implement a mutual understanding of risk. In consultation with business **we developed a Risk Framework** and, by 2009, 40% of our Large Business Service (LBS) businesses and 37% of Local Compliance Large Businesses with a CRM (L&C CRM businesses) had a low risk relationship with us. In addition 74% of LBS customers now think that we have a good understanding of their level of risk².

We have also been more focused in our use of resources - reducing the number of smaller open issues from 4,102 at April 2007 to 154 at April 2009 and this is enabling us to **move resource to higher risk issues**, with record intervention yield.

Our **High Risk Corporates Programme** has helped us to successfully resolve a number of very high risk tax issues - the programme involves initial engagement at Board level where we give a clear view of the risks we perceive from the business' tax strategy or compliance approach, and the response we intend to make. We then dedicate resources and skills from across directorates in HMRC to work these issues intensively with each business, along project management lines. The programme has helped us achieve significant compliance yield and has also led to more collaborative and open working with higher risk businesses

Speedier resolution of issues

We have introduced a **project managed approach to resolving issues** - responding to business concerns about our willingness to engage with them to resolve issues quickly and effectively. By 2009, 82% of LBS open risks had an agreed Action Plan in place, timetabling the issue towards resolution.

For LBS customers we have also reduced the number of open issues that are over 18 months old by 48% between April 2007 to April 2009.

² Survey details in Chapter 3

Certainty on the tax outcome of significant issues

We have successfully launched our **non-statutory clearance service** for all businesses. This aims to provide HMRC's view on the tax outcome of significant issues, where there is material uncertainty for the business, within 28 days. In 2008/2009 we met this target in 79% of applications (93% of our LBS applications), with positive feedback from business.

Consultation and communication

In recognition that the business perspective needs to inform change, we introduced **a new consultation framework**: in 2008/2009 20 out of 21 published consultations on proposed operational policy changes ran for the recommended 12 week period.

Informal consultation with business, is also becoming common practice, enabling their perspective to inform our decisions, where it is possible to do so.

One example of an effective consultation, where Business have generally welcomed the outcome, is the work undertaken by HMRC and HMT with business on the proposed reforms to the taxation of foreign profits. This has led to legislation being delivered in Finance Bill 2009 and the Government is continuing to work with business on reform of the CFC rules.

Professional skills

We have introduced **mandatory Continuous Professional Development** and training products to support new ways of working for our tax professionals, investing in skills for the future. A new commercial understanding product, based on some initial ideas and feedback from business, will help us understand our customers' business environment better.

Summary

There are clear benefits for both businesses and HMRC in delivering our new approach to large business. Understanding our customers and their tax risks means that we can focus resource away from low risk and concentrate on the issues that matter, improving our customers experience at the same time as increasing our compliance results. Faster resolution of issues, through an agreed timetable also improves the focus of resources and can help contribute to giving business earlier certainty. In addition we are providing certainty through early dialogue and through the clearance regime, enabling us to help business in real time, as transactions develop. Building effective relationships with business has been key to the success of this work and the achievements set out in Annex A also contribute to the effectiveness of the relationship and show that HMRC is serious about delivering better compliance alongside an improved experience for our customers.

Chapter 3. The large business customer experience

We recognise the importance of understanding our customer's perspective and priorities in order to drive improvements in tax administration. We have therefore developed an annual programme of research, undertaken by a third party on behalf of HMRC, which will be published on our website to explore large business customers' experiences of their relationship with us. In 2008 we spoke to 800 of our large business customers to establish their perceptions and expectations in respect of for their dealings with us and to identify priority areas for improvement.

On **certainty**, business valued 'real time' dialogue with their CRM, and the new non-statutory clearance service but felt we could still do more.

There was unanimous support for our new **risk based approach**, welcoming increased insight into our risk review process. Customer's experience of project managed **issue resolution** was varied, but most large business customers felt that we make it clear what our areas of concern are.

Our **commercial understanding and professionalism** has improved, but our customers feel we need to improve our commercial understanding further and that we need to be more 'joined up' as an organisation.

In 2006 it was clear that we shouldn't underestimate the scale of the challenges ahead: but **we needed to modernise** if we were to contribute to **making the UK a good place to do business**. Whilst the relationship between HMRC and business and the efficiency and effectiveness of the UK tax administration is unlikely to be a primary factor in any decision over a businesses location it can be a contributing factor. The UK is now compared well to other countries in terms of setting up a business and having a less bureaucratic tax model and:

- 87% of LBS customers rate their experience of dealing with us as fairly or very good.
- In general large businesses regard the UK as a good place to do business – with only 14% of LBS customers not regarding the UK as a good place.

The survey highlighted perceived strengths and priorities for improvement but generally, large business customers were positive about their relationship with HMRC and few had any strong concerns. There was a general perception that HMRC was doing more to become commercially aware and responsive to business needs.

Perceived strengths

The overall relationship that HMRC has with its large business customers was seen positively and compared favourably with private sector organisations.

Where large business customers noticed a change in their relationship with HMRC, this was usually seen as a positive development and the level of contact that HMRC has with its large business customers was felt to be appropriate across all sections of the large business customer population.

Written information was widely seen as accurate and up to date and HMRC was rated well for accessibility, especially for customers with a CRM. In fact in CRM cases the overall relationship with the CRM was viewed favourably.

HMRC was widely perceived to treat large business customers fairly and was seen to be focusing more on the high-risk issues.

Priorities for improvement

Developing a greater customer understanding emerged as a main priority from the research, both in terms of HMRC's knowledge of their customer's business and understanding of their risk level.

Business also felt there needed to be increased transparency in decision making and clearer consistency in dealing with large business customers across HMRC as an organisation.

In addition HMRC needs to make it easier for large business customers to find information and guidance, especially online and there was a desire for more certainty in the tax guidance.

Applying the Survey results

This annual research will form a basis on which we can build a picture of how our relationship with our large business customers changes over time. It will be used to inform our internal business planning and to measure the progress we achieve in delivering tangible positive change to our relationship with the large business community.

Chapter 4. The way forward

HMRC's vision – “we will close the tax gap, our customers will feel that the tax system is simple for them and even handed, and we will be seen as a highly professional and efficient organisation”

In 2008 we published [our Vision, Purpose and Way](#). This sets out what we want to achieve as a Government Department and will be delivered through six Strategic Objectives, set out in our [Business Plan](#). For our large business customers these Objectives will be delivered by building stronger relationships with our biggest business customers where:

- real-time and risk-focused working is a reality
- our people are highly professional and have an understanding of the commercial environment in which our customers operate
- there is a stable and fair business tax environment with little opportunity or incentive for avoidance
- we demonstrate trust and encourage transparency and disclosure.

The principles of the Review of links with Large Business are consistent with this approach. To deliver these, and our Strategic Objectives, we will continue to improve our relationship management, enabling us to improve both tax compliance and customer experience. Therefore in 2009 / 2010 we will build on the progress we have made and we will:

- Ensure our processes and services are timely, efficient and effective
- Reduce the administrative burden on business
- Ensure all our tax professionals develop their skills and knowledge, including new customer focused ways of working
- Develop our large business risk framework, making better use of intelligence and risk based tools where appropriate
- Ensure we have the right resources in the right place
- Ensure our disclosure regime remains effective against avoidance

This will enable us to continue to deliver our strategy for our large business customers.

Annex A: Measuring our progress

1. Greater certainty - We will meet our customers' requirements for greater and earlier certainty about the tax consequences of significant commercial issues

Advance Agreements Unit (AAU)

"We will provide advance agreements to UK and international business customers which address their requirements for certainty about the tax consequences of significant inward investments and corporate reconstructions, within a deadline agreed with each customer that reflects the urgency of the issue, and achieve 90% customer satisfaction with the process".

The AAU has facilitated a number of UK and International businesses in obtaining tax certainty for their investments. All deadlines have been met and a very high level of customer satisfaction achieved. We are currently considering an internal review to explore ways in which we can expand or improve the service provided to business.

Non statutory clearances for business

"75% of non-statutory clearance applications will be substantively responded to within 28 days of receipt; 85% of applicants will be satisfied

- with the ease and efficiency of the clearance process*
- with the timeliness of the response*
- for clearances where HMRC gives a view on the applicant's interpretation, that the response addressed their area of uncertainty.*

We will resource 'real time' support and dialogue, according to business need"

We responded to 79% of clearance applications within 28 days. Research conducted between April and November 2008 indicated an overall 79% level of customer satisfaction – a number of process improvements were suggested by customers, which we have now implemented. We anticipate achieving this target in the current year. We have increased the number of CRMs for our largest businesses, providing dedicated resource for 'real time' engagement. For other large businesses we are introducing 'customer coordinators' for day to day engagement according to business need.

2. Efficient risk based approach - we will direct our resources towards the greatest risks associated with large business tax compliance while delivering light-touch compliance engagement for low risk customers and issues

Low risk customers

“Reduction in the number of businesses subject to enquiry – between 2008-09 and the end of 2010-11 an additional 15 per cent of businesses benefiting from a “low risk” relationship.”

In April 2009 40% of LBS customers benefited from a low risk relationship, 9% more than in April 2008. For L&C 2009 was the start of the process and in this first year 37% of businesses will enjoy a low risk relationship.

Deploying resource to higher risk issues

“We will deploy resource proportionately against our highest risk customers, and engage with them to influence their approach to tax risk management”.

Careful targeting of our performance data has resulted in a reduction in smaller risk enquiries. We are developing a new resource management system to ensure this enables movement of resources to high risk interventions. The High Risk Corporates Programme has helped us achieve robust compliance yield and also led to more collaborative and open working with business. In L&C there is a move to more appropriate engagement; a well defined “response programme” began in April 2009 which will deliver more proportionate responses to tax risks.

Transfer Pricing

“Less complex transfer pricing cases will be resolved within 18 months, with more complex and high risk cases resolved within 36 months, or a decision made to prepare for litigation.”

The introduction of a new Transfer Pricing Group and new transfer pricing governance processes has brought a greater focus to these enquiries. In the period 1 April 2008 to 31 March 2009 we have settled just over 50% of the transfer pricing enquiries open at 1 April 2008. Although we applied our new approach to existing cases, we will be only be applying the 18/36

	<p>month measure to cases taken up since 1 April 2008, so the first results will be available in autumn 2009. We are working from a 1 April 2008 baseline of 24 months being the average time taken to resolve cases and the average age of open cases being 31 Months on that date.</p>
--	--

3. Speedy resolution of issues – we will actively manage our relationship with our business customers more effectively so that we resolve contentious issues, in partnership with them, professionally and more quickly

Issue resolution

“Action Plans, agreed with the customer, will be used to govern the resolution of all new and historic enquiries from 31 March 2008.

Reduction in the number of 18 month or older open issues for LBS businesses: from a baseline at the beginning of each year, a set percentage of issues which are 6 months old or more at the beginning of the year will be settled by the end of the year (that is, before they become 18 months old)”

We continue to actively manage issues for our very largest businesses by putting in place action plans, agreed with the business, detailing the time frame in which issues will be resolved: 82% of open issues currently have an action plan in place.

For LBS customers, we achieved a 68% reduction against the old issues baseline for 2008-09. We have also reduced the total number of open issues that are over 18 months old by 48% between April 2007 to April 2009.

4. Clarity through effective consultation - we will work in partnership with our large business customers to provide clarity through ongoing and effective consultation and dialogue to ensure that we incorporate the business perspective into our work, wherever possible

Formal consultation

“Formal consultations will be undertaken on all key proposals which impact on large business, subject to restrictions imposed by Budget and other confidentiality; 90% will run for 12 weeks, with responses published”

All 20 out of 21 formal consultations this year ran in accordance with the Government’s Code of Practice on Consultation, (revised since 1 November 2008), and met our 12 week minimum response period, in accordance with the Consultation

	<p>Framework published at Budget 2007. Customer feedback on the level and quality of our stakeholder engagement has been generally positive. All our consultation documents now begin with a standard table of basic information to help readers identify their interest in the subject, and how to respond. Many are now supplemented with other ways to get involved, such as workshops and meetings. <i>[Further details can be found in the Better Regulation Annex (Annex C) to the Annual Report]</i></p>
<p>Consultative forums</p> <p><i>“We will publish details of our consultative forums, including agendas, minutes, meeting dates and a list of member organisations. We will ensure these forums are used to effectively incorporate the business perspective”</i></p>	<p>Our ‘consultations’ website now includes comprehensive details of all 30 of our consultative forums, details of meetings, and how they are run.</p>
<p>Developing our guidance</p> <p><i>“All guidance on new legislation impacting on large business will be developed in conjunction with business, subject to restrictions imposed by Budget and policy confidentiality, and issued alongside the legislation”</i></p>	<p>At Budget 2007 we published our programme to update the technical guidance of interest to large business. This has now been delivered, alongside a programme of easily accessible new material published online at www.BusinessLink.gov.uk, designed to address most queries about VAT and Corporation Tax. We continue to work closely with clearance teams to ensure that common areas of uncertainty are identified and the guidance updated. From 2008, our Budget and Finance Bill cycle includes a standing requirement for policy makers to give early consideration to the operational guidance for new legislation, developing it in consultation with large business so that businesses understand the impact in time for</p>

	implementation.
<p>Impact Assessments</p> <p><i>“We will publish Impact Assessments for the Review proposals in summer 2008 and September 2009, where appropriate”</i></p>	<p>Impact Assessments across the Review of Links recommendations were published in summer 2008 on the DBERR website. An Impact Assessment covering the new Transfer Pricing processes will be published in late 2009.</p>
<p>5. Professional skills and customer experience - we will have a staff culture that supports our business customers, and gives our staff the right skills and tools which will allow them to deliver a better customer experience</p>	
<p>Professionalism</p> <p><i>“We will demonstrate an improvement in the nature of our professional engagement with customers, measured by customer feedback over time”</i></p>	<p>The 2008 Large Business survey (Chapter 3) supported a general perception that we are doing more to improve our commercial understanding and in being responsive to business needs.</p>
<p>Customer experience</p> <p><i>“We will evaluate our customers’ experience of engaging with us through our programme of feedback initiatives, including further specific research on our customers’ experience over the next two years; these findings will be used to drive forward improvements”</i></p>	<p><i>We have commissioned an annual programme of research to measure our progress and to challenge and inform the way we administer the tax system for large business. A summary of the 2008 research is in Chapter 3.</i></p>

Annex B: International corporation tax: a review of HMRC's relationship with customers and their advisers

This review was commissioned to look at customer and stakeholder views on HMRC's handling of international corporation tax (CT) issues. The focus was primarily on large business customers, as that is where the most complex and significant international issues arise. The commissioning of the report reflects the rising importance of international issues for business customers and the importance of international risks in the context of the tax gap. The review was undertaken by Melissa Tatton who obtained views directly from large businesses, their advisers (accountants and lawyers) and others with an interest in the review. It highlighted those issues large business consider important and where we fall short of customer expectation.

The key themes which emerged all focused on areas that can have an impact on the effectiveness of the relationship between HMRC and business

A single customer relationship

- HMRC needs to be swifter in decision making and deliver a joined up view and a consistent approach.

-

Relationship management

- Understanding business and the multinational commercial environment
- Transparency and open discussion of concerns
- Speed of resolution, taking decisions and progressing issues
- Certainty, improved guidance and predictability of decisions
- Objectivity and an analytical approach

Preventing problems and putting things right

- Escalation routes need to be clearer

These are, perhaps unsurprisingly, similar to the themes of the 2006 Review of Links with Large Business. The findings suggest that we have been travelling in the right direction but still have more to do to deliver the outcomes of the 2006 review consistently across international CT work. The recommendations of the current report aim to bridge that gap by addressing

- Accountability, governance and escalation
- Skills and capability
- Relationship management – a joined up approach within HMRC
- Defining and measuring success on International work
- Clarity around our strategies