

Implementation of new HMRC Powers Oversight Forum**30 June 2009****Paper: 06/2009****Purpose:**

To inform the Oversight Forum of

- implementation planning for Late Filing, Late Payment Penalties and Interest Changes
- the creation of the Late Filing, Late Payment Penalties and Interest Changes Programme (FPI Programme)

Background:

The 2009 Budget announced proposals to legislate to implement a major tranche of Powers' proposals, those dealing with interest and also penalties for late filing and late payment. The changes will

- align and modernise penalties and safeguards for late filing and late payment and
- harmonise interest charged and paid by HMRC

across all of HMRC's regimes except Customs and Benefits and Credits.

The first part of the legislation is in Finance Bill 2009. Further legislative changes to remaining taxes not included in the Finance Bill 2009, are expected to be made in the Finance Bill 2010.

HMRC currently has a wide range of penalty and interest structures across the taxes, inherited from the Inland Revenue and HM Customs and Excise. This makes it difficult for HMRC to present clear messages about the consequences of taxpayers failing to meet their obligations and can be confusing for taxpayers and their advisors.

Late filing and payment penalties are key levers to encourage prompt payment and the efficient collection of tax. Analysis of the current penalty regimes suggests that some of the existing structures can result in disproportionate results and some are ineffective. Interest is intended to recompense where money has been paid late by HMRC or taxpayers.

It is proposed to deliver fair, clearer, more effective and proportionate regimes, aligned across taxes where sensible, with accessible support and safeguards.

The aim is for more people to file and pay on time, while those who do not will face a more robust approach to prolonged and repeated delay.

The package of change has been the subject of extensive consultation. The overall design and details of the legislation reflect stakeholder input to consultations.

Implementation plans:

The FPI Programme was established in June 2009 and will oversee the development and implementation of HMRC's legislative changes. The programme is complex in scope and content - its functions would include exercising governance; managing timing and scheduling; commissioning studies; developing common products and processes; managing communications and stakeholder

engagement.

In addition, it will oversee a phased series of implementation projects for each specific regime. The preferred delivery option is a staged approach to automation, involving:

- an initial, targeted manual approach to applying penalties and interest to in year late payments of PAYE through debt management activity (some IT changes will be required to assist this process)
- fully automated changes to CIS and ITSA
- fully automated changes for VAT and CT
- changes to other regimes introduced in parallel where this can be done either manually or with minimal IT investment, and, finally
- fully automated changes to PAYE subject to decisions taken following a review, announced at the time of the Budget, into whether the underlying processes for PAYE could be improved to reduce costs to employers and the public purse.

An indicative timetable follows, which is subject to the successful passage of the legislation and resource constraints but is not affected by the decision to legislate in two stages in FB 09 and FB 10.

	Proposed Live Implementation Date
PAYE targeted manual approach, with some IT changes to existing systems	2010/11
CIS	2011/12
ITSA	2011/12
VAT	2013/14
CTSA	2015/16
PAYE (full automation)	2018/19
Debt Management changes (including a common reminder service)	End date as per the last tax/regime delivery
Excise and other taxes/duties	To be determined

The structure of the legislation supports a phased approach and will provide flexibility in the timetable if this is needed.

A significant amount of work will be needed over the next 12 months to meet this timetable, including:

- Creating an agreed governance structure to cover the full delivery of FPI;
- Developing effective stakeholder consultation arrangements;
- Completing initial planning work for all taxes/regimes;
- Designing, building and delivering an interim PAYE solution with some IT changes (the value/viability study is underway); and
- Conducting full value/viability studies into the ITSA and CIS changes, working with HMRC operational areas.

Pay As You Earn (PAYE) is a fundamental part of the UK tax system. Although it has been increasingly computerised, the fundamental process remains as it was when introduced in 1944. The Government will consider whether the underlying processes could be improved to reduce costs to employers and the public purse, while still providing a high quality PAYE service.

PAYE late payment plans:

We aim to implement the PAYE late payment provisions from 6 April 2010. Changes to late filing penalties for employers will be implemented later. At present, in year payment failures attract penalties in limited circumstances – the largest employers (over 250 employees) are liable to penalties for late payment, non-payment or for filing other than by electronic means. This regime must be turned off when the new provisions are switched on.

Currently, interest is charged on underpayments at the year end after reconciliation has been done. The new late payment regime would significantly change this. The new legislation would apply to all employers, though our business design would include safeguards for very small and “employers” who must operate PAYE on their care support.

The strategic approach would be to publicise the changes across the employer population to improve in year PAYE payment performance whilst directing eligible employers to the Business Payments Support Scheme. This approach would be reinforced by a targeted regime of interventions, charging interest and penalties. This would not be fully automated and the extent of coverage would be determined by the resource available for the work. Targeting will be on a best value basis.

Our ability to introduce these changes from 6 April 2010 is critically dependent on being able to effectively publicise the changes across the employer population and achieve the essential IT changes to support the targeted intervention regime.

The introduction of a fully automated system of interest and penalties for PAYE in year payment failures will need very extensive IT changes and changes to information provided by employers. Stakeholders have been extremely helpful in developing the design. We will however not be taking this work forward for the present partly to enable evaluation of the effectiveness of the targeted approach and partly to consider the outcome of the review of the underlying processes for PAYE, before committing to a substantial IT investment.

ITSA and CIS plans:

These would be the first taxes/regimes to operate on a fully automated basis. Current IT systems and their outputs would be changed to reflect the new systems. Existing business processes would be changed to accommodate the move from Tribunal pre-authorisation of daily penalties to appeal against the incidence of daily penalties. As the implementation timetable indicates, the aim would be to implement the ITSA changes in 2011/12 in relation to returns for the tax year 2010/11. The necessary IT changes will have to be in place by October 2011 for the new regime to apply to paper returns filed after the 31 October filing date. We have to start the full value/viability study in late summer/early autumn 2009 to meet this timetable. The CIS late filing changes will include safeguards to eliminate some of the disproportionate impacts of the current system. The value study will also need to be completed in 2009/10 with a view to probable implementation in April 2011.

Other Taxes plans:

Preliminary studies have been completed or are being carried out for all other taxes and regimes affected by these changes. These studies will identify the extent of change needed to both IT systems and business processes. Certain changes depend on the FB 2010 package being enacted. Our current strategic approach to implementation envisages a mixture of sequential introduction on major taxes (eg VAT, CTSA) and parallel introduction in other, smaller regimes where this can be done either manually or with minimal IT investment. A detailed timetable will be developed once the preliminary studies have been completed and we have a firm schedule for the activities needed to introduce the first three new regimes.