

# Budget 2007



BN80

21 March 2007

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## CHANGES TO THE INCOME TAX AND CORPORATION TAX ENQUIRY WINDOWS, THE EXISTING POWERS TO REQUIRE ONLINE FILING AND ELECTRONIC PAYMENT, AND THE EFFECTIVE DATE OF PAYMENT BY CHEQUE

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### Who is likely to be affected?

1. The changes to enquiry windows will affect individuals, trustees and partnerships who complete Income Tax self assessment tax returns and most companies who complete company tax returns.
2. The changes to the regulation making powers to require online filing and electronic payment will, subject to regulations being laid, ultimately affect most businesses.
3. The changes to the effective date of payment by cheque will, subject to regulations being laid, affect businesses that pay Corporation Tax and/or VAT by cheque.

### General description of the measure

4. Finance Bill 2007 will introduce the legislation needed to implement Lord Carter of Coles' recommendations from his report on the "Review of HMRC Online Services". Budget Note BN81 covers the related proposed changes to the self assessment tax return filing dates.
5. The changes to enquiry windows will link the period during which HMRC can enquire into Income Tax self assessment tax returns and most companies' tax returns to the date the return is received by HMRC.
6. The changes to the regulation making powers to require online filing and electronic payment will provide a single set of regulation making powers that apply to all taxes and duties for which HMRC is responsible.
7. The ability to make regulations that change the effective date of payment by cheque will enable regulations to be made that allow cheque payments of VAT and corporation tax to be treated as made at the point that funds have cleared into HMRC's account. HMRC expects to make regulations that will apply this rule to all payments of VAT and corporation tax from the time that requirements to pay electronically start to be phased in.

## **Operative dates**

8. The changes to enquiry windows will apply to:
  - Income Tax self assessment tax returns for 2007/08 and subsequent tax years, and
  - company tax returns for accounting periods ending after 31<sup>st</sup> March 2008.
9. HMRC will have the power to make regulations concerning online filing and electronic payment, including the regulation making powers for changes to the effective date of payment by cheques, on and after the date on which Finance Bill 2007 receives Royal Assent. Regulations under these powers will be published in draft alongside Finance Bill 2007, and, subject to consultation, will be laid in September this year.
10. The requirement to file PAYE in-year forms online will be introduced in phases from 2009; the requirements to file online and pay electronically for VAT are expected to be phased in from 2010, and for CT from 2011.

## **Current law and proposed revisions**

11. Currently the rules for enquiry windows are governed by section 9A of the Taxes Management Act 1970 for income tax returns (individuals and trustees), by section 12AC of the Taxes Management Act 1970 for income tax returns (partnerships), and by paragraph 24 of Schedule 18 to Finance Act 1998 for company tax returns. These provisions provide that, where a return is received on time, the enquiry window runs until the anniversary of the statutory filing deadline.
12. The change introduced here will link the closure of the enquiry window for a return filed on time to the date the return was received by HMRC. The enquiry window will close one year after delivery of the return. So where a return is received before the filing deadline the enquiry window will close earlier than under current legislation.
13. This change will not apply to large groups of companies whose returns need to be looked at together. The enquiry window for returns from these companies will continue to be linked to the statutory filing deadline as now.
14. Section 135 of the Finance Act 2002, section 204 of the Finance Act 2003, section 25 of the Value Added Tax Act 1994 and paragraph 2 of schedule 11 of the VAT Act 1994 currently confer powers to make regulations requiring online filing or electronic payment. The changes here will bring together the legislation into two provisions that will apply to all taxation matters for which HMRC is responsible. One provision will provide the regulation making powers required to implement Lord Carter's recommendations concerning requiring electronic filing, the other provisions will provide similar powers regarding electronic payment.

15. Under Section 70A of the Taxes Management Act 1970 and Section 59 of the Value Added Tax Act 1994, HMRC currently deem payment to have been made as soon as HMRC receive the cheque. The legislation being introduced will allow for changes to be made to the current position by regulation. The regulations will then be able to provide that, where a business pays VAT or corporation tax by cheque, HMRC will deem payment to have been made only once the funds have cleared into HMRC's account. HMRC expects to make regulations that will apply this rule to all payments of VAT and corporation tax from the date that requirements to pay electronically start to be phased in.

#### **Further advice**

16. If you have any questions about these changes, please contact Luke Liddiard on 0207 147 2421 (email: [luke.liddiard@hmrc.gsi.gov.uk](mailto:luke.liddiard@hmrc.gsi.gov.uk)). A full Regulatory Impact Assessment on these changes, together with other information about Budget measures, is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)