
BUSINESS TAX FORUM

15:30 hrs, Thursday 1st December 2005-12-06

HM Revenue and Customs, 3/14, 1 Horse Guards road

Attendees:

HM Revenue and Customs

Dave Hartnett * (DH)
Stephen Banyard (SB)
John Connors (JC)
David Garlick (DG)
Mark de Brunner (MdB)
Neil Johnson (Minutes)

HM Treasury

Edward Troup (ET)

Department of Trade and Industry

Bob Fisher (BF)

* Co-chairman

Business

Ian Brimicombe * (IB)
Phillip Gillett (PG)
Ian Menzies-Conacher (IMC)
Mervyn Woods (MW)
Adam Little (AL)
Sebastian Hordern (SH)

Apologies:
Jon Symonds

1. Minutes of the previous meeting and matters arising.

Members worked through the minutes of the previous meeting and agreed that there were no outstanding issues. DH noted that he and John Symonds had a separate meeting set up to discuss avoidance and that further meetings would follow to discuss the Marks & Spencer case after the ruling.

2. ECJ Case

ET explained that an announcement on the Marks & Spencer case is set for the 13th December. The formal consultation group meeting set for the 14th has been cancelled to enable HMT / HMRC to consider the ruling. ET noted that the Cadbury's hearing is also on 13th December.

3. Termination of Local Agreements

DH explained that by terminating local agreements, HMRC was aiming to increase consistency for customers, reduce compliance costs and increase efficiency in tax processing.

IB explained that this issue had come up at the umbrella group and that the industry's concerns were that some local flexibility is useful to reduce compliance costs and that completely stopping local agreements could lead to tensions between local employers and local tax offices. He also explained that the word consistency was causing him concern as it tends to be synonymous with rigidity.

DH said that the difficulty for HMRC was that there are a large number of centralised processing offices and this structure did not lend itself well to local agreements.

IB agreed that he could see how this could cause difficulties for HMRC but that centralisation must not be allowed to lead to reduced customer service.

IMC added that some local agreements have been running for a long time.

MW said that everyone agrees that consistency of treatment is important but that this must not come at the price of reduced customer service.

Action point	DH said that he would consider the groups comments and would bring this topic back to the forum at a future meeting.
--------------	--

4. Automatic Penalties for PAYE, NICS and CIS errors

AL said that he had understood from previous assurances given to the group that automatic penalties would be proportionate to the scale of the error and that for large amounts, HMRC had committed to only collecting the penalty after discussion with the individual company concerned. He described a specific case where he felt that because the company had a large payroll, the penalty could be disproportionate and might be collected without proper discussion.

JC explained that a review of the scheme is underway in HMRC but noted that the scale of the penalty is relative to the size of the payroll.

IB emphasised that the group had previously warned that penalties could be disproportionate.

MW made the point that the same penalty regime applies to the CIS and could therefore encounter the same difficulties.

DH agreed that the case was significant and therefore asked JC to look into it.

Action point	JC to review individual case of CIS
--------------	-------------------------------------

5. Tax Governance

DH said that he had now had meetings with 8 or 9 CFO's / CEO's of large businesses and thanked the BTF for their assistance in facilitating this. He gave an overview of the key points HMRC had learnt from these meetings:

- Tax is high on the board room agenda of FTSE 100 companies
- A greater understanding of how audit committees approach tax
- That there is a changing relationship between big business and outside advisors
- Big businesses are considering their tax liabilities much more in terms of risk management
- Our image of big business is rather out of date – DH noted particularly that this will change with our increased focus on our customers but it will take time.

The next phase of this work will be for HMRC to talk with execs and non execs to learn more about how they view tax and particularly about how audit committees approach tax issues.

IMC raised the issue of surveys that have recently been sent by HMRC to chairmen of the FTSE 500. He explained that this approach is not the best way to get their views as it will inevitably be passed down the organisational hierarchy. A much better way of getting their views would be through face to face meetings. He also pointed out that HMRC were contacting big businesses on a number of similar initiatives (Performance Enhancement Programme (PEP), management training programme, more general tax in the board room studies) and that this is leading to confusion.

JC clarified by explaining that the PEP - a joint HMRC/business initiative, is designed to help a mixed business/HMRC project group understand the needs of large businesses. The questions posed in the recent survey sent out to large businesses do not require a detailed knowledge of tax, they simply ask what relationship the CEO's want to have with HMRC. It is for this reason that they were not directed at CFO's.

IB asked if the results of the survey would be made public. DH confirmed that they would be shared with the BTF.

AL said that his concerns were around the nature of the survey. The FTSE 500 are not a homogeneous group and the responses from the top 1-10 companies are likely to be very different from the bottom 5-10.

DG said that HMRC is only trying to build up a picture of large business in the UK to improve our understanding of their needs and therefore improve the way that we interact with them. He therefore did not feel that a range of responses was a bad thing.

DH said that HMRC would take on board the groups concerns and would consider them when future initiatives were brought forward.

6. 100 Group Survey – Total Tax Contributions

AL gave an overview of the survey findings. He provided a handout for the group which highlighted the key headlines of the survey. He explained that the aim of the survey was to collect information on the total amounts of all business taxes paid in the UK by members of the 100 group to get a baseline for completing a time series of tax trends. The response from industry had been positive with many companies providing two-years worth of data.

ET said that he was very interested in the work as it is very similar to the kind of analysis HMT is doing. He asked whether the group could share any of the underlying data or would be willing to take suggestions for questions from HMT.

AL said that the data had been collected on the basis that it wouldn't be shared but this is something that could be considered for future series. HMT/HMRC would be invited to provide questions for future surveys.

DH noted that it will be interesting to see how the data produced by HMT and the 100 group survey compare.

7. Construction Industry Scheme

MdB gave an overview of the current state of play with the CIS. HMRC has done some surveys to determine business readiness and has subsequently deferred implementation until April 07. The time between now and that date will be used to assure the systems for implementation and delivery. His primary concern at present is to ensure that the consultation arrangements are working as they should be.

IB said that he had concerns around the automatic application of TTQT. MdB explained that HMRC has been consulting on this matter for a number of months and have built in a range of implementation checks around this. He expanded saying a number of tests will be run in the background on real data but the output will be suppressed to ensure that the system is robust. He emphasised the need to stick to the delivery timetable if the extra time is to be used for delivery assurance.

AL explained that he still had concerns around automatic default penalties, as the group has not seen the legislation covering this. He asked whether he could rely on the previous assurances around proportionality mentioned above with regards to the CIS also.

DH explained that the same assurances would apply.

PG said that the CIS had been recently discussed at the ex pats forum regarding whether HMRC are looking into using electronic communication i.e. electronic workspace.

Action point	DH asked MdB to take this away for consideration but emphasised that at this stage, HMRC don't want to increase the risk to the CIS by trying to make it compatible with electronic workspace.
---------------------	--

DG noted that electronic workspace will shortly be rolled out across large corporates covered by the Large Business Services.

PG said he thought that HMRC and industry had come to a sensible decision regarding the delay.

8. Consultation Document – Aligning Filing Dates for Companies

PG noted that this initiative has the potential to cause significant difficulties for companies. If all subsidiary accounts have to be signed off with PLC accounts then this would enable a turn around time of 4 months to be achieved but the effects of bunching would be catastrophic for most companies. It can also cause significant personnel problems i.e. most auditors / accountants would lose their summer holidays and in some cases there may not be enough staff to handle the volume of work.

IMC said that a revised accounts date per se is not a problem but a gap between accounts filing and that for tax returns was essential for accountants and in house tax teams so that the workload to complete the returns after the accounts had been signed off can be spread over a period of time.

DH asked whether shorter deadlines were common amongst other developed countries. IB explained that they are but in general.

JC noted that these issues pose less of a problem for small businesses.

9. AOB

No items.

END