

CORPORATION TAX OPERATIONAL CONSULTATIVE COMMITTEE

Minutes of meeting held on 17 May 2004 at 22 Kingsway, London WC2

Present:

<i>Inland Revenue</i>	<i>Representative Bodies</i>
Alex Hardaker - Revenue Policy (Chair)	Sebastian Hordern - CBI
Kathy Prior – Revenue Policy (Secretary)	Carolyn Fisher – CBI
Iain McNeill – Service Delivery Support	Donald Drysdale - ICAS
Steve Mole - Service Delivery Support	Colin Davis – CIOT
Ruth Paynter – Business Services	Nigel Eastaway – CIOT
Richard Harries - Large Business Office	Lakshmi Narain - CIOT
Sally Littlejohns - Large Business Office	Colin Campbell - ICAEW
Derek Easey - Business Services	

Introduction and apologies

1. Apologies were received from Mukesh Gunamal (ACCA) and Graham Wheeler (IOD).

Matters arising from minutes of previous meeting (19 February 2004)

Negligible value claims (S24(2) TGCA 1992)

2. The Revenue is still awaiting legal advice, requested last June.

Other Fora

3. The Large Corporates Forum last met on 25 March when the topics discussed included UK to UK transfer pricing and the protocol between Large Business Offices and Share Valuation.

Application Note G to FRS 5

4. At the request of ICAS, the issue had been discussed at the previous meeting of CT OCC when the Revenue had said that it was waiting for the profession to come to an agreed view. Representatives said that they now believed that the Note would have no impact on partners' time in determining the value of work in progress and therefore, the problem perceived in February no longer existed. . CTOCC members may be interested in an article appeared in Tax Adviser May 2004 by Trevor Johnson, the Chairman of the Technical Committee of the Association of Taxation Technicians.

Agenda items for May2004

Euro Programme

5. There have been consultations with CIOT, ICAEW and other interested parties to consider whether business will require any help before the official changeover to Euros. This has informed the Revenue plans on what needs to be done during the transitional period between entry into the Euro and Euro cash being introduced. During the latter part of this transitional period i.e. from a date known as Retail Transition, companies will be able to file returns in Sterling or Euros via the internet. For self-assessment, it will be possible to file returns in Sterling or Euros for the tax year that ends before E day (this will be 6 April). The outline timetable can be found at annex A.
6. It is not clear at this stage whether there is a demand for Sterling / Euros payroll services. The consultation group for employer issues felt a 6 April start would mean reduced demand for transitional support to switch to an Euro payroll before E day. The Revenue does not plan to run a dual currency PAYE system. They feel it is probably easier to run a payroll - and certainly simpler to administer the PAYE system - with one currency due to the number of stakeholders notably employees and including pension fund providers, charities, trade unions, and other agencies. But it would be theoretically possible to produce euro tax, NI etc tables allowing employers to operate a euro payroll, although external outputs P2, P45 etc would still need to be in sterling. Although the conversion rate will be fixed when the UK joins the European Monetary Union, some representatives felt there may be some small conversion differences due to rounding which may cause some difficulties. Derek Easey invited comments from the group, preferably by the end of August.

Associated Companies rule

7. The Revenue thanked CIOT for their constructive comments in the paper (not circulated) provided since the last meeting. They liked the re-draft of ESC C9 and agreed the rules were not perfect. Although things could be done, any changes must not make the rule more complex. CBI and IOD have also provided helpful comments. The Revenue will provide technical comments in due course. More generally, Ministers are not looking at this issue currently and are not prepared to do so at the moment. There has just been the longest Finance Bill ever and it would be wise to collate views first. Representatives said the introduction of the Civil Partnership Bill could be an opportunity to revise the legislation.

Non-corporate Distribution Rate

8. Representatives noted that the new rules applied to distributions made on or after 1 April 2004. They thought this was unfair to those companies who had retained profits generated before April 2004 and who would now pay more tax when those profits were distributed. Particularly in comparison with those companies (mainly the well advised) that had distributed all the profits generated before April 2004.

In their view the new measure had the effect of penalising the very companies that Government said they wanted to encourage to invest and grow.

9. As to complexity, representatives accepted that the rules for the majority of singleton companies were not unduly complex. However, they felt that those that applied to members of groups were over complex.
10. The Revenue thanked representatives for their constructive comments. They said that the overall objective had been to design and deliver a relatively straightforward scheme with the minimum of complexity for companies. However, in introducing new measures, it was inevitable that there would be hard cases where companies had done one thing or another in ignorance of the new measure. While the Revenue accepted that there was considerable uncertainty for companies between the Pre-Budget Report in December 2003 and the Budget in March it was not responsible for the advice given by professional advisors in that period.
11. As to the more complicated rules for group companies, in the Revenue's view the proposed rules were undoubtedly more difficult than for singleton companies. However, they had been deliberately designed to be as simple as possible with a light touch for the anti-avoidance rules. Compare and contrast with the similar rules for ACT and "shadow ACT". The Revenue said that they proposed to write the guidance on the new measure in the early summer and welcomed the involvement of the professional representative bodies.

UK Transfer Pricing

12. Representatives asked when Head Office proposed to provide guidance to inspectors. The Revenue said draft guidance has been on the its internet site since Budget day so it was not clear why inspectors seem to be reluctant to enter into dialogue and finalise requirements. They said that their Large Business Offices (LBOs) had run seminars for both Revenue staff and companies/agents on UK Transfer Pricing. In addition, the LBOs support linked Areas so each Area should have access to someone with experience of transfer pricing. It should be possible to reach broad agreement but firm agreement could not be reached until Royal Assent to the current Finance Bill. If there are any problems this can be brought to the relevant Director's attention.
13. Representatives said there was still a deal of concern about the application of domestic transfer pricing to medium sized businesses – particularly the perceived need to keep copious records of domestic transactions just in case the Revenue decided to issue a Direction. The Revenue confirmed (as already outlined in consultation) they would not issue Directions except in the most serious cases and would not go looking for problems.
14. Representatives said they would welcome any further assurance the Revenue was able to give (perhaps a Tax Bulletin article) about the extent to which detailed records would have to be kept. The Revenue agreed to relay those views to colleagues in International and that guidance on corresponding adjustments would be issued after the Finance Bill process.

EU SME Definitions

15. One member had not seen any guidance on how the Revenue interpreted the EU SME definition - this would be helpful for R & D and investment enterprises. The Revenue said that there were two main EU definitions – one general, the other specifically for the purposes of expenditure on R&D. The EC had made changes to both definitions in May 2003 and the Chancellor had immediately announced the UK adoption of the threshold maxima for both definitions, subject to DTI consultation in the summer of 2003 on how to implement those changes. The Revenue agreed to provide further details at the next meeting.

CTSA in practice

Compulsory notification of new companies.

16. The Revenue explained there was a problem with knowing about when new companies begin business and Ministers were concerned about phoenixism. Also the Grabiner rules for the self-employed require notification to the Revenue within three months of starting up in business. Only 40% of CT 41Gs issued are currently returned so new measures have been proposed for compulsory notification.
17. Representatives had no problem with the principle. They felt returning the duly completed form would meet the requirements and the form could be part of the documentation completed when the company is handed over to an acquirer. The Revenue are still thinking through the practical implication. Since April 2004, Form 64-8s have been sent out with the CT 41Gs automatically issued to newly incorporated companies.

CT600

18. Version 2 (both the full and new short version) of the CT600 return form will be available from September/October on paper and as PDFs, to download from the internet for completion. Version 2 forms should be available for e-filing via the CT Online service from October. Copies of preliminary drafts of the full and short versions of the CT600 were circulated to members. The main changes to the full form are; the sections have been re-numbered with some re-ordering, making it more compact than the current version, and 2004 Budget changes have been incorporated. Use of the new CT600 is not mandatory but Finance Bill changes may mean the new version is required for accounting periods ending on or after 18 March 2004, the day after Budget Day, as some measures came into effect then.
19. Since 21 May all CT603s (notices to deliver a company tax return) have been accompanied by an Insert giving details of the Budget 2004 changes that affect forms in the CT600 series.
20. The CT 600 Guide is being revised and within the section on non-corporate distributions will be a pro-forma calculation for non-group situations.

Representatives felt that the draft CT600 Guide they had seen the previous year had been a great improvement as it tied in with the return and was more helpful. They would like to see the 2004 drafts, as they become available, in order to circulate them widely.

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21. The Revenue said they were on target to accept company accounts and computations in XBRL from October 2004 (following the meeting this has been deferred to spring 2005).

Pre-Owned Assets

22. ICAS raised the issue of the practical effect of the pre-owned assets proposals. The Revenue said that a number of Government amendments had just been tabled that might address some of the concerns. The Revenue agreed to copy the Amendments to ICAS and said that any queries on them should be pursued with Capital and Savings colleagues. (IR sent the amendments to ICAS following the meeting).

R&D Tax Credits

23. CIOT expressed concern about inconsistencies in the approach of local offices – particularly regarding software costs. The Revenue said it was aware of both the general and the particular issues and was taking a number of actions to improve the situation. The Revenue pointed out that because of the complexities of the schemes, Business Tax provided a great deal of support to front line offices. And if representatives had particular difficulties with either interpretation or application that could not be resolved with the Inspector – they could contact either Gavin Bate or Mark Carnduff in Business Tax.

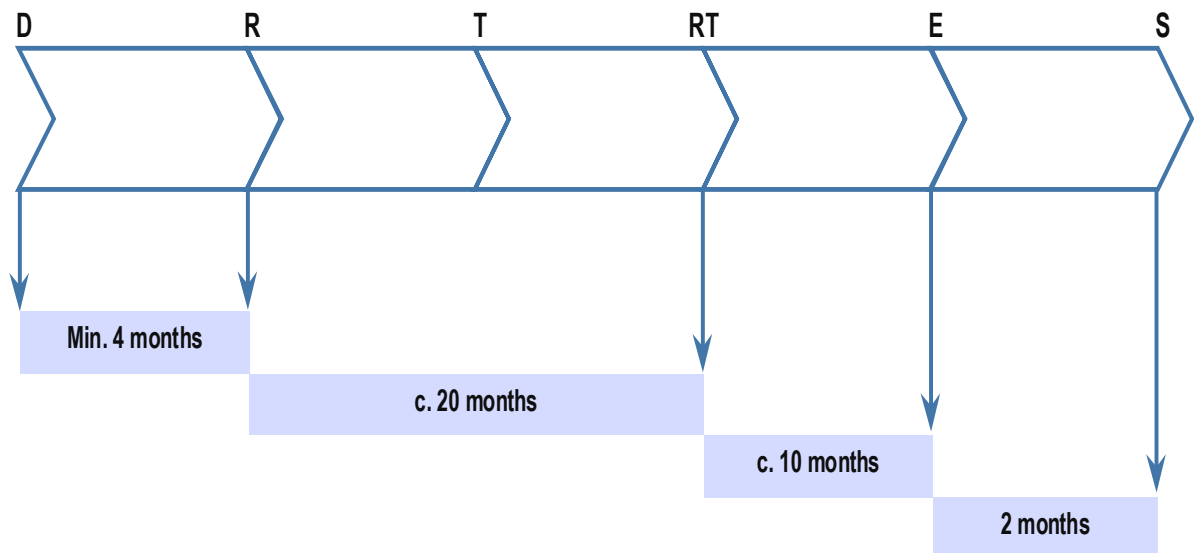
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24. The Revenue said that some issues raised recently did not fall squarely into the CTOCC terms of Reference - such as S660A and Pre-owned assets. The impact of O'Donnell review may result in responsibility for some areas passing to the Treasury. Consequently it might be necessary to re-visit the CTOCC terms of reference later in the year.

Next meeting

25. It was agreed to hold the next meeting in September.

Outline changeover timetable



6/4/XX

- **D:** Decision – the Government's assessment on EMU membership.
- **R:** Referendum – UK electorate vote on joining EMU.
- **T:** Time of entry and start of transition. UK joins EMU. The euro-sterling exchange rate would be irrevocably fixed.
- **RT:** Beginning of Retail Transition. Euro denominated retail financial services would start to be available.
- **E:** Euro cash introduced and end of transition. UK euro notes and coins would be introduced.
All non-cash transactions would be denominated in euro.
- **S:** Sterling ceases to be legal tender. End of dual circulation period.