

High Net Worth Unit

Tax professionals – a new approach



HMRC established its High Net Worth Unit in 2009 to deal with the personal tax affairs of the UK's wealthiest individual customers. We aim to build a deeper understanding of our customers' overall tax and financial positions, and work cooperatively and constructively with individuals and their agents to establish the tax that is properly due. This publication gives tax advisers an insight into the HNWU and how we see the Unit's approach developing.

1. [Introduction from the Chief Executive and Permanent Secretary of HMRC](#)
Dame Lesley Strathie shares her views on the High Net Worth Unit (HNWU).
2. [In Conversation with Martin Randall – Head of HNWU](#) Martyn Gowar, partner in McDermott Will & Emery, asks the questions.
3. [Did you know](#)
Things that might interest you about the High Net Worth population.
4. [HNWU Tax Clinic](#)
Points of general interest.
5. [Introducing Cooperative Compliance](#)
A new relationship.
6. [Case studies: Cooperative Compliance](#)
Examples in action.
7. [Enhancing the Relationship](#)
Changing our working practices.
8. [Continuing the dialogue](#)
Through our External Stakeholder Forum and Agent Survey.

High Net Worth Unit

Tax professionals - a new approach

Introduction from the Chief Executive and Permanent Secretary of HMRC

Lesley Strathie explains why HMRC is developing the High Net Worth Unit

I have always believed that customer relationship is key to a successful business. Therefore we have created our business strategy by designing an operating model that is built around the needs and behaviours of our diverse customers base. This allows us to respond and innovate in a different way.

Our wealthiest customers have special relevance to HMRC because of the contribution they make to the UK through tax, investment and employment. We have established the High Net Worth Unit (HNWU) specifically to recognise the time and resource that we will dedicate to these customers and are using methods that have been successful in enhancing our relationship with our largest corporate customers.

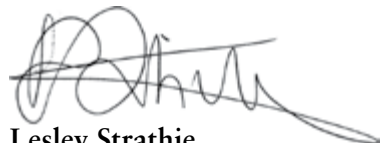
Having a dedicated team for the very wealthy allows us to build a deeper understanding of the whole customer: their complex tax and overall financial positions. This means that our approaches, actions and decisions are based on accurate and up-to-date information.

Our approach to your wealthiest clients is built on personalised relationship management to promote:

- Disclosure and transparency.
- Real time working to resolve issues.

HMRC is stepping up to the opportunity of providing expert services to customers in a difficult and changing environment. Our vision is to work with tax professionals to seek ways of instilling broader confidence and cooperation. Tax agents play a crucial role in the UK tax system. You give us vital support in helping your clients get their tax affairs right.

This publication will give you an insight into how we see our approach developing in the future.



Lesley Strathie



Dame Lesley Strathie – Chief Executive and Permanent Secretary of HMRC

Lesley became Permanent Secretary of HMRC in 2008. Prior to this she was Chief Executive of Jobcentre Plus and 2nd Permanent Secretary to the Department for Work and Pensions.

In conversation with Martin Randall - Head of HNWU

Martyn Gowar is a partner in McDermott Will & Emery and has over 40 years experience of advising wealthy clients

Q. What do you see as the benefits for advisers and our clients of being part of the HNWU?

A. I see many benefits: they are all about interaction in one sense or another; building an enhanced relationship. Designing an effective and efficient tax administration relies on us understanding your client's affairs and tax behaviours so that we are responsive to their needs and don't raise costs unnecessarily.

I don't want to shy away from the fact that HMRC's core purpose is to collect tax – but where HNWU can make a positive difference is to increase certainty so that most revenue comes in 'without touching the sides', that is, at the lowest cost and burden to both the customer and HMRC. I see this as a big win all round.

Our Customer Relationship Manager (CRM) network is pivotal in achieving this. A more open relationship through a single point of contact provides opportunities for earlier dialogue and certainty. CRMs lead small teams with ongoing responsibility for the whole of the customer's personal tax affairs. They coordinate across different parts of the organisation, where necessary, so that your clients benefit from a knowledgeable joined-up approach.

Put quite simply, I want to make it easier for you to do business with us.



*“Put quite simply,
I want to make it
easier for you to do
business with us.”*

Head of HNWU, Martin Randall
(right) talks to Martyn Gowar.

Q. How do you see the relationship between advisers and HMRC developing?

A. Changes to working relationships don't happen quickly and I'm conscious we need to start by building trust and developing mutual understanding. For HNWU this also means that we need to understand the pressures you have as advisers sitting in between HMRC and your clients; translating client behaviour for HMRC and vice versa.

In time, I would like us to get a position where we go beyond the minimum statutory requirements of Self Assessment and talk to each other openly about transactions and concerns, even where they seemingly have no immediate impact on your client's tax position – in the interests of facilitating an understanding of the bigger picture, and giving your clients certainty nearer to the event.

This changes our relationship from one in which HMRC are seen to be teasing out information in a piecemeal fashion to a 'relationship of

High Net Worth Unit

Tax professionals - a new approach

section continued >

equals' where we are both focussed on establishing the customer's correct tax position cooperatively with minimum cost. Of course there will still sometimes be disputes or disagreements on the interpretation of the law – that's in the nature of our work. But this sort of dialogue and relationship means that together we can move more quickly to identify points of difference and resolve them.

Q. How important is it to you to consult with advisers and listen to feedback?

A. The starting point for HNWU was the OECD report about how tax administrations should deal with the very wealthy. I have also consulted widely with professional bodies and advisers to shape ideas and inform the way forward. They have been enormously helpful and very positive about the Unit.

External consultation is at the core of HNWU; it's not a one-off. We are committed to developing an ongoing and mutually beneficial relationship with our wealthy customers and yourselves. Our intention is to tailor our services and activities to our customers' needs to improve voluntary compliance. The only way to ensure that the changes we are making to our processes are of genuine benefit to our customers is to engage with them and their representatives. I want to maintain this approach because the world spins fast; issues and priorities change so we need to keep listening to your ideas and continue to feed them into our development.

“ Together we can move more quickly to identify points of difference. ”

Did you know...?

The UK is 3rd in the international wealth ranking of top billionaire countries after US and Germany.

The UK has the 4th largest number of HNWIs after the US, Japan and Germany.

Over half of all HNWIs in the UK are in the 45-54 age bracket. The average age of billionaires is early sixties.

In 2009 charitable donations from the very wealthiest individuals rose by 8%.

High Net Worth Unit Tax professionals - a new approach

HNWU Tax Clinic

Points of interest

I understand that to be within HNWU my client would have wealth in excess of £20 million. How does HMRC calculate this sum?

We have used details from tax returns and other public information and databases to identify about 5,000 customers. However, we do apply a level of flexibility where we think it is appropriate. For instance, sometimes we get asked if we can include people in the HNWU to help advisers maintain continuity and establish certainty when dealing with a significant family matter. Under these circumstances we agree it is beneficial to us both to have a connected family view.

If you think HNWU has not classified your client correctly, please speak to us.

My client has overseas income and gains and this information isn't always available before the filing date. What are the consequences of late filing?

New penalties are being introduced for tax returns which are filed late. The change will apply for 2010-11 tax returns onwards. Late filing penalties will no longer be 'capped' so the full penalty of £100 will always be due if the tax return is late. And there are graduated higher penalties the longer the return remains outstanding.

There are limits to the size of file and number of attachments that can be submitted with an online tax return. Most of our customers find these limits sufficient to enable them to send us all the required additional information with their online return but if, exceptionally, the limits are exceeded the additional information can be sent to us separately by post at the same time as the return is filed online.

Please tell us if you think you might miss the filing deadlines. We want to encourage open and constructive pre-filing discussions, working jointly to create improved levels of filing compliance.

Where appropriate, provisional or estimated figures should be used, fully disclosed and updated as soon as the information is available in accordance with HMRC guidance.

My client wants to make a disclosure under the Liechtenstein Disclosure Facility (LDF). How do I go about this?

You should notify the HMRC Liechtenstein Helpdesk (0845 600 4680) and your HNWU office of the intended disclosure. Provided your client qualifies for the LDF, a member of the LDF technical support team will offer support to ensure the disclosure is complete and correct. The LDF team will liaise with your CRM to ensure that the disclosed income and gains are dealt with correctly in the future.

I have heard that the HNWU is piloting a new process to deal with cases that have reached an impasse. Can you tell me how this will work?

The framework within which HMRC seeks to settle tax disputes with its customers, whether by agreement or litigation, is set out in the HMRC Litigation and Settlement Strategy. This emphasises the opportunities and benefits for both parties in settling disputes by agreement, wherever possible. A willingness on the part of both sides to work together to resolve disputes in this way should lead to a reduction in unnecessary costs and delays from the litigation of issues.

The results from HMRC pilots into the use of Alternative Dispute Resolution methods, notably mediation – may offer a further route for HMRC and its customers to work together more collaboratively to improve the effectiveness and efficiency of tax dispute resolution and help reduce costly and time consuming litigation.

If you wish to discuss whether this may be an appropriate way to resolve a stalled case, please speak to your CRM.

Introducing Cooperative Compliance

A new relationship

Cooperative compliance means enhancing the relationship between HMRC and our customers to deliver an outcome where both parties work together to achieve the highest possible level of compliance at appropriate cost.

This approach is increasingly being recommended as a feature for revenue organisations for customers with complex affairs. It reflects the growing mutual interest in being as certain as possible about tax liabilities and in ensuring that there are no surprises in any later reviews of these liabilities.

Cooperative compliance is not any kind of preferential treatment which compromises the legal position. In essence it forms part of the compliance risk management process – adding deeper and broader understanding of the world in which your client operates to our ongoing dialogue.

This approach is one that we wish to have with our HNWU customers. It does of course rely on the foundation stones of a relationship characterised by trust, openness and transparency. We want to move away from only using reactive time consuming formal enquiries to a position where we can have productive pre-filing discussions which help us better understand our customers' actions, processes and intentions.

Early dialogue means that we will:

- have a better understanding of your client and the taxation decisions taken
- have information closer to real-time, allowing us to keep pace with developments as they occur rather than focusing solely on activity from past years
- resolve the underlying causes, rather than the symptoms, of compliance problems



You will benefit from:

- an improved understanding of our likely approach to a taxation issue
- greater certainty around tax compliance and
- resolution of issues in a way that is quicker, less formal and less costly.

There will still be occasions where we would need, or you would want us, to use our formal powers to resolve issues but our aim is to move to a position where we interact on a flexible and informal basis.

Case studies - Cooperative Compliance

Cooperative compliance is the term used to outline the ideal relationship we have with HNWI customers and their representatives - one based on transparency, respect and responsiveness.

We recognise that building trusted relationships takes time. Small visible steps can help strengthen the relationship.

The following case studies demonstrate ways in which we are starting to see the benefits of this approach.



Case study 1. To claim or not to claim?

A customer read an article in the professional taxation press suggesting that Capital Gains Taper Relief was available on disposals of a particular class of asset. The individual had already filed tax returns for several years on the basis that Taper Relief was not available to him. He asked his adviser to look into the merits of the technical analysis in the press article.

The adviser contacted the CRM to discuss a possible claim to overpayment relief for earlier years and an amendment to the latest tax return, based on the reasoning in the article. The CRM asked the adviser to confirm in writing the amounts and years involved in a possible claim. The tax in question was £220,000 over 5 years.

The CRM discussed the details with specialist colleagues who confirmed that HMRC did not agree with the analysis in the article. The CRM spoke and wrote to the adviser to explain that HMRC would resist any claim or amendment, because the analysis was not accepted.

The CRM outlined the reasons for HMRC's position. In addition he was able to advise that any overpayment relief would be refused under the generally prevailing practice rule.

The adviser consulted the client and confirmed two weeks later that the client would not be lodging a claim or an amendment.

The preliminary discussion with the CRM meant that the adviser and client were able to quickly make an informed decision on the cost/benefit of a claim or amendment. They also avoided an enquiry into an amended return and claim and the subsequent risk of a penalty. For HMRC the discussions avoided a time consuming enquiry process.

High Net Worth Unit

Tax professionals - a new approach

Case study 2. Tangled property transactions

A customer has an extensive personal property portfolio. He is also the life tenant of an interest in possession trust that also has a large property portfolio. A management company looks after both portfolios, including the costs of running the estates, arranging rental agreements and collection of rents.

The histories of the various estates held are very complicated. Over the years, properties had been transferred between various connected parties/trusts/beneficiaries, with many hold-over elections made. The majority of claims also included March 1982 values that had not been agreed with HMRC. Properties are sold or transferred each year. The Trust and personal returns had been subject to formal enquiries, year on year, and reaching agreement on the March 1982 valuations were proving difficult and time consuming due to the increasing time that has elapsed.

A new agent had only recently been appointed to act. Whilst they had records, the agent was unsure how reliable they were. The CRM contacted the agent to find a way to work together; this was for both the client's Trust as well as his personal affairs. The CRM and agent worked together on the past history of transactions to establish gaps and differences in the records.

We have now established a position where we all know and agree the history of a property, including where possible, March 1982 values. Both parties are now in a position where any future concerns or enquiries should arise out of differences in legislative interpretation rather than merely the asset history. This will ultimately reduce the costs to the client and HMRC.



Case study 3. And from a tax advisers perspective

I have a client who regards himself as a 'family steward'. He inherited substantial wealth and the family stately home together with various connected businesses on the death of his father. His main aim is to 'safeguard' his assets and to pass on to future generations. He has a careful and prudent attitude to life and that extends to taxation.

When my client ventured into a new line of business he was attracted to the proposition that cooperation and openness with HMRC would remove doubt, uncertainty and anxiety for the family. He invited his CRM to come and visit his business premises and have a look at the new set up. He explained to the CRM the reason behind the activity and what his business plans were. Having seen the set up for himself, the CRM was able to confirm that he was satisfied with my interpretation of the tax position. My client was pleased with the early reassurance he gained though facilitating an unobscured view of his activities and transactions.

High Net Worth Unit

Tax professionals - a new approach

Enhancing the Relationship

Changing HMRC's working practices

Business by Email

Agents of High Net Worth customers have told us that they would like to use email as a method of contact with CRMs on appropriate HMRC business.

Limited email contact facilities are available in other parts of the department, and HMRC is actively working towards extending this facility. The way that we work in HNWX allows us to offer email as a contact channel option for many business exchanges should you and your client wish to use this.

Please contact your CRM if you would like to discuss the opportunity to trial the use of email. Your CRM will explain the protocol and security arrangements so that you and your client can decide whether this means of contact would be suitable for you on an individual customer basis.

There is no obligation for you to use email and some exchanges of information must continue to be made by mail (e.g. some elections, forms and sensitive/personal information).

Earlier Certainty

Our CRM network allows us to tailor our approach.

Following consultation and trial, we plan to adopt a new approach for 2009-10 tax returns. The objective is to give earlier assurance, where appropriate, that we don't intend to open an enquiry or don't require further information. Where we are able, we will write to you and your client if no further action is needed to let you know this, rather than letting you wait until the end of the statutory enquiry period. This is



more likely to be the case where we have established an ongoing dialogue about your client's tax affairs. Customers who participated in the trial were positive about the benefits of this approach.

In other circumstances, following review of your client's tax return we might need to contact you for further information, or open an enquiry. If we do decide that a formal enquiry is needed we will usually discuss this with you prior to contacting your client. We also understand that you may prefer the use of the formal method in particular circumstances: our CRMs will be pleased to discuss this with you.

Continuing the dialogue. External Stakeholder Forum

High Net Worth Unit has an External Stakeholder Forum which meets on a quarterly basis to consult and feed back on relevant issues. The professional bodies and organisations' members are listed below:

- The Institute of Chartered Accountants in England and Wales
- The Society of Trusts and Estates Practitioners
- The Chartered Institute of Taxation
- The Law Society
- The Law Society of Scotland
- The Institute of Chartered Accountants of Scotland
- Estates Business Group
- The Association of Taxation Technicians
- The Association for Financial Markets in Europe
- Coutts and Co.

The minutes of our meetings are published on the HMRC Internet at <http://www.hmrc.gov.uk/consultations/hnwu-forum.htm>

Please use this forum to consult and feed back any relevant issues to promote cooperative compliance and contribute to the development of this part of HMRC's operations.

Agent Survey

We are always interested in your experience of dealing with the High Net Worth Unit, and measure customer satisfaction in a number of ways. We do well against the measures set but they are not always sensitive enough to tell us what you actually think and value about the particular service we provide. In order to get a better picture we plan to carry out an agent survey later in 2011. The results of the survey will be used to enhance our service and processes. We do hope you will participate.



If you have views you would like to share on any of the articles in this publication please contact:

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This publication has been prepared to give tax advisers acting for our HNW customers an insight into our aims and operating methods. We hope that you will also find it helpful when you explain our approach to your clients.

