

working together

issue 18

contents

Complex Personal Return Teams	1
The Future of Electronic Lodgement Service	2
Review of South West London Enquiry Workshop	3
New Forms Online	3
2003-04 Tax Returns	3
Employer Successions	4
Regional Appeals Units	4
Working Together - PAYE Concentrations	6
Construction Industry - Status Categorisation	6
Company Tax Return - Helpful Hints	7

Complex Personal Return Teams

Introduction

In issue 9, we told you we would be creating Complex Personal Returns (CPR) Teams in the period from June 2002. We had identified people with more complex affairs as needing specialist attention and would be setting up seven specialist teams within our Area Management structure. We also mentioned that the Centre for Non Residents and the Large Business Office would continue to have responsibility for some complex cases.

As planned, all seven specialist teams were set up and operational by 31 March 2003. They are responsible for all elements of the customer's tax affairs – processing, customer service and compliance. Some material relating to PAYE income (such as notices of coding) still comes from the PAYE office, but under the direction of the CPR Team. The customers the CPR Teams deal with tend to have high levels of income and actual or potential complexity about their tax affairs. We gave some examples of complexity in issue 9.

In issue 14 we explained that these seven specialist teams would be expanding during the year to 31 March 2004. This expansion took place as planned.

Identifying New Customers for CPR Teams

The purpose of this article is to tell you about some further changes to the customer base of the CPR Teams. These changes will be implemented shortly, in a phased programme. Our plan is to increase the responsibilities of the CPR Teams by around 6,000 customers.

As before, we will identify new customers for the CPR Teams by reference to high levels of income and/or wealth and some indication of actual or potential complexity about the customer's tax affairs. We continue to refine our view about what is, and what is not, an indication of complexity in the light of experience. One change we are making this year relates to close company directors. In the article in issue 9, we said we were not planning for CPR Teams to deal with people whose main source of income was a close company directorship and there was no indication of complexity beyond the business accounts. This year we are asking the CPR Teams to deal with some of these customers – where the customer's total income is high and different Tax Offices already deal with the director and the company.

Our transfer process includes a letter to each of the customers and their tax advisers to explain that there has been a change in responsibility for their tax affairs. The letter will give the name and direct line telephone number of a personal case-owner, who will be the first point of contact for any questions you or your clients may have.

For clients who are now to be dealt with by a CPR Team, it would be very helpful if you could ensure that completed Self Assessment Returns are sent direct to the CPR Team and not to the Tax Office which issued the Return.

Customers No Longer Needing the Attention of a CPR Team

This year, for the first time, there will be a small number of transfers from CPR Teams to other Tax Offices. We believe that some of our current CPR Team customers no longer need the attention of a CPR Team. By transferring responsibility for these customers to other Tax Offices, we will allow the CPR Teams to accept other customers whose tax affairs are more likely to require the level of attention available from CPR Teams.

The initial selections were made on the basis of information relating to the year to 5 April 2000 and/or the year to 5 April 2001. We now have the benefit of information for the years to 5 April 2002 and 5 April 2003. In some instances, this new information has shown that the original reason for selection no longer applies; that the customer now has a much lower level of income; and that the customer has no apparent complexities that would warrant the continuing attention of a CPR team. We are now starting to identify customers for transfers from CPR teams to other Tax Offices.

Our identification and transfer process includes a letter to each of the customers and professional advisers concerned to explain that we are planning to transfer responsibility to another Tax Office. There may be a few instances where customers and their agents have more up to date information that might lead us to reconsider. For example, there may be high value transactions that will appear on the next Tax Return. We would welcome the help of tax advisers in bringing this information to our attention in response to the letters.

There will be a small number of transfers to other Tax Offices in the period October to December 2004. We expect few, if any transfers in the period January - March 2005. Transfers will resume in April 2005 and the numbers may rise from this date.

For clients who are no longer to be dealt with by a CPR team, it would be very helpful if you could ensure that completed Self Assessment Returns are sent direct to the new Tax Office and not to the CPR Team which issued the Return.

The Future of Electronic Lodgement Service

Last year we announced our continued support for our Electronic Lodgement Service (ELS) for Self Assessment until at least April 2005 (i.e. for 2003-04 Returns). We also announced we would develop a migration plan for the service in favour of our Internet based filing services.

We have reviewed take up of the Internet based service which has seen dramatic growth both in terms of the number of agents using the service and in Returns submitted. We have also enhanced the service and removed many of the previous restrictions of the service. For example:

- You can now file Partnership and Trust Returns.
- You can now file CGT form SA108 with up to 100 separate shares/securities disposals.
- We have dramatically increased the capacity of the additional information box entries.

This year's filing figures show that Internet filing is, for the first time, the preferred channel for agents filing electronically, but use of ELS remains at a significant level. We have seen enthusiastic support for the Internet service from both agents and their software vendors but have also received feedback from agents who are not yet fully confident to make the switch.

We are continuing to update the service (for example we plan to launch our "real time" SA View Payments and Liabilities service to agents later this year) but we are also consolidating our development work as we make the transition to the new merged Department.

Against this background and given the continued demand we will be extending our support for ELS until at least April 2006 (for 2004-05 Returns).

We will continue to monitor usage and feedback of both systems and liaise with both agents and software vendors on an eventual cessation date.

IR Online Service contact details are:

Telephone: 0845 60 55 999

Fax: 01274 841288

E-mail: helpdesk@ir-efile.gov.uk

Review of South West London Enquiry Workshop

The aim of any well-run enquiry has to be to bring it to a conclusion as quickly and cost-effectively as possible. Unfortunately, this often does not happen due to shortcomings in communication between the Inland Revenue and the tax agent. This can be because of entrenched attitudes and misconceptions, resulting in a failure to understand the other side's position and the constraints under which both have to work.

The key objective of Working Together is to encourage tax agents and the Inland Revenue to meet together and to gradually work towards a culture change on both sides. We are delighted to say that many such meetings are taking place using the Working Together Enquiry Workshop Toolkit CD-ROM that was launched in late 2003.

The Toolkit is in the process of being developed to include a focus on Corporation Tax and we have begun holding pilot events. The South West London Working Together Group put on a Corporation Tax enquiry workshop; this was under the auspices of Susan Gompels, ICAEW, member of the Working Together Steering Group and Keith Lang, at the time Area Director, Compliance but now Revenue Working Together Team. A huge amount of Inland Revenue and tax agent time and effort went into producing the Corporation Tax case study when it was first put on last year and it was so successful that it was over subscribed within 24 hrs of it being advertised. This resulted in a further workshop being put on in March this year and I am delighted to say that other groups throughout the country are using the concept and the script thanks to the "Cobham Players".

I was privileged to attend the first of these workshops as a participant and I found the four-hour workshop the most interesting, informative, thought provoking and stimulating professional event I have ever been to. In fact I commented at the time that it was more fun than going to the theatre for an evening! If you want to learn something yet enjoy yourself at the same time this is the event for you. Both events were also rated very highly by the participants.

I believe that the success of the workshop was because there was a round table format with each table having equal numbers of Inland Revenue Inspectors and tax agents. Each table would discuss the case study as it progressed through twists and turns and then feed back their conclusions to the remainder of the attendees. The facilitators did an excellent job in stimulating this debate. The result was a frank and robust exchange of news on a non-case specific basis in a "safe environment". This should hopefully lead to a more

flexible understanding approach by both sides and to less confrontation so that future enquiry cases can be settled more speedily. There was general agreement that there should be more use of the telephone and that pre-planned meetings with good agendas were crucial to the whole process. In addition, some agents agreed that, on occasions, they needed to be more sceptical about their clients' tax affairs, subject to commercial restraints. The workshop also included an extremely well presented role-play of an enquiry meeting demonstrating how easy it was for communication to break down and for meetings to go badly. The role-play involved an Inspector "from hell" and a poorly prepared tax agent, accompanied by his client who swiftly began to dig a hole for himself. In the spirit of true drama, it was a real performance and I felt that it demonstrated clearly many of the issues, which could arise in such a situation.

Although the case study was a Corporation Tax Enquiry the majority of the content was equally relevant to an Income Tax Enquiry.

My congratulations to those who created this event.

For a more detailed summary of the workshop see Mike Down and Julie Cameron's 27 May 2004 "Taxation" article.

Watch out for further updates on how the development of the CT Enquiry workshop is progressing.

Richard Shooter, ICAEW, National Working Together Steering Group

New Forms Online

The repayment claim form R38 is now available to download from our website (www.inlandrevenue.gov.uk/forms/r38.pdf). It can also be obtained from your local Tax Office or the Forms Ordering Service.

A new version of form R85 - "Getting your interest without tax taken off" - is now available and can be downloaded from our website (www.inlandrevenue.gov.uk/forms/r85.pdf). The form is also available from bank or building society branches, or any Inland Revenue Enquiry Centre or Inland Revenue Office.

2003-04 Tax Returns

Following certain changes announced in the Budget, some amendments have been necessary to the 2003-04 Tax Return Guidance. The relevant changes are detailed on the

Revenue website, and revised versions of the forms affected are also available. (Please see: www.inlandrevenue.gov.uk/sa/forms/net-03-04.htm). We will also be printing a supplement entitled SA Tax Return 2003-04 Supplement (2), which will be issued by the Orderline with all future orders for the following: -

- SA103L (Notes)
- SA150
- SA804
- SA901 (Notes)
- SA950
- IR298
- IR302
- IR304

Employer Successions

We have been asked to clarify the position about Employer Successions under PAYE.

Regulations 102–104 of the Income Tax (Pay As You Earn) Regulations 2003 govern the way in which Employer Successions take place for PAYE purposes. These Regulations can allow the new owner to take over the operation of PAYE without completion of forms P45.

An Employer Succession arises when: -

- there has been a change of ownership of a business, and
- the new owner* agrees to take over the pay records of the old employer.

Both conditions must be satisfied before the Revenue will consider an Employer Succession. Where for example, the new owner continues an existing business, but does not assume responsibility for the pay records of the previous owner an Employer Succession has not taken place.

*A new owner in this context means a different legal entity from the old owner. It can be a business totally unconnected to the old owner, or a sole trader / partnership which has subsequently incorporated as a limited company.

Responsibilities

The old owner:

- is responsible for payments of PAYE and National Insurance contributions up to the date the succession took place
- does not complete forms P45 for the employees transferring to the new employer
- does not complete a P35 Employer's Annual Return for the year in which the succession took place
- does not complete forms P14 for the year in which the succession took place

The new owner:

- will require a new Employer's PAYE Reference
- is responsible for payments of PAYE and National Insurance contributions from the date the succession took place
- completes a P35 Employers Annual Return for the whole of the tax year in which the succession took place
- completes forms P14 for the whole of the tax year in which the succession took place

Construction Industry

There are no provisions within the Construction Industry Scheme Regulations, which cover successions.

If a contractor's business changes hands, the old contractor is treated as if the business ceases, and the new owner is treated as starting a new business.

Regional Appeals Units

The concept of Regional Appeals Units (RAUs) came from two existing Regional initiatives in Scotland and London: these have operated successfully for some time. Building on the success of the London and Scotland Units we proposed to introduce RAUs across all our Regions during 2003-04 - with the exception of Northern Ireland - aiming to have all new Units up and running by December 2004.

The timing of introduction of RAUs was considered appropriate against the background of the various proposed reforms to the tax appeal system, for example:

- With the introduction of Self Assessment, the workload of the tax appeal system substantially changed and the General Commissioners experienced a significant decline in workload.
- In March 2000 the Lord Chancellor announced a review of the tax appeal system.
- There were also the changes brought about by Article 6 of the European Convention on Human Rights (ECHR) and the requirement for General Commissioners' hearings to be held in public (subject to certain exceptions).

As a Department, we considered that the setting up of RAUs would allow us to respond more effectively to the changing context of appeals work, provide an opportunity to re-organise the approach to appeals work at a Regional as well as Area level and to respond appropriately to the broadening scope of work undertaken by the Inland Revenue (for example tax credits).

Benefits of Having Regional Appeals Units

We have many staff in Area Offices with knowledge and experience of appeals legislation and of the jurisdictional and procedural roles, who can take both routine and contentious appeals before the General or (where appropriate) the Special Commissioners. However generally the numbers of contentious appeals handled by any one Inspector in any one Area or Local Office will in reality be few and far between. As a result the level of expertise developed in both the technical and advocacy skills required can vary considerably. With the introduction of Regional Appeals Units, to handle the majority of contentious appeals, we are able to ensure that the staff in these Units receive appropriate training. The fact that they handle greater volumes of contentious cases also means that they are able to develop their advocacy skills allowing them to present the case for the Inland Revenue in a more effective manner.

The benefits for the Department in setting up the RAUs are that they:

- provide a well-organised and co-ordinated structure to handle appeals work in a changing environment and in the light of new taxes and benefits.
- allow staff within the Units to develop and maintain skills and expertise to handle complex appeals, including the development of sound advocacy skills, enhanced understanding of the processes of the General and Special Commissioners, and an in-depth knowledge of appropriate legislation.

- provide a framework of support for Area Offices, assisting with reviews of Area cases, ensuring that the correct decisions are being made from an early stage in both fact and in law and that contesting the appeal is the only realistic course of action.

RAUs are able to identify and attempt to remedy any errors in order to ensure that when cases do go to the Commissioners there are no obvious defects or deficiencies.

This has a secondary quality control benefit, helping to maintain and raise the standard and effectiveness of our enquiry work and to focus staff on keeping the requirements of any appeal hearing in mind as they work the enquiry.

Likewise the RAUs provide a framework to identify areas where improvements can be made and implement those improvements effectively thus raising the standards in the way appeals are conducted and a central capacity for examining commissioner's decisions, drawing out common themes and disseminating the lessons learned.

The RAUs also offer a consultative service to the Area Offices to avoid inappropriate cases proceeding to contentious hearing. For example the RAU will be able to give an independent view of potentially contentious enquiry cases and advise whether they consider it appropriate to proceed, taking account of aspects such as:

- the stage of the negotiation and whether all appropriate avenues have been exhausted
- whether the Revenue's case is strong enough, do we have all the necessary evidence?
- whether there are any flaws in the Revenue's argument
- whether there is sufficient tax at stake.

And to refocus an enquiry cases on the key issues by objectively reviewing the strengths and weaknesses of the case and advising Area staff on the appropriate way to move forward on potentially contentious or unresolved issues.

The Role of the RAU

There are staff in Area Offices who are trained to take contentious as well as routine appeals themselves and where there is the required expertise and knowledge “in-house” they may choose to take cases themselves. Submission to the RAU is not mandatory.

In general however the RAUs should undertake:

- all appeals to the Special Commissioners.
- the more complex or contentious appeals before the General Commissioners for example where counsel has been instructed, where a point of law is at issue or where there are special features which warrant submission to the RAU.
- specialist or complex appeals, for example: IR35; Status Appeals; decisions relating to entitlement or liability to pay NICs, Statutory Sick Pay, Statutory Maternity Pay, Statutory Paternity Pay or Statutory Adoption Pay.

It is not the intention that RAUs should handle routine appeals, for example:

- closure applications
- appeals against Section 19A or Para 27 notices
- appeals against fixed penalties and closure notices
- simple non business aspect appeals.

With the introduction of the RAUs customers and tax advisers should benefit from greater professionalism, more consistency and better-prepared cases. We believe that, (as shown by a number recent of articles in various professional journals) on the whole, professional advisors find the introduction of RAUs a welcome development.

Working Together - PAYE Concentrations

The Working Together national Steering Group is currently considering a proposal to set up a Working Together group for the “remote PAYE concentrations”.

The PAYE concentrations handle the tax affairs of some 15 million individuals employed by 475,000 businesses. These offices have undergone significant change over recent years with the introduction of Area Management and the increase in e-business. Their very remoteness from their customer base, and their size, pose challenges around communication and customer contact as well as service issues. Agents who

use these offices are uniquely placed to identify areas where customer contact is problematic and to work with us to improve the effectiveness of processes or practices on both sides.

The proposal is that the Working Together group would use an email “window” prior to meetings to identify topics and issues for research and discussion. We also hope to launch the group with an open day in Chapel Wharf Area Office, Manchester, so that agents can gain an insight into the organisation and work of the PAYE concentrations.

Further information and an invitation to the Open Day will be provided on the Working Together website as soon as possible.

Construction Industry - Status Categorisation

Employers incorrectly treating employees in the construction industry as self-employed is an area of compliance risk which the Department is devoting significantly more resource to correcting. The number of employer compliance reviews within the construction industry is scheduled to double in 2004-05.

In July and August 2004, letters were sent to contractors where our records indicate they may be getting the status of their employees wrong. The letter provides a reminder of the need to ensure the correct status is applied and the consequences of failing to do this. Letters are also being sent to the associated sub-contractors that we believe are most likely to have their employment status incorrect.

The letters invite the contractor and sub-contractor to contact their tax advisers or their named status Inspector if they need assistance.

Working Together professional body partners have been made aware of the content of the letters. We are grateful for their feedback and have taken on board as many of their suggestions as possible. Regrettably, it has not proved possible to provide copies of the letters to the agents of the recipients. We have posted copies of the letters on the Working Together pages of our website.

www.inlandrevenue.gov.uk/workingtogether/news/index.

Company Tax Return - Helpful Hints

We plan to improve some of the advice in the company tax return guide. We know that some areas appear to cause particular difficulty and we give below, some advice to help you to complete company tax returns correctly. In addition we have included information about doing your business with us online. Our online services are quick, secure and let you interact with us at your convenience.

This article only covers some of the more common situations. You can find more information and guidance at www.inlandrevenue.gov.uk/businesses/tmacorporate-tax.shtml

How to Get a Repayment Dealt with Quickly

If you calculate that the company is due a repayment, you can help us to deal with it quickly by completing the appropriate repayment box(es) on the front page and in the repayment claim section of the form CT600. If you do your business online it's worth knowing that the speed of Internet processing means that you or your client may get a repayment, where applicable, sooner than if the return is sent on paper.

The quickest and most secure way to make a repayment to your client is by direct credit to the company bank account (by BACS). Please make sure that you always fully complete the "Bank Details" section of the return.

If your client does not consider the overpayment to be worth claiming, you may indicate on the return that you wish small overpayments to be set against future liability instead of being repaid, either at a set amount or any other limit that suits your client company.

Periods of Account

A company tax return is for an Accounting Period (AP), which is defined by law and can never cover a period of more than twelve months. However, the company's period of account (the period for which accounts are prepared) may sometimes be longer than 12 months. You must then divide the period of account into Accounting Periods to enter the correct details on forms CT600.

- If the company was trading for the whole period of account, you need to complete a CT600 return form to cover the first 12 months of the period of account and a second CT600 for the following 12 months or the remainder of the period, if shorter
- If the company was dormant (no activity) for part of the period of account, the dormancy is regarded as a separate Accounting Period and the details should be entered on a separate CT600

When apportioning the profits, you usually do so by reference to the number of days. For example:

Period of account is from 1/1/2002 to 31/03/2003 (trading throughout) –	455 days
First Accounting Period (12 months) is 1/1/2002 to 31/12/2002 –	365 days
Second Accounting Period (balance) is 1/1/2003 to 31/03/2003 –	90 days
Total profit is	£500,000
First Accounting Period profit is $500,000 / 455 \times 365 =$	401,099
Second Accounting Period profit is $500,000 / 455 \times 90 =$	98,901

Tax Rates that you Should Use

The tax rates are shown in the CT600 guide. Profits must be apportioned between the relevant financial years by reference to days in the APs and in the relevant financial years (FYs) and only use a rate that is shown in the guide for those FYs.

If you calculate that the company can claim Marginal Rate Relief, you must calculate the amount of relief due to you and claim it in the relevant box on the return. You must not use a composite rate of tax as that is unacceptable and does not recognise that you are making a claim to use a rate other than the main corporation tax rate, and also making a claim to marginal rate relief.

Briefly, if there are no associated companies, the rates of tax due for FYs 2003 and 2004 are as follows:

- Profits below £10,000 – 0%
- Profits £10,001 to £50,000 – 19% with Marginal Starting Rate Relief
- Profits £50,001 to £300,000 – 19%
- Profits £300,001 to £1,500,000 – 30% with Marginal Small Companies' Relief
- Profits £1,500,001 or more – 30%

The calculation for Marginal Rate Relief can be complex. If you have access to the Internet, you can use the calculator on our website at <http://online.inlandrevenue.gov.uk/calculators/mrr/MrrPage0.jsp>

Helping us to Identify Loss Carry Back Claims

If the company wants to carry back current year trading losses, you should show the amount to be carried back in the tax computation or a covering letter. A claim to carry back trading losses can only be made once all of the other profits of the accounting period have been covered by such losses. The claim must be made within the relevant time limit, which is usually 2 years from the end of the accounting period in which the loss was incurred. If a repayment for an earlier period results, make sure you complete the relevant check box on the front page of the CT600 to alert us.

Should you Use the Short or the Detailed Calculation?

You can complete the short calculation if it covers all the entries you need to make and each entry is less than £10 million. When deciding whether completion of the short calculation is appropriate to your client, please also refer to the section below relating to loans to participators (such as directors) by a close company.

Loans to Participators (Such as Directors) by Close Companies

There may be a liability to tax under Section 419 ICTA 1988 if a close company makes a loan to a participator during the period of the return and the loan has not been repaid in full by the end of the period shown in the return. A close company is broadly a company

- which is under the control of five or fewer participators, **or**
- any number of participators if those participators are directors, **or**
- more than half the assets of which would be distributed to five or fewer participators, or to participators who are directors, in the event of the winding up of the company.

A participator includes any person having or entitled to acquire a share or interest in the capital or income of the company (includes holders of share capital, voting rights, loan creditors).

If a close company has made a loan to a participator during the period of the return you are completing and it has not been repaid in full by the end of that period,

- you should complete supplementary page CT600A, which helps calculate the tax if any and
- enter the amount of S419 tax payable in the detailed calculation on form CT600.

How to Satisfy the Delivery Requirement

The company submits a completed company tax return to satisfy the requirement of the form CT603 (Notice to Deliver a Return). A complete company tax return should include

- A completed form CT600
- Any appropriate supplementary pages
- A set of accounts, appropriate to the type of company (if registered at Companies House the statutory accounts required under the Companies Acts
- A tax computation showing how the figures on the CT600 have been derived from the accounts (detailed trading and profit and loss accounts are usually included)

Company tax returns and any attachments can be filed online over the Internet. See the “Do it online” section below.

If you send a CT600 without supporting accounts and tax computations, we will return it to you because it does not meet the legal return requirement.

Quarterly Instalment Payments

“Large” companies have to pay their corporation tax by quarterly instalments. Broadly, a company is large if its profits for an accounting period exceed the Upper Relevant Maximum Amount (URMA) in force at the end of that period. At present, URMA is £1.5 million, but that figure is reduced if the company has associated companies. Our leaflet “A Modern System for Corporation Tax Payment. A Guide to Quarterly Instalment Payments” (CTSA/BK3) gives full information on the subject. It is available on the Revenue website or from the CT Orderline (0845 300 6777).

If you calculate that your client is liable to pay quarterly instalments, you should enter an “X” in the relevant box of the return (whether or not they have actually made such payments).

Please note that electronic payments are more efficient than payments by post. For more information on how to make electronic payments, go to www.inlandrevenue.gov.uk/howtopay

“Do it Online”

Take advantage of all the benefits of doing your business online. Our secure Corporation Tax Online service lets companies, and agents on behalf of companies:

- file company tax returns (form CT600 and any attachments, accounts/computations) online over the Internet
- view corporation tax liabilities and payments online

Corporation Tax Online for Agents is easy to use and all the software or online forms will calculate the tax liability for you.

To find out more about this service and how to get started, visit www.inlandrevenue.gov.uk and select “practitioner zone”.

editorial

Working Together is a partnership with the CIOT, ICAEW, ATT, ACCA, ICAS and AAT. Although the material in this publication obviously reflects discussion and consultation with these bodies, the Revenue is solely responsible for its contents and for the views expressed in it.

contact details & back issues

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