

Meeting Minutes - Kent Area Working Together Meeting held on Wednesday, 31 October 2007, Medvale House, Maidstone

Present:

From HMRC:

David Hook	Local Compliance SE Medium Business Unit Head
Antony Collard	Processing PAYE/SA East & South
Lynn Hewett	Processing PAYE/SA East & South
Darren Drake	Recovery Manager
Stephen Manning	Senior Delivery Manager Customer Contact
Tony Summersell	Business Customer Unit (Carter Programme)
Tim Salt	National Working Together Co-ordinator
Doug Home	Business Advice Team
Caroline Loveridge	Local Compliance SE Large & Complex Customer Group

From the Professional Bodies:

Linda Wiggins	Institute of Chartered Accountants
Bob Clarke	Association of Chartered Certified Accountants
Nick Alder	SESCA
Bob Jones	Institute of Indirect Taxation
Michael Wells	Association of Taxation Technicians
Fred Coleman	
Steve Carpenter	
Barbara Richards	
Hilary Tulett	Association of Accounting Technicians

Apologies:

Herschel Santineer	Chartered Institute of Taxation
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David welcomed everyone to the meeting and formal introductions were made round the table.

Tim introduced himself and explained that he is responsible for managing the "Working Together" relationship with agents which has included the revitalisation of local Working Together groups across the UK.

1. Minutes of Last Meeting and Action Points Arising

Issues Arising from 1 November Meeting

5. *Any Other Business*

5.b. *How do we get over the problem when agents are unable to file electronically due to problems with the service after the 31 October deadline for paper copies.* David confirmed feedback to BCU that their reply did not answer the question.

Tony stated that the paper deadline will be 31 October from next year. However, where for technical reasons someone is unable to file online, the department will not want to penalise them unfairly. In these circumstances, where the individual can demonstrate that they have tried **all** possible means to file electronically, and that might include

evidence of error messages, referrals to HMRC's Online Services Helpdesk, reference to their Third Party Software support etc, then HMRC will look sympathetically at the penalty position. All that said, the number of cases is expected to be extremely small. There is additional guidance on the Internet regarding the use of substitute returns. There will be regular updates on the matter posted to the HMRC website.

Issues Arising from 21 February Meeting

Issues Raised by Professional Bodies

3. e. David confirmed that he had informed the Powers Review Team of the suggestion from the Professional Bodies that HMRC increase the penalty for late filing.

Any Other Business

4. f. *The possibility of accessing on line the CIS records of subcontractors.* It was confirmed that this was fed back after the meeting.

Issues Arising from 20 June Meeting

Issues Raised by Professional Bodies

- 2.c. *Stephen to feed back problems experienced by agents in telephoning new numbers at Shipley.* Feedback received after the meeting had been added to the meeting notes.

- 3.c. Any Other Business

David to remind staff about the quality of correspondence sent from HMRC.

David confirmed that he had issued a reminder to his staff and asked other business units to do likewise. However Nick said that references were still being ignored as shown in the copy letters given to David after the meeting. David will ensure these are passed on to the appropriate manager.

- 3.h. *David to add the concerns of the Working Together Group regarding the delay in VAT registration which is being taken up by the VAT Practitioner Group.*

David said that the HMRC website which has recently been updated states that checks in most cases will be completed within five weeks although a small number are taking up to 20 weeks. Bob (J) pointed out that with the closure of Newry, post is going to Wolverhampton and is not being opened at the moment. Tim acknowledged that the turnaround times for processing VAT registrations were too long and said that he shared the concerns of customers. The issue was seen to be of great importance and progress was being closely tracked at the highest levels in HMRC.

The delays in processing VAT registration applications had been caused by a number of factors including; stringent checks intended to counter VAT fraud, process and IT problems and an unexpected increase in numbers of applications received. There is a huge amount of work being done to address the problem including the redeployment of staff, changes to processes and addressing IT issues. The situation is improving but customers will experience delays for some months to

come – the latest position is given on the HMRC website http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?nfpb=true&pageLabel=pageVAT_ShowContent&propertyType=document&resetCT=true&id=HMCE_PROD1_027655 . Tim suggested that if agents have a case which remains outstanding significantly beyond the timescales given on the website they should contact HMRC for an update. In exceptional cases there is a complaints procedure which they could use.

- 3.i. *David to feed back that the Fleming Repayments Team in Liverpool are still not responding.*

David reported that the numbers of claims received have been more than double the amount expected or planned for, and although all claims have been acknowledged, approximately two-thirds of the claims remain to be processed. It has been recognised that these claims have not been dealt with as quickly as we would have liked and additional resources have been assigned to speed up the process.

2. Issues Raised by Professional Bodies

- a. The length of time clients are having to wait for CIS repayments.

Antony stated that we have had a few problems linked with P35s which got stuck when they did not cut across. We have to ask Shipley to make repayments for us. Most contractors are dealt with quite quickly. In the past Shipley's turnaround time has been challenging. This year we are assured a four week turnaround as opposed to 12 weeks in the past.

- b. The uncertainty as to whether monthly returns under the new CIS are due for some contractors as the CIS Help Desk have advised that some records have been made dormant because Nil end of year returns were not submitted for 2006-07. Agents thought this was of particular concern with regard to small contractors.

Antony said that he had asked our CIS team in Dover who said that it was unlikely that a record would be made dormant without contacting the contractor.

Bob (C) stated where contractors file on line, agents should receive notification as well as the monthly return which is received from the CIS people.

- c. P35 Penalty Notices. There is concern by agents that there is a delay in issuing penalty notices for non-delivery. It was thought that early notification on a monthly basis will stop large fines accruing. Hilary pointed that that HMRC are still issuing £250 penalties when filing on line.

Antony explained that this is an old reference anomaly. When East and West Kent Areas were merged, a few cases on the East Kent databases did not move across. In terms of P35s, we had a few difficulties. We ran the penalty notices late to be sure they cut across.

Clients who receive penalty notices where P35s have been filed on line refer these to the agents which is relatively straightforward to deal

with if agents deal with the payroll. Where the client deals with the payroll, agents are then required to obtain information from them, thereby taking up agents' and clients' time as well as cost.

- d. Telephone Calls to Call Centres. Where matters cannot be dealt with by the Call Centre, their response is that they will e-mail the office dealing with the case. There is then a delay of about 2 weeks before a reply is received. It was felt that for simple cases, which is the reason for a telephone call in the first place, the response time should be much quicker.

Tim explained that this has been raised by agents everywhere. It was raised by the Working Together Steering Group in September with Nick Lodge, who has responsibility for Contact Centres. He has taken a number of examples where calls were traced back. It looks as though there is a breakdown in the Contact Centre and in some cases the office where the case is not being taken up. We have another Working Together Steering Group meeting at the beginning of December which Nick Lodge will be attending to give an update. Tim stressed that HMRC are aware of this problem and that it is being addressed. Antony confirmed that call backs in his own area were all being done within the correct timescale. Sometimes if a situation is difficult, this perception can continue even though the problem has been addressed. Looking at the CAAT team in Newcastle, they are dealing with 45,000 authorisations a week with a 4½ day turnaround. Because there have been difficulties in the past, agents still think there are problems with it.

Bob (C) thought that the registering of forms 64-8 on line works well. However agents still have to send in a paper copy because other sections within HMRC need to be notified. Can the on-line system be updated. Tim stated that agent authorisation is a thorny issue. The CAAT cannot deal with every single authorisation. In the short-term we are looking at both processes to see if there are any quick fixes we can do. We are working with agents to find the best way of doing this.

Nick said that he was reading that HMRC want all non-professional accountants to register on an individual basis. He thought it would be more appropriate if an acknowledged firm of accountants were given one reference number which would be accepted by HMRC. Tim said that giving accreditation to accountants is one way of doing that. It is certainly one of the options which is being looked at.

- e. Penalty notices are being issued where Tax Returns have been filed on line before all paper Tax Returns received have been logged and this is causing a lot of stress to clients. HMRC should ensure that penalty notices are not issued until all paper Returns received have been logged in order to save further wasted time by clients and agents.

Antony stated that HMRC are very conscious of this as an issue and the number of messages the Department have received is unimaginable. For Kent, however, we do not think this is a problem as we are very up-to-date with logging our Returns. The problem could arise where Returns have been incorrectly sent to Kent but then have to be redirected to other offices where there may be delays.

- f. On-line filing of forms R40. There are no plans to bring in on-line filing for R40s because this only applies to a small number of individuals

and therefore not cost effective with regard to IT investment. However, the processing of R40s is quick.

- g. CT Processing: late filing penalties. Steve explained that he acts for a large group of companies who prepare accounts to 31 December. Group returns are delivered to Maidstone just before Christmas. Each year, a handful of companies in the group will cease to trade at some point in the year, so the accounting period for CT purposes will end with the cessation of trade. Although the accounting period ends during the year, as the accounting reference date remains at 31 December and accounts for each company are prepared to that date, there is no change to the due date for CT returns. However, every year the group receives late filing penalties for the companies with an accounting period ending in the year.

David said that there is a system issue here and needs to be flagged up somehow, although there was some confusion as to whether penalties were appropriate in law.

Action Point: David to feed back concern and seek clarification.

[Response received since the meeting, which clarifies the confusion, is annexed to these minutes.]

3. Openness and Early Dialogue in Enquiries

Caroline Loveridge, from Local Compliance, joined the meeting to talk about a pilot due to start very shortly. She explained that last year there was a large amount of consultation throughout the agent forum network with the Department and also with representatives from the accountancy organisations. The Department is looking to try and improve communication between the Department and organisations, companies and individual taxpayers particularly when under enquiry. We asked for some suggestions and one of the comments was that the Department should be more open about what they were doing and the information they hold. Openness means that if a client is considered suitable for the pilot, the Department would tell the agent whether it was a Full or Aspect enquiry. We would also tell you what it is we are concerned about. It is not a return to the old-style enquiries before SA. Early dialogue involves an early meeting or telephone conversation which enables the agent and the client to find out the aspects of the enquiry. This will help the Department to understand what the business is and how the business is run, thereby enabling them to concentrate on the most important risks. A timetable is then agreed when documents and records will be supplied and examined. This will speed up enquiries by concentrating on the most important issues.

Bob (C) thought this sounded like a VAT control visit. Agents try and produce accounts which are compliant. If you go to businesses and look at the records, you have a computer system up to the current date and therefore will be looking at the current situation. You would get two people coming in at the same time which is very worrying to clients. Unlike Indirect Taxes who look at real time, records are looked at maybe one year or 1½ years behind. Agents are then able to make amendments as necessary before accounts are submitted.

David understood their scepticism but said that staff will recognise that they are looking at different issues. We will want to get as much as information as possible about the business overall.

4. Any Other Business

- a. Tim said that the next issue of Agent Update is 8 November. The majority of represented bodies host it on their own websites and alert their members. Bob asked why the Department does not send out a global e-mail to advise agents of any updates. Tim explained that as far as he was aware, the Department does not have the facility to do this. However, HMRC are working with IT developers to see if we can give you a work-all HMRC website. There are stricter criteria as to what can be published. Agents should start to see improvements however in usability and how it looks.

Bob (C) did not think that the HMRC search engine worked very well and was unhappy with the website generally as it was not user friendly.

Action Point: Tim to feed this back.

Bob (C) asked whether the system could be updated at weekends to avoid the inconvenience caused when the system goes down. Tim acknowledged this and said that we have been criticised in the past where IT updates have taken place at a sensitive time. We are pumping a lot more money into IT so that when we have to take the system down, it will have less of an impact.

- b. David drew everyone's attention to Kevin Buck's e-mail notifying agents of the change of the telephone contact number for Kent Debt Management Unit which is 01634 821779. Darren emphasised that this is a telephone system and not a Call Centre. It is hoped that this will improve the service. The telephone number will be put on the Internet shortly and since 1 October should have appeared on all correspondence.
- c. Nick pointed out that notices are still being issued with Nick Crutchfield's name. David acknowledged this saying that it is a question of IT costs and customer focus. He stressed however that although the notices show the incorrect name, statutorily they are legitimate.

Action Point: David to clarify what is being done about notices going out in Nick Crutchfield's name.

- d. Nick said that agents are continuing to get coding notices where rent is being put in to try and collect tax early. Clients have always submitted SA Returns.

Lynn explained that the Department has a new tool designed to improve the quality of coding. Antony said that clients should ensure they tick the box at 23.1A on the return.

- e. Nick reported that they had submitted separate Tax Returns for a husband and wife where repayments were due for both. He has just been told by his clients that the wife did not receive her repayment. He contacted the Call Centre who said that the reason the tax repayment had not been issued was because the Tax Return is under review but had no idea why.

Antony explained that the Department can inhibit repayments to

certain cases. Sometimes there may be a compliance issue.

- f. Fred explained that HMRC are looking at an enquiry case with a relatively small turnover. Queries were found and dealt with on more than one occasion and a good set of accounts were produced. As a result the client has incurred increased costs because we are trying to explain to HMRC that these matters have been put right. He felt strongly that the role of accountants should be re-enforced to HMRC staff.

Action Point: David to ensure the message is re-enforced to the business units.

- g. Bob (C) said that the two Working Together seminars with Inspectors and accountants were useful and thought this should be done locally on a regular basis – say every two years. Tim said that there are no plans to roll anything out widespread.

Action Point: David to consider a Working Together workshop for Kent and Surrey.

- 5. **Date of Next Meeting – Wednesday, 27 February 2008.**

Annex – Head Office Response on the question of penalties for late filing when the accounting period is different from the period of account (Item 2 g)

It's clearly annoying for companies to get inappropriate penalties and HMRC to have to devote resource to quashing them. This is a good example of the mutual benefits that Working Together can bring and I think we can make some changes to improve the situation for customers and the Department. Perhaps it will help if I explain some of the underlying issues and what we can do about them.

Legal

The Companies Act requires every company to prepare annual accounts that report on its performance and activities. Its accounting reference period ends on the company's 'accounting reference date' or 'ARD' (Section 391 Companies Act 2006). Although it's a Companies Act concept, the ARD has a practical effect for tax purposes because the period for which the company makes up accounts (its 'period of account' - Paragraph 14(2) Schedule 18 Finance Act 1998) ends on that date.

The Taxes Acts have rules (Section 12 Income and Corporation Tax Act 1988) for determining the basis of, and periods for, assessment of corporation tax. Companies are chargeable to corporation tax and have to make returns for 'accounting periods' (APs).

The company's period of account and accounting period normally end on the same date, and the time limit that the company has to file its company tax return is usually 12 months after that date. But that pattern is broken by any event which causes an AP to end for tax purposes during its 'period of account' - such as a company ceasing to trade. In those circumstances, the company is normally entitled to a more beneficial filing date for the cessation AP return of 12 months after the end (but not more than 30 months after the start) of the 'period of account'.

IT and Procedures

Accounting periods are fundamental to the design of HMRC's corporation tax computer system (COTAX), but it does not, and normally has no need to, recognise periods of account. It would take a disproportionate amount of public money to change that and we have no plans to do so.

Without knowing about periods of account, COTAX cannot automatically calculate the more beneficial filing date mentioned above. HMRC staff have to recognise when the rule applies (normally when the AP doesn't match the period of account) and manually enter the correct filing date.

In practice, clerical staff logging returns need to triage returns with accounts which don't share a common start and end date. They need to update the company's AP record on COTAX and also refer the case to a technically trained staff member to review and enter the correct filing date. Steve Carpenter's note suggests we need to tighten up on the second leg of that process.

Process improvement

We'll make changes to our procedural guidance to emphasise the point so that COTAX gets the correct information about accounting periods and filing dates and gives customers the right result. I'll also draft an article for your January 2008 Working Together publication to highlight the issue, and flag it up in the internal Business Guidance Note that supports the February 2008 software update to COTAX.

However, we need to be realistic; those steps will improve the position but are unlikely to permanently resolve it. This is a manual process, carried out by clerical staff under considerable time and resource pressure, so cases will slip through. Companies and tax agents can help by telling us about returns that involve a change of accounting period which may attract a more beneficial filing date. That, together with our own guidance changes, should reduce the instances of companies getting inappropriate penalties.