Personal Tax Newsletter
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Income tax administration to get a shake-up

It's not just technical tax talk – recent proposals could have a major impact on income tax liabilities.

The government is currently discussing proposals for what's called income tax basis period reform, something entailing fundamental change for unincorporated businesses. There are also discussions on whether the UK tax year itself should change. A year end of 31 December or 31 March, rather than 5 April, has been suggested.

It's not often that the tax administration framework gets an overhaul, and many of the suggestions need to be seen in the context of the move towards Making Tax Digital for income tax (MTD for ITSA). This will take effect in three stages, starting from 6 April 2024 for most self-employed businesses and landlords, and 6 April 2025 for partnerships with only individuals as partners. Other partnerships would enter later.

The recently-published regulations stipulate that fixed quarters, rather than quarters based on the individual accounting year of the business, will be used to report to HMRC. This puts the spotlight on the choice of accounting year end, and it may be prudent to review this as part of your MTD preparation.

Basis period reform, if implemented as it stands, also has a bearing on the choice of year end. It would end the present system whereby calculations are based on the accounting year of the individual business. Instead, profits (or losses) assessed would be those occurring in the actual tax year, regardless of accounting year end. The new tax year basis would apply from April 2024 at the earliest. There would be a transitional year (2023/24 at the earliest) in which payment of tax would be accelerated. Businesses without a 31 March/5 April year end would potentially face higher tax bills, and those with higher taxable profits in 2023/24 because of the change would be able to elect to spread the 'additional' profit over a period of up to five years.

Businesses with accounting year ends other than 31 March or 5 April would see additional complexity to tax calculations on an ongoing basis and potentially a need to submit estimated returns to meet filing deadlines. A change of accounting year end might be the optimal solution here. Many businesses would also want to consider the practical implications of the transitional year on tax bills.

No genuine simplification

However, the Tax Faculty at the Institute of Chartered Accountants in England and Wales (ICAEW) argues that implementing such changes to income tax basis period would 'not provide any genuine simplification to the UK's tax system'.

Instead, it says such reforms would be likely to increase costs, complexity and uncertainty for those businesses affected. It could also damage the UK's attractiveness as a place for the location of international service firms, the ICAEW added.

The ICAEW highlights that those businesses not following the tax year are likely to have very good reasons for doing so, including aligning with 31 December, which is the international standard for the tax year end.

The response also stresses the considerable difficulties that the proposed change would pose for seasonal businesses, agricultural firms and GP practices.

Whatever last-minute adjustments to timetabling or smallprint there may be, change is very much in the air.

Please be assured we are monitoring all these developments closely and will advise on the latest developments as they impact you.

Outstanding tax: HMRC latest

Expect a sea change in HMRC's approach to tax debt as the economy emerges from the pandemic.

Protecting livelihoods. Keeping people in work. Helping businesses with temporary cash flow issues to survive. These have been HMRC's guiding principles on tax debt ever since Covid-19 began. That starts to change this autumn.

What happens next?

As government support schemes wind down, so HMRC begins to return to something nearer its normal debt collection procedure. Though it's still committed to what it calls an 'understanding and supportive approach', the word 'but' forms part of the updated messaging. It comes here: 'But where businesses have little chance of recovery, we do have a responsibility to act'. The emphasis is on supporting 'viable businesses where we can'.

HMRC contact if there's tax outstanding

HMRC urges any business or individual worried about paying tax to phone its dedicated Payment Support Service as soon as possible. Where taxpayers don't take the initiative, HMRC will itself make contact and the importance of responding can't be overstated. Initial HMRC triage for tax debt is to establish if taxpayers can't, or simply won't pay, and cooperation here is vital. Failure to engage may mean enforcement procedures are escalated to the next level.

HMRC messaging: *'If you can pay your taxes then you should do so – but if you're struggling, we want to work with you to agree a plan based on your financial position.'*

Negotiations

HMRC support includes Time to Pay repayment plans for tax. These are arranged to fit individual circumstances, with the aim of paying as quickly and affordably as possible. But HMRC will also consider short-term deferrals where nothing is paid for a short set period.

If a business has used a government loan support package, like the Bounce Back Loan Scheme, HMRC expects it to use the flexibility this provides to the full. This could mean, for example, including extending repayment terms, to maximise the chance of keeping tax payments up to date. It also advises that the existence of such a loan doesn't preclude HMRC debt collection activity: even, as a last resort, pursuing for insolvency.

Escalation

If taxpayers fail to respond, or refuse to pay, HMRC may want to visit either the home or business premises. But the aim at this stage is still to agree a payment or payment plan without further action.

From September 2021, HMRC may start the process of collecting tax debt using its enforcement powers, where someone is unwilling to discuss a payment plan or ignores its attempts to make contact.

Whilst the emphasis is still on a 'cautious approach' to debt enforcement action, HMRC powers are extensive, and it is obviously wise to take appropriate action before this stage is reached. Where a company is considering a Company Voluntary Arrangement, early engagement with HMRC is particularly important.

If you have any concerns about the payment of tax, please talk to us for further advice.

Reminders for your diary

November 2021

2 Deadline for submitting P46(Car) for employees whose car/fuel benefits changed during the quarter to 5 October 2021.

19 PAYE, Student loan and CIS deductions are due for the month to 5 November 2021.

December 2021

1 New Advisory Fuel Rates (AFR) for company car users apply from today.

19 PAYE, Student loan and CIS deductions are due for the month to 5 December 2021.

30 Online filing deadline for submitting 2020/21 self assessment return if you require HMRC to collect any underpaid tax by making an adjustment to your 2022/23 tax code.

31 End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 December 2020.

January 2022

1 Due date for payment of corporation tax for period ended 31 March 2021.

14 Due date for income tax for the CT61 quarter to 31 December 2021.

19 PAYE, Student loan and CIS deductions are due for the month to 5 January 2022.

PAYE quarterly payments are due for small employers for the pay periods 6 October 2021 to 5 January 2022.

31 Deadline for submitting your 2020/21 self assessment return (£100 automatic penalty if your return is late) and the balance of your 2020/21 liability together with the first payment on account for 2021/22 are also due.

Capital gains tax payment for 2020/21.

Balancing payment – 2020/21 income tax and Class 4 NICs. Class 2 NICs also due.

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