Think Ahead ACCA

Consultation: Basis period reform

A public consultation issued by HMRC

Comments from ACCA to HMRC

31 August 2021

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community **of 233,000 members and 536,000 future members based in 178** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. In December 2020, we made our commitments to the UN Sustainable Development Goals which we are measuring and will report on in our annual report. We believe that accountancy is a cornerstone profession of society and is vital helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation. Find out more at **accaglobal.com**

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Comments from ACCA to HMRC

Consultation and implementation

ACCA would like to express disappointment that HMRC has chosen to give businesses six weeks to respond to proposals with far-reaching effects on the self-employed. We are particularly concerned that HMRC may not have had time to properly reflect on responses received following tax day announcements and consultations, specifically those relating to timely payment and a 21st century tax system. While we understand the Government's desire to bring through change in time to lay the appropriate draft legislation, there is a risk that this will have been done without a proper hearing for responses to this consultation or the imminent review from the Office for Tax Simplification on moving the tax year. If at odds with the outcomes taken forward by HMRC, disregarding either could serve to weaken trust and confidence. ACCA is keen to see a comprehensive plan for the future of the tax system that takes account of wider planned changes to tax administration and the impacts on taxpayers.

We are concerned and disappointed that the government's rational for the change is our view has not made nor that the impact of the rushed change is adequately explained, explored or costed. In our opinion the published consultation more closely resembles a call for evidence than a consultative document.

Further we believe the proposed timeline for implementation is unnecessarily rushed, giving businesses and those who support businesses very little time to prepare for transitional arrangements. We are extremely concerned that this change is to be introduced alongside a series of compliance changes for businesses, including mandated MTD for ITSA, VAT and those still getting to grips with correct application of the off-payroll working rules.

We strongly believe HMRC should seriously reconsider the timeline for implementation and the corresponding timeline for MTD for ITSA and if relevant, scope for timely payment.

To summarise we are once again disappointed that the impact of the proposed suite of changes on the SME community, which includes many agents has been ignored.

Spreading Profit

The burden on impacted taxpayers is varied and it will be difficult to achieve a fair and even-handed outcome. This is particularly evident in the impact this will have solely on the segment of businesses that have to transition to a new basis period and their future tax liabilities.

We note the tax spreading proposed of up to 5 years. While this has been common past practice, for example with the additional tax due as a result of UITF40 tax consequences, we would question if this will be adequate. It could be argued that a move to allow businesses to spread the tax charge from the apportioned accounting year over 10 years instead of five, giving businesses more time to pay and lessening the impact going forward on NI and Income Tax for individuals is better. We would again question if the benefits of these changes warrant the technical difficulties and impact on wellbeing for business owners and the self-employed.

Separately, HMRC may wish to consider allowing businesses to offset overlap relief against previous years' tax liabilities, which should mirror current loss relief regimes.

A consequence of the additional tax to pay, if it is spread or not spread, is the impact on business investment, especially the raising of funds for SME businesses. Both the traditional sources of cash for investment – sole trader or partner investment or bank overdrafts, mortgages and loans would be impacted by the additional accelerated cash outflow. Even using the figures within the consultation this could see 33% of partnerships facing accelerated tax payments.

Scope for incorrect reporting and abuse

While we welcome the simplification presented by the removal of overlap relief this already exists for businesses who can currently choose their year-end. HMRC may wish to consider a default year end date of 31 March – 5 April for new businesses receiving new business notifications, which businesses may only opt to change through affirmative action on their part.

We believe the proposed system is open to some level of abuse and are concerned on the impact this may have on tax administration.

Accountant workload and capacity

While ACCA appreciates the efforts made by the department to simplify and harmonise reporting deadlines ACCA believes the proposals - alongside further MTD requirements for quarterly reporting - could create a 'bottleneck' around deadlines creating unmanageable workloads for accountants. This could seriously affect broader compliance and late filing rates.

International Basis Periods

We note that the Office for Tax Simplification's review into changes to the tax year will also take account of alignment with major tax regimes i.e aligning basis periods to the calendar year. For individuals with international income sources or tied to international businesses this may present a simplified option. These individuals will be required to apportion profits from two periods and estimate profits, leading to amended returns and under/ over payment. Again, ACCA would encourage HMRC to take account of the timeline for OTS recommendations in its approach to basis period reform. We are concerned that by impairing the existing choice and by inserting a considerable cost to businesses that the proposals will hamper business investment.

MTD for ITSA

Members have raised with some urgency the timeline for MTD for ITSA and the impact on SME clients. There remain concerns around the levels of support required by SMEs and the ability of small accountancy practices (forming a majority of the marketplace for compliance support) to meet the workflow needs of regular reporting, unmanageable software costs and the low threshold for reporting under MTD for ITSA which will bring a significant new cohort of SMEs under MTD requirements.

HMRC Readiness

Given the recent and ongoing service levels experienced by businesses and those who support them we feel that HMRC would require significant investment to implement this proposal alongside the other proposed reforms within the time limit. We note the inclusion of software expenditure for HMRC but see little to support HMRC teams through the transition being proposed. Unfortunately, the lack of investment will as with many proposals end with SMEs and agents bearing the cost of change.

Following on the Financial Secretary to the Treasury's comments earlier this year during Committee Stage reading of the Finance Bill that there is still work to do in 'clamping down on deliberate non-compliance' and tightening anti-avoidance rules', ACCA believes the Department may benefit from additional time to bed in new measures and focus on the integrity of the tax system ahead of major system change.

As highlighted in our response to the consultation on creating a 21st Tax system, it is absolutely vital that HMRC ensures the basic functionality and accuracy of systems ahead of major reform to the tax administration framework. In detailed discussions, members were keen that groundwork should be laid for basic system functionality around data capture, turnaround of calculations and assessments, countermeasures for providing corrections and up-to date figures (without triggering superfluous inquiries) and basic levels of staff training on compliance.

Certainty and complexity

We would question if a move back to 'estimated/provisional results' is beneficial for taxpayers, agents who represent them or to the Treasury. In particular businesses with complex accounts and/ or changes to partnerships will find it difficult to produce accurate estimations, creating additional complexity and increased costs. We are concerned that the governments rational for the change has not been properly made nor the impact of the rushed change adequately explained, explored or costed.

Additionally, there will be added complexity where additional profits resulting from the transitional period will have a distortive effect on tax rates and eligibility for relief, including where additional pension reliefs become available for higher rate income tax bands.

We propose that this consultation raises more issues than it purports to solve including but not just limited to those listed in the consultation:

- Capital Allowances
- Cash Basis
- Losses
- Other Claims & Elections
- Payment of Tax & Payments On Account
- Double Taxation Relief
- Trusts and Estates with Trading Income
- Non-Resident Companies Charged to Income Tax
- Averaging of Fluctuating Profits
- National Insurance Contributions
- Student Finance Repayments
- Tax Credits
- High Income Child Benefit Charge