



ADVANCING SELF ASSESSMENT TAX RETURN FILING DATES

A RESPONSE TO

THE CHANCELLOR OF THE EXCHEQUER

BY

THE SOCIETY OF PROFESSIONAL ACCOUNTANTS

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1. EXECUTIVE SUMMARY

- 1.1** SPA requests that Lord Carter's proposals for earlier filing dates of 30 September and 30 November be withdrawn for consultation with all professional accountancy institutes and other interested parties.
- 1.2** The selection of the two earlier SA filing dates appears to have been made without appropriate consultation, and in isolation of other issues concerning the SA system that might be relevant; also the impact on practising accountants does not appear to have been considered.
- 1.3** In SPA's survey it was found 84% of members would find the earlier dates extremely difficult - if not impossible - to meet, with 65% adversely affected by major dislocation to their practice workload and staffing requirements. It should be noted 31 January is already an extremely tight deadline to achieve and moving filing dates forward can only exacerbate an already difficult situation.
- 1.4** To provide different filing dates for paper or electronic Tax Returns appears unnecessary and unfair; one filing date should be provided for all SA returns, and those filing paper Tax Returns should not be penalised compared to those filing electronically. Further, no reasons are given why facsimile Tax Returns will not be permitted, which work perfectly well and have been acceptable to date.
- 1.5** The opportunity should be taken to review the Tax Return process for self-employed individuals and unincorporated businesses to align this process with that for limited companies. Consideration should be given to provision of a separate business Tax Return with tax settled nine months after the chosen year end date, which would spread workloads for both practising accountants and HMRC.

- 1.6** The existing fiscal year end date of 5 April should be reconsidered, with 31 December a more logical date to replace it.
- 1.7** Breakdown or unavailability of HMRC online filing, or errors and undue delays in processing information provided, causes frustration and wasted effort; compensation should be provided directly to practising accountants in such instances.
- 1.8** No penalty should be imposed on a taxpayer's first occasion of missing the filing deadline by less than one month; a caution only appears consistent with the VAT return process.
- 1.9** Imposed implementation of earlier filing dates is likely to cause deterioration in the present balanced relationship between practising accountants and HMRC. Furthermore, it will lead to defensive actions being taken which may prove detrimental to all parties and may increase HMRC workloads.

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2. BACKGROUND TO SPA

2.1 SPA is a wholly independent society of small accounting practices whose principals hold a qualification issued by a recognised professional accountancy Institute. It was formed in early 1996 and currently there are some 1,450 member practices and over 1,800 professionally qualified principals.

2.2 SPA's members provide accountancy services to an estimated 150,000 private small limited companies and unincorporated businesses. Around 250,000 Self Assessment Tax Returns are prepared and filed annually for those businesses and other private clients.

2.3 SPA's stated policy is to promote and improve the relationship between members and their Institutes by providing constructive criticism together with practical proposals for improvements, also to provide commentary and proposals to other authorities influencing our practising environment.

2.4 Besides various reports sent to the ICAEW, SPA has previously made several submissions on small business regulation to the DTI, the Auditing Practices Board and the Accountancy Standards Board, and more recently to the Professional Oversight Board for Accountancy.

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3. SA TAX RETURN FILING – PRESENT POSITION AND COMMENTARY

3.1 The present online filing system has imperfections.

3.1.1 An increasing number of practising accountants are using the online filing facility, and the system generally worked well for tax year 2004/2005. However, there were many reports of system breakdown or unavailability which, coupled with processing errors and undue delays in dealing with information provided, caused frustration and wasted effort.

3.1.2 Some measure of compensation is provided, but requires that first the client must be billed for the cost of added time incurred through HMRC error. In SPA's view this is an unnecessary obstacle and practising accountants should be permitted to bill directly to HMRC in such instances.

3.2 The current tax year end date of 5 April acts as a pivotal point for much of business' and the accountancy profession's activity and fiscal planning:

3.2.1 To avoid 'overlap relief' the majority of self-employed businesses have year end dates of 31 March or 5 April.

3.2.2 It is understood that 31 March is the most popular limited company year end.

This presently creates a mountain of work that must precede Tax Return completion.

3.3 The practising accountant's work programme is set from 31 March to achieve timely preparation of all annual accounts to enable Self Assessment Tax Return filing to be completed by 31 January. This provides a ten month work period with little productive work available in February or March.

3.4 Some individuals continue to file paper returns because they are required by HMRC to do so, or they do not use an accountant or their accountant does not use the online filing system. Also certain civil servants must file paper returns 'for security reasons'.

3.5 Delays occur in obtaining required documentation

3.5.1 A major factor in attempting to smooth the accounts preparation 'pipeline' is clients' ability to present their tax and other records in an orderly and timely fashion.

3.5.2 Generally the assembly of any Tax Return is unlikely to commence much before the end of May, as there is the need to obtain various year end documentation - such as pension, interest or investment certificates, stock valuations and creditor listings - from banks, brokers or other advisors; PAYE P11D forms are currently not available before mid July.

3.5.3 The effective work period for SA Tax Return production is the eight months between June and January, encompassing both the main summer holiday and Christmas/New Year breaks.

3.6 In many accountancy practices the pressure to complete their work programme in order that all clients may avoid late filing penalties is intense. January can be an almost unbearable period of relentless stressful effort chasing remaining returns through the system - the relief felt by many when 1 February arrives is palpable!

3.7 Whilst HMRC statistics can provide accurate figures, it is believed that around 75% of all SA returns are filed between October and January. There is very little means of spreading this load more evenly, given the essential work on collecting documents and preparing accounts that must precede this process - clearly this provides an uneven workflow for HMRC.

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4. LORD CARTER'S PROPOSALS – SPA'S OBSERVATIONS

4.1 Other than moving the UK further up the international 'Speed of Filing Tax Returns' Table, there is little evidence supporting why such change is sought. In other similar situations, as with the DTI review of Company Law, wide consultation took place on earlier filing of annual accounts and an economic case was made to support the changes to be adopted.

4.2 It is not understood why a similar exercise has not been undertaken nor existing consultation channels used. If a review of our Tax Return system is sought why not take the opportunity to look at it from various aspects rather than pick out a single and unbalancing item?

4.3 Relations between HMRC and practising accountants have been strengthened in recent years by the development of the 'Working Together' groups. As proposed changes will undoubtedly affect HMRC staff we are surprised that the 'Working Together' groups have not been involved.

4.4 Imposing the earlier filing dates seemingly ignores their impact on practising accountants, their staff and clients. Such changes would be most unwelcome to the large majority of practices and would cause serious disruption to their work planning and staffing requirements. The main period available for Tax Return preparation would be around the summer holiday period when both staff and client absences would be expected. In particular:

4.4.1 The effect of introducing a filing date of 30 September for paper returns will halve the available work period from eight to four months, and will unreasonably penalise a large number of taxpayers dealing with their affairs in this way.

4.4.2 Similarly the 30 November deadline for electronic returns will reduce a practising accountant's work period by a quarter, without offering any suggestions as to how the essential accounts preparation work could be managed within this shorter period.

4.4.3 For the vast majority of smaller practices earlier filing dates would produce an intolerable workload, whilst tax staff would have little work thereafter for twice as long – up to four months from December to March.

4.4.4 To meet earlier deadlines it is probable that many more estimated returns are likely to be filed by 30 September or 30 November to be amended subsequently, adding to the burden of both the practising accountant and HMRC.

4.4.5 Practising accountants would be forced to restructure staff arrangements, particularly tax staff as they would not be able to maintain their employment for four non-productive months; expensive part time subcontract staff would be sought – if available.

4.4.6 Alternatively to (4.4.5) client year end dates would probably be moved away from 31 March or 5 April to later dates, abandoning tax efficiency but enabling practising accountants to spread their workload evenly over the year.

4.5 If the earlier dates of 30 September and 30 November were imposed then, as a minimum, a transitional period should be provided, commencing with 2007/8 by moving the filing dates forward one month to 31 December, then to 30 November for 2009/10, so that practising accountants and clients are given a reasonable timescale to manage the disruption caused and the re-organisation required.

4.6 We suggest that on the first occasion a taxpayer fails to file by the deadline by less than one month, they should not be criminalised by an automatic penalty, but a caution should be issued to the effect that, as with VAT returns, a penalty will be issued should this recur.

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5. SA TAX RETURN FILING – SOME SUGGESTIONS FOR CONSIDERATION

5.1 SPA would prefer to see an informed and wide ranging consultation take place on all aspects of the current SA system. Specifically SPA suggests that two fundamental changes be considered.

5.2 The first - that the fiscal year end date becomes 31 December.

5.2.1 It is believed that choosing the tax efficient date of 31 March or 5 April as the preferred accounts tax year end date for those in self-employment or limited companies greatly distorts the workloads for both practising accountants and HMRC staff.

5.2.2 The tax year end could be advanced from its historic and anomalous date of 5 April to 31 December. This latter date is the natural end of the calendar year, and one favoured by several other European countries and the United States of America.

5.2.3 This could be put in place in 2008 when a transitional nine month Tax Return could be filed to 31 December.

5.2.4 Tax payments could be made on account on 30 September and 31 March with the latter being the settlement date.

5.2.5 Tax Returns, paper and electronic, could be filed by 30 September, with all HMRC processing completed and tax demands raised no later than 28 February.

5.3 The second - that the taxing of unincorporated businesses be aligned with that for limited companies.

5.3.1 Self-employed individuals or businesses could file a Business Self Assessment Tax Return in line with their chosen accounts year end date. This would provide a spread of work for both practising accountants and HMRC staff.

5.3.2 Self-employed business tax could be settled nine months after the chosen accounts year end date, aligning with limited companies, with payments on account made three months prior to and three months post their year end date.

5.3.3 Existing overlap relief could be indexed to the RPI from incidence date to 31 December 2008, and phased out by 2008/2009 tax year.

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6. SPA SURVEY APRIL 2006 – QUESTIONNAIRE AND KEY FINDINGS

6.1 SPA Member Questionnaire – April 2006:

“The Carter review suggests that for 2007/8 electronic filing of SA Tax Returns should be made by 30 November, with any paper returns filed by 30 September.

Questions in respect of your practice:

Q1. Are these filing dates readily attainable?

If no, what constraints can you identify.

Q2. On a scale of 1 (not at all) to 5 (major dislocation) what impact, if any, would meeting these dates have on rescheduling your work in December/January?

Q3. If these dates are imposed can you identify what else (printable!) the Government or we should consider?”

6.2 Just over 400 replies were received from 1450 practices – a response rate of 28%.

6.3 84% of respondents stated that the earlier filing dates were not readily attainable.

6.4 65% of respondents stated that adapting to earlier filing dates would cause major disruption to their practices and staffing requirements.

6.5 Frequently repeated reasons were given for responses provided:

6.5.1 Inability to concertina existing workload, given that the majority of business year ends are 31 March or 5 April, and accounts have to be prepared first to obtain Tax Return information

6.5.2 Delays in obtaining Employment and other year end certificates or returns already limits the available work period to between June and January. Truncating this by a further 4 months for paper returns may prove unattainable given non availability of staff or clients in key months of July, August and September because of holidays.

6.5.3 Meeting the existing 31 January deadline causes stress and long working in the months of December and January. How will taking two months out

of this work period be managed given the work load will remain the same?

6.4.4 Inability to deploy staff economically or efficiently throughout the year, particularly dedicated tax staff, as there would be little productive work available between December and March. This may lead to staff losses and more expensive contract staff being engaged, if available.