



HM REVENUE & CUSTOMS
MODERNISING TAX ADMINISTRATION
INTEREST – WORKING TOWARDS A HARMONISED REGIME

Response by
THE SOCIETY OF PROFESSIONAL ACCOUNTANTS

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1. Executive Summary

The Society of Professional Accountants (SPA) is pleased to respond to the consultation paper dated 19 June 2008.

- 1.1. SPA maintains that interest, on whatever tax or fiscal duty is payable or repayable, should be consistent wherever applied and consistently applied from synchronised payment dates.
- 1.2. The rate on interest to be applied should reflect the general banking practice of allowing less interest on deposit than on borrowings, and should be a standard of plus or minus a percentage of the published Bank of England Official Bank Rate (BEOBR).
- 1.3. The interest rates applied should also be used to determine interest on beneficial loans granted to employees.
- 1.4. The system of charging interest on late payment of tax from due dates would link directly into any agreed penalties to be applied should payment not be received within a further stated period.
- 1.5. Consistency should also be applied whether interest on tax payable or receivable should be an allowable expense or taxable income. As interest paid cannot be an allowable payment, SPA believe that any tax related interest paid or received should be excluded from corporate or business tax computations. Putting this another way, any interest paid on overdue tax or repaid on overpaid tax could be viewed as an increase or a reduction in the tax charge.

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2. Background to SPA

- 2.1 SPA is a wholly independent society of small practitioners holding a qualification issued by a recognised professional accountancy Institute. It was formed in early 1996 and currently there are some 1800 principals in 1400 member practices. Our members provide accountancy and taxation services to an estimated 175,000 private businesses and approaching 500,000 individuals.
- 2.2 The Society'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. Further to provide commentary and proposals to other authorities influencing our practising environment.
- 2.3 SPA has previously made submissions on small businesses limited company activities to the DTI on Audit Exemption levels, to the Accountancy Standards Board on Financial Reporting Standards for Small Entities (FRSSE), to the DTI on Modern Company Law 'Developing the Framework'. Also to the Chancellor of the Exchequer concerning individual tax payers on 'Advancing Self Assessment Tax Return Filing Dates', and to HM Revenue and Customs on 'Payments, Repayments and Debt' and 'Income Shifting'.

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3. Detailed Response to Questions posed

Q.1. Which of the options for a starting point for the interest rate formula best fits with the design principles of recompense, fairness and simplicity for the majority of taxpayers?

A.1. The Bank of England Official Bank Rate (BEOBR)

Q.2. How far should the difference between the rate of interest charged by HMRC and paid by HMRC reflect the difference between the borrowing and lending interest rates used commercially?

A.2. Rates charged or paid should be at an agreed level below or above BEOBR.

- To provide appropriate incentive for early or over payment – hence at a good commercial rate suggested as BEOBR less 1%.

- To provide an incentive for prompt payment, suggested at BEOBR plus 3%.

Q.3. What do you consider is the best way to strike a balance between delivering simplicity through stability and achieving recompense in setting the rates of interest charged and paid by HMRC?

A.3. Rates to be charged should be based on BEOBR on the following quarter dates to coincide with Self Assessment Payments:

31 January, 30 April, 31 July, 31 October

Q.4. Which of these approaches for charging interest on late payments of in-year PAYE do you feel best deliver the design principles of recompense, fairness, and simplicity?

A.4. We consider it reasonable that all employees should make monthly or 4/5 weekly submissions of payroll summaries, so that any interest due for late payment could be calculated in accordance with the principles suggested in our answer to Question 2.

Q.5. Are there other approaches that could be taken for charging interest on late payments of in-year PAYE that would fit with the design principles of recompense, fairness, and simplicity?

A.5. None that we can suggest.

Q.6. This chapter has considered the possible features of a new interest regime. Your views are invited on how the options discussed meet the principles of recompense, fairness, and simplicity (as described in chapter three).

A.6. SPA would support any system of interest charged or paid that can be applied consistently across all major taxes and duties, and can be calculated in a manner that uses the principles set out in Q.6. above.

Q.7. This chapter has considered how a new interest regime could be harmonised across all taxes – are there any conditions that are specific to any of the taxes that create a case for different treatment?

A.7.

i. The question of synchronicity should be considered to eliminate significant differences between the two major taxes paid by the vast majority of small businesses – personal income tax or corporation tax.

ii. At present, where any significant amount of self assessed income tax is payable it is collected on account:

- half, approximately two months before the end of the fiscal year

- half, approximately four months after the end of the fiscal year

iii. For corporation tax there is a single payment 9 months after the end of its accounting period, with no payments on account required; there is thus a considerable cashflow and interest advantage to small limited companies.

iv. SPA suggests that for SME companies they be obliged to follow the same payment on account system for Corporation Tax as is applied to those paying Income Tax.

v. Synchronicity should apply to the payment dates for periodic PAYE/NI with that for VAT i.e., at the end of the month following the end of the period.

(Ideally it would be an appropriate moment to standardise the end of the fiscal year at 31 March rather the historic date of 5 April!!).

vi. Late payment of VAT should attract interest in the same manner as other taxes or duties.

Chapter 8

Q.8. What other factors should be taken into account in setting the formula to determine the interest rates HMRC charge and pay?

Q.8. None that we can suggest.

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