



Association of Accounting Technicians (AAT) response to the HMRC Call for Evidence

“Amendments to tax returns”

1. Introduction

AAT's response to this Call for Evidence is informed by the views of AAT members who responded to the *AAT Amendments to Tax Returns Survey 2019* and the views of the *AAT Tax Panel*, a panel consisting of representatives from the Federation of Small Businesses, National Farmers Union, Equity, Office for Tax Simplification, Accountancy Age, Taxation Magazine, and AAT licensed accountants, which met in December 2018 and discussed the issue at some length.

2. Executive summary

- 2.1. **AAT strongly supports the government in its willingness to “...ensure that the process to amend a tax return is simple and transparent for taxpayers to use.”**
- 2.2. **AAT acknowledges that tax records will increasingly be held and submitted digitally and that HMRC's digital agenda is an opportunity to modernise the process and create a better taxpayer experience.**
However, it should be noted that taxpayers (individuals and businesses) have had to absorb the administrative burden and much of the costs of HMRC's digital agenda. For example, the cost to businesses of its Real Time Information (RTI); development of the PAYE system; the introduction of iXBRL and now the software and administrative costs for Making Tax Digital (MTD).
- 2.3. **This is an opportunity for HMRC to provide a quality single digital amendment process to taxpayers and agents.**
The process needs to confirm to taxpayers and agents that HMRC has taken the correct remedial action and removed the need for follow-up calls to HMRC Helplines, except where 'reasonable care' has not been exercised.
- 2.4. **The AAT Amendments to Tax Returns Survey 2019 demonstrated that more than two thirds of AAT members (67.5%) were, to varying degrees, in favour of a single digital amendment process.** Less than a third (32.5%) had an unfavourable view.

3. AAT response to Amendments to tax returns

Question 1:

Which taxes do you submit returns for? How do you make amendments for each tax?

- 3.1. AAT members submit tax returns for all taxes and duties administered by HMRC and the method of making amendments for each tax is detailed below:

Taxes	Method of making amendment
Payroll (PAYE)	Amend using Full Payment Submission (FPS) or (Earlier Year Update (EYU).
Income tax (Self Assessment)	Utilising the Self Assessment tax return, make the correction online and file it again. An amended tax return can be filed online up to 12 months after the original online filing deadline (31 January after the end of the relevant tax year). The taxpayer/agent would need to write to HMRC to make an amendment to an earlier tax year. For paper tax returns the taxpayer or agent would download a new tax return and send HMRC the corrected pages writing 'amendment' on each page and including the name and Unique Taxpayer Reference.

National Insurance	Amend using Full Payment Submission (FPS) or (Earlier Year Update (EYU).
Corporation Tax	Submission and amendment would be undertaken online, usually using third party software, with one year to make amendments.
Capital Gains Tax	For individuals via Self-Assessment or for residential property disposals made by non-UK residents via the non-resident capital gains tax (NRCGT) form submission (often completed by solicitors) For partnerships SA803 – through the partnership Self-Assessment process For companies CT600 – through the corporation tax return process
Inheritance Tax	IHT 400 – sometimes completed by a solicitor, financial adviser or the client themselves
VAT	VAT 652 - is used for corrections above £10,000. Corrections below £10,000, or where the error amount is up to 1% of the box 6 figure (to a maximum of £50,000), can be adjusted on the next VAT Return.

Question 2:

What are your reasons for making amendments?

3.2. There are various reasons for making amendments to tax returns, the main issues are where it is:

		Penalty percentage of the tax underpaid “unprompted disclosure”	Penalty percentage of the tax underpaid “Prompted disclosure”
3.2.1	due to an error where the taxpayer or agent has taken ‘reasonable care’	No penalty	No penalty
3.2.2	due to error where there has been ‘careless behaviour’	0% - 30%	15% - 30%
3.2.3	due to a ‘deliberate’ mis-statement	20% - 70%	35% - 70%
3.2.4	due to ‘deliberate misstatement, which is then concealed’	30% - 100%	50% - 100%

3.3. The broad category reasons for making amendments are listed below, where ‘reasonable care’ may or may not have been taken and the corrective action required may increase or decrease the tax liability:

Reasons for making amendments
Error of principle - correct amount, wrong type of account
Error of omission - entry missed from accounting records
Error of commission - correct amount and type of account but wrong account

Compensating error - two or more errors balance each other out
Error of original entry - correct accounts, wrong amounts
Complete reversal of entries - correct amount and account, entries reversed
Timing differences – a transaction is posted in the wrong accounting period
Information not available, or unknown, at the time that the return was submitted

Question 3:

Do you find it easy to make amendments to returns? Is the process complicated? How long does it take?

- 3.4. The results of the *AAT Amendments to Tax Returns Survey 2019* showed that most respondents (56%) believe the amendment process is difficult for payroll (PAYE/RTI) returns. A majority albeit a slightly smaller one (51%), said that it was difficult for other taxes too.
- 3.5. This survey also found that once members have gathered all the information required and established the adjustment(s) required (which can often be time consuming in itself), it takes most members 10 minutes to make the amendment, with the average time taken being 23 minutes.
- 3.6. Where the transaction is not straightforward, determining the most appropriate tax treatment is the primary reason why the amendment process may be complex and time consuming.

Question 4:

If you submit amendments for different taxes, are there any (or elements of any) that are easier or more difficult than others?

- 3.7. The views on different taxes were dependent on circumstances:
 - 3.7.1. for VAT, making the online correction in the following VAT period was seen to be quick and simple whereas having to use the paper return (VAT 652) was perceived to be slow and difficult.
 - 3.7.2. for payroll (PAYE or RTI), the process was seen to be easy where third party software undertakes the amendment but difficult where it was necessary to use HMRC's Basic PAYE tools or the amendment was outside the tax year.
 - 3.7.3. The few respondents (6%) who mentioned Self Assessment (Income Tax) stated that it was quick and simple to resubmit the amended tax return.
 - 3.7.4. Corporation Tax amendments were mentioned by a very small number of respondents (2%) and were seen to be more complicated than amendments to Self Assessment. One respondent mentioned Section 455 (which covers loans to participators of close companies) where the amendment "...has to be made in writing and not via the CT600 (corporation tax return)". The Section 455 is not repaid automatically and requires the use of either form L2P or CT600A.
 - 3.7.5. CIS amendments were mentioned by less than 2% of respondents and they felt the process is slow because it requires telephone contact with HMRC to make the amendment.
 - 3.7.6. Two other areas that were perceived to be difficult by individual respondents were making amendments to chargeable event gains and P11Ds.

Question 5:

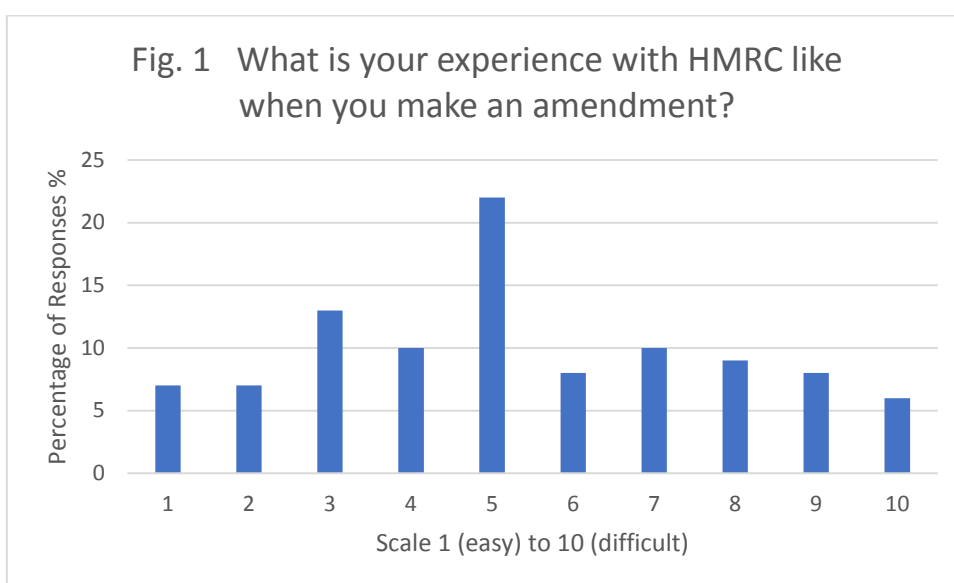
How long does it take to get a response from HMRC?

- 3.8. The *AAT Amendments to Tax Returns Survey 2019* indicated that, after receiving an online confirmation, members must wait on average 23 days to obtain a response from HMRC. For many taxes this may appear to be reasonable but, in some circumstances e.g. payroll, such a delay could cause considerable inconvenience to many.
- 3.9. More than one in five (21%) of survey respondents said that they had to wait 30 days or more to get a response from HMRC and of those respondents, 2% said they had waited up to a year.

Question 6:

What is your interaction like with HMRC when you make an amendment?

- 3.10. The *AAT Amendments to Tax Returns Survey 2019* asked members to rate their interaction on a scale of 1 (easy) to 10 (difficult). The results are shown in Fig. 1 below.



- 3.11. The score that members gave to this question is likely to depend on the specific circumstances of the amendments that have recently been made by the member. For example, an amendment to a subsequent VAT period that requires little or no interaction with HMRC is likely to be perceived by members as easy. At the other extreme an amendment that affects an employee's wages and causes issues for the employer may be difficult.

Question 7:

Is there anything about the current amendments processes that causes you difficulty?

- 3.12. There was broad agreement at the last meeting of the *AAT Tax Panel* that there remains a considerable degree of inequity in the way that HMRC can pursue taxpayers long after the time periods that taxpayers could reasonably make a claim against HMRC.
- 3.13. Amendments can be a two-way process, are sometimes in the taxpayer's favour and sometimes in HMRC's favour. A consistent, equitable regime which treats both parties the same therefore seems to be the very least that should be expected, not least to comply with the HMRC Charter.

Question 8:

What possible benefits might there be to a consistent amendments process across taxes?

- 3.14. If the amendment process is designed to meet the needs of taxpayers and agents then the main potential benefit is a consistent administrative process, which is a simplification that could reduce administrative burden and costs for taxpayers.

- 3.15. AAT recognises the inherent complexity of the tax system and that HMRC must process many tax returns that are subject to SA Exclusions and may not currently be filed online because HMRC IT systems are not yet capable of dealing with them. This must change too in order to realise the full benefits of a consistent amendments process across taxes.

Question 9:

Do you think having one consistent way to amend all returns will result in savings for businesses? If so, please provide details e.g. simpler process, reduced contact with HMRC etc.

- 3.16. The *AAT Amendments to Tax Returns Survey 2019* demonstrated that more than two thirds of AAT members (67.5%) were, to varying degrees, in favour of a single digital amendment process. Less than a third (32.5%) had an unfavourable view.
- 3.17. This level of support from the agent community would imply that there will be savings for business, whether time savings, cost savings or both. There is also a realisation that it is in turn likely to benefit their clients.
- 3.18. AAT recognises that there will be challenges to achieve one consistent way of amending all returns given the tax returns for payroll, VAT, individuals and businesses are all very different. However, the savings that are likely to be realised, not just to the benefit of agents and taxpayers but in a concomitant reduction in HMRC resources, suggest that this is an ambition worth pursuing.

Question 10:

How would you prefer to make amendments to returns?

- 3.19. Submitting returns and making amendments online has the advantage of speed and simplicity, enabling agents and taxpayers to obtain almost instantaneous written confirmation. In contrast, the perils of trying to communicate with HMRC by telephone, paper return or letter are considerable, especially at peak times of the year.

Question 11:

How do you feel about a future single digital amendment process for all taxes?

- 3.20. As stated at question 9 above, the *AAT Amendments to Tax Returns Survey 2019* demonstrated that more than two thirds of AAT members (67.5%) were, to varying degrees, in favour of a single digital amendment process. Less than a third (32.5%) had an unfavourable view.

Question 12:

Do you think being able to amend returns digitally will result in savings for businesses? If so, please provide details e.g. simpler process, reduced contact with HMRC etc.

- 3.21. Yes, being able to amend returns digitally is likely to result in savings for businesses.
- 3.22. As an example of the likely savings, businesses can currently amend errors in their subsequent VAT returns, provided the amendment is below a certain limit. This saves time for the business and for HMRC. The amendment can increase or decrease the tax liability and the business is required to keep a record of the transaction. This process requires no HMRC intervention.

Question 13:

If you needed to make an amendment that covers multiple taxes (e.g. correcting IT and VAT) how would you see that working in future? Would you prefer to do each tax separately, or all in one?

- 3.23. Taxpayers and agents need flexibility as they may process amendments differently. So, from the taxpayers or agent's perspective they will want to be able to make an amendment that may or may not cover more than one tax and more than one tax period.
- 3.24. The benefit of a single digital amendment process is that it would act as a reminder to taxpayers and agents that they need to consider the impact of the error on other taxes. However, it is essential that the single digital amendment process does not presume that an error has been made across the taxes, because the error may have been missed on one tax return (say VAT) and then subsequently picked up and corrected before a different tax return (say Corporation Tax) is submitted.
- 3.25. From HMRC's perspective, it would probably be better to amend all the taxes together so that they can see why a taxpayer/agent might have:
- i) made an amendment to one tax but then correctly not amended another tax
 - ii) amended one tax in two different accounting periods (increasing the tax liability in one tax period and reducing the tax liability in another tax period)¹
 - iii) made one error that needs to be amended across several taxes.

4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

- 5.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy:
- 5.2. E-mail: phil.hall@aat.org.uk Telephone: 07392 310264
- 5.3. Association of Accounting Technicians, 140 Aldersgate Street, London, EC1A 4HY



¹ For example, a purchase or sales invoice greater than £10,000 that is posted to the wrong VAT quarter. If both VAT quarters have ended, then the net tax liability is nil but HMRC must still be notified of the error.