

## A vision for HMRC in a changing environment

### Policy briefing # 8

*"Tax authorities have a crucial role to play in raising the right amount of tax whilst minimising compliance burdens"*

*This paper sets out our vision for HMRC in a changing environment. Continued budgetary pressures facing HMRC present new challenges, as does the changing way in which business operates, with the tax system often playing catch up to deal with new business models and an increasing global presence. More recently, the growing public interest in business tax adds another dynamic for tax authorities to consider. Businesses tell us that HMRC performs better than international peers, but they also highlight the importance that HMRC is well equipped and committed to deal with change needed both operationally and technically to allow businesses of all sizes to pay the right amount of tax and get on with doing business.*

Tax authorities have a crucial role to play in raising the right amount of tax in accordance with the law. In doing so, this provides the revenue to fund vital public services. Tax authorities must strike a balance in allocating their scarce resources in a way that ensures that taxpayers pay what the law demands whilst minimizing compliance burdens on business. The HMRC Charter<sup>1</sup> confirms that HMRC will provide "a helpful, efficient and effective service". The CBI supports this, and recognises that HMRC is widely regarded as world class, but there is always room for improvement, particularly in a changing environment.

In this paper we argue for the need to:

1. Harness technology capabilities for mutual benefit
2. Renew emphasis on co-operative compliance
3. Real-time working and decision making to enhance certainty

<sup>1</sup> <https://www.gov.uk/government/publications/your-charter/your-charter>

## Harness technology capabilities for mutual benefit

Technology provides real opportunities for HMRC to optimise its operations, but it also provides an opportunity for HMRC to support the way firms interact with the tax system, working with the grain in which businesses operate.

As such, we support the long term ambitions of the Government's Making Tax Digital <sup>2</sup> agenda, although greater clarity of this agenda is still needed. Technology should equally enable HMRC to add value and interact with its customers more effectively and innovatively, enabling both tax administration and taxpayer to deal more efficiently with highly complex matters with greater speed and certainty.

*“Technology should ...enable both tax administration and taxpayer to deal more efficiently with complex matters with greater speed and certainty.”*

To successfully implement operational and global tax changes, we make the following recommendations:

- Technology should be given to front line staff to transform the way they work, enabling staff to assess more effectively the information received. For example, through greater use of email, videoconferencing and other communication channels, and less paper-based working.
- A secure shared document portal could be rolled out to all businesses, enabling them to work with HMRC in real time.
- HMRC and its technology need to work for all sizes of business, from sole traders to MNCs factoring in their capabilities, access and budget for technology systems.

<sup>2</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/484668/making-tax-digital.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/484668/making-tax-digital.pdf)

<sup>3</sup> [http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/co-operative-compliance-a-framework\\_9789264200852-en#page89](http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/co-operative-compliance-a-framework_9789264200852-en#page89)

- HMRC's IT team needs to work together with business' IT functions to understand how their IT systems work at the beginning of new projects.
- HMRC's systems and staff need to be “BEPS-ready” to maximise the potential from increased international transparency to tax authorities.

## Renew emphasis on co-operative compliance

The OECD<sup>3</sup> has found that those countries introducing co-operative compliance regimes can produce quantitative and qualitative benefits for tax authorities, assuming of course that the correct control frameworks are in place. Co-operative compliance is not about a cosy relationship with business. It is a way of building a relationship of mutual trust and understanding, giving both parties quicker and better information to enable HMRC to make effective decisions and focus on resolving disagreements. Strengthening co-operative compliance between businesses and HMRC will enhance the benefits to both, bringing in more tax quicker by reducing disputes, reducing businesses compliance costs, and reducing risk and increasing certainty on tax for both parties.

### Definition of co-operative compliance

The co-operative compliance model was first introduced in the UK in 2006. The OECD<sup>4</sup> highlights the behaviours as:

*“in dealings with taxpayers, revenue bodies demonstrating understanding based on commercial awareness, impartiality, proportionality, openness through disclosure and transparency, and responsiveness; and in dealings with revenue bodies, taxpayers providing disclosure and transparency.”*

<sup>4</sup> <http://www.oecd.org/tax/administration/39882938.pdf>

To celebrate the 10 year anniversary of the co-operative compliance model in the UK, business would welcome a renewed commitment to this, including:

- A review of the UK's model to keep up with international best practices (e.g. OECD 2013 report<sup>4</sup>).
- A commitment to real-time working that businesses experience on the ground; establishing facts closer to the time of a transaction will result in a better understanding, allowing decisions to be made more effectively and quickly.
- Greater resourcing allocated to Advanced Pricing Agreement (APA) programmes; where tax outcomes can be determined before the transaction has happened.
- Engagement with businesses to enable HMRC to understand commercial factors and act upon information gathered through the Know Your Customer programme.
- Continued commitment to maintaining world class technical expertise, both through training of full time HMRC staff and appropriately managed secondments.

### **Real-time working and decision making to enhance certainty**

Whilst uncertainty around tax results in increased compliance and audit costs, certainty allows better commercial decisions to be made and optimal allocation of resources to maximise the benefit of outcomes for all. Whilst all taxpayers should be treated the same, it is telling that many businesses would be prepared to pay a premium (either through allocation of their own resources upfront or accepting an interpretation of the law that does not necessarily minimise their tax charge) to achieve certainty. In getting to that point of certainty, the benefits of getting revenues in earlier with less disputes should be seen positively by HMRC and the Exchequer.

Whilst all HMRC staff decisions must remain subject to scrutiny and in accordance with the law, in order to be world leading, HMRC staff should be empowered to try to engage with taxpayers and use technology and technical resource to reach the right decisions as soon as possible. Whilst large businesses have the benefit of the Customer Relationship Manager (CRM) model, growing businesses are keen to understand when they might also have similar level of access to HMRC to obtain certainty at particularly complex times in their life cycle.

*“...growing businesses are keen to understand when they might also have similar level of access to HMRC”*

We would welcome:

- Re-mobilisation of CRMs to empower them to make decisions quicker and more consistently. One option to consider is reorganising CRMs to work as client teams rather than single individuals to bring an additional layer of review.
- Introduce “CRM-lite” for growing businesses experiencing complex life events.
- Going forward more continuity in the CRM role, and greater efforts to retain sector / customer knowledge if HMRC staff move into different roles.
- Improved transparency through better use of disclosures (and technology), including publication of binding rulings that taxpayers could rely on.
- Renewed commitment to Mutual Agreement Procedures (and in particular Alternative Dispute Resolution mechanisms). This will be critical as “BEPS” recommendations are introduced in the UK and internationally.

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