

05 February 2019

Dear sir/madam,

### **Call for Evidence - Amendments to Tax Returns**

This response to the above Call for Evidence is made on behalf of the CIPFA Local Authorities VAT Committee.

#### **Question 1: Which taxes do you submit returns for? How do you make amendments for each tax?**

This response is based solely in respect of local authorities' experience in amending VAT returns. Most amendments by local authorities are low value and are adjusted on a return in a subsequent VAT period. Amendments that exceed HMRC's pre-defined limit are submitted via a VAT652 Notification of Error form or via written letter containing all the information requested in a VAT652.

#### **Question 2: What are your reasons for making amendments?**

There are broadly three reasons why a local authority would need to amend a previously submitted VAT return.

1. Local Authorities are diverse organisations and can operate over a large geographical area with staff having delegated responsibility for finances over their own particular areas. There is a fine balance for these staff between service provision and finance, particularly in times of austerity for local authorities. Small amendments to returns are required for cash income collected from remote areas. These small amounts do not typically get entered in financial systems until after the accounting period has closed or even after the VAT return has been submitted. Additionally, feeder systems may not get updated into the main financial system in the timescale for monthly returns to be submitted.
2. Amendments may need to be made as a consequence of in-house compliance work, either prompted by the discovery of an error in a current VAT period or proactively. This could even include sample checking for valid tax invoices, authenticated receipts and vouchers for expense claims.
3. Significant legal or policy changes as a result of new case-law. Such amendments are often significant and so currently require separate disclosure to HMRC via a VAT652 or similar.

It should also be noted that direct tax returns, such as for Corporation Tax and Income Tax are generally only submitted once annually, sometime after the end of the tax year to which they refer. Given those circumstances there is generally adequate time for figures to be obtained, verified, reconciled and corrected where necessary before submission. Contrast this with VAT returns which are submitted monthly within a short timescale.

#### **Question 3: Do you find it easy to make amendments to returns? Is the process complicated? How long does it take?**

Local authorities do not generally find the process complicated for amending figures submitted on previous VAT returns. The rules are generally well understood and easily applied, particularly by reference to the 4 year time-limit for making such amendments. But see also answer to Question 7. However, the newly implemented version 2.0 of the form VAT652 Notification of Error is time-consuming and was not properly publicised. Why is it no longer possible to summarise the errors to be corrected by period simply as output or input errors? Instead, the form provides tables for each period to be corrected with the taxpayer required to provide:

- The original value of each of the nine VAT return boxes as originally submitted;
- The new value of each of the nine VAT return boxes after the error is corrected;
- The value of the difference for each of the Boxes 1 to 5 – for example, if it was an output error, you would be required to fill in the difference for Box 1, 3 and 5;
- Whether the difference is payable to or repayable from HMRC for each of the Boxes 1 to 5, even if a figure has remained unchanged as a result of the error.

One commentator noted that:

*An error notification pertaining to eight VAT periods, under the old VAT652 one would be required to fill out 24 boxes of information, a reasonable three boxes for each period in question. With the new form, for the exact same periods and corrections, one is required to fill out an astonishing 232 boxes of information!*

**Question 4:** If you submit amendments for different taxes, are there any (or elements of any) that are easier or more difficult than others?

This response is confined to local authorities' experience in amending VAT Returns.

**Question 5:** How long does it take to get a response from HMRC?

Given most amendments made by local authorities to their VAT return figures are relatively low value adjustments, these are corrected in a subsequent VAT return and so do not require a response from HMRC. For those errors that do require separate disclosure, there are only a few examples reported that indicate an unacceptable delay in HMRC responding and these generally relate to contentious matters.

**Question 6:** What is your interaction like with HMRC when you make an amendment?

Where separate disclosure is required, the interaction with HMRC is generally positive, open, co-operative and constructive. However, this does depend on the individuals involved and there have recently been increasing instances of HMRC officers, in particular, lacking an understanding of the VAT intricacies and complexities of local government, necessitating disproportionate resource having to be invested by local authority staff in explaining the issues.

However, for those VAT errors that require separate disclosure by local authorities, the main source of dissatisfaction is the penalties regime, which requires often disproportionate time in having to explain in detail how the error arose, how the error was identified, who was responsible, what steps have been taken to train the responsible person accordingly, and what steps have been taken to prevent a recurrence of the error.

Local authorities believe it ought to be taken as read that, regardless of how identified and who is responsible, local authorities in particular, will inevitably wish to identify how any error has arisen and take steps to prevent its recurrence, without such bureaucratic imposition.

**Question 7:** Is there anything about the current amendments processes that cause you difficulty?

One particular issue that causes local authorities difficulty is identifying when a separate disclosure of a VAT error is required. VAT Notice 700/45 details the requirements of how to correct an error. The Committee feels that there could be a simplification of the Method 1 (para 4.3) and the Method 2 (para

4.4) process whereby reliance is placed on 1% of the box 6 (net outputs) figure. The Committee advocates the removal of the 1% limit with reliance placed on a readily predictable fixed figure, preferably the current £50,000.

Alternatively, that the threshold above which amendments to VAT returns must be separately disclosed to HMRC is determined not by reference to the individual period in which the amendment is to be effected but on a rolling average basis over the previous 12 months, i.e. by reference to the total sales recorded in 'Box 6' of the taxpayer's VAT returns submitted in the 12 months prior to the period in which the necessity for the amendment is discovered.

**Question 8: What possible benefits might there be to a consistent amendments process across taxes?**

As this response is made only in the light of local authorities' experience in amending VAT Returns, the Committee has no particular comment to make on this question. However, in line with amending Income Tax Self-Assessment returns, the facility to allow amendments of any value to be made, providing the original error occurred within the previous 12 months, would be particularly attractive to local authorities.

**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.**

The Committee has no comments to make on the question of possible savings but see 8 above.

**Question 10: How would you prefer to make amendments to returns?**

The Committee believes the current rules on amending VAT return figures, as outlined in paragraph 2.18 of the Call for Evidence, work reasonably well, are generally well understood and are usually easily applied, facilitating the smooth ongoing administration of VAT in that relatively low value adjustments can simply be corrected in a subsequent VAT return without specific amendment or separate discrete disclosure. However, note points raised in answers to Questions 7 and 8 and comments made on VAT652.

**Question 11: How do you feel about a future single digital amendment process for all taxes?**

Given this response relates solely to VAT the Committee has no comment to make.

**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.**

The Committee acknowledges that MTD for VAT, and the consequent increased interactive electronic filing of VAT returns, appears to offer the possibility of savings for businesses as it may reduce errors when adjusting returns manually. If the need to submit paper notifications of errors to HMRC is removed completely then this will result in time savings for local authorities.

**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 the future? Would you prefer to do each tax separately, or all in one?**

The Committee's response is confined to amending VAT returns.

Yours sincerely,

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