Tax Representation

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

Tax Faculty

TAXREP 49/04

TAX CREDIT RENEWAL DEADLINE

Based on a letter sent in September 2004 by the Tax Faculty of the Institute of Chartered Accountants in England and Wales to the Inland Revenue in relation to the tax credit renewal deadline

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TAX CREDIT RENEWAL DEADLINE

INTRODUCTION

1. Mark Lee, the Chairman of the Tax Faculty, wrote to Dave Hartnett, Director (Policy and Technical) of the Inland Revenue, to ask for a concession relaxing the deadline of 30 September 2004 for the renewal of tax credits to 31 January 2005. We believed that this would have been helpful to both claimants and their agents who are coping with the tax credit renewal process for the first time.

2. It is important to stress that not all claimants have had to return renewal documents. In particular, recipients of only the full amount of the family element of Child Tax Credit, generally those whose household incomes lie between approximately £13,000 and £50,000, will have been sent 'auto renewal' papers. This group will just need to check that their income and circumstances are as shown in the Annual Review notice and then simply retain it for their own records.

3. Our concerns lie with other claimants, and in particular the self employed. The Annual Declaration requires details of household income for 2003/04. Where this is not available, the claimant is invited to use estimates and then to submit actual figures before 31 January 2005 (the self assessment deadline for 2003/04, by which time accounts should be available). The increased compliance costs of doing anything twice and the consequences of making a mistake, particularly in the first year of a new system, are obvious.

4. We do however recognise that to continue payments to which claimants may not ultimately be entitled, for an additional 3 months, would create an even larger overpayment problem. This is reflected in the Revenue's response below.

5. Our other concern was the process which must be applied before an employer can stop making payments of working tax credit through the payroll. The Regulations require 42 days notice for a Payment Via Employer (PVE) notice to be operated. Assuming that these could not be sent out before 1 October at the earliest, and given the administrative practicalities of the exercise, we thought that it would be helpful if the Revenue could explain publicly how this would operate.

6. We welcome the good news that the Revenue is to view the operation of the cut-off date with a 'light touch'.

7. In summary the Revenue has responded that

   - There will be no further extension to the 30 September deadline for renewals.
   - The renewals process has been streamlined as much as possible and the information necessary to renew can be accepted by telephone or through our e-portal or by filling in a short paper form.
   - Considerable effort has been made to encourage people to provide their renewals information - follow-up reminders have been sent, TV, radio and press advertising and the Revenue has also been calling people who have still to reply to remind them of the deadline.

- In practice, a few days grace around the deadline will be allowed
- There are provisions enabling claims to be renewed after the deadline and backdated to 6 April if claimants can show good cause for being late and for this year, they will apply those provisions with a light touch.
- Renewals information is logged on receipt, even if it has not yet been processed, to make sure that payments continue.

8. Further to the recent report in our TAXline Weekly Newswire No 226, the Tax Faculty has joined together with other professional tax advisers and the Low Incomes Tax Reform Group to draw up a list of necessary changes and improvements to the tax credits system. We believe that these measures are the minimum needed to eradicate the common difficulties which tax agents and welfare rights advisers encounter daily, and which in many cases are causing hardship, distress and anxiety to claimants. We have since met with the Revenue, together with the other professional bodies, to discuss ways of improving the tax credits system (see reference to Agenda for Improvement), which we hope will produce positive results.

What follows below, is based on the text of a letter sent by the Tax Faculty together with the Revenue response received from Dave Hartnett.

WHO WE ARE

9. The Institute of Chartered Accountants in England and Wales (‘ICAEW’) is the largest accountancy body in Europe, with more than 125,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.

10. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy (which includes taxation).

11. The Tax Faculty is the focus for tax within the Institute. It is responsible for tax representations on behalf of the Institute as a whole and it also provides various tax services including the monthly newsletter ‘TAXline’ to more than 11,000 members of the ICAEW who pay an additional subscription.

LETTER DATED 30 SEPTEMBER 2004 FROM MARK LEE, CHAIRMAN OF THE TAX FACULTY TO DAVE HARTNETT

I am writing to express our concern at the consequences which a strict interpretation of the 30 September deadline could have both for individuals whose tax credits may be stopped even though renewal forms have been submitted and for the smooth operation of the administration of our tax system.

You will already be aware of our concerns from previous discussions and will note that we are a party to the 'Agenda for Improvement' which was submitted on behalf of our joint organisations last week by the Low Incomes Tax Reform Group.

We understand from unofficial sources that renewal papers received by the Revenue prior to mid October will be treated as if they had been received by the 30 September. This has not been confirmed, nor has any public statement been made.

It also seems likely that whatever the cut off date, there will be a run on, of the working tax credit in particular, as employers struggle to operate the inevitable mass of stop notices. This will create confusion as tax credit recipients in similar circumstances will continue to receive credits for differing periods of time. Local Inland Revenue Enquiry Centres may once again bear the brunt of the immediate consequences.

We would ask you to consider a concession for this year only, whereby the deadline for returning renewal papers is extended to 31 January 2005. This will allow much needed relief as the first year of this complex system is finalised. It will also compensate for many of the earlier difficulties experienced by claimants and their advisers, compounded only last week when we once again had reports from many of our members that the tax credits system was down. As 31 January is also the date by which actual figures must be supplied where estimates were previously used, this will help ease compliance costs for many small businesses.

LETTER DATED 1 OCTOBER 2004 FROM DAVE HARTNETT, DIRECTOR GENERAL (POLICY AND TECHNICAL), INLAND REVENUE

Thank you for your letter dated 30 September suggesting a concessionary extension of the renewals deadline for tax credits for this year. I do not think it would be right to do as you suggest but I hope you will find this letter provides reassurance on the concerns you express.

The starting point is that we have tried to make the process of finalising the tax credit award for the previous year and renewing a claim for the current year as streamlined as possible. Claimants simply have to confirm or correct the information we hold about their circumstances and report their income for the year just finished. For those not in a position to provide actual income figures at the time they reply, an estimate will be accepted. The information necessary to renew can be accepted by telephone or through our e- portal or by filling in a short paper form.

To avoid a break in payments over the renewals period, we continue payments to people on a provisional basis. So it is important that we get renewals information as soon as we can to enable us to adjust payments if necessary and to make sure people are not being overpaid. You will be aware that the deadline for renewals has already moved from the planned date in early July to the end of September.

We have put a great deal of effort into encouraging people to provide their renewals information and helping them to do so. People have been sent two follow-up reminders to their renewal pack, we have had TV, radio and press advertising and the Revenue has also been calling people who have still to reply to remind them of the deadline. There does come a point, however, at which we cannot continue paying people who have not responded to any of our prompting.

We are, of course, aware that the end of year process is new to people. In practice, we will be allowing a few days grace around the deadline, as we did with initial claims to tax credits. You will also know that when the deadline for renewals was changed, we introduced provisions enabling claims to be renewed after the deadline and backdated to 6 April if claimants can show good cause for being late. For this year, we will apply those provisions with a light touch in the weeks immediately following the deadline. So I think we have struck the balance between actively urging people to get their information to us so that their tax credits can be kept on the right footing and helping those who have difficulties in this first year of the renewals process.

I should also make clear, in answer to a concern you raise, that renewals information is logged on receipt, even if it has not yet been processed, to make sure that payments continue. You also mention reports that the system was down. There is no question of the system having failed unexpectedly. The on-line service was unavailable for a short, planned period whilst software enhancements were made but is now fully available again and staff were still able to take renewals information from people during that period.

Against the background of all that we have been doing and the way we intend to manage around the deadline, I do not think there is a case for extending the deadline in the way that you suggest. But, as I have explained, we will not, in the weeks immediately following the deadline, take a hard line with claimants who have missed it by a short margin, as long as they do provide the necessary information without delay.

I look forward to having the opportunity to discuss tax credits issues with you shortly – we shall be setting up a meeting to talk through the “Agenda for Improvement” which was recently put forward.

AM
18/10/04