

Aligning Filing Dates for Companies

- Accounts to Companies House
- The company tax return to HMRC

A consultation document
issued jointly by

Companies House
(an executive agency of DTI)

and

HM Revenue & Customs

November 2005

Foreword

The Strategy for Transformational Government aims to make better use of technology to deliver public services, to reduce administrative burdens on business and to join up government services where it is beneficial to do so.

The Hampton Report "Reducing Administrative Burdens" was published in March 2005. As a tax authority rather than a regulator, HM Revenue & Customs (HMRC) was outside the remit of the review but aims to take a similar approach. Hampton suggested that synergies between Companies House and HMRC should be explored, particularly in relation to the data required for filing accounts under company and corporation tax law.

This paper launches a joint consultation by HMRC and Companies House (an executive agency of the Department of Trade and Industry). It proposes measures to remove an overlap in their requirements, and to join up processes.

Currently, companies have to send similar accounts to Companies House and HMRC at different times. These organisations have been working together to explore how best to simplify and join up their processes, for the benefit of all companies. We expect the resulting administrative savings to be particularly welcome to smaller companies.

Alongside this work, Lord Carter of Coles is undertaking a review of measures to increase the use of HMRC's key online services, which would benefit the department's customers and ensure sustainable service delivery.

The proposals in this paper have a similar theme. They will benefit all companies, but should be of particular benefit to small companies. They tie in with the themes of the HMRC consultation with small business "Working Towards a New Relationship" and of the related review of links with medium-sized business, the outcomes of which are also being published today. These looked at priorities for reducing the administrative burdens of the tax system on businesses.



David Varney

Chairman
HM Revenue & Customs



Claire Clancy

Chief Executive and Registrar of
Companies for England and Wales

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1. Executive summary

In this document, we set out proposals for joining up filing the company tax return and delivering accounts to Companies House, and ask for your views.

The proposals are deregulatory. We aim to

- reduce the burden on companies of supplying over-lapping information to HM Revenue & Customs (HMRC) and to Companies House
- reduce the period of uncertainty during which a company tax return may be selected for enquiry by HMRC
- improve the compliance assurance process, allowing enquiries to be dealt with while events are fresher in people's minds and records are more readily to hand
- encourage the take-up of internet services

We propose to build a single online service covering companies' obligations under both the Companies Act and the Taxes Acts. Companies would then benefit from only having to send in a single set of accounts to a single point, rather than sending the same accounts to two different government departments at different times of year. This should also allow administrative savings within the two organisations.

The main benefits for customers are:

- Reduced compliance costs, information being provided only once to Government. This and other related measures could produce annual savings of £100m to business from 2010.
- Earlier certainty
- Efficiencies, from dealing with enquiries earlier, when information is to hand and relevant people are available
- Better alignment with their annual cycle, removing the filing obligation for year 1 from the period when end of year work is being done for year 2

Additional benefits to government include:

- Earlier data, improving economic forecasting
- More responsive policy, through earlier evidence of the effects of tax changes
- Earlier warning of the types and scale of contrived tax avoidance
- More real time working, improving the risk assessment and enquiry processes
- More consistent data and better data integrity

Since our ultimate aim is to offer companies and their agents a single online filing service for both HMRC and Companies House, we must first align our respective filing dates. That will mean shorter time limits for delivering company tax returns but no change to the date at which companies pay tax. We are also proposing a

reduction to the time that HMRC has to open an enquiry into a return that is filed early, in response to representations from companies and their agents.

We propose to bring forward legislation for these changes in Finance Bill 2007. No accounting period will be affected which ends earlier than 1 October 2007.

Chapter 2 tells you about the consultation process, and explains how to take part.

Chapter 3 asks for responses to the idea of joined-up filing. It also sets out our proposals for enabling this by aligning tax return filing dates with the Companies House time limits for private companies proposed in the Company Law Reform Bill.

We want to align the timing of the company tax return with the deadline for companies to send their accounts to Companies House. To achieve this we are suggesting two options: all companies would have either 7 or 9 months to file their company tax return with HMRC. Private companies would have the same time to send their statutory accounts to Companies House. Public companies (which represent fewer than 1% of all companies) would have a reduced gap between the two filing deadlines. Under the Company Law Reform Bill currently before Parliament, they would have 6 months to send their accounts to Companies House. We do not propose to fully align their tax return filing date, which would be the same as for private companies.

Chapter 4 sets out proposals to reduce the time HMRC has to open formal enquiries into a company tax return (the “enquiry window”) if the company files early.

There are some issues around the application of a reduced enquiry window to groups. We would welcome the views of affected companies and their agents on these issues. **Chapter 5** covers this topic.

Chapter 6 explains the implications of these proposals for the 64,000 or so clubs and unincorporated associations which currently make a company tax return, but are not required to send their accounts in to Companies House.

Chapter 7 asks for views on the consequential legislative effects of the changes.

Chapter 8 summarises the questions and issues on which we would like feedback.

This consultation complies with the Cabinet Office Code of Practice on public consultation. **Annex A** explains this in more detail and tells you how to find more information. We want the changes proposed in this paper to deliver real advantages and saving to our customers without damaging our risk assessment and compliance assurance needs. We are seeking your help to achieve that.

Annex B contains a partial regulatory impact assessment (RIA). We would welcome feedback and contributions on the costs and benefits of these proposals, to inform the full RIA in due course.

Annex C reproduces the relevant legislation, for information and ease of reference.

Annex D shows the company tax return filing dates in other countries.

2. How to respond

2.1 The consultation period begins today and will run until 3 March 2006.

2.2 We invite responses on any aspect of these proposals, from company officers and their professional advisors, tax and company law specialists, representative bodies of directors, industry and the accountancy profession, and any other interested party.

2.3 There are a number of specific questions on which we would particularly welcome views. These are flagged in context within the text and listed again in Chapter 8.

2.4 Please ensure that your contributions to this consultation reach us by Friday 3 March 2006.

2.5 Responses are preferred by e-mail to steve.coad@hmrc.gsi.gov.uk

You can also respond by post to

Steve Coad
K104 Kelsall House
C/o Coalport House
Stafford Court 1
Stafford Park
Telford
TF3 3BD

2.6 Paper copies of this document can be obtained free of charge from Steve Coad at the address above.

This document is published on the departmental internet sites at:

<http://www.hmrc.gov.uk/news/index.htm>

<http://www.dti.gov.uk/cld/facts/clr.htm>

<http://www.companieshouse.gov.uk>

The consultation process

2.7 We are sending copies of this document to members of our existing consultative forums closest to the subject: the Business Tax Forum, the Corporation Tax Operational Consultative Committee and the Working Together Steering Group, and will discuss the proposals with them. We are also sending copies directly to

- Confederation of British Industry
- Federation of Small Businesses
- Forum of Private Business
- Institute of Directors
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Scotland
- Association of Chartered Certified Accountants
- Chartered Institute of Taxation

2.8 We will conduct a Small Firms Impact Test in parallel with this consultation, and particularly invite responses from the directors and officers of small companies, and from their agents and representative bodies.

2.9 We invite responses from large companies and groups on the impact of the generality of these proposals on their businesses, and particularly on the issues specific to groups which are set out in Chapter 5.

2.10 We will also be consulting informally over a longer period with interested parties and stakeholders, on the scope, design and development of the proposed single online filing service for companies to HMRC and Companies House. We would welcome any expressions of interest in taking part in this parallel work.

2.11 We will work closely with the Review of Powers appropriate to the newly integrated HMRC. The Consultative Committee on Powers, Safeguards and Deterrents are aware of this consultation and we will provide them with a paper for information, following consultation.

Confidentiality and open government

2.12 Under the Code of Practice on Access to Government Information, comments may be made publicly available unless respondents state otherwise. You should therefore indicate specifically if your response should be treated as confidential. Standard disclaimers will be disregarded for this purpose.

A summary of all responses received will be prepared and circulated to all those who respond to this consultative document and anyone else who requests one. It will also be posted on the HMRC, DTI and Companies House web sites. The summary will not identify respondents.

We will handle any personal data which is provided in accordance with the requirements of the Data Protection Act 1998.

3. Proposals for alignment

3.1 The ultimate aim of these proposals is to offer companies and their agents a single online filing service with HMRC and Companies House, and to get rid of overlaps between our filing systems. For that to be a success, we must first align filing dates between the respective systems. That will mean shorter time limits for delivering company tax returns. We are also proposing a change to the enquiry window, responding to a request that companies and their agents have often made.

A single set of accounts

3.2 Today, companies have to send their accounts to government at least twice each year:

- the Companies Act requires them to send their full or abbreviated statutory accounts to Companies House
- they also have to send their statutory accounts to HMRC, as part of the company tax return

3.3 We are not proposing to change the substance of either filing requirement, but we do want to remove this duplication. So we propose to provide a new electronic filing process, under which a company can meet both requirements by sending a single set of information in one transaction, including a single set of accounts. This service will maintain the security of sensitive data disclosed to HMRC. There is no intention to extend the information disclosed on the public record by Companies House.

3.4 We believe that this will reduce the administrative burden on companies of having to file their statutory accounts with both Companies House and again with HMRC as part of the company tax return. We also think there is scope to identify and deliver further benefits during the lifetime of a company, which would help and simplify their transactions with us.

Question:

Q.1 *Do you agree that providing a single online filing service for companies to file their tax return and their accounts to Companies House will be of benefit to companies? We would particularly welcome any modelling or estimation of the likely benefits, and views on design and implementation factors that might affect these benefits, to inform our Regulatory Impact Assessment.*

Q.2 *Can you suggest other beneficial ways, beyond the alignment of company filing requirements, that Companies House and HMRC could work together to offer more integrated arrangements to the benefit of companies?*

Aligning filing dates

3.5 To allow this, we propose first to align the company tax return filing date in the Taxes Acts with the time limits for private companies to send their accounts to Companies House.

- Public companies (Plcs) currently have 7 months from their accounting date to send their accounts to Companies House, while private companies have 10 months. The Bill, currently before Parliament, proposes to reduce these time limits to 6 months and 9 months respectively
- All companies normally have until the anniversary of their accounting date to file their tax return with HMRC. So while the tax bill has to be worked out and paid nine months after the accounting date¹, companies normally have up to a further 3 months to file their tax return

3.6 During his review of online services, Lord Carter has received representations pointing out the deregulatory benefits of aligning filing processes. We are keen to realise those benefits.

Benefits of alignment

3.7 We believe that there are real advantages to companies from the proposed alignment. As well as the savings and process simplification from a single filing with both HMRC and Companies House, benefits include:

- spreading of work through the annual cycle. The tax return will no longer normally be prepared at the same time as accounting end of year work is taking place for the following year
- efficiency. Any questions or problems will be dealt with sooner, while information is fresher and memories are clearer
- earlier certainty. We propose to give companies the ability to enhance this further, by advancing the enquiry window for early filers (See Chapter 4)

3.8 There are additional benefits for the Government's economic management: We will receive earlier evidence of the effects of tax policy changes on companies, making our responses more sensitive. We anticipate more efficient compliance support processes, and improved ability to detect and counter artificial tax avoidance devices. These benefits will help to create a more level playing field and reduce the burden on the majority of companies, which comply voluntarily with their tax obligations.

Options for alignment

3.9 At present, all company tax returns are subject to a common filing date rule. We see no advantage in moving to different rules for public and private companies.

The Company Law Reform Bill proposes to reduce to 6 months the time that public companies have to send in their accounts. This has been designed to fit with the new rules for the timing of Annual General Meetings.

We are not proposing to require private companies to align their filing dates with this 6 month time limit. We also think that it is reasonable to allow public companies some time specifically to prepare their tax computations, which we recognise as a potential issue for them.

¹ Except for large companies who have to pay earlier, by instalments

3.10 We are therefore seeking views on two alternative proposals:

Option 1: Alignment at 7 months from the accounting date.

This is our preferred option, as it makes the most of the benefits outlined above.

We would amend the Taxes Act rule² that the company tax return is normally due 12 months after the accounting date, to give 7 months instead.

The variation for companies which draw up accounts covering more than 12 months³ would be similarly amended, to give 7 months from the accounting date for all relevant returns, or 25 months from the start of the period of account if that is sooner.

We do not propose to bring forward the normal due date for payment under this option. So cash flow would not be affected. Companies would have two months after the filing date to pay the tax due.

We would amend the provisions in the Company Law Reform Bill which, as currently drafted, set a 9 month deadline for the submission of private company accounts to Companies House.

Option 2: Alignment at 9 months from the accounting date.

Again, we would amend the rule that the company tax return is normally due 12 months after the accounting date, to give 9 months instead.

The variation for companies which draw up accounts covering more than 12 months would be similarly amended, to give 9 months from the accounting date for all relevant returns, or 27 months from the start of the period of account if that is sooner.

This aligns closely with the normal payment due date (nine months and one day after the accounting date). On the other hand, it reduces the benefits outlined above and leaves a longer gap between filing dates for Plcs. We doubt that the benefit of aligning filing and payment dates is significant for most companies, and they would not arise at all for public companies and others paying by instalments.

3.11 Under both options private companies, which make up 99% of all companies, would have to send in both their company tax return (to HMRC) and their accounts (to Companies House) by the same deadline. The 13,000 or so Plcs would have to send their accounts to Companies House one month (Option 1) or three months (Option 2) before the deadline for filing their tax return. But the benefit of extra time to finalise tax computations should outweigh the non-alignment for these companies.

Following introduction of the single online filing service, Plcs would have the option of filing their company tax return early, in conjunction with the accounts for Companies House, but they would not have to do so.

² Finance Act 1998, Schedule 18 Paragraph 14(1)(a). See Annex C

³ Finance Act 1998, Schedule 18 Paragraph 14(1)(b)&(c). See Annex C

Costs of alignment

3.12 We think that bringing forward the Tax Return filing date for companies is realistic as

- they already normally prepare the substance of the return information, in order to calculate their tax bill, well before the current filing date
- unincorporated businesses may currently have to file their tax returns sooner than equivalent businesses which are set up as companies, depending upon their accounting date
- by international standards, the UK's company tax return filing dates are exceptionally late (see the comparative chart at Annex D). The OECD norm is about 5 months from the accounting date. We are not proposing to go that far.

3.13 However, we recognise that these proposals may bring some transitional costs. Companies and their agents will have to move to an earlier annual cycle for preparing the tax return. In the first year, they will have a reduced window in which to prepare their returns. But we do not believe that there are significant structural costs associated with the change, once all parties have settled into the new pattern.

Questions:

Q.3 *Are there benefits from the alignment of filing dates that we may not have identified? We invite responses suggesting how the benefits might be increased.*

Q.4 *Are there issues in relation to alignment which we have not identified, and which may add costs or compliance burdens? We would welcome views on the significance of transition. We would particularly welcome any modelling of transitional costs, and proposals for how they can be minimised.*

Q.5 *Are there significant difficulties with Option 1 as opposed to Option 2?*

Q.6 *If we were to adopt Option 1, would it help companies and agents if we were to provide a transition period? For example, we might advance the filing date in two steps, first to 9 months and then to 7 months a year or two later.*

Timing of the changes

3.14 We propose to bring forward the necessary legislative changes to the tax filing deadlines in Finance Bill 2007. They will not take effect in relation to accounting periods ending before 1 October 2007 at the earliest.

Question:

Q.7 *We would welcome responses on timing. We aim to make transition as smooth as possible, in respect both of companies' and agents' annual cycles, and of other changes affecting them.*

4. Earlier certainty – closure of the enquiry window

4.1 The Taxes Acts give HMRC the power to enquire into any company tax return, provided we issue a notice of intention to do so within a time limit. We call the period during which we could issue a notice the “enquiry window”. The basic time limit is twelve months from the statutory filing date, if the tax return is filed by then.⁴ If the return is late, we have until the quarter day⁵ following the anniversary of the actual date the return reaches us.⁶

4.2 This rule gives no incentive to companies to file early, and some have seen it as a reason to delay filing until the last moment. As things stand, a company filing early is subject to a longer enquiry window than one filing close to the time limit.

4.3 Our aim is to encourage companies to send in their tax returns as early as possible. We believe this is in everyone’s interests. Subject to any broader proposals from the HMRC Review of Powers, which is looking at inspection and enquiry powers generally, we propose to change the basic rule and tie the enquiry window to the date when a company actually files its return.

4.4 For example

A company draws up its accounts for the calendar year 2005, and files its tax return 6 months early, on current rules, on 30 June 2006.

- Under current rules, HMRC would have the 18 months until 31 December 2007 to decide whether to enquire into the return.
- Under the proposed rule, we would have to make that decision within 12 months, by 30 June 2007.

4.5 This change would only apply to returns filed early. So had the company in the example above filed its return late, say in February 2007, the current rule would still apply, giving us until 30 April 2008 to issue a notice of enquiry.

4.6 We do not propose to change the time limits for enquiry into amendments to returns. We would retain the power to issue a notice of enquiry into any amended return up to the quarter day following the anniversary of when we receive the amendment.

4.7 We intend this change to be de-regulatory, and anticipate that the proposal will be broadly welcomed. However, we have concerns about the effect of the change where groups of companies are involved. We propose to restrict the application of the new rule where groups are concerned. Chapter 5 sets out what we propose.

Question:

Q.8 *Would the proposed changes be beneficial? We would welcome responses suggesting how the potential benefits could be increased.*

⁴ Finance Act 1998, Schedule 18 Paragraph 24(1)&(2). See Annex C

⁵ The quarter days are 31 January, 30 April, 31 July and 31 October

⁶ Finance Act 1998, Schedule 18 Paragraph 24 (3). See Annex C

Q.9 *Are there any disadvantages to business from the proposed change to the enquiry window? If so, what could be done to improve the proposal?*

5. Groups of companies – specific issues

The issue

5.1 Both corporation tax and company law are based on the identity of the individual registered company. But a single business may be organised into several companies and one company may own all or a significant part of one or more other companies, allowing it to control their affairs.

5.2 Commercial reality, especially for very large businesses, is often that decisions are made and tax planning done on a group-wide basis.

5.3 HMRC works closely with large groups, to make our processes efficient and also appropriate to their circumstances. We greatly value the professional working relationships we have with most large groups. We conduct risk assessment across the commercial group rather than company by company. This works best when we have access to all the relevant material at much the same time. Occasionally, this is made difficult by the filing patterns of companies within a group. Effective risk assessment is compromised if a key return is received late. Meanwhile, our power to issue a notice of enquiry is expiring in relation to other group members.

5.4 The change proposed in Chapter 4 could make this issue more pronounced. So we need to refine it in relation to grouped companies. We would like to find a solution that ensures a robust risk assessment process for HMRC, while retaining a benefit for early filing groups.

Our proposal

5.5 The compliance risk, and the complexity of drafting the measure, is greatest for the comparatively small number of groups which have members who draw their accounts up to dates that differ from the group's accounting date. The enquiry window for those members with early accounting dates would have partially (and could have wholly) expired before returns from other group members fall due. We propose to exclude all members of such groups from the scope of the change outlined in Chapter 4. These companies would retain the current enquiry window regardless of when they file.

5.6 Groups whose members all share a common accounting period would benefit from a modified version of the Chapter 4 proposal. The enquiry window for all group members would close 12 months after the last return for any member of the group is filed, where this is before the new statutory filing date. If any member of the group filed its return late, all members of the group would be excluded from the scope of the change outlined in Chapter 4. All members of the group would then have the enquiry window they have under the current rules.

Question:

Q.10 *Are grouped companies likely to benefit in practice from these proposals? We would welcome alternative suggestions for enabling groups to benefit from the change to the enquiry window without compromising risk assessment.*

6. Unincorporated associations and clubs

6.1 The definition of “company” for corporation tax purposes includes bodies – notably members’ clubs and unincorporated associations – which are not “companies” under the Companies Acts. These bodies have to file a company tax return but do not have to send their accounts to Companies House. Clearly such bodies will not benefit from the proposed single online filing service, though they will be affected by the proposed shorter filing deadlines for the company tax return. They will also benefit from the proposed accelerated enquiry window.

6.2 We believe that the proposals in this paper will still be of benefit, or at least neutral, for these bodies. However, we would be interested in feedback from this community and its professional representatives.

Questions:

Q.11 *Are there particular issues for clubs and unincorporated associations in relation to these proposals, which we should take into account?*

7. Consequential legislative changes

7.1 There are a number of provisions, relating to claims and other time limits, which are tied into the company tax return filing date. We will conduct a comprehensive review of these provisions, and any issues arising, during the course of this consultation. We would particularly welcome any input from tax professionals and accountancy bodies to this process.

Question:

Q.12 *Are there consequential implications for other provisions that cause particular concern to companies and their advisors?*

8. Summary of responses sought

8.1 This paper has set out a number of questions and requests for views:

Q.1 *Do you agree that providing a single online filing service for companies to file their tax return and their accounts to Companies House will be of benefit to companies? We would particularly welcome any modelling or estimation of the likely benefits, and views on design and implementation factors that might affect these benefits, to inform our Regulatory Impact Assessment.*

Q.2 *Can you suggest other beneficial ways, beyond the alignment of company filing requirements, that Companies House and HMRC could work together to offer more integrated arrangements to the benefit of companies?*

Q.3 *Are there benefits from the alignment of filing dates that we may not have identified? We invite responses suggesting how the benefits might be increased.*

Q.4 *Are there issues in relation to alignment (of filing dates at 7 or 9 months from the accounting date) which we have not identified, and which may add costs or compliance burdens? We would welcome views on the significance of transition. We would particularly welcome any modelling of transitional costs, and proposals for how they can be minimised.*

Q.5 *Are there significant difficulties with Option 1 as opposed to Option 2?*

Q.6 *If we were to adopt Option 1, would it help companies and agents if we were to provide a transition period? For example, we might advance the filing date in two steps, first to 9 months and then to 7 months a year or two later.*

Q.7 *We would welcome responses on timing. We aim to make transition (to the new aligned filing date) as smooth as possible, in respect both of companies' and agents' annual cycles, and of other changes affecting them.*

Q.8 *Would the proposed changes (to the enquiry window) be beneficial? We would welcome responses suggesting how the potential benefits could be increased.*

Q.9 *Are there any disadvantages to business from the proposed change to the enquiry window? If so, what could be done to improve the proposal?*

Q.10 *Are grouped companies likely to benefit in practice from the proposals in Chapter 5? We would welcome alternative suggestions for enabling groups to benefit from the change to the enquiry window without compromising risk assessment.*

Q.11 *Are there particular issues for clubs and unincorporated associations in relation to these proposals, which we should take into account?*

Q.12 *Are there consequential implications (from the proposals in this paper) for other provisions that cause particular concern to companies and their advisors?*

8.2 We also invite expressions of interest from IT specialists and software developers, company directors and officers, tax advisors and their professional bodies and other stakeholders, who would like to take part in the design and development of the proposed single online filing service.

8.3 We would welcome general feedback or comment on these proposals as a whole, or any specific aspect of them.

8.4 We invite discussion papers and specific contributions to the review outlined in Chapter 7 into consequential legislative implications of these proposals.

8.5 We would welcome feedback on the partial regulatory impact assessment at Annex B. We would also welcome contributions to our thinking on the costs and benefits of these proposals, to inform the full RIA in due course.

Annex A

Cabinet Office Code of Practice on written consultations

This consultation is being conducted in accordance with the code, which sets down the following criteria:

1. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.
2. Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses.
3. Ensure that your consultation is clear, concise and widely accessible.
4. Give feedback regarding the responses received and how the consultation process influenced the policy.
5. Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.
6. Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.

You can see the full Cabinet Office Code of Practice on consultation on the internet, at the following address:

www.cabinet-office.gov.uk/regulation/Consultation/Code.htm

If you have any comments or complaints about the consultation process, please contact:

Duncan Calloway
Room 3/37
100 Parliament Street
London SW1A 2BQ

e-mail: duncan.calloway1@hmrc.gsi.gov.uk
Tel. 020 7147 2389

If you have any questions about confidentiality or the Freedom of Information Act in relation to this consultation, please contact:

Steve Coad
K104 Kelsall House
C/o Coalport House
Stafford Court 1
Stafford Park
Telford
TF3 3BD

e-mail: steve.coad@hmrc.gsi.gov.uk

Annex B

PARTIAL REGULATORY IMPACT ASSESSMENT (RIA)

1. Title of proposal

Aligning Filing Dates for Companies

2. Purpose and intended effect

• The policy objective

This measure is deregulatory, and applies to the whole of the UK. It aims to

- reduce the burden on companies of supplying over-lapping information to HM Revenue & Customs (HMRC) and to Companies House
- reduce the period of uncertainty during which a company tax return may be selected for enquiry by HMRC
- improve the compliance assurance process, allowing enquiries to be dealt with while events are fresher in people's minds and records are more readily to hand
- encourage the take-up of internet services

• Background

All companies incorporated under the Companies Act have to send all or part of their statutory accounts to Companies House each year. They also have to send their statutory accounts to HMRC, as one element of their company tax return.

At present, private companies' accounts go to Companies House 10 months after the end of the accounting period, while public companies (Plcs) have 7 months to send in their accounts. The Company Law Reform Bill, which is currently before Parliament, proposes to reduce these time limits to 6 months for Plcs and 9 months for private companies.

The Taxes Acts, on the other hand, require the company tax return to be filed 12 months after the end of the accounting period. So the filing requirements of the two regimes overlap, but are separate. This imposes an unnecessary burden, particularly on small companies.

In July 2005, Lord Carter of Coles was asked to undertake a review of measures to further increase the use of HMRC's key online services, which would benefit HMRC's customers and ensure sustainable service delivery.

- **Rationale for government intervention**

It seems clear that companies will benefit from only having to send in a single set of accounts to a single point, rather than sending the same accounts to two different government departments at different times of year.

It also seems clear that companies would benefit from a more joined up service from HMRC and Companies House. The Internet provides the potential to achieve this, particularly if a single online service is developed covering companies' obligations under both the Companies Act and the Taxes Acts. This should also bring opportunities for administrative savings within the two organisations themselves.

To achieve this, it is necessary first to make legislative changes, to bring the filing obligations under the two sets of legislation into line. The best way of doing this would appear to be by bringing the company tax return filing date into line with the dates for filing company accounts with Companies House.

This would bring the UK's company tax return filing requirements closer to those of other tax authorities. The existing company tax return filing period is abnormally long. The OECD average is 5 months, and only a few small countries such as Cyprus and the Channel Islands, whose tax regimes derive from the UK's, match our 12 months.

It appears to be a reasonable step to take. Companies have to work out their tax liability within 9 months of the end of the accounting period, in order to pay their tax on time. They cannot do this without preparing everything needed to file the tax return. So there should be little practical burden from bringing forward the requirement to file the tax return, at least to the 9 month point.

The long current deadlines have also restricted the scope for HMRC to offer additional time as an incentive for online filing or to work co-operatively with agents to spread the workload.

HMRC currently always have 12 months from the statutory filing date to open an enquiry into a company tax return filed on time (more if it is late). This is a disincentive for companies to file early. Today, a private company sending its tax return in at the same time as it sends its accounts to Companies House faces a 14 month period of uncertainty, before it can be sure that HMRC will not open an enquiry. For a public company, this period is 17 months. A company which just meets its minimum statutory obligations only faces a 12 month wait for certainty. There is a common (though false) perception that early filing increases the chances of being selected for enquiry.

There are clear benefits to all sides from bringing together the filing requirements of the two organisations. Tying the window for HMRC to open an enquiry to the actual date a return is filed creates a more level playing field, reduces business uncertainty and encourages early filing.

3. Consultation

- **Within government**

The former Inland Revenue started meeting with Companies House several years ago, developing ideas about how our regimes and services could be joined up, to reduce the burdens they place on business. That continues since the creation of HMRC. Both organisations have e-services for companies and their agents, and this initiative is a chance to begin to join them up.

- **Public consultation**

This partial Regulatory Impact Assessment accompanies a consultative document, also published today. We will also be consulting with the Information Technology industry and bodies representing companies and their agents, about the design and development of the proposed single Internet filing service for companies with government.

4. Options

- i. ***Do nothing.*** There is no truly neutral option available. The new Company Law Reform Bill proposals would increase the differential between filing dates with the two organisations. HMRC has seen no suggestion of an advantage to companies from a greater interval between finalising their accounts and the other elements of the tax return. So taking no action to align filing dates will be a backward step for the Policy objectives set out above.
- ii. ***Aligning filing dates at 9 months from the accounting date.*** Aligns tax filing and payment dates for all but 15,000 of the biggest companies, which pay by instalments. Does not align Companies House and HMRC filing dates for public companies, though it brings them closer than today. Achieves good progress on most of the benefits for business and HMRC. Leaves greatest time for agents and companies to prepare returns, and minimises transitional burden. Change required to the Taxes Acts to bring filing dates into line with new Companies Act draft for private companies.
- iii. ***Aligning filing dates at 7 months from the accounting date.*** Does not align Companies House and HMRC filing dates for public companies, though it brings them closer than Option ii. Also increases early-settlement advantages for both sides. Gives public companies a month after filing the accounts with Companies House to finalise tax computations. This is the preferred option of HMRC and Companies House, though it puts greater time pressure on companies and agents than Option ii. Requires an amendment to the draft Company Law Reform Bill as well as the Taxes Acts to bring the filing dates into line.

5. Costs and benefits

- **Sectors and groups affected**

All entities within the scope of corporation tax. This includes some 2 million live and 0.3 million dormant companies - UK-resident public and private companies, and non-resident companies trading in the UK through a branch or agency. All of

these are also required to file accounts with Companies House. However, it also affects some 64,000 unincorporated clubs and associations which are required to file a company tax return but do NOT file accounts with Companies House. The trading subsidiaries of charities are included within the population, as are a few thousand charities proper, who may be required to file corporation tax returns for compliance checking purposes.

- **Benefits**

The main benefits for customers are:

- An earlier start on resolution of issues and thus earlier certainty
- Efficiencies from dealing with enquiries earlier when information is more likely to be retrievable and relevant people are more likely to be available
- Better alignment with their annual cycle by removing the filing obligation for year 1 from falling at the same time as end of year work for year 2
- Once we are able to provide a single online filing service, a reduction in the compliance costs associated with providing overlapping information to two government departments.

The benefits to government include:

- Returns information provided earlier, enabling analysts to apply this earlier to their work in forecasting CT yield
- Earlier and improved indications of the effects of corporation tax policy changes, leading to greater responsiveness of policy to economic and other factors
- Earlier warning of the types and scale of contrived tax avoidance
- Moving closer to real time working, improving the risk assessment and enquiry processes
- More consistent data and better data integrity

- **Costs**

Companies will incur marginal additional costs in the transitional period as they adapt to preparing the necessary reports, documents and information to a faster timetable. Related agents' costs may be passed on to business. There should be no ongoing additional costs to companies once they have adapted to the new timetable. Consultation question 4 seeks help quantifying company costs:

Q.4 *Are there issues in relation to alignment (of filing dates at 7 or 9 months from the accounting date) which we have not identified, and which may add costs or compliance burdens? We would welcome views on the significance of transition. We would particularly welcome any modelling of transitional costs, and proposals for how they can be minimised.*

HMRC will incur costs to amend its computer systems, to recognise changed filing dates and enquiry windows and knock-on effects on late-filing penalty

processing. Both organisations will incur costs to amend guidance, forms and leaflets to reflect the new regime. These costs will be quantified during the process of consultation.

The costs of introducing a new, joint e-filing service between HMRC and Companies House may be significant and we will carry out a cost/benefit analysis during the consultation period. We see this as an important enabling step, which would facilitate any wider joining up of the services of the two organisations, to the benefit of companies as well as of governmental efficiency.

There is a small short-term risk to Exchequer flow, as HMRC adapts to the new timetable. This transitional phase will squeeze resource available for compliance activity. However, the bulk of yield from compliance-assurance activity comes from very large business, where enquiries are part of the on-going cycle, so the impact is expected to be modest.

Social and environmental impacts will be negligible.

6. Small Firms Impact Test

We will carry out a SFIT during consultation. We anticipate that the net impact will be deregulatory.

The transactional savings from a single electronic filing service do not relate to size of company, so should be of particular benefit to small companies. Other benefits and costs identified above should be proportional to the size of the company.

We are seeking responses during consultation to help us to maximise these benefits and reduce any negative impacts. We will undertake specific consultation with small business in parallel with the public consultation.

7. Competition assessment

The proposed changes will bring the UK tax-return filing regime closer to the international norm. They are not expected to have a material competitive effect. We will conduct a competition filter test as part of internal work during the period of consultation.

8. Enforcement, sanctions and monitoring

The changes do not require any change to the available sanctions for late- or non-filing, though these will arise earlier in relation to the accounting period end date (but not to the statutory filing date) according to which option is adopted. The same is true of other sanctions and compliance monitoring processes, with the enquiry process being accelerated faster still in relation to companies which file early.

Annex C

Current legislation and legal requirements

Company Law Reform Bill (currently before Parliament)

Extract from Chapter 11, Filing of Accounts and Reports – duty to file accounts and reports

420 Period allowed for filing accounts

- (1) The period allowed for delivering accounts and reports to the registrar is—
- (a) for a private company, nine months after the end of the relevant accounting reference period, and
 - (b) for a public company, six months after the end of that period.

This is subject to the following provisions of this section.

- (2) If the relevant accounting reference period is the company's first and is a period of more than twelve months, the period allowed is—
- (a) nine months or six months, as the case may be, from the first anniversary of the incorporation of the company, or
 - (b) three months after the end of the accounting reference period, whichever last expires.

- (3) If the relevant accounting period is treated as shortened by virtue of a notice given by the company under section 365 (alteration of accounting reference date), the period allowed for delivering accounts and reports is—
- (a) that applicable in accordance with the above provisions or
 - (b) three months from the date of the notice under that section, whichever last expires.

- (4) If for any special reason the Secretary of State thinks fit he may, on an application made before the expiry of the period otherwise allowed, by notice in writing to a company extend that period by such further period as may be specified in the notice.

- (5) In this section “the relevant accounting reference period” means the accounting reference period by reference to which the financial year for the accounts in question was determined.

Finance Act 1998

SCHEDULE 18:

COMPANY TAX RETURNS, ASSESSMENTS AND RELATED MATTERS

PART II: COMPANY TAX RETURN (extracts)

Company tax return

3. - (1) The Inland Revenue may by notice require a company to deliver a return (a "company tax return") of such information, accounts, statements and reports-
- (a) relevant to the tax liability of the company, or
 - (b) otherwise relevant to the application of the Corporation Tax Acts to the company, as may reasonably be required by the notice.
- (2) Different information, accounts, statements and reports may be required from different descriptions of company.
- (3) A company tax return must include a declaration by the person making the return that the return is to the best of his knowledge correct and complete.
- (4) The return must be delivered to the officer of the Board by whom the notice was issued not later than the filing date.

Meaning of delivery of return

4. References in this Schedule to the delivery of a company tax return are to the delivery of all the information, accounts, statements and reports required to comply with the notice requiring the return.

Filing date

14. - (1) The filing date for a company tax return is the last day of whichever of the following periods is the last to end-
- (a) twelve months from the end of the period for which the return is made;
 - (b) if the company's relevant period of account is not longer than 18 months, twelve months from the end of that period;
 - (c) if the company's relevant period of account is longer than 18 months, 30 months from the beginning of that period;
 - (d) three months from the date on which the notice requiring the return was served.
- (2) In sub-paragraph (1) "relevant period of account" means, in relation to a return for an accounting period, the period of account of the company in which the last day of that accounting period falls.
- For this purpose "period of account" means a period for which the company makes up accounts.

PART IV: ENQUIRY INTO COMPANY TAX RETURN (extract)

Notice of enquiry

24. - (1) The Inland Revenue may enquire into a company tax return if they give notice to the company of their intention to do so ("notice of enquiry") within the time allowed.
- (2) If the return was delivered on or before the filing date, notice of enquiry may be given at any time up to twelve months from the filing date.
- (3) If the return was delivered after the filing date, notice of enquiry may be given at any time up to and including the 31st January, 30th April, 31st July or 31st October next following the first anniversary of the day on which the return was delivered.

(4) If the company amends its return, notice of enquiry may be given at any time up to and including the 31st January, 30th April, 31st July or 31st October next following the first anniversary of the day on which the amendment was made.

(5) A return which has been the subject of one notice of enquiry may not be the subject of another, except one given in consequence of an amendment (or another amendment) by the company of its return.

Notice to deliver a Company Tax Return

Extract from the notice issued by HMRC under Finance Act 1998 Schedule 18 Paragraph 3

Your completed return must be accompanied by

- a copy of the accounts* of the company for the period covered by the return

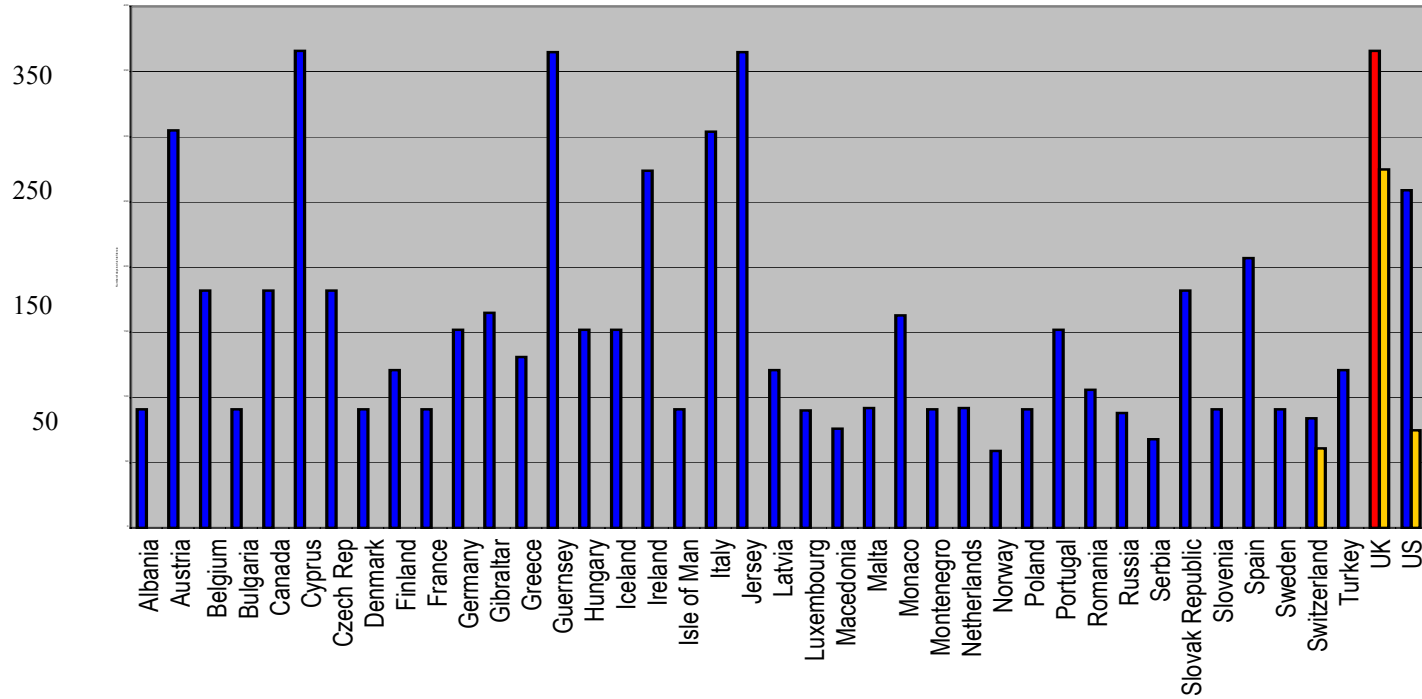
* ‘Accounts’ required are:

- for companies resident in the United Kingdom throughout the period covered by the return and required by company law to prepare accounts covering that period, those accounts including a copy of any directors and auditors report similarly required
- for companies not resident in the U.K. but carrying on a trade through a branch or agency in the U.K.:
 - the trading and profit and loss accounts of the company
 - the trading and profit and loss accounts of the U.K branch or agency covering the period to which the return relates
 - balance sheet for the company at the end of the period of account and
 - if prepared, the balance sheet of the U.K branch or agency at the same date
 - all accounts must be in English
- in any other case, a copy of any accounts, including balance sheet, that the company is required by statute or by its constitution to prepare, covering the period to which the return relates
- where the company was outside the charge to corporation tax (for example, because it was dormant) and there is no single set of accounts that covers the period, you should enclose the most recent accounts prepared

Annex D: International company tax return filing dates

Summary of Number of days to file a 31 December 2003 Tax Return

Number of days in which to file return



- Number of days in which to file
- Number of days by which final tax must be computed to make payment due