

Review of links with business

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Introduction

Background and context of the review

1. Since 1997 the Government has undertaken a significant programme of modernisation of the corporate tax system, aimed at creating the best possible location for investment and facilitating decision making that is driven by commercial factors rather than by tax considerations. The principles underlying these reforms are set out in more detail in the consultation document 'Large Business Taxation: The Government's strategy and corporate tax reforms' issued on 19 July 2001.
2. It is vital for the Government's strategy on large business taxation that the administration of the tax system keeps pace with the changing business environment and the legislative programme, so that it is forward looking and supportive of business. To that end, the consultative document announced a review of the Revenue's processes for dealing with large corporates, focusing particularly on the channels of communication between corporates and the Revenue on operational policy. The review has been led by Dave Hartnett, Head of Revenue Policy, who was asked to report to the Paymaster General.

How the review was conducted

3. The review has been undertaken by a team drawn from Revenue Policy, the Large Business Office ('LBO') and local offices dealing with larger business, with a private sector secondee providing an external dimension.
4. Our aim has been to obtain as many views as possible from across industry sectors. We issued a general press release inviting comments. We also wrote to advisers, accountants, solicitors, representative bodies and other government departments likely to have a particular interest in the review. In order to obtain views directly from large corporates we wrote to a large number of FTSE 100 companies and others, inviting them to meet the review team. We have held 38 meetings involving 79 businesses, including group discussions with the Confederation of British Industry (CBI), the 100 Group of Finance Directors and the Chartered Institute of Taxation (CIOT). Our analysis and recommendations draw on our face-to-face discussions and the written responses we have received.
5. The quantity and quality of the response illustrate a willingness on the part of many UK companies, and their representatives, to work with the Revenue to identify best practice and areas for improvement, and to seek ways of improving communication on operational policy issues. We have also spoken to case directors in the LBO, who share many of the same concerns. We are grateful to those who have put considerable time and effort into contributing to the review.
6. The review team will be discussing their recommendations with colleagues in HM Treasury, HM Customs & Excise and other Government departments.

Structure of the report

7. Our key findings and recommendations are set out in the Executive Summary, which is followed by a full list of the recommendations.
8. Part 1 sets out what large corporates have told us they want from their day-to-day relationship with the Revenue, particularly the LBO.
9. Part 2 considers the effectiveness of channels of communication between large corporates and the Revenue, including consultation on implementation of policy and feedback on budget representations.
10. Part 3 covers specific pressure points that business identified.
11. The annexes include the terms of reference and details of those who conducted the review.

Note on terminology

12. Large corporates' Corporation Tax affairs are for the most part dealt with by the LBO, but the oil sector is the responsibility of the Oil Taxation Office ("OTO"). In this report the term LBO should be read as encompassing OTO unless otherwise stated. The term case director has been used to cover both case directors in the LBO and case directors in the OTO.

Executive Summary

What do large corporates want from their contact with the Revenue?

13. Almost without exception large corporates want a relationship of mutual trust with the Revenue. They want their Revenue contacts to have a general understanding of their business, including any specific concerns and pressures, and to have an appreciation of their commercial drivers.
14. While large corporates readily say that they are not in the business of paying more tax than they have to, they want the Revenue to understand that tax considerations do not generally drive business decisions.
15. Large corporates have also emphasised their need to obtain certainty on the tax treatment of transactions as quickly as possible (and preferably in real time). Closely related to this is a desire for transparent processes which enable business to predict with reasonable confidence what the Revenue's attitude to an issue will be. There will be times when dispute is unavoidable but a mature relationship, built on mutual understanding and openness, should be capable of accommodating an element of business-like disagreement.

What does the Revenue want?

16. The same issues are also important to the Revenue. It is clearly in the Revenue's interests to have a relationship of openness. It is cost-efficient to have issues dealt with as swiftly as possible and a better understanding of business will obviously help the Revenue to carry out its work more effectively.
17. The Revenue's strategic direction is to be an enabler as well as a regulator. The challenge for the Revenue is to combine a customer-focused, supportive and enabling approach with its responsibility to ensure that companies pay the right amount of tax at the right time.
18. There are a small number of corporates for whom aggressive tax planning is the norm and who do not want to enter into an open relationship with the Revenue. Customer focus remains key to handling such situations, and includes ensuring that Inspectors are equipped to counter unacceptable practices and schemes which provide an unfair financial advantage and have an adverse impact on the Exchequer.

Are the goals being achieved?

19. Many large corporates have a good relationship with the Revenue. A large number of businesses have spoken highly of the Revenue's professionalism, its integrity and its willingness to seek pragmatic solutions to tax issues. Businesses compare the Revenue's approach favourably with that of other countries' tax authorities.
20. In particular, the development of the Large Business Office ("LBO") is seen as a positive step. The LBO was formed in 1997 and brought together, for the first time, the handling of larger businesses' corporation tax and employer tax compliance issues within a specialist organisation. The evidence from the review is that this change, and many of the further changes made as the LBO has developed, have improved the relationship between the Revenue and some larger businesses. But business says the improvement is patchy, and the review has, not surprisingly, identified areas where further improvement is needed.

21. Some companies have achieved a relationship with the Revenue which provides transparency and trust. Such relationships are also typified by a culture of openness and a mutual understanding of objectives. This represents best practice for the Revenue and needs to be more widely disseminated as it offers benefits to both business and the Revenue.

Understanding business

22. There is general consensus that, except in certain industry sectors (such as oil, banking and insurance) where the Revenue has set up specialist offices, the Revenue has insufficient understanding of business. In particular, there is a need to improve understanding of developments in the changing business environment in which multinationals operate.
23. We recommend a range of initiatives to develop the business understanding of case directors and other officials, including:
- working with business to develop the role of LBO sector groups
 - improved training, benchmarked against the private sector
 - joint workshops and training events with the private sector
 - a framework for secondments to business and work shadowing.

Relationship management and the enquiry process

24. Companies want their case director to take an active role in managing all aspects of their relationship with the Revenue. The aim should be to co-ordinate both specialist involvement on Corporation Tax issues and enquiries on other areas of tax such as PAYE and Stamp Duty. The LBO has already begun to develop this kind of 'ring-mastering' role but it needs to be reinforced and extended.
25. Companies also value a risk-based approach to enquiries, focusing on the key issues and concerns. Again the LBO has taken steps in this direction but needs to improve quality control so that best practice becomes common practice. To supplement existing best practice, we believe we can offer a new, faster process, focusing only on the most important issues and treating a collaborative approach as a positive factor in risk assessment.
26. The review has identified certain types of enquiries, such as PAYE compliance reviews ('audits') and the taxation of expatriate directors and employees, as particular sources of frustration for some businesses.
27. This report contains detailed recommendations aimed at stream-lining and accelerating the enquiry process. The key points include:
- giving case directors authority to co-ordinate enquiries, making them accountable for co-ordination and training them to fill this role
 - a review of quality control within the LBO, with input from business and bench-marking of peer review against professional firms
 - piloting a new, faster approach to enquiries for 2002/03
 - working with multinationals to develop a statement of good practice on handling enquiries into expatriate taxation.

Need for certainty in real time

28. Accelerating the enquiry process should bring the discussion and resolution of issues closer to real time. But there are occasions when companies would like to have greater certainty on the tax treatment of commercial transactions before entering into them.
29. The Revenue's current approach to giving advice, including post-transaction clearances, is set out in Code of Practice 10 ('COP 10'). A review of how COP 10 is used in the LBO is already in progress. We recommend that this should be expanded to cover the whole department.

Statutory clearances

30. The efficient and speedy handling of statutory clearances is vital to the smooth progress of corporate deals such as mergers and acquisitions. The Revenue needs to identify and give appropriate attention to particularly large and complex transactions among the large volume of clearance applications. Some companies have also asked whether a more streamlined service could be provided, removing the need for companies to make several different applications to different parts of the Revenue in respect of the same transaction.
31. We recommend a trial 'one-stop shop' approach to dealing with clearance applications, designed with input from business. The trial should include innovative ways of handling large and complex transactions, building on ideas produced at a recent joint Revenue/private sector workshop on mergers and acquisitions.

Direct dialogue with business

32. We have also received a clear message that there is a need to increase the level of dialogue on operational policy. The way in which the Revenue implements tax policy and develops operational policy is not clear to those looking in. Business does not always know who is responsible for what or how best to engage with the Revenue in order to feed into operational policy and influence its development. The Revenue needs to open itself up to business, clarifying roles and making itself more accessible.
33. Our key recommendation to improve direct dialogue is the formation of a new Business Tax Forum, chaired jointly by industry and the Revenue, to give corporates an open channel of communication to influence operational policy and to feed into tax policy.

Increased transparency and better guidance

34. The need for increased transparency and better guidance is at the heart of many of the pressure points highlighted by companies. Improved internal guidance for inspectors is also a key factor in ensuring that they are equipped to deal with enquiries speedily and to provide a greater degree of certainty in real time.
35. To increase transparency and to ease the administrative burden on companies, we recommend improved guidance in a number of specific areas:
 - cross-border issues such as the Controlled Foreign Companies provisions and Treasury consents
 - the requirements of Corporation Tax Self-Assessment and quarterly payments.

36. To improve understanding of new legislation, both within and outside the Revenue, we recommend that Revenue Policy should:
- hold an open seminar shortly after publication of the Finance Bill, focusing on the technical detail of the Bill and aimed at improving understanding
 - ensure that LBO colleagues receive guidance on the detail of new legislation as soon as it is published, so that they are equipped to help their customers.

The way forward

37. The 40 recommendations in this report are aimed at bringing business and the Revenue closer together and modernising the administration of the Corporation Tax system for big business. We are drawing up an action plan for implementation of the recommendations, which could be published on the Revenue website with quarterly progress reports.
38. Much of what we want to do will require further input from business. We have valued the constructive way in which business has contributed to the review and look forward to taking forward our recommendations in partnership.

Recommendations

Part 1A - An improved administration for large corporates: relationship with LBO and OTO

Understanding business drivers

R1 The LBO should work with Revenue Policy, and with representatives from business, to develop the role of its sector groups to encompass:

- how industry knowledge will be gained and shared
- how each group will work with business to develop a consistent approach to common operational problems
- how each group will offer opportunities for business to provide input to the development of operational policy.

A list of sector groups identifying their chair (normally a case director) and secretary should be published on the Revenue website.

R2 The Revenue should invite input from business in order to:

- review the training given to inspectors and policy officials to develop their understanding of large business and awareness of commercial drivers
- organise joint training events, workshops and short-term projects
- consult further on short term shadowing arrangements for inspectors and policy advisers
- develop a framework for secondments to business which will meet the needs of the Revenue while responding to the concerns of business.

'Ring-mastering' by the case director

R3 Case directors should be given authority to co-ordinate enquiries involving other parts of the Revenue (for example, Schedule E and Stamp Duty) and should be accountable for doing so. The Revenue should develop:

- processes to facilitate this co-ordination
- a training programme to enable case directors to fulfil their wider co-ordinating role
- mechanisms to communicate clearly who is responsible for what and the timescale for resolution of issues.

Approach to enquiries

- R4 The LBO should:
- urgently review its quality control programme by 31 March 2002, seeking input from business, to ensure that judgements on the quality of work are informed by the findings of this review and the views of customers
 - benchmark its training and quality control against those of the major accounting firms
 - carry out a regular independent customer satisfaction survey to monitor progress in this area.
- R5 The LBO should review its processes so that, for groups filing all their returns promptly, substantive enquiries are always raised within 12 months of receipt of a return.
- R6 The LBO should approach a number of large corporates to develop a pilot of the new faster approach to enquiries for 2002/03.
- R7 We recommend that the director of the LBO should establish how major law and accountancy firms use peer review to ensure the quality of their work, should benchmark the present LBO peer group support system against best practice, and should then apply this best practice to the LBO.
- R8 We recommend that the director of the LBO should consider how the LBO complaints procedure could be improved and made more transparent, to deal more effectively with corporates' concerns when issues appear unreasonably difficult or time-consuming to resolve. The director should publish details of the new arrangements.

The need for certainty in real time

- R9 The current LBO review of COP 10 should be expanded into a broader departmental review, to be concluded by 31 July 2002. That review should also consider how the Revenue can publish views on new issues faster and more widely using the website.

Part 1B - other aspects of tax administration

PAYE, Schedule E and NICs

- R10 Where possible groups should deal with a single tax office for all employment tax and NIC issues. Where that is not possible, consideration should be given to providing companies with a single named individual to co-ordinate all PAYE and Schedule E technical issues and ensure greater consistency.
- R11 The Revenue should ensure that Schedule E processes and operational policies are designed to provide co-ordinated advice to groups of companies, regardless of whether their PAYE schemes are dealt with in one or more local offices. This recommendation will inform the programme already being rolled out to improve customer focus on employers.

Statutory clearances

- R12 A 'one-stop shop' approach to dealing with clearance applications should be trialled. The Revenue should:
- seek input from business in devising the trial
 - work up detailed proposals by the end of December 2001
 - put the trial arrangements in place by April 2002
 - place a report on the trial, including feedback from customers, on the Revenue website by the end of December 2002.
- R13 As part of the trial 'one-stop shop' approach for clearance applications, the Revenue should:
- identify best practice highlighted at the recent joint Revenue/private sector workshop on mergers and acquisitions conducted as part of this review, and communicate best practice for clearance applicants
 - review the risk assessment of applications and introduce new service targets which balance Exchequer risk with the genuine needs of business and advisers
 - try out improvements to the clearance process, including new ways of handling particularly large and complex transactions - again building on ideas produced at the recent workshop.

Guidance on the tax system

- R14 Revenue Policy should ensure that LBO colleagues receive guidance in the detail of new legislation as soon as it is published.
- R15 To supplement the formal guidance material provided by the Revenue, Revenue Policy should hold an open seminar shortly after publication of the Finance Bill, inviting industry representatives and LBO case directors. The purpose of the seminar would be to focus on the technical detail of the proposed legislative changes rather than discuss the policy issues.

Part 2 - How business can feed into the development of operational policy

Direct dialogue with business

- R16 In order to improve the Revenue's understanding of business and promote dialogue across all stakeholders in the Corporation Tax system, a Business Tax Forum should be launched, chaired jointly by an industry representative and senior Revenue official. The forum would include officials from HM Treasury, and representatives of legal and accounting firms dealing with large business.
- R17 Revenue Policy (Business Tax) should take responsibility for:
- improving the Revenue's overview of the impact of the tax system on business and the communication of the Government's policy objectives to business
 - co-ordinating business tax issues within the department, ensuring that any policy developments affecting business are considered in the overall context of business taxation
 - ensuring that the impact on business is fully considered in the development of tax policy across the piece - in effect acting as a 'champion for business' within Revenue Policy.
- R18 The members of the Large Corporates Forum should be encouraged to expand their current role into the proposed wider Business Tax Forum (see R16).

Representative bodies and advisers

- R19 The major representative bodies should be provided with a list of Revenue Policy officials and their areas of responsibility (see also R23).
- R20 The Self-Assessment Consultative Committee (Corporation Tax) should be the primary forum for discussion of CT operational issues with representative bodies. The committee should draw up new terms of reference appropriate to its wider remit.
- R21 An official from Revenue Policy (Business Tax) should be allocated to each major industry sector, to work with the LBO sector groups and to ensure that sectoral representative bodies have an opportunity for regular dialogue with policy officials.
- R22 The Revenue should engage in further collaboration with firms of professional advisers in organising workshops to discuss specific areas of tax.
- R23 Firms of accountants and lawyers should be provided with a list of Revenue Policy officials and their areas of responsibility (see also R19).

Formal consultation and Budget representations

- R24 The Revenue should discuss with large corporates how they can become more involved in Regulatory Impact Assessments and these discussions should take place by the end of April 2002.
- R25 The Revenue should review the mechanisms for feedback on Budget Representations. The review should report by the end of March 2002 and be actioned in respect of this year's representations.

Part 3 - Specific pressure points

Expatriate director/employee tax issues

- R26 The Revenue, supported by input from multi-national businesses, should develop a statement of good practice for handling enquiries into expatriate taxation.

PAYE and Schedule E compliance review ('PAYE audit')

- R27 A statement of good practice on links between case directors and LBO Employer Compliance, including details of the role of Customer Account Managers, should be published both internally and on the Revenue website to supplement the LBO customer leaflet which is provided at the beginning of a review.
- R28 LBO Employer Compliance should publish its compliance review objectives.
- R29 An evaluation of the recent changes of practice in LBO Employer Compliance work should be undertaken, taking account of customer feedback on audits that have taken place since the changes were implemented. The evaluation should be carried out by a Deputy Director of the LBO and should report to Dave Hartnett, as the Revenue Board Member responsible for technical and compliance policy issues, by the end of March 2002.

Audits by Savings, Pension and Share Schemes (formerly FICO)

- R30 The Revenue should undertake a review of operational policy in Savings, Pensions and Share Schemes to ensure it is aimed at working with companies to enable voluntary compliance, and within that framework should consider the approach to the pursuit of tax where there is a technical failure but no underlying tax liability.
- R31 Savings, Pensions and Share Schemes Audit Unit and LBO Employer Compliance should work together to deliver a consistent standard for systems auditing throughout the Revenue.

International tax issues

- R32 The Revenue should better support companies by providing further guidance on the application of the CFC rules, particularly in more contentious areas such as the motive test. This guidance should include illustrative examples and should be updated regularly.
- R33 In advance of the filing of CTSA returns, inspectors should be open to discussion of issues of interpretation or application of the law, and of appropriate approaches to handling a group's exposure to potentially significant numbers of CFCs, tailored to their particular circumstances.
- R34 To allay concerns over the requirement for transfer pricing documentation:
- the Revenue should do more to make clear that we will interpret this requirement in a proportionate and sensible way, based on an assessment of the likely risks to the UK Exchequer;
 - inspectors should be ready to discuss with groups the application of the record-keeping requirement in their particular circumstances.
- R35 In consultation with business and other interested parties, the Revenue should publish guidance that would:
- better focus transfer pricing enquiries by giving more advice on the nature of the risk assessment to be carried out before the decision to embark on an enquiry is made (and which could, for example, encourage pre-enquiry discussions with groups aimed at identifying significant risk areas);
 - facilitate the timetabling of the course of an enquiry, by setting out what could reasonably be expected of each side in terms of the time to provide information and to examine what is provided.
- R36 The Revenue should discuss with HM Treasury how to:
- provide more guidance on the approach we take to balancing commercial and Exchequer interests under section 765;
 - better articulate, in that guidance and elsewhere, what issues can legitimately and what issues must not be taken into account in coming to a view on a section 765 application;
 - introduce further measures to assure greater speed and consistency of treatment (by, for example, examining the scope for extending de minimis exclusions, publishing best practice notes and updating the advice on what material should be included when making an application under section 765).

R37 The Revenue should test the value of holding “surgeries” on UK tax outside the UK, in areas like Silicon Valley, focused on overseas groups already in the UK and those considering investing in the UK.

CTSA issues

R38 The LBO should develop and publish best practice guidance on constructive dialogue aimed at helping companies to take a realistic view on their approach to self-assessment.

R39 The LBO should set up working groups to discuss methodologies for approaching particular issues (e.g. a sampling approach to capital allowances claims).

R40 The Revenue, in consultation with business and other interested parties, should consider:

- what practical guidance could be provided on estimating quarterly payments
- what specific reassurance and guidance should be provided on the application of the penalty provisions.

Part 1 - An improved administration for large corporates

1A - Relationship with LBO and OTO

39. Most large businesses' day-to-day dealings with the Revenue are conducted through the LBO (or, in the case of companies in the oil industry, the OTO). The delivery of a forward looking tax administration for big business therefore crucially depends on how these offices operate. Although many large corporates are positive about their relationship with the LBO or the OTO, we have identified areas for further improvement.
40. In this report we have concentrated on large corporates serviced by the LBO and OTO. Some large corporates are dealt with by the Revenue's area offices and as far as possible we intend our recommendations to apply to them as well.

What do companies want from this relationship?

41. From the range of experiences and approaches set out for us by companies, we have identified a number of recurring themes in what companies want or value from their relationship with the LBO. These can be summarised as follows:
- the relationship works best when LBO Inspectors have gained a good understanding of companies' business drivers,
("not everything is motivated by tax", "it's more than knowing what products are produced")
 - companies value LBO management of their relationship with the Revenue ("ring mastering") and wish to see it extended,
("LBO should knock heads together so the Revenue takes a consistent approach to the taxpayer", "LBO should set the priorities across the Revenue")
 - a risk-based approach, with early identification of and consistent focus on key Revenue issues and concerns, is widely seen as effective and as aligning compliance costs with tax risks,
("A sense of proportion", "a sensible use of Revenue and taxpayer resources")
 - the resolution of issues in real time is of critical importance to business,
("to give greater certainty in commercial transactions", "get information while people are still around")
42. These themes have been echoed in a survey of LBO case directors and managers.
43. All these themes are reflected in good practice within the LBO but are not always common practice. There is clearly scope for further sharing of best practice and for raising the overall service quality closer to that of the best.

Understanding Business Drivers

44. Companies' experience of the Revenue varies according to industry sector. Experiences seem to be best where the Revenue has itself established a special focus on particular sectors. Positive comments about the OTO, where the Revenue has long had a specialist team, and the ability of companies to have real time discussion about the tax treatment of complex commercial transactions, point to the quality of service that can come with specialism. This is in line with the strategic direction of the LBO, but plans may need to be sharpened and speeded up if industry expectations are to be met quickly enough.
45. To assist in the development of specialism the LBO already runs some internal groups sharing views about tax technical issues affecting particular sectors. Some of these groups retain a mainly inward focus while others have regular meetings with industry representative bodies for that sector.
46. We have found a wide range of views among representative bodies as to how well the sector groups understand industry issues and meet industry needs. When they work well, the groups offer an effective channel of communication, allowing the LBO to disseminate information on operational policy and administrative issues, and to gain direct feedback on any sectoral specific issues or concerns arising. The groups also offer businesses an opportunity to deepen the Revenue's knowledge of their sector, and are a means of identifying good practice.
47. Given the sector groups' direct contact with companies and their knowledge of industry, there is scope for them to play a greater role in the policy process. The industry sector groups should ensure that particular concerns of their industry are addressed not just at the operational level but also at the policy level. One way of achieving this would be to allocate Revenue Policy officials to particular sector groups to provide a direct link into policy (see also paragraph 105 and R21). Revenue Policy could also use the sector groups as sounding boards, although this should not substitute for direct consultation with business.

We recommend that the LBO should work with Revenue Policy, and with representatives from business, to develop the role of its sector groups to encompass:

- **how industry knowledge will be gained and shared**
- **how each group will work with business to develop a consistent approach to common operational problems**
- **how each group will offer opportunities for business to provide input to the development of operational policy.**

A list of sector groups identifying their chair (normally a case director) and secretary should be published on the Revenue website.

[R1]

48. Many companies have said the Revenue has come a long way in understanding business. For example, the training programme for LBO inspectors includes a module dedicated to "commercial awareness". However, companies have generally expressed concern that some in the Revenue still appear to believe that every transaction is motivated by tax and feel that more needs to be done to overcome the suspicions that they think are deeply ingrained in tax inspectors.

49. Specifically, there is a desire among companies that LBO inspectors understand not only what their products are, but also their business drivers (e.g. cost reduction, alliances, disposal of non-core business etc.). Most of the companies consulted feel that a greater Revenue understanding of these issues would reduce the level of mistrust and enable companies in turn to be more open with the Revenue.
50. The goals sought from greater understanding and openness are:
- reduced compliance cost from more focused enquiries
 - faster resolution of issues and enquiries
 - greater certainty for the future through real time working.
51. In turn companies see a benefit to the Revenue in more efficient use of resources as case directors are better able to focus on areas where tax is at risk.
52. We have sought views from business on whether they would be willing to take on Revenue secondees. Although the goal of giving our people greater commercial understanding has been met with enthusiasm, the idea of secondments has received at best a luke-warm response. Companies' want assurance that the knowledge gained by secondees will not influence the way enquiries into their tax affairs are handled. We believe we can meet this concern with appropriate assurances, but we also need to build trust. Secondments would not only build our commercial understanding but would develop our people and are worth working towards.
53. The extent to which the Revenue can improve its understanding of business is constrained without help from business. If secondment opportunities are very limited then another approach might involve business offering short term shadowing, project membership or other opportunities for the Revenue to learn from the private sector. There is also scope for the Revenue to work with business to offer joint training events and workshops.

We recommend that the Revenue should invite input from business in order to:

- **review the training given to case directors and other Revenue officials to develop their understanding of large business and awareness of commercial drivers**
- **organise joint training events, workshops and short-term projects**
- **consult further on short term shadowing arrangements**
- **develop a framework for secondments to business which will meet the needs of the Revenue while responding to the concerns of business.**

[R2]

54. The effectiveness of these initiatives will very much depend on the willingness of business to collaborate with us.

'Ring Mastering' by the Case Director

55. The significant investment made by the case director in understanding the business needs to be leveraged. Some companies have expressed concern that their own tax departments have been overstretched by uncoordinated Revenue demands. Others have said that referrals to specialist offices such as SIS and Solicitor's Office can often prolong the resolution of issues. Companies recognise that case directors will need to draw on advice from the Revenue's specialists, but they want faster resolution of issues and enquiries through the case director fully co-ordinating enquiries and helping timetable both LBO work and that of the Revenue's specialist.
56. Companies also want transparency of decision-making. They want the case director not only to take responsibility for pursuing a timely response, but also to be involved in the decision making process so that, if not the decision maker, he or she can at least explain the decision thus bringing greater transparency into the system.
57. Moreover, companies want the case director involved in all aspects of their relationship with the Revenue so that everything is properly co-ordinated. In the Revenue this activity is known as 'ring mastering'; it equates to private sector 'account management'.
58. Companies have cited examples of existing best practice, e.g. where case directors have been able to timetable PAYE reviews to avoid them coinciding with a company merger or disposal. There is a need to ensure that this best practice is adopted consistently across the LBO. Companies also want the ring mastering role to be expanded so that the case director co-ordinates a wider range of Revenue contact with businesses. In particular, companies have said they would welcome a more active role for the case director in Schedule E and Stamp Duty issues.
59. Companies would also like to see case directors' knowledge of the company, gained through LBO risk assessment, feeding into the enabling and compliance plans of other areas of the Department. That would ensure that a consistent approach is taken to risk assessment by different parts of the Department.

We recommend that case directors should be given authority to co-ordinate enquiries involving other parts of the Revenue (for example, Schedule E and Stamp Duty) and should be accountable for doing so. The Revenue should develop:

- **processes to facilitate this co-ordination**
- **a training programme to enable case directors to fulfil their wider co-ordinating role**
- **mechanisms to communicate clearly who is responsible for what and the timescale for resolution of issues.**

[R3]

Approach to enquiries

60. Companies have mixed views on how enquiries into their tax returns are conducted. Their concerns can be grouped as follows:
- Companies have questioned whether inspectors moving from non-LBO offices (dealing with sole traders and smaller companies) can adjust to companies with billion pound turnovers, subject to the internal and external scrutiny that a public company is under. Companies question whether the LBO inspector induction training is sufficient to give them a sense of what is worthwhile to pursue in the context of a public company. Inadequate induction and/or support for junior inspectors could result in inefficient use of company and Revenue resources. That is why the LBO induction training now includes a presentation from a private sector tax director.
 - Companies welcome the LBO sharing the risk assessment with them but can be frustrated when enquiries then stray outside the risk assessment without an immediate explanation. Some companies describe an excellent relationship allowing enquiries to progress smoothly (with areas of dispute felt to be resolved fairly) while others describe the enquiry as a process of attrition. In some cases the LBO had met the deadline for opening a CTSA enquiry by sending a general letter indicating the general subject area for enquiries but then a great deal of time had elapsed (in extreme cases 18 months after filing) before a substantive enquiry letter was issued.

We recommend that the LBO should:

- **urgently review its quality control programme, seeking input from business, to ensure that judgements on the quality of work are informed by the findings of this review and the views of customers**
- **benchmark its training and quality control against those of major accounting firms**
- **carry out a regular independent customer satisfaction survey to monitor progress in this area.**

[R4]

While recognising that large corporates do not file their CTSA returns evenly across the tax year, we recommend that the LBO should review its processes so that, for groups filing all their returns promptly, substantive enquiries are always raised within 12 months of receipt of a return.

[R5]

New approach

61. Some companies are already discussing the risk assessment with the LBO and setting a timetable for enquiries, others are giving presentations on their business to the LBO, and others identify difficult issues to their inspector. We want to build on this and in the course of this review have come across examples in the USA of companies giving very detailed presentations on the accounts and tax computation to the US Internal Revenue Service. We believe that we can offer a new process, which will benefit both business and the Revenue.

62. We perceive the benefit to business of this new approach to be:
- closer to real time working so people and documents are available
 - a timetable business can plan to
 - a focused approach reducing the pursuit of low risk items
 - earlier certainty as to final tax liability.
63. The benefit to the Revenue will mirror the benefit to business and release our resources to deal with less compliant customers.
64. While not wishing to be prescriptive at this stage, we suggest a structured approach along the following lines:
- agreement of detailed framework and timetable with case director
 - optional presentation on accounts to Revenue at the time of public announcement
 - filing of group's tax returns
 - presentation on accounts/tax returns
 - sharing the outcome of risk assessment
 - identification and timetabling of specialist involvement
 - enquiries raised
 - finalisation of enquiries
 - review of process.
65. As part of the process we will commit to:
- keep together, wherever possible, the LBO team reviewing returns and accounts so that the group's investment in presentations is not lost
 - ensure that enduring information about the group is available to the teams reviewing subsequent accounts and returns
 - focus on what is important to business and the Revenue
 - not to stray from the risk assessment provided companies are open with us
 - take account of track record on openness in future risk assessment.
66. We would like to initiate a pilot of the new approach in time for December 2001 year ends. We will first need to agree a detailed framework with those participating in the pilot setting out benefits and responsibilities.

We recommend that LBO should approach a number of large corporates to develop a pilot of the new approach to enquiries for 2002/03.

[R6]

67. A number of companies have expressed concern that some Revenue inspectors see tax avoidance and aggressive tax planning everywhere. They feel that this approach taints their dealings with the Revenue and makes it difficult for them to have an open and trusting relationship. Yet tax avoidance and aggressive planning are facts of life. A recent private sector survey suggested that they are prevalent in many large companies. Tax avoidance and planning need not necessarily be an obstacle to an effective relationship between the LBO and large corporates.
68. Companies should benefit from being more open because it would allow us to enquire into the arrangements more quickly. We could take account of this openness in preparing subsequent risk assessments.

Resolving disputes about the handling of enquiries

69. The LBO has a quality control programme which LBO management uses to assure overall standards of work and identify particular areas for improvement. As noted in Recommendation R4, there is scope to improve this programme by:
- benchmarking the programme against its counterparts in major accounting firms, and
 - updating what the programme looks at to take account of the recommendations in this report.
70. Some corporates want a mechanism for seeking a second opinion on a line of enquiry that appears to be unproductive or on an issue, which appears to be taking an unduly long time to resolve. Currently LBO case directors often involve their peers in discussion of issues that give rise to particular difficulty. Such peer group support in practice covers a wide range of topics, though there is a formal requirement to use the mechanism only to assure the propriety of the Revenue's proposals for the resolution, by negotiation, of issues involving substantial amounts of tax. The development of a broadly based and structured approach to peer review, linked to the LBO quality control procedures, would ensure a higher quality product from the LBO. Peer review would also help case directors carry out the increased responsibility of the ring-mastering role described in paragraphs 55 to 59.
71. The LBO also operates a complaints procedure, which a number of corporates have used to help resolve judgmental issues and differences of opinion. Comments made in the course of the review, though, suggest a reluctance on the part of some corporates to make use of the existing complaints procedure.

We recommend that the director of the LBO should establish how major law and accountancy firms use peer review to ensure the quality of their work, should benchmark the present LBO peer group support system against best practice, and should then apply this best practice to the LBO.

[R7]

We recommend that the director of the LBO should consider how the LBO complaints procedure could be improved and made more transparent, to deal more effectively with corporates' concerns when issues appear unreasonably difficult or time-consuming to resolve. The director should publish details of the new arrangements.

[R8]

The need for certainty in real time

72. Companies have to take decisions on commercial transactions based upon available information. It is clearly unhelpful if the tax treatment to be applied to the transaction is uncertain. The uncertainty may arise for example where the tax law is relatively new, where established law is applied in a new circumstance, or where the legislation involved is obscure. Some companies would like to be able to discuss current transactions openly in a way that would give them more certainty.
73. The Revenue's approach to giving advice on the interpretation of the law, including post-transaction clearances, is set out in Code of Practice 10 ('COP 10'). The Revenue sees this as an important aspect of enabling voluntary compliance and dealing with current issues on a real time basis (e.g. giving a view on the way in which the legislation operates in particular circumstances), taking account of the ongoing risk assessment where appropriate.
74. Companies have found however, that a view is not always available because:
- the issue in question is not regarded as within the scope of COP 10
 - inspectors may not be confident they can take a decision (e.g. are all the facts known?)
 - the Revenue is reluctant to give a view without seeing full documentation (i.e. unwilling to give a view based on taxpayers summary of position)
 - the LBO is not always seen as being sufficiently aware of the detail of new legislation.

We recommend that the current LBO review of COP 10 should be expanded into a broader departmental review, to be concluded by 31 July 2002. That review should also consider how the Revenue can publish views on new issues faster and more widely using the website.

[R9]

75. Inspectors' confidence in their decisions will grow alongside increased mutual trust.

1B - Other aspects of tax administration

PAYE, Schedule E and NICs

76. Some groups of companies still have to deal separately with a number of Schedule E offices dealing with employment issues and this can be a source of considerable irritation. Even where there is a single Schedule E office for the whole group, concerns have emerged about the handling of technical issues at local level. Companies want to be able to deal directly with people able to answer their technical queries on Schedule E and PAYE. Preferably, they want to be able to deal at group or at least at individual company level, with what would effectively be a Schedule E “account manager”. If that is not possible, then companies want to be assured that issues and queries will be dealt with consistently across the group and over time.

We recommend that:

- **Where possible groups should deal with a single tax office for all employment tax and NIC issues. Where that is not possible, consideration should be given to providing companies with a single named individual to co-ordinate all PAYE and Schedule E technical issues and ensure greater consistency.**

[R10]

- **The Revenue should ensure that Schedule E processes and operational policies are designed to provide co-ordinated advice to groups of companies, regardless of whether their PAYE schemes are dealt with in one or more local offices. This recommendation will inform the programme already being rolled out to improve customer focus on employers.**

[R11]

77. It would be an inappropriate duplication of resource for LBO case directors to get involved in detailed consideration of technical schedule E issues or the administration of PAYE - just as tax managers generally leave such issues to their payroll sections. Nevertheless the ring-mastering role of case directors (discussed in paragraphs 55 to 59) should extend to assuring quality of service on Schedule E matters. Liaison arrangements between the LBO and Schedule E offices, and awareness and other training will be required to underpin this aspect of the ring-mastering role.
78. Employer compliance reviews (‘PAYE audits’) have emerged as a particular pressure point and are dealt with in more detail in Part 3 (paragraphs 118 to 124 and R27 to R29).

Revenue Policy International

79. The global scale of many large corporates means that they commonly have regular contact with the International area of Revenue Policy. Where there is a continuous relationship, the perceptions of International are generally positive and there is appreciation for the efforts of officials to understand the business issues they are dealing with. For example, there is widespread recognition that the Underlying Tax Group in Nottingham has done, and continues to do, an extremely good job in helping groups to address issues arising from the introduction of the new double taxation relief rules.
80. A number of specific cross-border tax issues have, however, been highlighted by many corporates during the review. These are of sufficient importance in themselves to warrant inclusion in Part 3 of this report (paragraphs 127 to 132 and R32 to R36).

Statutory clearances

81. Sections of the Revenue dealing with statutory clearances (for example, exempt distributions on a demerger, capital gains rollover on a take-over) are an important element of the contact between large businesses and the Revenue. The efficient and speedy handling of these clearances is vital to the smooth progress of corporate transactions such as mergers and acquisitions.
82. While many have commented positively on the efficiency of the various sections dealing with clearances, there are others who feel the service could be more responsive. Concerns have also been expressed about:
- the need for the Revenue to identify and give appropriate attention to particularly large, complex transactions among the large volume of clearance applications
 - the need for companies to make several different clearance applications in respect of the same transaction
 - apparent differences in approach between sections dealing with different types of clearance.
83. Some corporates have asked whether the Revenue could provide a 'one-stop shop' approach to clearances. Several of the Revenue's clearance sections have recently been brought together within Business Tax and are now co-located within the same building. This provides an ideal opportunity to pilot a co-ordinated approach to statutory clearances and to consider ways of improving the handling of particularly large and complex cases.

We recommend that a 'one-stop shop' approach to dealing with clearance applications should be trialled. The Revenue should:

- seek input from business in devising the trial
- work up detailed proposals by the end of December 2001
- put the trial arrangements in place by April 2002
- place a report on the trial, including feedback from customers, on the Revenue website by the end of December 2002.

[R12]

As part of the trial the Revenue should:

- identify best practice highlighted at the recent joint Revenue/private sector workshop on mergers and acquisitions, conducted as part of this review, and communicate best practice for clearance applicants
- review the risk assessment of applications and introduce new service targets which balance Exchequer risk with the genuine needs of business and advisers
- try out improvements to the clearance process, including new ways of handling of particularly large and complex transactions - again building on ideas produced at the recent workshop.

[R13]

Guidance on the tax system - e.g. Revenue website, details of budget changes

84. Corporates and their advisers welcome the publication of guidance and comments on the Revenue's website are generally positive. Tax Bulletin is regarded as particularly useful, and there is a strong wish for it to continue its tradition of detailed technical discussion.
85. A number of specific suggestions have been made:
- It would be helpful for the Revenue to produce an integrated set of guidance material - for example, inserting the text of relevant Tax Bulletin articles within guidance manuals.
 - Some corporates would like to see more detailed information on Budget changes in Budget press releases, in order to reduce uncertainty between the budget and publication of the Finance Bill.
 - It can be difficult for companies to keep track of changes during the passage of the Finance Bill. Press releases are currently the only source of information (other than the bill itself) until guidance material is published some time later, and companies have to look to advisers to fill the gap. It should be possible for the Revenue to meet this need by producing, for example, a checklist of measures as they finally appear in the Finance Act.
86. There is an equal need to improve internal guidance on legislative changes. Training for LBO inspectors is generally timed to prepare them to deal with returns made under the new legislation, leaving them inadequately equipped to enter into real time discussion with corporates.

We recommend that Revenue Policy should ensure that LBO colleagues receive guidance on the detail of new legislation as soon as it is published.

[R14]

87. The Revenue has already put in hand a separate review of guidance material. The aim is to move towards producing guidance designed specifically for electronic use, with as little difference as possible between internal and external versions. The detailed suggestions emerging from the current review will be taken forward as part of that work.

To supplement the formal guidance material provided by the Revenue, we recommend that Revenue Policy should hold an open seminar shortly after publication of the Finance Bill, inviting industry representatives and LBO case directors. The purpose of the seminar would be to focus on the technical detail of the proposed legislative changes rather than discuss the policy issues.

[R15]

e-services

88. Some corporates would like to move towards electronically enabled communication with the Revenue.
89. An Internet service for companies is being introduced starting around December 2001. This has been designed collaboratively with companies and their agents and will feature more than just filing of tax returns. Indeed, the first part of the service will enable companies to view extensive details of their liabilities and payments online through a secure portal. This will be the first time customers will have access to information about their own account whenever they want it and without having to use Revenue staff to obtain it. This is the service companies told the Revenue they wanted first. The aim is to provide e-filing, a shared workspace (or 'e-room') and other services over the next year or so, all developed in collaboration with companies and their agents.
90. In addition, one major corporate is not only taking part in that trial but is also piloting a "paperless office" regime both internally and with their accountants. This is viewed as an ideal opportunity to pilot a wider form of e-business with a willing partner and learn lessons to inform our implementation of the Government's e-business programme. The pilot involves the development of a shared workspace to inform design of that service for companies generally. This will allow all three parties (Revenue, taxpayer and accountant) to work on the same background information, accounts and computations, and will greatly reduce the scope for misunderstanding and duplication of effort. Use of the e-mail facility should help to speed up and facilitate the resolution of issues. Subject to successful trial it is planned to extend the pilot as well as building on the experience in developing e-communication with customers more widely.

Part 2 - How business can feed into the development of operational policy

91. It is vital for a forward looking tax administration to develop effective channels of communication enabling business to feed into operational policy and to influence its development. We have explored the effectiveness of current channels at various levels, from direct informal dialogue with business through to the formal mechanisms of consultation and budget representations.

Direct dialogue with business

92. Our meetings with business have revealed considerable uncertainty as to how best to engage with the Revenue, partly due to inadequate communication of roles and responsibilities within the Revenue. Perhaps as a result of this, the current level of direct contact between large corporates and Revenue Policy is relatively limited, with most of the dialogue mediated by representative bodies. Many corporates are happy to feed in their views through these bodies (in some cases valuing the anonymity this provides). But there is a need to raise awareness that Revenue Policy officials are approachable and willing to talk directly to business both to discuss the implementation of policy and to receive feedback on the operation of policy.
93. In recent years there have been some good examples of business engaging directly with Revenue Policy on specific issues - for example, on the development of the new employee share schemes. There have also been a number of informal consultation groups - for example, on the proposals for disposals of substantial shareholdings - involving representative bodies whose members are drawn directly from business. But there is a need to extend this collaborative approach so that the Revenue can advise Treasury Ministers on policy solutions which take account of business drivers and concerns and can be readily implemented by business.
94. One way of achieving this is to build on the 'focus group' approach and extend it more widely as a way of involving industry in specific issues of operational policy and in consultation on the implementation of policy. But a reliance on ad hoc initiatives is unlikely to result in a significant improvement across the piece.

In order to improve the Revenue's understanding of business and promote dialogue across all stakeholders in the Corporation Tax system, we recommend the launch of a Business Tax Forum chaired jointly by an industry representative and senior Revenue official. The forum would include officials from HM Treasury, and representatives of legal and accounting firms dealing with large business.

[R16]

95. The detailed remit of the forum, and practical issues such as its interaction with existing consultative groups, will need to be worked up in more detail in discussion with industry, but we envisage it operating along the following lines:
- The forum would meet two or three times a year.
 - Private sector membership of the forum would be decided in discussion with the CBI, the Institute of Directors and the 100 Group of Finance Directors.
 - The Revenue would consult with business on the framework for discussion within the forum to ensure that it is at arms length from the handling of the day-to-day tax affairs of individual members.
 - The aim of the forum would be fourfold:
 - to inform Revenue Policy officials about commercial drivers, with business representatives outside the tax field invited where appropriate
 - to provide a channel for businesses and their advisers to influence operational policy and to provide feedback on tax policy issues
 - to initiate a wider debate with business on tax policy issues
 - to continue the type of discussions on the conduct of operational business that have until now been covered in the LBO's Large Corporates Forum.
 - In addition to meetings of the whole forum, there would be scope to arrange separate meetings of particular groups of stakeholders (such as industry tax directors, accountants or lawyers) on issues of common interest.
 - It is intended that the forum itself would not become involved in detailed debate on particular policy initiatives, so it would not displace the informal consultative groups which already exist for this purpose. In future, however, it is likely that such groups would be formed as spin-offs from the main Business Tax Forum.
96. In conjunction with its role as joint chair of the proposed Policy Forum, and to ensure the effectiveness of the forum, we also see a role for Revenue Policy Business Tax as a 'ring-master' within Revenue Policy for all issues involving business.

We recommend that Business Tax should take responsibility for:

- **improving the Revenue's overview of the impact of the tax system on business and the communication of the Government's policy objectives to business**
- **co-ordinating business tax issues within the department, ensuring that any policy developments affecting business are considered in the overall context of business taxation**
- **ensuring that the impact on business is fully considered in the development of tax policy across the piece - in effect acting as a 'champion for business' within Revenue Policy.**

[R17]

97. Some tax directors have told us that they would like to enter into dialogue with the Revenue on wider issues of tax policy, though this is strictly outside the scope of this review. The proposed Business Tax Forum should provide such an opportunity. We also see scope for senior officials to meet this need by developing channels of communication with large corporates at which policy issues can be discussed informally and in confidence.
98. In our discussions with large corporates we have floated the suggestion of a forum at Finance Director level. Finance Directors would be interested in discussing issues with a joint forum of Government departments including the Treasury. There have already been joint meetings between industry and IR, C&E, Treasury and DTI on specific issues, and there is scope to build on these initial steps in conjunction with other departments.

Large Corporates Forum

99. The Large Corporates Forum was set up in January 2000 and has met 5 times since then. Private sector membership has been at the invitation of the LBO Director, who has sought to ensure membership is representative of the LBO's customer base and the major industry sectors. Minutes are published on the Revenue's website within the area devoted to the LBO.
100. The purpose of the forum is to improve the relationship between the LBO and the large corporates it serves. Private sector members have clearly valued the opportunity for dialogue which the forum has provided, and during its short period of existence it has achieved a great deal. It has enabled the LBO to improve its understanding of customer needs, to obtain direct feedback on specific areas where the tax system imposes compliance burdens of most concern to corporates, and to use that feedback to develop better quality internal guidance. While policy officials have been invited to the forum on an ad hoc basis, the focus of discussion is on how the LBO will operate a particular area of policy rather than on the policy itself.
101. The comments made during this review suggest that there is a case for extending the scope of the Revenue's direct dialogue with business beyond the remit of the current forum.

We therefore recommend that the members of the Large Corporates Forum should be encouraged to expand their current role into the proposed wider Business Tax Forum (see R16).

[R18]

Dialogue with representative bodies

102. Many large corporates are active participants in, for example, the CBI, and are content to use that channel to feed their views through to the Revenue. It is therefore vital that the Revenue maintains a continuing dialogue with bodies such as the CBI.
103. To facilitate communication with representative bodies there is a need for greater accessibility of officials in Revenue Policy. Representative bodies frequently do not know whom to approach on a given issue, and have to rely on personal contacts, which may be out of date.

We recommend that the major representative bodies should be provided with a list of Revenue Policy officials and their areas of responsibility (see also R23).

[R19]

104. The Self Assessment Consultative Committee (Corporation Tax) - SACC (CT) - has developed into one of the main fora in which representative bodies can discuss operational policy and other operational issues involving Corporation Tax, and is clearly valued by its members. The original purpose of the committee was to consider issues arising on the introduction of CTSA, but in practice its scope has now extended beyond this. There is a case for widening the remit of the committee (with an appropriate change of name) to reflect the current scope of its discussions and to allow a broader discussion of CT policy where appropriate. It is important to retain this channel of communication with representative bodies, alongside the new Business Tax Forum, to ensure that a broad spectrum of concerns, including those of smaller companies, are represented to the Revenue.

We recommend that SACC (CT) should be the primary forum for discussion of CT operational issues with representative bodies. The committee should draw up new terms of reference appropriate to its wider remit.

[R20]

105. The experience of sectoral representative bodies appears to be rather uneven. In areas where the Revenue has specialist sections dealing with a particular sector (such as oil and banking) the current arrangements are generally regarded as very good. In other cases, however, there may be very little direct contact with policy officials in the Revenue and a clear need for better links has emerged. There is scope for Revenue Policy to work with the LBO sector groups (see paragraph 47 and R1 above) to enhance links with sectoral representative bodies.

We recommend that an official from Revenue Policy (Business Tax) should be allocated to each major industry sector, to work with the LBO sector groups and to ensure that sectoral representative bodies have an opportunity for regular dialogue with policy officials.

[R21]

Dialogue with professional advisers

106. Many large companies have in-house tax departments dealing with their regular tax compliance, and call on advisers only for particularly complex transactions or areas of dispute. This makes it vital for the Revenue to develop direct contacts with business. But we recognise that advisers also have a significant role to play in making the Revenue aware of the needs of business, drawing on their experience of a wide range of industry sectors and their expertise in particularly complex or contentious areas.
107. As part of the review one of the 'big 5' firms of accountants hosted a workshop, focusing on the tax and handling issues (particularly clearance applications) arising on mergers, acquisitions and disposals. The firm invited around 40 clients and representatives of other accounting firms, and Revenue officials gave presentations and took part in discussion groups. The workshop was intended both as a way of focusing on a specific area in order to surface issues for the review (for example, there was extensive discussion of Treasury consents - see paragraphs 130 to 132 in Part III), and as an experiment in working together with professional advisers to facilitate dialogue between business and the Revenue. The workshop was regarded as a successful pilot and all sides agree that it would be worth arranging events of a similar nature in the future.

We recommend further collaboration with firms of professional advisers in organising workshops to discuss specific areas of tax.

[R22]

108. Advisers have also expressed a wish for improved dialogue with the Revenue, alongside the channels we propose for direct dialogue with business. Officials from Revenue Policy currently meet advisers on an ad hoc, individual basis, often in the context of a specific issue or dispute. There is a need to facilitate a broader debate, which will be met by the inclusion of professional advisers on the proposed Business Tax Forum.
109. Advisers, like representative bodies, have commented on the need to improve the accessibility of officials within Revenue Policy.

We recommend that firms of accountants and lawyers should be provided with a list of Revenue Policy officials and their areas of responsibility (see also R19).

[R23]

Formal consultation process

110. During our meetings with corporates we have received many comments on the formal consultation process, most of which fall strictly outside the terms of reference of the review. One aspect which is within scope, however, is that business would like to be able to contribute to decisions on how policy changes are implemented.
111. We have received a clear message that consultation on legislative change is incomplete without follow-up consultation on how the new legislation should be implemented. This does not currently happen, despite the requirement for Regulatory Impact Assessments. It has been pointed out that apparently small changes in legislation can have a significant impact on, for example, accounting and computer systems and there can also be a need to re-educate employees.
112. Business sees the current methodology of Regulatory Impact Assessments as not sufficiently inclusive, and would welcome an opportunity for much closer involvement in developing them.

We therefore recommend that the Revenue should discuss with large corporates how they can become more involved in Regulatory Impact Assessments and that these discussions should take place by the end of April 2002.

[R24]

Feedback on Budget Representations

113. In accordance with the Cabinet Office Code of Practice on written consultation, the Revenue gives feedback on formal consultations and this is publicly available. Business does not currently have any comparable structure for feedback on Budget representations. Although some national representative bodies do receive general feedback on Budget representations, others currently do not and regard this as a major area for improvement. Without feedback, business has no means of assessing the value or effect of representations made and is starting to question whether it is worth continuing its contribution at the current level. There are two major themes:
- Representative bodies would like to receive feedback on specific Budget representations.
 - If feedback on specific representations is not given, those making representations would like to receive recognition that their contribution has been taken into account in the Budget process.
114. These views reflect some of the best practice identified in the Code of Practice on Written Consultation, and the relevant criteria in this Code may be suitable for application to Budget Representations.

We recommend a review of mechanisms for feedback on Budget Representations, to report by the end of March 2002 and to be actioned in respect of this year's representations.

[R25]

Part 3 - Specific pressure points

115. The review has in itself provided a welcome opportunity for businesses to feed in their concerns on particular areas of operational policy. A number of specific issues have been identified as causing particular frustration for business.

Expatriate director/employee issues

116. There is evidence that the taxation of expatriate directors and employees generates a disproportionate amount of conflict between the Revenue and large corporates in some cases. Disputes can arise on the tax status of both overseas and UK nationals working for multinational companies in the course of genuinely commercial arrangements.
117. The current procedures for dealing with the taxation of expatriate employees and directors can involve the referral of disputes on the application of treaty exemptions to Special Compliance Office. The involvement of an office associated with serious fraud may in itself create the (mistaken) impression that the Revenue is escalating the enquiry and casting doubt on the legitimacy of the arrangements. However, these type of cases are generally investigated by SCO avoidance groups, taking advice from Revenue Policy International as appropriate - for example on complex technical issues involving treaty interpretation.

We therefore recommend that the Revenue, supported by input from multi-national businesses, should develop a statement of good practice for handling enquiries into expatriate taxation.

[R26]

PAYE and Schedule E compliance review ('PAYE audit')

118. It is apparent that some corporates have low expectations of the PAYE and Schedule E compliance audit process.
119. In a particular case, comment was made that the employer compliance process was very mechanical and therefore did not appear to allow for either the particular configuration of the corporate, nor for their compliance record. The initial questionnaire required considerable effort to make sure that responses from business units are sensible. The subsequent responses generated further detail, which was pursued with an apparent lack of appreciation of the practical difficulty in obtaining the information and no realism around quantification of what appeared to be trivialities. This resulted in a very protracted exercise, which consumed significant resource. This could have been avoided by a more risk focused investigatory phase.
120. It was suggested that such reviews should concentrate on system improvement rather than quantification of detail and should be run to a 'project managed' timetable if the corporate concerned has indicated a basic willingness to comply.

121. The main issues arising more generally are:
- materiality - there is a perception that relatively trivial sums are vigorously pursued
 - a lack of appreciation of the practical pressures on companies - genuine mistakes that come to light in a sample check are extrapolated across the board and back to earlier years, and penalties are imposed
 - it seems to be generally accepted that a review will last for several years.
122. Corporates' experience of the process is, however, by no means universally negative: there is praise for those employer compliance teams who take a balanced view and for the 'systems review' approach which is gradually being introduced. It is also notable that some of the comments received refer to audits undertaken (or at least commenced) some years ago. Since 1999 a number of measures have already been put in hand by LBO Employer Compliance to improve the review procedure, for example:
- From the settlement stages of a review, the employer now has a named Customer Account Manager, whose role includes obtaining customer feedback, helping to resolve system errors, and maintaining links as necessary with the employer until the next review.
 - Risk assessment now determines the frequency and requirement for full review of large corporates. More targeted partial reviews and other enabling measures are being tested.
 - A review of links with LBO case directors has been carried out, leading to the development of good practice (including regular meetings, sharing of joint risk assessments and consultation with the case director before a settlement is agreed). The recommendations of that review are now being piloted.
 - Joint working of reviews has developed over the last 18 months, particularly with Schedule E tax offices in larger reviews.
 - Sampling and systems based techniques have also been introduced over the last 12 months to reduce the time spent examining records.
123. It will take time for these improvements to bed in and to feed through fully to customer perceptions of the review procedure. Early indications, however, are good, with customer feedback generally very positive.

We therefore recommend that:

- **A statement of good practice on links between case directors and LBO Employer Compliance, including details of the role of Customer Account Managers, should be published both internally and on the Revenue website to supplement the LBO customer leaflet which is provided at the beginning of a review.**

[R27]

- **LBO Employer Compliance should publish its compliance review objectives.**

[R28]

- **An evaluation of the recent changes of practice in LBO Employer Compliance should be undertaken, taking account of customer feedback on audits that have taken place since the changes were implemented. The evaluation should be carried out by a Deputy Director of the LBO and should report to Dave Hartnett, as the Revenue Board Member responsible for technical and compliance policy issues, by the end of March 2002.**

[R29]

124. The improvements already undertaken will not address the question of materiality and the approach taken to the extrapolation of mistakes, nor will they in themselves reduce the length of the audit process and it has been recognised that a more fundamental review of these issues is required. The Revenue already has plans to review these issues. The precise timetable and scope for the review will be published by the end of March 2002.

Audits by Savings, Pensions and Share Schemes (formerly 'FICO')

125. Corporates in the financial sector have expressed particular concern at the Revenue's approach to recovering tax from an intermediary in cases where there has been a failure to complete paperwork but there is no underlying tax liability. This issue can arise where, for example, it is discovered during an audit that an intermediary has paid interest without deduction of tax to a non-resident without the requisite form having been completed (but there is no doubt that the recipient is genuinely non-resident).

We therefore recommend that the Revenue should undertake a review of operational policy in Savings, Pensions and Share Schemes to ensure it is aimed at working with companies to enable voluntary compliance, and within that framework should consider the approach to the pursuit of tax where there is a technical failure but no underlying tax liability.

[R30]

126. On the other hand there has been praise for the way in which Savings, Pensions and Share Schemes carry out 'systems audits'. This approach is now an integral part of their procedures and best practice is well developed.

We therefore recommend that Savings, Pensions and Share Schemes Audit Unit and LBO Employer Compliance should work together to deliver a consistent standard for systems auditing throughout the Revenue.

[R31]

Controlled Foreign Companies rules

127. The requirement to apply the Controlled Foreign Company ('CFC') rules under CTSA has led to an increased burden on companies. In particular, there is felt to be a lack of clarity about how, in practice, companies can meet their CTSA obligations without having to do a lot of what they see as unnecessary work. Companies would welcome the opportunity to discuss their approach with their individual inspectors, with a view to agreeing practical ways to reduce the compliance burden. Companies would also welcome guidance on how the motive test should be applied.

We recommend that the Revenue should better support companies by providing further guidance on the application of the CFC rules, particularly in more contentious areas such as the motive test. This guidance should include illustrative examples and should be updated regularly.

[R32]

We recommend that, in advance of the filing of CTSA returns, inspectors should be open to discussion of issues of interpretation or application of the law, and of appropriate approaches to handling a group's exposure to potentially significant numbers of CFCs, tailored to their particular circumstances.

[R33]

Transfer pricing

128. There is concern at the requirement for full documentation of all transactions with overseas connected parties, with particular anxiety that this may lead to a blunderbuss approach and so to unfocused investigations by inspectors. There is considered to be scope for reducing the potential burden by encouraging groups to discuss a realistic approach to record-keeping with their inspectors, based on their particular facts and circumstances. Some groups have already done this.
129. Some groups are not confident that the process of competent authority claims under the mutual agreement procedure in tax treaties meets the aim of seeking to eliminate double taxation. Others acknowledge that the UK provides a very professional service in this area, but are nevertheless concerned about the time cases can take to settle.

We recommend that, to allay concerns over the requirement for transfer pricing documentation:

- the Revenue should do more to make clear that we will interpret this requirement in a proportionate and sensible way, based on an assessment of the likely risks to the UK Exchequer;
- inspectors should be ready to discuss with groups the application of the record-keeping requirement in their particular circumstances.

[R34]

We recommend that, in consultation with business and other interested parties, the Revenue should publish guidance that would:

- better focus transfer pricing enquiries by giving more advice on the nature of the risk assessment to be carried out before the decision to embark on an enquiry is made (and which could, for example, encourage pre-enquiry discussions with groups aimed at identifying significant risk areas);
- facilitate the timetabling of the course of an enquiry, by setting out what could reasonably be expected of each side in terms of the time to provide information and to examine what is provided.

[R35]

Treasury consents (section 765 ICTA)

130. There is a general feeling that section 765 is outdated and inappropriate in, for example, making transactions covered by it unlawful without consent, and the criminal sanction is seen as draconian. Moreover, aside from the policy issues, companies are concerned that section 765 is used as a lever to negotiate on other issues. This can potentially hold up deals, and this risk is exacerbated by the absence of a practicable appeals process.
131. A requirement to balance commercial and Exchequer interests lies at the heart of section 765. This may lead to the Revenue suggesting as part of its scrutiny of a section 765 application that a transaction be structured somewhat differently, so as to reduce the perceived risk to the Exchequer. Such action may be contrasted with the use of an application as a lever to negotiate on issues outside the scope of section 765, which is plainly inappropriate.
132. Many corporates have questioned the policy underlying section 765 but recognise that it is not an issue for this review.

We recommend that the Revenue should discuss with HM Treasury how to:

- provide more guidance on the approach taken to balancing commercial and Exchequer interests under section 765;
- better articulate, in that guidance and elsewhere, what issues can legitimately and what issues must not be taken into account in coming to a view on a section 765 application;
- introduce further measures to assure greater speed and consistency of treatment (by, for example, examining the scope for extending de minimis exclusions, publishing best practice notes and updating the advice on what material should be included when making an application under section 765).

[R36]

Overseas-based multinationals

133. As this report makes clear, many groups consider that they have good access to the Revenue, and that the department is more open, more flexible and easier to deal with than most other fiscal authorities. They are fairly readily able to get the Revenue's take on major tax issues that are concerning them, including those that have to be factored into business decision-making on, for example, the location of investments.
134. That said, this understanding of the Revenue's approach is, not surprisingly, more common among UK-based groups. It is often not appreciated by groups based outside the UK, whose senior managers will of course have more exposure to the tax officials in their home country. This is true both of overseas groups that already have large investments in the UK and those that may be contemplating setting up in the UK.

We recommend that the Revenue should test the value of holding "surgeries" on UK tax outside the UK, in areas like Silicon Valley, focused on overseas groups already in the UK and those considering investing in the UK.

[R37]

CTSA generally

135. The CTSA regime, introduced in 1999, places the onus on the company itself to make a correct self-assessment of its liabilities. This is at the root of some of the pressure points highlighted above in connection with cross-border tax issues.
136. Companies would like to be able to enter into dialogue with their inspector before filing their returns and, where appropriate, to agree a realistic and practical approach to complying with their obligations. But some corporates believe that this is precluded by the self-assessment regime or, where corporates have discussed this, it has been a time-consuming exercise.
137. It is true that, prior to the introduction of CTSA, some groups had entered into local agreements with their inspector on various issues and that CTSA required a re-assessment of these agreements to consider whether they remained appropriate and were compatible with the CTSA regime. This does not mean, however, that CTSA enforces a completely inflexible approach. There is nothing inherent in the CTSA legislative regime that rules out dialogue between companies and their inspectors prior to the submission of the self-assessment, or agreement on what constitutes a realistic approach to complying with the self-assessment obligation.
138. The Revenue already operates a system of post-transaction rulings, which allows companies to request a ruling (binding on the Revenue but not on the company itself) on the tax treatment of a particular transaction prior to the submission of the return. A formal ruling may not, however, be the most appropriate way of handling issues of a more general nature. There is a need to encourage more open dialogue between companies and inspectors about aspects of the CT return which are perceived as causing a disproportionate compliance burden, so that where possible agreement can be reached on a practical approach to self-assessment which minimises this burden.

We recommend that the LBO should develop and publish best practice guidance on constructive dialogue aimed at helping companies to take a realistic view on their approach to self-assessment.

[R38]

139. There is, however, a corresponding need to ensure consistency. The LBO sector groups should provide an opportunity for exploring specific areas of concern and developing a common approach.

We recommend that the LBO should set up working groups to discuss methodologies for approaching particular issues (e.g. a sampling approach to capital allowances claims).

[R39]

140. There is also a perception that the mechanisms of CTSA may be an obstacle to the discussion of issues on a real time basis. A number of recommendations in Part I of this report (R6 and R9) are aimed at moving closer to real time working in order to address this point.

Quarterly payments of Corporation Tax

141. Quarterly payments of Corporation Tax for large companies were introduced at the same time as CTSA. Instalments are based on the company's estimate of its tax profits for the year, and the first two instalments fall due before the year-end.
142. Some very large corporates report that they find quarterly payments of CT relatively straightforward because their internal forecasting systems allow them to estimate current-year profits with a high degree of precision. But others (even among the largest companies) find compliance with the quarterly system more difficult, or perceive that the system causes problems for other, smaller companies. There can be particular difficulties if there has been a recent merger, or if the multinational group is not organised along lines which allow the tax liabilities of UK entities to be derived easily from the commercial management accounts.
143. The structure of the quarterly instalment system itself is a policy issue and as such is outside the scope of this review. But our meetings with business have indicated there is clearly scope for improvement within the framework of the current regulations. For example, companies would welcome guidance on a practical and realistic approach to complying with the instalment regime and would like to be able to enter into constructive dialogue with their case director on this issue. There is also a case for providing more specific reassurance and guidance on how the penalty provisions will be applied, to supplement the general reassurance which has been given that penalties will be reserved for the most serious cases.

144. It will be essential to involve business directly in producing this guidance, to ensure that it properly addresses the practical concerns that arise in estimating profits.

We therefore recommend that the Revenue, in consultation with business and other interested parties, should consider:

- **what practical guidance could be provided on estimating quarterly payments**
- **what specific reassurance and guidance should be provided on the application of the penalty provisions.**

[R40]

Appendix A

Review of links with business - terms of reference

To review how effectively the Inland Revenue draws on larger businesses' experience of the tax system to inform operational policy, and to explore with them the scope for improving the Inland Revenue's handling of administrative processes.

In particular, the review should:

- identify, in discussion with business leaders, any administrative processes which are causing difficulties for business and establish how to improve those processes
- examine the existing channels of communication between larger businesses and the Inland Revenue, to determine whether they address the range of needs identified by business and how effective they are in meeting those needs
- recommend what steps should be taken to fill any gaps in coverage, to ensure that there are effective channels of communication enabling larger businesses and their advisers to feed into the operational policy making process, and to streamline any administrative processes which are imposing undue burdens on business.

Appendix B

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Appendix C

Abbreviations used in the Report

BS	- Business Services
C&E	- Customs and Excise
CAM	- Customer Account Manager
CFC	- Controlled Foreign Companies
COP	- Code of Practice (10)
CT	- Corporation Tax
CTSA	- Corporation Tax Self Assessment
DTR	- Double Taxation Relief
FA	- Finance Act
HMT	- Her Majesty's Treasury
LBO	- Large Business Office
OTO	- Oil Taxation Office
PAYE	- Pay as You Earn
PMG	- Paymaster General
RIA	- Regulatory Impact Assessments
SACC	- Self Assessment Consultative Committee
SCO	- Special Compliance Office
SDS	- Service Delivery Support
UTG	- Underlying Tax Group

Further copies of the full report can be obtained from

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The report is also available on the Inland Revenue website: inlandrevenue.gov.uk

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