

INSIDER

AUGUST 2023

Chandlers 

R&D TAX RELIEF CRACKDOWN 'DETERRING GENUINE CLAIMS'

The Chartered Institute of Taxation (CIOT) is warning that HMRC's efforts to tackle abuse of the R&D tax relief system are resulting in them rejecting legitimate claims and stone-walling others.

In a letter to HMRC, the CIOT wrote that the 'volume compliance' approach adopted by the tax authority since the second half of 2022 does not work because of the complex nature of the relief.

Ellen Milner, CIOT director of public policy, said: "We are receiving a large number of reports about the difficulties being encountered by firms carrying out genuine R&D.

"Valid claims are being rejected and businesses are being deterred from challenging HMRC by the disproportionate financial and time cost of doing so.

The volume compliance approach is based on frequent challenge and standardised letters with little or no opportunity for businesses and their advisers to explain the R&D activity they were engaged in.

It's part of a drive to reduce error and abuse within the scheme, which, in HMRC's 2021/22 annual report and accounts document, was shown to equal 4.9% of total R&D tax relief expenditure.

However, Milner also recognised that "HMRC has recently engaged with us to discuss our concerns".

HMRC intends to publish a compliance action plan that addresses some of the issues raised by CIOT and others.

✉ Talk to us about your R&D claim.

UK ECONOMY REMAINS ON SHAKY GROUND

Monthly GDP fell by 0.1% in May after growth of 0.2% in April, according to the Office for National Statistics (ONS), suggesting the economy remains on shaky ground.

In the three months to May 2023, GDP has "shown no growth" when compared with the three months to February, the ONS added.

The services sector also showed no growth in the three months to May, while production grew by 0.4% and construction grew by 0.2%.

A range of manufacturing and construction businesses cited the additional bank holiday for King Charles's Coronation as a reason for reduced output.

There was also anecdotal evidence submitted to the ONS that industrial action in May 2023 had an impact on industries to varying degrees.

Martin McTague, national chair of the Federation of Small Businesses described the fall in GDP as "unwelcome, but not a surprise".

"Small firms have been telling us they are facing pressure from all directions, such as interest rate rises, cost inflation and an ongoing late payment culture by big corporations," he added.

Jeremy Hunt, Chancellor of the Exchequer, said: "The best way to get growth going again and ease the pressure on families is to bring inflation down as quickly as possible."

✉ Get in touch to discuss your business.

CALL WAIT TIMES TO BE INCLUDED ON HMRC HELPLINES

After “a successful trial period”, HMRC has decided to extend its call time information messages to more of its helplines in a bid to give taxpayers and agents a better understanding of how long they can expect to be waiting on the phone.

According to HMRC’s most recent stakeholder digest, the extension, which came into effect on 4 July, will allow callers to make an “informed choice about whether they want to hang on, use our digital services or call back another time”.

Callers who have dealt with HMRC’s PAYE helpline are likely to already be aware of HMRC’s automated wait time messaging. However, the extension now covers the following services:

- Child benefit
- Tax credits
- VAT
- Online services
- National insurance
- Construction Industry Scheme
- Employers

The driving force behind HMRC’s decision was the apparent success of introducing automated messaging into services such as the PAYE helpline, with a spokesperson noting that thanks to this addition, “wait times reduced from 40 minutes at the start of the trial, to consistently below 20 minutes”.

The spokesperson added: “We want to be open and transparent about how long our customers can expect to wait and encourage the use of our digital services which are quicker and easier than calling us.”

Meanwhile, HMRC is also showing the wait time for its web chat for self assessment. Taxpayers using this service see the message: “Thank you for your patience, your estimated wait time is...” and then a timer counts down from that point.

The extension comes only a month after the announced closure of HMRC’s self assessment helpline over the summer and the transfer of 350 of its call handlers to other telephone services during the three-month closure. HMRC said that the decision was taken to divert resources and improve overall customer service levels.

📞 Speak to us about self assessment.

HMRC HAS ‘ENORMOUS AMOUNT OF WORK’ TO DELIVER MTD ON TIME

In evidence submitted to the Public Accounts Committee’s Progress with Making Tax Digital inquiry, contributors from across the accounting profession handed down a blistering verdict on the project, and HMRC’s ability to deliver on its new timeline.

The written submissions criticised HMRC’s failure to consult with and listen to taxpayers, agents, professional bodies and software vendors, spoke of the Revenue’s “limited understanding” of how businesses operate, and expressed frustration at a lack of clarity over how MTD would work in practice.

The tax digitisation project’s current timetable will see it deliver Making Tax Digital for income tax self assessment (MTD ITSA) eight years behind schedule, and a recent National Audit Office paper reported that the scheme will come in more than £1bn over budget.

However, HMRC officials told MPs they were confident about the prospect of delivering MTD ITSA to its new timelines – those with incomes above £50,000 will join the programme in 2026, the £30,000 to £50,000 bracket will join in 2027, while quarterly reporting for incomes between £10,000 and £30,000 is under review.

Yet the Association of Tax Technicians (ATT) said there remains “an enormous amount of work to do” to deliver MTD in a workable and valuable form by 2026.

With a project this wide-ranging and complex, there were always going to be problems the project’s architects needed to tackle. However, the following stumbling blocks have yet to be satisfactorily resolved:

- The treatment of jointly owned properties
- Accommodating taxpayers with multiple agents
- Providing a coherent definition of what a digital record should look like
- The frequency of updates and whether these can be made cumulative
- The interaction of the MTD reporting period with basis period reform

HMRC officials told MPs that since December 2022 it has been undertaking a series of ‘co-creation’ events involving unnamed stakeholders “with the ambition of resolving the most pressing design issues within the coming months”.

📞 Contact us for advice on MTD for ITSA.