Treasury Committee Inquiry into VAT and Treasury Sub-Committee Inquiry into The conduct of tax enquiries and the resolution of tax disputes

General Features **Indirect Tax** **Management of taxes**

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The CIOT, LITRG and ATT have responded to the Treasury Committee's wide-ranging Inquiry into VAT and its Sub-Committee's Inquiry into The conduct of tax enquiries and the resolution of tax disputes. In addition to our written responses we have also given oral evidence to the Committees

Last month we reported on some of our work submitting written evidence to the Treasury Committee Inquiry into VAT and the Treasury Sub-Committee Inquiry into The conduct of tax enquiries and the resolution of tax disputes. This month we complete the picture with reports on two further submissions of written evidence, together with details of the oral evidence that has been given to the Inquiries by the CIOT, ATT and LITRG.

VAT Inquiry

In addition to the CIOT and ATT responses reported in July's edition, LITRG submitted a written response to the VAT Inquiry, which focussed on how the VAT framework for disabled people might be reformed once the UK leaves the European Union and is no longer bound by EU VAT law. LITRG's recommendations included extending VAT zero-rating for construction services, transportation costs and workplace modifications, supporting the government's objective of getting one million more disabled people in work over the next ten years.

Furthermore, LITRG has called for a rethink on VAT relief for goods which benefit disabled people but fall outside the existing provisions. For example, equipment and appliances may be purchased specifically to aid or relieve a disability, but if they cannot be proved to be 'designed solely' for this purpose, VAT relief is denied.

In addition, LITRG has recommended that the government introduce VAT reliefs on goods aimed at alleviating or treating mental impairment, in order to treat such disabled people on an equal footing as those with a physical impairment. Most existing reliefs relate to physical disability.

Stephen Taylor (Chair of VAT Sub-Group) and Emma Rawson (Technical Officer) of the ATT gave oral evidence to the Treasury Committee regarding the VAT Inquiry on 3 July alongside Daniel Lyons (representing Deloitte) and Richard Allen (Retailers Against VAT Abuse Schemes). The ATT's evidence focused on the issues faced by small and medium sized businesses. Stephen and Emma noted that the £3.5m figure for tax lost due to errors in VAT returns could cover anything from technical to simple arithmetical or clerical errors. Making Tax Digital will only help reduce simple errors, and will not address technical errors, so may have limited impact on the VAT gap. To reduce the number of technical errors, HMRC need to engage more with small businesses, providing advice and reassurance to help them get their VAT right.

The ATT highlighted that small businesses find it very difficult to engage with HMRC over VAT. In particular, HMRC statistics show that the majority of non-statutory clearances for VAT are turned down on the grounds that HMRC do not believe there are genuine points of uncertainty. Better help and assistance from HMRC would help provide certainty to businesses, and also contribute towards reducing the VAT gap attributable to errors.

A full blog of the proceedings can be found on the ATT website.

The conduct of tax enquiries and the resolution of tax disputes

In addition to the CIOT and LITRG responses reported in July's edition, ATT submitted a written response to the Disputes Inquiry. ATT's submission built on the written evidence submitted by LITRG and focused on the need for guidance in relation to the statutory review process. LITRG's written evidence drew attention to the popularity of the review system with unrepresented taxpayers and the significance of new information being provided to HMRC at the review stage. LITRG also raised the

possibility that the cases in which taxpayers actually activated the review process might represent only a small proportion of situations where a review might be appropriate.

ATT's written evidence identified three factors which work against an HMRC reviewing officer asking pertinent questions when the information available to them was inconclusive:

- There is no statutory provision entitling (or obliging) the reviewing officer to ask the pertinent questions – their duty is to 'take account of any representations made by the appellant at a stage which gives HMRC a reasonable opportunity to consider them';
- The 45-day timeframe in which HMRC must complete a review discourages any request by the officer for further and better particulars;
- The under-resourcing of HMRC means that there is no incentive on reviewing officers to do anything which they are not obliged to undertake.

ATT then suggests that the effectiveness of the statutory review process could be significantly improved by the provision of clear and concise guidance from HMRC on GOV.UK explaining:

- the process for requesting a statutory review;
- what the statutory review process does and does not require the reviewing officer to do;
- what the taxpayer may need to consider in succinctly framing the representations which they make with their request so that the reviewing officer has an appropriate understanding of why they are seeking the review;
- the possible merit of providing the reviewing officer with contact details in case additional information is required.

Finally, ATT suggests that the provision by HMRC of an optional use standard form for requesting a statutory review which led the taxpayer through the necessary thought process could help to ensure that review officers had the information which they needed in order to undertake reviews efficiently and in a manner which was likely to assist the resolution of tax disputes.

In addition to the written evidence, Victoria Todd from LITRG gave oral evidence to the Treasury Sub-Committee on 18 June alongside Keith Gordon (in a personal capacity) and Paula Ruffell from Grant Thornton. LITRG's evidence focused on how

low income unrepresented taxpayers are dealt with by HMRC during disputes. LITRG noted that HMRC's Litigation and Settlement Strategy doesn't contain any references to unrepresented taxpayers, or the Needs Enhanced Support (NES) service that HMRC operate to help people who have additional needs.

LITRG suggested that bringing the NES service to the attention of taxpayers during the dispute process was essential and that there should be a clear mechanism for referral from the Officer dealing with the dispute into the NES team if appropriate. A full blog of the proceedings can be found on the CIOT website.

CIOT President Ray McCann was scheduled to give evidence to the Treasury Sub-Committee's inquiry into the conduct of tax inquiries and the resolution of tax disputes on 9 July, but the session was postponed due to parliamentary business. It is now expected to be held in the autumn.