Amendments to tax returns: ATT, CIOT and LITRG responses

Management of taxes

01 March 2019

The ATT, CIOT and LITRG have responded to a call for evidence from HMRC on amendments to tax returns

HMRC released a call for evidence on 7 November 2018 to explore how tax returns are amended, with a view to developing an amendments process which is simple and transparent.

The ATT response can be found on the ATT website, the CIOT response on the CIOT website and the LITRG response on the LITRG website.

Member survey

To assist them in drafting their responses to the call for evidence, the ATT and CIOT published a detailed online survey for members. In total, over 430 responses were received to this survey: many thanks if you were one of those who responded.

Key findings from the survey included:

- The most common reason for making an amendment is to correct a mistake in the original return, followed closely by the need to reflect further information which has come to light since the original return was filed.
- Income tax self-assessment (ITSA) returns are the most straightforward and least time-consuming returns to make amendments for, with PAYE and other employer returns being the most complex and time consuming.
- The most problematic aspect of the current amendments process is the time taken by HMRC to respond to an amendment, followed closely by the lack of acknowledgement of an amendment by HMRC.

- There is strong support for making the amendments process consistent across taxes, with 75% of those responding agreeing that this would be beneficial, and only 3% disagreeing.
- There is also strong support for using digital processes to make amendments to returns, with 85% of those responding indicating that their preferred method would be an online form.

The ATT and CIOT submissions in respect of the call for evidence were based upon the results of this survey as well as wider discussions with members.

The ATT response

The ATT response notes that, although there is strong support for the use of digital over paper processes for amending returns, the development of a single digital amendment process for all taxes could be problematic, especially given the differences in the filing requirements for each tax. Given this, it may be preferable to have multiple digital amendment processes which are tailored to the requirements of each tax rather than a single, universal digital process which is unable to cope with the different complexities and permutations required.

Based on the survey results, the ATT believe that introducing the following improvements to the amendments process would be particularly welcome:

- The issue of an acknowledgement when an amendment has been received by HMRC to reduce uncertainty.
- The ability to amend ITSA returns for the previous four years online, and not just the return for the prior year.
- The introduction of a digital amendment process for VAT and IHT.

Such improvements could form initial steps towards the development of a single digital amendments system, but would also be valuable in isolation.

Given the high levels of dissatisfaction expressed in the survey with respect to the amendment of PAYE and other employer returns, the ATT also recommend that a separate review be undertaken by HMRC to identify improvements that could be made in this area.

The CIOT response

The CIOT does not consider that making changes to the tax return amendment process is a priority matter at present. There are some exceptions, which we note in our response, but in general the current system works reasonably well and is reasonably well understood. In our opinion, a review of the tax administration system as a whole is needed, rather than just a small part of it in isolation. The Taxes Management Act 1970 in particular is desperately in need of a review. This would be a major project, but in the interests of ensuring we have an effective and efficient tax system fit for the future, it is clearly an important one that needs serious consideration. The CIOT has told HMRC that it would be pleased to offer its assistance with such a project.

Given the many differences between the different taxes and how they are returned to HMRC, making an amendment process consistent across taxes (an idea put forward in the Call for Evidence) will be difficult to achieve without other changes also being made to the tax system. Whilst a consistent process is desirable, it is unlikely that this can be achieved completely without significant time and resources being made available for the task by the government. However, this should not stop HMRC considering whether a digital amendment process can be introduced for each individual tax without needing to make significant changes to the way each tax is charged or administered. For example, there is currently no online amendment process for ITSA returns outside the enquiry window, and no online amendment option at all for Inheritance Tax, Stamp Duty Land Tax, VAT (for errors not able to be included in the next VAT return) or forms P11D/P11D(b). We recommend that the government should aim to provide that all amendments can be made online / using software in the short to medium term.

It seems that some of the most problematic areas of the current amendment process revolve around delays in HMRC acknowledging, processing and responding to amendments, particularly those done on paper. There were also complaints about errors being made by HMRC when processing amendments. Making an online process available across all taxes should help to reduce such delays and errors but, in the meantime, we strongly recommend that HMRC consider how it can improve response times and reduce processing errors.

We note that a combined process between taxes may be welcomed by advisers working in small practices but is unlikely to be something used by large firms of advisers who will tend to have different staff dealing with different taxes for each client. Therefore, if a combined process is introduced, we think it should be optional

not compulsory.

The LITRG response

The LITRG response was based upon its own experiences of guiding low-income taxpayers via its websites, together with information provided by the public-facing tax charities, TaxAid and Tax Help for Older People.

Low-income taxpayers need to make amendments to tax returns for various reasons, but at the root of almost all cases is a failure to understand, or be able to cope with, the tax system. Often such problems are perpetuated over several years (because the taxpayer has not appreciated they were getting it wrong), so taking corrective action is not usually a case of simply amending a single year's return.

The tax charities find that it is not the process of making amendments that is difficult; the significantly greater challenge is in identifying the correct figures to report. Such individuals are usually struggling with lack of understanding of the tax system, language barriers (literacy or numeracy issues, English not being their first language), and/or personal problems including homelessness or mental health issues. This means that they are usually not able to take the required corrective action for themselves. Streamlining or digitalising the amendments process is unlikely to improve matters in these difficult cases.

LITRG also highlighted that a taxpayer correcting their return might have also made a mistake on income declarations for tax credits and welfare benefits (particularly universal credit). There is a lack of guidance as to what action, if any, individuals need to take to correct those claims if they are concerned they have given incorrect information.

Finally, LITRG expressed concerns about an exclusively digital process for amending tax returns, which might prevent digitally excluded taxpayers from being able to comply.