HMRC's Guidelines for Compliance: practical assistance

General Features | Management of taxes



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HMRC’s guidelines aim to help taxpayers navigate the more complex areas of tax.

The Guidelines for Compliance (see bit.ly/3o2M9hu) are intended to be a valuable resource for taxpayers and their advisers. They aim to provide practical steps to help them better understand HMRC’s perspective in complex, widely misunderstood or novel areas of taxation. The series of guidelines is intended to cover a wide range of tax regimes, helping taxpayers to navigate the occasional complexities of the UK tax system.

The origin of the Guidelines for Compliance

At the Spring Budget 2021, the government recognised the crucial role that tax administration plays in supporting the UK’s competitiveness and promoting investment. As a result, it conducted a review of large businesses’ experiences with UK tax administration, using various forums and dedicated events to engage with

stakeholders. The discussions focused on tax risk and certainty, compliance, enquiries and disputes, and the Co-operative Compliance and Customer Compliance Manager (CCM) model.

This review took into account the experience of large businesses across different taxes and duties, regardless of which part of HMRC they typically interact with. It also complements the wider Tax Administration Framework Review. After engaging with stakeholders, HMRC took action to improve tax administration for larger businesses and make the UK a more business-friendly environment.

One of these actions was to address uncertainty by publishing new Guidelines for Compliance products whilst improving existing guidance.

The work of the Guidelines for Compliance team

The development of these guidelines is well underway, managed by a dedicated team at HMRC. Some aspects of the guidelines build on positive feedback on the practical guidance that was piloted to support the Profit Diversion Compliance Facility.

The Guidelines for Compliance team is also actively engaging with agents, industry specialists and representative bodies to ensure that each guideline is proportionate, clear and addresses areas where taxpayers need additional clarity.

These guidelines don’t replace existing HMRC guidance and technical manuals, but complement them and provide additional support to taxpayers. Each guideline will be linked to the relevant pages of existing HMRC guidance so that they can be easily located when needed.

They will highlight approaches that HMRC views as lower risk in accordance with UK tax law. This will help to clarify HMRC’s view in areas of uncertainty, providing examples for business taxpayers and their advisers to identify any tax compliance risks in their arrangements. They may give indications of likely HMRC compliance responses, as well as suitable documentation and record-keeping methodologies, and offer clear contact routes into HMRC for any updates needed.

The Guidelines for Compliance are part of HMRC’s published material and should be considered in relation to the Notification of Uncertain Tax Treatment regime (see bit.ly/3pFzku2 and bit.ly/3M38Jyp). They are designed to help taxpayers navigate the

complexities of taxation to reduce uncertainty and minimise tax compliance risk and the likelihood of compliance checks.

Published guidelines

So far, two guidelines have been published and are available on the Guidelines for Compliance page (see bit.ly/41GUIw6):

Help with PAYE Settlement Agreement Calculations GFC1

In designing this first Guidelines for Compliance, HMRC utilised customer behaviour analysis to expand on the support provided by existing guidance, clarify common errors and summarise contact routes. This will help to mitigate uncertainty and enable customers to self-correct.

HMRC identified a number of errors and emerging risks associated with PAYE Settlement Agreements (PSAs) and the associated tax calculations. We consulted with internal and external stakeholders and, subsequently, in October 2022 the first Guidelines for Compliance was published. The guidelines are written specifically for employers and cover the following topics:

- how to apply for a PSA with HMRC;
- what can be included in a PSA;
- how to pay a PSA;
- HMRC's recommended approach to PSA compliance;
- common errors and risks;
- calculating the income tax and Class 1B NIC due; and
- how to deal with any mistakes.

The overarching aim of these guidelines is to help employers reduce the risk of inaccuracies contained in their PAYE Settlement Agreement calculation and to avoid the most common mistakes seen by HMRC.

The guidelines provide an in-depth analysis of how to calculate income tax and Class 1B NIC. This includes consideration of devolved taxpayer rates, using a sample to calculate the tax rate, grossing up, employees who pay no tax, residence issues and

concludes with an example clearly demonstrating how income tax and Class1B NIC should be calculated.

Help with VAT apportionment of consideration GFC2

The second Guidelines for Compliance has recently been published following the outcome of a government consultation on ‘VAT and value shifting’. The consultation proposed fixed rules for how the consideration (amount paid) must be apportioned when items with different VAT liabilities are sold for a single price.

Evidence gathered by HMRC identified valuation concerns and varied approaches to how the most common VAT apportionment methods were being applied. These selling price and cost-based methods are often used in the retail sector. Following further stakeholder engagement and careful consideration of the proposed changes, HMRC concluded that the most effective way to address valuation concerns was to provide businesses with practical guidance on apportionment methods through new Guidelines for Compliance. HMRC also published minor amendments to VAT Notice 700 s 31 and updates to HMRC VAT Valuation Manual VATVAL03000 (Apportionment of monetary consideration).

The Guidelines for Compliance team consulted with internal and external stakeholders to build on the feedback provided during the consultation. They worked with external VAT advisors and industry experts to develop the guidelines at various stages to ensure accuracy and clarity of content in the published product.

The guidelines were published in March 2023 to help customers apportion the consideration (amount paid) when they sell any goods or services with different VAT liabilities for a single price as part of a package or bundle. They set out:

- HMRC’s recommended approach to the most common VAT apportionment methods;
- an overview of the types of supplies that are covered by the Guidelines for Compliance; and

- help and practical examples for businesses to understand approaches that HMRC sees as increasing or lowering tax compliance risk.

For ease of reference HMRC has provided links within the Guidelines for Compliance to the related HMRC manual and VAT Notice. The manual also links to the guidelines.

The guidelines set out HMRC’s view of the areas to consider and the order in which to consider them to apply a fair and reasonable apportionment method on a robust basis. Applying that recommended approach means HMRC is less likely to challenge the method used.

What feedback has HMRC had?

Feedback for the first two guidelines has shown that taxpayers and agents have found them to be a valuable resource in understanding HMRC’s perspective on the more complex areas of tax compliance. They provide clear explanations, practical examples and recommended approaches to help taxpayers understand the requirements and best practice. They also highlight common errors and risks to avoid.

The promotion of new digital submission routes, such as the PAYE Settlement Agreement (PSA1) form, also simplifies the process and saves time. The guidelines demonstrate HMRC’s commitment to ongoing engagement with taxpayers and its efforts to make tax administration more efficient and supportive.

The development of these products based on this feedback and consultation shows that we are actively listening to customers and taking action to address their needs.

Future plans for Guidelines for Compliance

In addition to these two published guidelines, we plan to develop and release more Guidelines for Compliance products covering other tax regimes and areas where customers may face uncertainty. These guidelines will be developed through targeted engagement with taxpayers, working closely with tax advisers, industry specialists and representative bodies to make sure they meet their needs.

We hope HMRC’s Guidelines for Compliance products will be a welcome resource for taxpayers, who want to ensure that their tax affairs are compliant with HMRC’s

requirements. The practical steps, examples and recommended approaches provided in the guidelines help reduce uncertainty and lower tax compliance risk.

We look forward to future releases of these guidelines covering other tax regimes and areas of potential confusion, as they will undoubtedly provide further support in navigating the complexities of tax compliance.

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Visit the Guidelines for Compliance homepage at bit.ly/451IZuT to ensure you are up to date with the most recent releases and updates.

You can email the Guidelines for Compliance team at ccgguidelinesforcompliance@hmrc.gov.uk. We are also interested to hear your feedback, questions and ideas on existing and future guidelines.