

Aligning Filing Dates for Companies

- Accounts to Companies House
- The company tax return to HMRC

- ❖ Summary of responses to consultation document issued jointly by Companies House and HM Revenue & Customs in November 2005
- ❖ Summary of further discussions with stakeholders
- ❖ Policy response to consultation and subsequent discussions

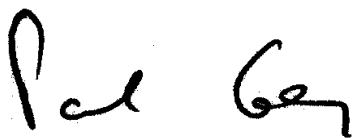
December 2006

INTRODUCTION

In November 2005, HM Revenue & Customs (HMRC) and Companies House published a joint consultation document called "Aligning Filing Dates for Companies: accounts to Companies House; the company tax return to HMRC". The period for public consultation ran until 3 March 2006.


The Cabinet Office code of practice on written consultations, included at Annex A to the consultation document, requires us to "Give feedback regarding the responses received and how the consultation process influenced the policy". This paper provides that feedback. A copy is being sent to every body and individual who responded to the consultation document and it is being published today on the HMRC and Companies House internet sites.

The Government's proposals, following the consultation and the extended period of discussion and reflection which has followed, are being announced today with the Chancellor of the Exchequer's pre-Budget report.



Paul Gray

Acting Chairman
HM Revenue & Customs



Claire Clancy

Chief Executive and Registrar of
Companies for England and Wales

CONTENTS

Chapter		Page
1	Summary	4
2	The Original Proposals	5
3	Overview of Responses	6
4	Events and Discussion Since Consultation	8
5	Policy Response to Consultation and Follow-up	10
6	Conclusion	11
Appendix 1	Summary of Responses to Specific Questions	12
Appendix 2	Updated Partial Regulatory Impact Assessment	16

1. SUMMARY

1.1 The Government has concluded that the best option is to:

- implement from 2008 Lord Carter's recommendation to link the window for HMRC to open an enquiry into a company tax return to the date when that return is submitted, for most companies;
- ask HMRC and Companies House to continue to work together towards implementing a joint filing facility by 2010; and
- keep under review the case for reducing the filing period for company tax returns at a later date.

1.2 The Government's decision takes account of the views expressed by business and the accountancy profession during the formal consultation and in the period of further discussion which followed. This feedback confirmed that many companies, particularly smaller businesses, see benefits from the option of a single filing facility, and from the encouragement to file early on a voluntary basis. But there is a large body of opinion that does not wish earlier filing to be made compulsory.

1.3 This option will encourage early filing, and should secure a marked increase in the proportion of companies (currently just under 40%) that file by the 9 month payment due date. Voluntary early filing will offer a number of benefits, particularly earlier certainty and a more integrated process. The Government is leaving open the option of aligning the paying and filing dates in law if there is a significant shift towards earlier filing and if further analysis confirms that there are efficiency gains for all parties to be obtained from legislative alignment.

1.4 HMRC will discuss with stakeholders, including the Corporation Tax Operational Consultative Committee, how best to implement the enquiry window change so as to secure benefits for small and medium-sized companies without compromising our ability to risk assess large groups whose tax returns need to be looked at together.

2. THE ORIGINAL PROPOSALS

2.1 The consultation document sought to build upon suggestions in the Hampton Report¹ that synergies between Companies House and HMRC should be explored, particularly in relation to the data required for filing accounts under company and tax law. The intention was deregulatory - to offer a package of measures which would be of benefit to all companies, but particularly to small companies. The aim was to:

- reduce the burden on companies of supplying over-lapping information to HMRC and to Companies House;
- create earlier certainty about whether a company tax return will be selected for enquiry by HMRC;
- improve the compliance assurance process, allowing enquiries to be dealt with while events are fresher in people's minds and records are more readily to hand; and
- encourage the take-up of internet services.

2.2 To these ends, the consultation document proposed developing a single internet filing service, which would allow companies to deliver their statutory accounts to Companies House for the public record, and the company tax return to HMRC, in a single transaction. The partial regulatory impact assessment published as Annex B to the consultation document concluded that this integration of administrative processes would be of worthwhile benefit to companies and provide cost savings. An updated partial regulatory impact assessment, taking account of the policy response set out in this paper, is attached as Appendix 2.

2.3 The consultation document argued that to facilitate this single service, it was necessary to align the statutory deadlines by which the accounts and the tax return have to be delivered to the respective government bodies. It favoured aligning these two filing dates at 7 months after the accounting date but offered an alternative proposal of alignment at 9 months after the accounting date, and asked for views.

2.4 The consultation document further argued that advancing the filing date for the company tax return had potential benefits for companies as well as for HMRC, as it would allow enquiries about returns to be opened and closed sooner, while events were fresher and records more easily to hand.

2.5 It also proposed to build on that opportunity by tying the start of the period during which HMRC could open an enquiry into a return to the actual date the return is delivered, rather than the statutory filing deadline. If HMRC wishes to enquire into a company tax return, it has to issue a notice of enquiry. The law restricts the period during which HMRC can do this to a period often referred to as "the enquiry window". At present, this period ends on the anniversary of the statutory filing date for any return filed on time or early. So the time HMRC has to look at a return and decide whether to enquire is extended if the company files early. The proposed change would give HMRC a year from the date the return is delivered to make its decision. So if the company files early, HMRC must decide whether to enquire earlier than it currently does. In that way, a company which files its return before the deadline would have earlier certainty that the return would not be subject to enquiry.

¹ The Hampton Report "Reducing Administrative Burdens" was published in March 2005

3. OVERVIEW OF RESPONSES

3.1 The consultation exercise stimulated a useful level of response. 107 organisations and individuals responded, by e-mail, electronic document or on paper. HMRC also conducted two public meetings with small companies and agents, and a score or so of face to face discussions with small groups, representative bodies and other interested parties.

3.2 The responses revealed a marked divergence of opinion, particularly on the question of advancing the filing date for the company tax return. The main views expressed were:

- a) There was general support for closer working between Companies House and HMRC to integrate services and remove overlaps between their requirements. Smaller companies and agents generally agreed with the benefit of a single filing service, provided it ensured the security of data which is sent to HMRC but is not for the public record. But several respondents questioned whether there is a genuine duplication of requirements, as many small companies send only abbreviated accounts to Companies House, while HMRC require the full statutory accounts.
- b) There was little support for an earlier filing date for the company tax return. Many respondents were opposed to any reduction, particularly large companies and accountancy representative bodies. Small company and local agent respondents generally saw little difficulty with meeting a 9 month filing period, but only a small number actively supported the idea.
- c) There was general agreement that it would be mutually beneficial to settle any questions about tax returns as soon as possible. But several respondents suggested that if companies were to have less time to file the tax return to this end, then HMRC should also have less time to decide whether to enquire. But there was general support for the proposal to tie the start of the period when HMRC can open enquiries into a return to the date the return is actually delivered, rather than the statutory deadline for filing. Many respondents commented that this would remove a major disincentive to filing early.

3.3 Seven of the responses were not substantive, merely seeking more information or promising a later response which did not materialise. An analysis of the rest between customer segments provided some clear insights:

Large companies

3.4 41 responses were received from large companies, mainly “household name” multi-national groups. A further 12 responses were received from trade associations and bodies representing the large corporate sector. This was by far the largest group of responses and they were notably consistent. All but a handful were convinced that aligning the dates for submitting the accounts to Companies House and filing the company tax return was unworkable in their context. They emphasised the complexity of preparing statutory accounts and tax computations for a large group and the need for a period between the two to allow for preparation of the tax return. So aligning the deadlines for both would effectively impose a significantly earlier practical deadline for the accounts.

3.5 Furthermore, most of this sector pay corporation tax by in-year instalment payments, not at the normal due date nine months after the accounting date. So

there is no incentive for them to finalise tax figures by that time, as there is for most companies. They consistently argued that advancing the filing date would therefore impose additional costs upon them. And they did not generally see any benefit to them from a joint filing facility, as their accounts and tax compliance work are done by separate departments within the group or professional advisors, to different criteria and timetables.

Accountancy representative bodies

3.6 Responses were received from 9 of the main accountancy professional bodies. All but one of these strongly rejected the case for an earlier filing date for the company tax return. They reflected similar concerns to those expressed by the large corporate sector, but also argued that an earlier filing date would put their members under pressure, as they need to manage a varied workload of clients across the whole year. A filing period of less than 12 months would complicate this, and any significant shortening would create staffing problems. It would compress their workload into certain months and create periods of the year when staff were not fully occupied.

3.7 Several bodies said a shorter filing period would be an added regulatory burden on small companies, which would outweigh any benefit of a single filing service.

Large accountancy firms

3.8 Eight large national and international accountancy firms responded. Some strongly reflected the concerns of the large corporate sector and echoed the concerns of the accountancy bodies, while others gave more complex messages. But again there was a clear balance against any shortening of the filing period.

Small companies and agents

3.9 30 responses were received from directors of small companies, local firms of accountants, individual consultants and advisors. We also focused particularly on this sector at two public meetings and by means of individual contacts and group discussions following formal consultation. The responses were generally in favour of the package as a whole, though a few were opposed. Subsequent discussion confirmed this pattern.

3.10 Some respondents expressed concerns about the security and stability of a joint filing service, or saw little advantage from it given that they file abbreviated accounts at Companies House. But most welcomed the prospect of a joint filing facility and the potential to deal with any enquiries sooner or have earlier certainty that the return is accepted. While some company directors favoured a 7 month filing date to get things finalised as soon as possible, most respondents in this segment saw the logic of linking the filing date to the normal due date for payment, 9 months after the accounting date.

3.11 Appendix 1 sets out the 12 specific questions posed in the consultation document, and gives a summary of the responses to each

4. EVENTS AND DISCUSSIONS SINCE CONSULTATION

4.1 The range of responses received, and the weight of opposition to an earlier filing date, made it clear that further work was required to develop a policy response which would generally be welcomed as beneficial. HMRC agreed with Ministers that they should discuss further the issues arising from the consultation with representative bodies and interested parties, before finalising proposals.

4.2 The initial conclusion from the consultation had been that, while large companies saw no benefits from the proposals and faced sector-specific difficulties with them, small companies and local agents were more positive. HMRC therefore began work on a package which would have excluded the large corporate sector from the proposals altogether, while examining measures to increase the benefits of the proposals for others.

4.3 HMRC considered that there were benefits for small companies in particular from the clarity that would come from a single date to file the tax return and accounts, and to pay corporation tax. It was noted that almost 40% of companies already file their tax return by the payment due date. So there appeared to be strong arguments in favour of alignment of the deadlines for all three processes at 9 months after the accounting date (Option 2 in the consultation document).

4.4 Furthermore, almost 40% of companies with a tax liability in a given year make no tax payment by the due date, and so incur interest charges. And many which do make a payment do not pay the right amount, leading to a high volume of repayments and demands for further payments, with interest consequences and the need for a considerable amount of contact to sort things out. HMRC concluded that it would help to reduce these difficulties if companies had the certainty of having made the self assessment of their liability at the point when payment falls due. This again supported a 9 month filing deadline.

4.5 However, feedback from the main departmental consultative channels with business and the accountancy profession challenged this assessment. They argued that it over-estimates the benefits of aligned dates and underestimates the costs and difficulties for small companies and their agents of complying with an earlier filing date.

4.6 HMRC has held a series of meetings with interested parties since March, to reach a better understanding both of the views of small companies and agents, and to test the viability of exempting the large corporate sector from the changes.

4.7 It has also been necessary to fit the thinking on these proposals into wider developments. In particular:

- a) At the time of the Budget statement this year, Lord Carter of Coles published his recommendations² for measures to increase the use of HMRC's online services. The Government accepted his recommendation that all companies should be required to deliver their tax returns on line and pay their tax electronically from 2010. He also endorsed the development of a joint filing facility between HMRC and Companies House, and the linking of the enquiry

² "Review of Online Service" – Lord Carter of Coles, published March 2006 – See here: <http://www.hmrc.gov.uk/budget2006/carter-review.pdf> See also the accompanying RIA: http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_page_Label=pageLibrary_ShowContent&id=HMCE_PROD1_025360&propertyType=document

window to the date of delivery of the return.

- b) The consultation document said that work on these proposals would be linked with the review of powers for the new HMRC and the Consultative Committee on Powers, Safeguards and Deterrents (the Powers Review). The Powers Review has been looking at a number of related issues through the Summer. In particular, it is considering the way that HMRC looks at tax returns and intervenes when it suspects non-compliance with tax legislation. The first draft clauses are being published for consultation at about the time of this paper.
- c) Work has been progressing to develop a new management act, combining the administrative frameworks for the main taxes and duties administered by HMRC. The first tranche of draft clauses for this bill is also being published for consultation at about the time of this paper, and more will be published shortly. This work seeks to establish a new integrated framework for administrative time limits and procedures.

5. POLICY RESPONSE TO CONSULTATION & FOLLOW-UP

5.1 HMRC concluded that there are valid arguments in favour of shortening the filing period for company tax returns to 9 months, in line with the corporation tax payment date and the deadline in the new Companies Act for private companies to deliver their accounts to Companies House. On the other hand, representative bodies argued strongly that it is not necessary to legislate for an earlier filing date. Removing disincentives to early filing, and offering an easy and convenient process for filing the accounts and the tax return together, may in themselves lead to most companies filing by that time. This would avoid penalising companies and agents who might have genuine difficulty complying with an earlier statutory deadline. It would also avoid the need for a legislative distinction between large and small companies.

5.2 Furthermore, HMRC have concluded that it would not be wise to change the company tax return filing date in isolation. The Powers Review is re-appraising HMRC tax compliance and intervention processes generally. At the same time, work is underway to integrate the legislation underpinning major HMRC processes into a new management act. Initiatives to enable earlier certainty for companies will be coordinated through the Powers Review. HMRC also recognise that it would not be helpful to legislate for an earlier filing date in the immediate run-up to mandatory e-filing in 2010.

5.3 So for the time being, changes will be limited to:

- working with software developers and others to implement a joint filing facility for companies with HMRC and Companies House. This will allow companies who wish to do so to make a single electronic transmission over the internet to file their company tax return and their accounts for the public record. This will use the XBRL data tagging technology recommended by Lord Carter. This facility will be in place in plenty of time for the beginning of mandatory e-filing of the company tax return in 2010; and
- making changes in the law so that the period that HMRC have to query most company tax returns will be linked to the date when the return is actually delivered rather than the statutory filing deadline. Special provision may be needed, though, in relation to groups of companies whose returns need to be looked at together. Draft legislation will be brought forward in time for the 2007 Finance Bill.

5.4 HMRC will review the effect that these changes have on the time when companies file their returns. The Government will keep the question of an earlier statutory filing date under consideration in the light of developments in the law generally, particularly the outcomes of the Powers Review.

6. CONCLUSION

6.1 HMRC and Companies House are extremely grateful to all those who took the time and trouble to respond to the consultation document, and to discuss the related issues with us through 2006.

6.2 Feedback from the Corporation Tax Operational Consultative Committee, the Better Regulation Consultative Committee, and other advisory groups have also been valuable in helping to develop this policy response. HMRC will continue to discuss the implementation of these proposals with stakeholders through these and other established channels.

APPENDIX 1

SUMMARY OF RESPONSES TO SPECIFIC QUESTIONS

Q.1 *Do you agree that providing a single online filing service for companies to file their tax return and their accounts to Companies House will be of benefit to companies? We would particularly welcome any modeling or estimation of the likely benefits, and views on design and implementation factors that might affect these benefits, to inform our Regulatory Impact Assessment.*

Most small companies and agents saw some benefit in being able to make a single filing of their accounts and tax returns, rather than two separate filings, provided it is easy to use the facility. But there were concerns:

- several respondents questioned whether there was any benefit to small companies which take advantage of the option to file abbreviated accounts for the public record, as HMRC require the full statutory accounts; and
- there was widespread caution about the security of such a system. In particular, many respondents pointed out that they include information in their company tax return which is confidential and may be sensitive. There must be no question of this information finding its way to Companies House and being made available on the public record, like the accounts sent there.

Most of the larger company respondents saw little or no benefit, and many thought there could be an added burden to them from using a single filing service. They explained that accounting work and tax compliance work are frequently done by different branches or by different firms of professional advisors. The work is generally done in sequence, with tax compliance work only starting once the accounts are finalised. So for them, bringing the necessary information together to make a single filing would actually be an added burden rather than a simplification.

We received little modeling or detailed information on likely benefits.

Q.2 *Can you suggest other beneficial ways, beyond the alignment of company filing requirements, that Companies House and HMRC could work together to offer more integrated arrangements to the benefit of companies?*

There was limited response to this question.

- Several respondents suggested that HMRC should acquire the accounts from Companies House, rather than requiring a separate copy from the company as part of the tax return.
- Several favoured Companies House making its database accessible to HMRC, or the passage of more data direct from Companies House systems to HMRC systems.
- A few suggested integrating the annual Form 363 return to Companies House into the joint filing.

- A few respondents saw any closer working between Companies House and HMRC as a threat; equally, a few suggested full integration of the functions of the two organisations.

Q.3 *Are there benefits from the alignment of filing dates that we may not have identified? We invite responses suggesting how the benefits might be increased.*

The responses did not identify any significant additional benefits.

Responses from large companies made it very clear that alignment of dates would be a distinct disadvantage to them, whatever the date. They generally said that their circumstances require a significant interval between the statutory deadlines.

Q.4 *Are there issues in relation to alignment (of filing dates at 7 or 9 months from the accounting date) which we have not identified, and which may add costs or compliance burdens? We would welcome views on the significance of transition. We would particularly welcome any modeling of transitional costs, and proposals for how they can be minimised.*

Many respondents feared that an earlier deadline for filing the company tax return would impose additional costs. Some also suggested that an earlier statutory deadline was not necessary to allow a single filing; where companies find it in their interests to make a single filing they can do so, voluntarily filing the company tax return early.

Several respondents from large companies said that if the filing date were brought forward significantly, it would be impossible to achieve the same level of accuracy in the return as they currently achieve. So an inevitable consequence would be greater use of estimated or provisional figures, more amendments and dirtier data. The sense was that the greater the reduction in the filing period, the greater this effect would be.

There was a fairly widespread view amongst respondents from the accountancy profession that a reduction in the filing period risked creating dead periods of the year, when their tax compliance staff would have little work to do, while increasing the pressure at other times, particularly in the Summer leave period.

Those who saw little difficulty with an earlier deadline generally supported 9 months rather than 7, though a few preferred to get it done as soon as possible and so favoured 7 months.

No respondent attempted to model transitional costs, and several asserted that additional costs would be permanent.

Q.5 *Are there significant difficulties with Option 1 as opposed to Option 2?*

Of the majority who opposed an earlier statutory filing date, most felt that Option 1 would be worse than Option 2. A few who did not see real difficulties with Option 2 said that Option 1 would be a step too far. For example some felt that a 7 month filing date would clash with interim reporting for the next year for larger companies. A few also preferred that if the filing deadline were to be made earlier, it should be aligned with the corporation tax payment due date.

Q.6 *If we were to adopt Option 1, would it help companies and agents if we were to provide a transition period? For example, we might advance the filing date in two steps, first to 9 months and then to 7 months a year or two later.*

There were mixed opinions about a phased transition. Many, particularly from the perspective of large companies, made the point that if an earlier filing deadline were introduced for the company tax return, companies would need several years to adapt to the change. Many also advocated bringing the deadline forward by a month at a time over several years. Other respondents took the opposite view and favoured a clean switch from one deadline to the other, and suggested that a more complex transition would be confusing to business.

Q.7 *We would welcome responses on timing. We aim to make transition (to the new aligned filing date) as smooth as possible, in respect both of companies' and agents' annual cycles, and of other changes affecting them.*

Relatively few respondents addressed this question in any detail. Of those who did express a view, most favoured as much warning of the change as possible.

Q.8 *Would the proposed changes (to the enquiry window) be beneficial? We would welcome responses suggesting how the potential benefits could be increased.*

This was the most popular element of the package, with most respondents favouring the change. However, many respondents from large groups felt that they were unlikely to gain any benefit as they would be unable to file significantly earlier than the statutory filing date.

Many respondents suggested that the government should go further and decrease the length of time that HMRC have to decide whether to open an enquiry, particularly if the time permitted to file a return were shortened.

Q.9 *Are there any disadvantages to business from the proposed change to the enquiry window? If so, what could be done to improve the proposal?*

There were very few responses to this question. A couple of respondents were concerned that HMRC's risk assessment processes could be harmed. A handful asked for clarification about how the proposal would affect the enquiry window for amended returns. Otherwise, no material points were raised.

Q.10 *Are grouped companies likely to benefit in practice from the proposals in Chapter 5? We would welcome alternative suggestions for enabling groups to benefit from the change to the enquiry window without compromising risk assessment.*

Few respondents felt that groups were likely to be able to benefit from the proposals. A handful welcomed the idea of linking the enquiry window for all members of the group to the delivery of the last group member's return, but as many saw this as unfair to groups where one or two members had unavoidable reasons for filing late.

Q.11 *Are there particular issues for clubs and unincorporated associations in relation to these proposals, which we should take into account?*

There were few responses to this question. Several of those who did respond expressed concern that volunteer officers of small clubs might struggle with online filing. A couple of respondents felt that voluntary officers might be pressured by an earlier filing deadline.

Q.12 *Are there consequential implications (from the proposals in this paper) for other provisions that cause particular concern to companies and their advisors?*

There were only a few responses to this question, though several respondents made the point that any reduction in claims time limits would be unwelcome and could cause difficulties in specific circumstances.

APPENDIX 2

PARTIAL REGULATORY IMPACT ASSESSMENT (RIA)

1. Title of proposal

Aligning Filing Dates for Companies

This is an amended and updated partial regulatory impact assessment, reflecting the outcomes of public consultation and subsequent work and policy development. The original Partial RIA was included as Annex B to the consultation document “Aligning Filing Dates for Companies” published in November 2005.

2. Purpose and intended effect

- **The policy objective**

This measure is deregulatory, and applies to the whole of the UK. It aims to

- reduce the burden on companies of supplying over-lapping information to HM Revenue & Customs (HMRC) and to Companies House
- provide earlier certainty that a company tax return is accepted, or earlier resolution of any issues where a return is selected for enquiry by HMRC
- improve the compliance assurance process, allowing enquiries to be dealt with while events are fresher in people’s minds and records are more readily to hand
- encourage the take-up of internet services

- **Background**

All companies incorporated under the Companies Act have to send their full or abbreviated statutory accounts to Companies House each year. They also have to send their full statutory accounts to HMRC, as one element of their company tax return.

When the new Companies Act comes into force shortly, private companies will have to deliver their statutory accounts, or abbreviated accounts where appropriate, to Companies House within 9 months of the accounting date while public companies (Plcs) will have 6 months to send in their accounts.

The Taxes Acts, on the other hand, generally require the company tax return to be filed with HMRC within 12 months of the accounting date. A copy of the statutory accounts forms part of the return. So the filing

requirements of the two regimes overlap, but are separate. This imposes a duplicate burden, particularly on small companies.

In November 2005, HMRC and Companies House issued a joint consultation document entitled "Aligning Filing Dates for Companies". This put forward proposals aimed at removing the duplication and providing a joined-up filing service allowing companies to discharge both obligations in a single transaction. It proposed shortening the time allowed for filing the company tax return, and a change to the enquiry window, to facilitate this joining up.

In March 2006, Lord Carter of Coles published a review of measures to further increase the use of HMRC's key online services, which would benefit HMRC's customers and ensure sustainable service delivery. Lord Carter recommended that e-filing of the company tax return and e-payment of corporation tax liabilities should be mandatory from April 2010. In addition, his report contained the following recommendations:

6. We recommend that consideration should be given to reducing the filing periods for ... company tax returns, to bring them closer to the international norms.

9. We recommend that the period that HMRC have to query ... most company tax returns (the 'enquiry window') should be linked to the date that the return is submitted. This will promote earlier filing and give taxpayers certainty sooner. (Different rules may need to be applied for group companies.)

22. We endorse the recent joint consultation by HMRC and Companies House about alignment of filing dates and recommend that HMRC should continue to work with Companies House to provide a joint filing facility by 2010.

- **Rationale for government intervention**

Government intervention is required to secure the policy objectives above:

- i. agents and companies have made it clear that the current rule for running the enquiry window from the statutory filing date is an inhibitor to earlier filing, and legislating a change such that it runs from the actual filing date would encourage earlier filing.
- ii. because companies have to file accounts with both Companies House and HMRC, a joint filing service would offer deregulatory benefits to those who wished to use the service.
- iii. take-up of this service would be maximised if the filing date with HMRC were aligned with the filing date for accounts with Companies House. This would also align with the payment date for corporation tax, which would offer some additional administrative savings to both government and companies with corporation tax to pay.

3. Consultation

- **Within government**

The former Inland Revenue started meeting with Companies House several years ago, developing ideas about how their respective regimes and services could be joined up, to reduce the burdens they place on business. That has continued since the creation of HMRC. Both organisations have online services for companies and their agents, and this initiative is a chance to begin to join them up.

- **Public consultation**

Responses to the consultation from November 2005 to March 2006 majored on the proposal to reduce the filing period for company tax returns from 12 months to 7 or 9 months. Large companies, in particular, and their representatives opposed this on the grounds that they needed a statutory period between the date they had to submit accounts to Companies House and returns (including accounts) to HMRC to allow them to prepare tax computations that translate the accounting profit into the tax profit. They also explained that they would lose flexibility in making best use of their in-house tax team members if the return work did not span a full 12 month period, and that they saw no benefits to them from a joint filing service.

Because some small companies and some agents recognised benefits from a simpler regime with a common date for fulfilling obligations, HMRC held informal discussions and meetings with interested parties and representative bodies to see how to achieve these benefits without disadvantaging large companies. Respondents were in favour of measures encouraging but not mandating earlier filing.

4. Options

The options available all involve one or more elements of the following package:

- for most companies, tie the start of the “enquiry window” during which HMRC can open an enquiry into a company tax return to the actual date of receipt of the return rather than the statutory filing date;
- implement a single internet filing facility for companies to send their accounts to Companies House and their tax return to HMRC in one operation;
- align the statutory filing date for the company tax return with that for sending private company accounts to Companies House, and with the tax normal due date for payment (9 months after the accounting date); and
- provide special rules for large companies (although allowing them, if they wished, to use the single filing service).

Six options were examined:

1. Do Nothing This would involve backtracking on a recommendation of Lord Carter's which the Government had already accepted. It would do nothing to advance the policy objectives outlined above.

2. Do Minimum This would mean implementing only the linking of the enquiry window to the actual filing date by 2008, already agreed by Government (Lord Carter's recommendation 9).

Consultation has confirmed that this change would be welcome, and should serve to bring forward average filing dates. But abandoning other elements of the package would mean backtracking on some of Lord Carter's recommendations. It would also mean missing an opportunity to join up services between HMRC and Companies House that would offer modest but real administrative savings to small companies and provide a basis for future closer working between the two organisations. It would have limited impact on the policy objectives.

3. Implement only those changes that encourage voluntary earlier filing

The enquiry window linking as above, plus the joint filing facility by 2010, but ruling out a reduction in the filing period for the company tax return.

This option was recommended by some of the accountancy representative bodies. It would make some progress against the policy objectives. However, it would mean closing the door on a potentially useful rationalisation of the corporation tax regime. It would also achieve a lower usage of the joint filing facility than if dates were aligned, and rule out some of the opportunities for administrative savings.

4. Implement changes that encourage voluntary earlier filing, without ruling out a future reduction in the filing period for the company tax return

As 3 above, but leaving the way open for possible future alignment in the light of changes to filing behaviour. Currently 39% of company tax returns are voluntarily filed before the 9 month point. If the effect is significant and further work demonstrates the financial benefits of alignment, legislative change could be considered in the future. This option is compatible with the direction of the Powers Review and the New Management Act, and would enable changes from that important work to bed in. This option is fully in line with Lord Carter's recommendations. It does not achieve the maximum take-up of the joint filing facility in the short term, so does not immediately maximise the possible benefits in relation to the policy objectives. But it meets the objections of representative bodies, does not rule out going further in the future, and allows time to make a better assessment of the balance of benefits.

5. Implement full package in stages Implement the enquiry window linking and the joint filing facility first but commit to shortening the filing period for most companies from 2010. This option would secure all available administrative savings and meet all Lord Carter's recommendations. It does not, however, have substantial stakeholder support. This option would also require special provisions for large business, and hence some additional complexity from parallel regimes, to avoid imposing additional compliance costs on that sector.

6. Implement the full package in 2008 As 5. This option lacks support from companies and their representatives.

The Government concludes that Option 4 provides the best way forward. It means that the Government can confirm its intention to implement Lord Carter's recommendations that apply to Corporation Tax. Having considered the case for reducing filing periods, the best immediate way forward is to encourage voluntary earlier filing. This will allow the Government to monitor the effect of the change on filing patterns and, if justified, move subsequently to align payment and filing deadlines for tax purposes with the deadline for delivering statutory accounts to Companies House.

5. Costs and benefits

This section considers the costs and benefits of implementing Option 4.

- **Sectors and groups affected**

All entities within the scope of corporation tax.

- There were just over 2.1 Million private and 11,500 public companies on the register in April 2006. Almost 1.9 million companies are "live" for corporation tax purposes today. All of these are required to file accounts with Companies House and a company tax return with HMRC.
- There are also over 21,000 unincorporated clubs and associations and other bodies which are required to file a company tax return but do not file accounts with Companies House.
- The trading subsidiaries of charities are included within the population, as are a few thousand charities proper, who may be required to file corporation tax returns for compliance checking purposes.

Over 90% of those required to file a company tax return will benefit from the linking of the enquiry window to the actual date of delivery of the return. However, it may be necessary to have special rules for companies in major groups. This is because HMRC needs to consider the returns of all the companies within such a group together, to identify risks and issues for clarification. Tying the enquiry window to the date of delivery of each individual company's return would make this difficult, if some members of a group were to file their returns very early and others much later. The effective window for risk assessing the group's returns together would be squeezed. HMRC will discuss this issue further with representatives of large corporate groups to determine the best means of mitigating this risk. The simplest mechanism may be to exclude such companies altogether from this change to the enquiry window, but that is open for discussion.

Any company required to file both a company tax return and accounts with Companies House will be able to take advantage of the joint filing facility, if they choose to do so. It is likely to be in the interests of most small companies to do so. At least 90% of companies required to file a company tax return are "small" for these purposes.

- **Benefits**

The main benefits for customers are:

- A reduction in the compliance costs associated with providing overlapping information to two government departments. The saving to a company will depend upon their current practice and the extent to which professional agents' fees are currently charged for the separate operations of filing with HMRC and with Companies House. Consultation has shown that many companies already file returns efficiently, so while the change will potentially benefit the 1.75 million or so small companies, if they choose to adopt the single filing facility, for many the savings will be small – of the order of £2 each year for producing and posting an additional copy of the accounts. But for some they will be considerably greater.
- More accurate tax payments, where companies which do not currently do so decide to complete their tax return in time for the payment due date. About 40% of companies with tax to pay fail to make any payment at all by the due date. About 20% of those which do make a payment by the due date, get the payment wrong by more than £100. At least 300,000 companies are exposed to interest charges each year as a result. Many of these incur unnecessary costs by having to deal with payment pursuit correspondence and contact from HMRC and correct their tax payments after the due date.
- An earlier start on resolution of issues and thus earlier certainty.
- Efficiencies from dealing with enquiries earlier when information is more likely to be retrievable and relevant people are more likely to be available.

The potential gains to government from earlier filing of company tax returns include:

- Earlier data to support work in forecasting CT yield
- Earlier and improved indications of the effects of corporation tax policy changes, leading to greater responsiveness of policy to economic and other factors
- Moving closer to real time working, improving the risk assessment and enquiry processes
- Administrative savings, mirroring those to business, if significant numbers of companies improve the timeliness and accuracy of their corporation tax payments.

Most of these benefits will have a real financial value, but this is extremely difficult to estimate with any assurance as most depend upon behavioural change by companies and their agents. The extent to which a voluntary regime achieves the potential changes will be kept under review.

- **Costs**

There should be no immediate additional administrative burden for business from these proposals. Any future decision to advance the filing date for the company tax return in line with that for filing accounts with Companies House and the corporation tax payment due date would create a transitional burden, as companies and agents adapt systems and timetables to meet the new deadline. This will be assessed and considered prior to bringing forward any legislation to make such a change.

No additional costs should arise to business. The costs of moving from paper to electronic filing incorporating XBRL, as recommended by Lord Carter, are not considered here. They are dealt with in the separate regulatory impact assessment for the implementation of Lord Carter's recommendations including mandatory e-filing of company tax returns.

Take-up of the joint filing facility will be voluntary. The software products required to file electronically are expected to allow the option of making a single filing or separate filings to HMRC and Companies House, and companies will be able to make a commercial decision about whether it is in their interests to do so. It is not anticipated that software allowing this option will be any more expensive than software allowing two separate filings with the two organisations.

The electronic filing services of HMRC and Companies House are in the process of being expanded and updated to allow universal electronic filing and will incorporate the features required to allow joint filing. The costs to Government of offering a joint filing facility for companies will not materially increase the costs of facilitating universal electronic filing with the two organisations.

6. Small Firms Impact Test

Of the 100 or so substantive responses to the formal public consultation, 30 were from small companies or small local firms of accountants acting for small companies. Two public meetings were held for small companies and agents during the consultation. Separate discussions took place following the formal consultation period with the tax committees of the Federation of Small Business and the Association of Chartered and Certified Accountants. Meetings were also held with the Small Business Council and small business representatives of the major accountancy bodies.

There was a strong consensus that the combination of linking the enquiry window to the delivery of the return and a voluntary opt-in to earlier filing using a joint filing facility would be a positive benefit to small business. While the benefit is likely to be small for most individual companies, it will be significant cumulatively across the population of perhaps one and three quarter million small companies.

7. Competition assessment

These proposals are not expected to have a material impact on the competitiveness of the UK.

8. Enforcement, sanctions and monitoring

No special measures or sanctions are required, and no impact is expected on general enforcement and monitoring. Improvements in the accuracy of payments flowing from earlier filing will have a beneficial impact, reducing the need for enforcement action.