

HM Revenue & Customs: LBS launch new approach to large business

HM Revenue & Customs' (HMRC) Large Business Service (LBS) has published an operating model setting out a new approach to dealing with the affairs of the largest businesses in the UK (HMRC booklet 'Working with large business – operating model' published 18 April 2006). This is an important document since it sets out for the first time in some detail the principles and practices that will underpin HMRC's relationship with large business. This will therefore have implications for all groups dealt with by the LBS.

The document is aimed at finance directors as well as heads of tax of large businesses. Initially the LBS will send out an executive summary requesting that groups read and consider the full operating model on the HMRC Web site. In the following weeks the LBS, through the newly appointed Client Relationship Managers, intends to hold discussions on the contents of the operating model with all groups.

Some of the key issues arising out of the new approach to large business are considered below:

Risk profile

The HMRC mission statement includes a commitment to provide an efficient and high quality service and to tackle those who do not comply with their obligations. In particular there is a clear desire to create a significant difference in treatment for those who are deemed 'non-compliant'. This segregation is to be driven by a risk assessment of groups' tax profile and behaviours against a set of benchmarks. These include group structure and complexity, evidence of tax avoidance, level and quality of oversight and resources devoted to tax, robustness of tax reporting systems and processes, level of perceived co-operation and general compliance history.

Questions for groups to consider in relation to this issue might include:

- Do I have a good sense of my group's tax risk profile and how do I influence HMRC's view?
- If my group is, or can become, 'compliant' what might be the positives - reduced compliance costs, earlier certainty - and how do I get reassurance that HMRC can deliver these positives?
- If my group is viewed as 'non-compliant' how do I best respond? Tax systems reviews

The operating model also indicates that a key part of the new approach to large business will be the review and evaluation of tax reporting systems. The list of functions of the Client Relationship Manger role includes:

- Tax flow overview - a systems overview that will highlight all aspects of systems with tax implications;
- Development audit - computer auditors ensure new accounting systems are developed and implemented in a tax-compliant manner.

What is not clear from the operating model is how the LBS will approach this area of work and in particular what will be the response where systems weaknesses and errors are identified.

Questions for groups to consider in relation to this issue might include:

- Do I have a sense of where our tax reporting systems risk areas are?
- Am I confident that the key risks are being managed through adequate controls and robust processes?
- How do I establish a level of confidence in our systems processes and controls?
- How would I respond to an HMRC request to review our tax reporting systems? Real time working

The operating model confirms that the LBS, building on the experience of the Inland Revenue's New Compliance Process initiative, has an aspiration to move all groups to a position where tax issues are dealt with in 'real time'.

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Questions for groups to consider in relation to this issue might include:

- How might our tax department have to change the way it operates in order to deal with tax issues in real time? / What are the potential advantages/disadvantages of dealing with HMRC in real time?
- Is there an opportunity to clear any backlog of open legacy issues in order to be able to concentrate on current issues?

4 Eyes Ltd staff can assist large groups in addressing these and related issues. If you would like to discuss the new LBS operating model and its impact on your group please contact us at info@4eyesltd.co.uk.