LONDON SOCIETY
OF CHARTERED
ACCOUNTANTS

Taxation Committee

27 August 2021

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Dear Sirs,

Basis period reform - consultation

I am writing as Chairman of the Taxation Committee of the London Society of Chartered Accountants (LSCA); further details about the LSCA and the Committee are given at the end of this letter. The Committee welcomes the opportunity to respond to the HMRC's consultation paper about the proposals to reform the basis period.

A. Comments and Concerns

1. This "consultation" appears to be more of a fait accompli – released in the middle of the holiday period immediately after the loosening of Covid restrictions, with a shortened consultation period for what in reality is a major change with significant complexities; as evidenced by fact that HMRC have identified areas of issues without any suggestions as to how they believe they might be handled. Moreover, the brief consultation period only gives businesses a limited opportunity to consider the implications of these imminent changes, and to make representations on transitional arrangements to mitigate any adverse impacts.

2. In particular, the transition from the 2022/2023 basis period transition year to 2023/2024 under MTD for Income Tax needs greater thought to ensure that neither income or expenses are omitted or duplicated, in any of the possible approaches to MTD quarterly submissions (including accruals accounting or cash accounting) and End of Period Submissions.

3. The consultation also seems to be not so much about whether the reforms should be implemented, but rather about how they are to be implemented. Six weeks during the holiday season, in the middle of a pandemic, is not sufficient time for advisers and others to consider the detail of this significant change, how it will affect them and their clients, and to provide constructive feedback to government on it.

4. It is imperative that the numerous practical issues thrown up by these proposals receive urgent resolution and this needs to be achieved before implementation of basis period reform. It is essential that businesses understand precisely what they need to do in all of these areas.

5. The proposed change will put considerable strain both on businesses and their advisers at a time when they are still recovering from the additional work generated by the support schemes during the pandemic. There will be considerable work involved with understanding and getting to grips with the new rules, putting systems in place to comply with new requirements and, for businesses, planning for the short-term additional tax cost that may arise as a result of being taxed on transitional profits.

6. We believe that the planned timetable for the change is unnecessarily fast and will prove counterproductive. Allowing more time for agents, taxpayers and HMRC to adapt to the changes is much more likely to lead to successful implementation.

7. Very surprisingly, there is no mention of the fact that the Office of Tax Simplification (OTS) is also currently considering options for moving the tax year end to 31 March or 31 December. This possible change is very closely linked with basis period reform proposals and would be yet another reform that may affect businesses in the future. It is therefore our firm view that basis period reform should not be implemented until a decision is made on possible year end change. If there is to be a change in the tax year end, basis period reform should take place at the same time, rather than imposing significant successive changes on business.

8. We believe that HMRC should consider the changes to the basis period in the light of the OTS report, which will be available this autumn, and the other discussions currently taking place on the future of personal income tax.

9. With regard to the implementation of MTD ITSA, we feel that this should take place after basis period reform has been established, thereby allowing agents and businesses to adapt more successfully to the proposed changes rather than introducing them in quick succession.

10. One of the most significant concerns amongst accounting practices regarding the implementation of MTD ITSA is that all businesses would need to submit their quarterly updates to the same deadlines, resulting in considerable ‘bunching’ of work around July, October, January and April. One possible solution to this problem would be to extend the deadline for quarterly reporting from one month to two months after the quarter end. This would help to even out the workload by giving accounting practices twice as much time to undertake the work necessary to prepare their clients’ quarterly updates.

11. We are aware that the government hopes that MTD ITSA will help to close the SME tax gap through the requirement for businesses to keep their accounting records in a digital format in as near to real time as possible. If this is really the main reason for MTD ITSA to begin in April 2023, then the record keeping element could be introduced ahead of reporting. Indeed, it would be pragmatic to review the progress of MTD for VAT and determine whether there is clear evidence that the SME tax gap is being closed before implementing quarterly reporting for income tax purposes (where, unlike for VAT, the quarterly submissions will not have a direct link to liabilities or payments).

12. Agents and businesses will also need to consider whether to change their VAT stagger group so that they align their VAT returns with their MTD ITSA quarterly updates. Although this would reduce the reporting deadlines to four each year, it would further exacerbate the ‘bunching’ of workloads and could in turn lead to more errors and less accurate reporting if agents and their clients struggle to deal with this. There would also be a cashflow impact on businesses if they bring forward their VAT reporting and have net output VAT to pay to HMRC.

13. We would welcome a proposal that either a 31 March or 5 April accounting date would be allowed for both trading and property income to enable taxpayers to report both income sources together.

B. Responses to the Consultation Questions

Question 1: Do you think that the proposed ‘tax year basis’ for trading income is the best option for simplifying the basis period rules, and the best way to achieve simplicity and fairness between businesses? If not, do you think there is a better option?

14. We believe that, although the proposed ‘tax year basis’ would provide significant simplification for businesses that already account on a tax year basis, there are a significant number who will, for genuine commercial reasons, need to retain accounting dates that are different from 31 March or 5 April. This will create difficulties where the profits of the second accounting year within a particular tax year need to be estimated for quarterly reporting or annual tax return submission purposes.

Question 2: Will the proposed tax year basis have an effect on how businesses choose their accounting date, and whether they choose 31 March or 5 April?

15. The ongoing requirement to apportion and/or estimate profits of consecutive accounting periods is likely to lead to new businesses adopting an accounting date coterminous with the tax year end.

16. Some businesses do not have an accounting period end which matches the tax year for sound commercial reasons, such as the seasonality of their business or in order to reflect the sector in which they operate. Having examined the ongoing complications and additional costs, many will feel pressured to adopt 31 March or 5 April, even if this does not suit the needs of their businesses. However, this would require careful consideration, particularly for larger partnerships where other factors would need to be taken into account. For example, some international partnerships may have a preference for a 31 December accounting date due to tax rules in other countries.

17. Some businesses with reduced profits due to the pandemic may consider this a beneficial time to change their accounting date because the impact could be less than in a later year. However, the wording of the legislation is such that those who change their accounting date ahead of 2022/23 would not benefit from the transitional spreading relief. We recommend that this should be reconsidered and that additional flexibility be given so that businesses could decide to change to tax year accounting in 2021/22 (or even 2020/21) and still benefit from the transitional rules.

18. As noted above, the OTS is currently evaluating the possibility of changing the UK's tax year end to either 31 March or 31 December, the latter being a date adopted by the majority of international tax regimes.

Question 3: For businesses with a non-tax year accounting date, what would be the cost of the additional administrative burden of apportioning profits into tax years? Are there any simpler alternative approaches to apportionment?

19. Please see our worked example and commentary included as an Annex to this document.

20. Depending on the final rules, costs could include extra tax computations and professional fees for interim accounts and preliminary tax computations. Professional advisers will need to agree the additional scope of work required of them and probably issue fresh engagement letters.

21. We would welcome confirmation that no penalties will be levied on taxpayers that have made their best reasonable effort to calculate their liabilities for tax years by the reporting and payment deadlines and that the submission of an amended return will not restart the enquiry window clock.

Question 4a: Businesses with accounting dates later in the tax year will have to estimate profits for a proportion of the tax year, before accounts are prepared. For which accounting dates do you think this would be necessary? Do you expect that businesses that have accounting dates earlier in the tax year than 30 September will have to estimate profits? If so, which types of business would be affected?

22. It is likely that smaller businesses with accounting dates from 30 June onwards will find that they have to estimate profit for part of the year prior to finalisation of their accounts. It is not uncommon for small businesses to rely on external advisers to prepare their accounts. The timing of this is dependent on the organisational ability of the business and the speed with which they collate and provide information to their advisers, as well as the work capacity of those advisers.

23. Seasonal businesses in particular will have difficulty making accurate estimates of profits for a particular accounting year until considerable time has elapsed, especially where previous results are not a reliable indication of future ones. For example:

- The success of the main crops for farms is often largely weather dependent;
- Self-employed medical professionals whose sessions can change significantly month on month will also be considerably affected.

Question 4b: Will estimation be a significant burden for those businesses affected, and what will the cost be? Are there any simpler alternative methods of estimating profit or finalising estimates, which could mitigate any extra administrative burden?

24. Whilst the proposed change would go largely unnoticed by businesses that use an accounting date of 31 March or 5 April, these changes could be very problematic for businesses that use a different accounting date. Some of the challenges include:

- potentially two sets of tax computations (from different accounting periods) for each tax year;
- interaction between accounting periods and tax years with MTD end of period adjustments;
- whether HMRC will require reconciliations between MTD submissions and financial accounts and/or tax return submissions;
- problems with estimation and possible revisions/amendments to tax returns following finalisation of accounts (if done after the submission of the tax return);
- risk of disputes of estimations by HMRC and associated costs;
- acceleration of the tax liabilities in 2022-23 for some businesses whose profitability is increasing, with consequent effect on payments on account;
- exacerbation of cashflow problems, especially for small businesses, many of whom have struggled during Covid lockdowns and have other drains on their cash resources – particularly the repayment of borrowings and bounce-back loans.

Please refer to our worked example (with take away points at the end) in the Annex at the end of this document.

25. The proposal for spreading of the additional tax charge (from 2022-23) over five years causes the remaining tax debt to be charged when a partner leaves a partnership. The partner should continue to be allowed to spread the additional tax charge.

26. Whilst some businesses may move their accounting date to say 31 March to deal with the challenges above, professional advisers will have to process all their clients' accounts at a similar time and no longer be able to phase work throughout the year based on different clients' accounting dates. The submissions for the quarter ended 31 December will hit the self assessment peak.

27. Estimates will cause problems for other aspects of the tax system. A sole trader with a 30 April year end has plenty of time to calculate their pension annual allowance as the accounts are normally ready long before the following 5 April. If an estimate must be used to calculate the profits for a tax year, they risk making excess contributions and incurring further tax charges. Estimates will also cause problems related to other aspects of the tax system e.g. tax credits, child benefit, high income benefits tax charge and calculation of pension annual allowance etc.

28. Wherever there are estimates, there must follow amended tax returns and interest on under and over-payments, adding to the administrative burden of complying with this new regime.

29. In addition, the cost is not just the need to make an estimate, it is the need also to amend that estimate once the final figures are known. We cannot estimate the additional cost because it is unknown what changes are going to be made to the End of Period submission. Will this now become an end of Year submission? It is also not clear how you report/adjust an estimate under MTD, i.e. will it be via and End of Period Submission or an End of Year submission or a crystallisation report or a combination.

30. Without the final MTD ITSA regulations and a fuller understanding of how quarterly updates, end of period statements, tax year finalisation and amendments will fit together for businesses that have an accounting date other than 31 March – 5 April it is very difficult to fully assess the administrative burden.

Question 5: Would the proposed equivalence of 31 March to 5 April help businesses that would have to make apportionments to work out their profit or loss under the tax year basis? Would extending this equivalence to property income help property businesses, which would otherwise have to apportion profit or loss each year? Are there any problems with this equivalence proposal?

31. The need for an equivalence rule should follow the work being done by the Office of Tax Simplification (OTS) around moving the tax year end as no such equivalence rule would be required should the tax year end be changed to 31 March.

32. If the tax year end remains as 5 April, the equivalence rule is welcome and should apply for both trade and property income.

Question 6: Are there any specific issues, costs, or benefits to the tax year basis for partners in trading partnerships?

33. Where estimates of future accounting periods are required, an associated requirement will need to be placed on nominated partners to provide all partners in the partnership with their shares of the estimated partnership tax adjusted profit.

34. Some partnerships which are owned by members resident in the USA will invariably have their accounting date as 31 December (so as to comply with US tax rules) and these could continue to face the above challenges in so far as the UK tax regime is concerned.

35. When will HMRC systems e ready to automatically take the partnership submissions including amendments and transfer them electronically to the partners' tax accounts? If one of the reasons for MTD is to reduce errors, it does not make sense to have partners re-submit the data HMRC already has.

36. Wherever there are estimates, there must follow amended tax returns and interest on under and over-payments, adding to the administrative burden of complying with this new regime.

37. In the case of partnerships, this will mean amendments for both the partnership and every partner.

Question 7: Are there any other issues and interactions to consider for the tax year basis, or the transition, in the areas of tax outlined in paragraph 3.33?

38. Please refer to our worked example at Annex 1. There are substantial challenges around the application of accruals accounting and tax adjustments including capital allowances, all normally done at the end of an accounting period.

39. The biggest omission is an explanation of how the MTD process will work and specifications that can be understood by both software developers and accountants.

Question 8a: Does the proposed method of transitioning to the tax year basis using a long basis period combined with allowing all unused overlap relief achieve the best balance between simplicity and fairness? If not, is there a better option for transition?

40. While in theory this should mitigate the impacts of taxing more than 12 months' worth of profits in 2022/23, we wonder how many businesses and agents, or indeed HMRC, have reliable records of overlap relief. HMRC may need to take a pragmatic view if a large number of disputes around this are to be prevented.

41. It is likely that businesses without agents that do not use 5 April or 31 March as their accounting date will need help to understand what these changes mean for their businesses. HMRC will need to devote resources to ensuring that these taxpayers are not left behind by these changes, otherwise they could end up facing significant difficulty complying with the new rules and concomitant penalties.

42. Under the current rules, businesses that have a basis period that is not aligned with the tax year would experience a similar acceleration of profit and release of overlap relief, either when they ceased trading or on some changes of accounting date. The transition tax year brings all of these accelerations, for all businesses, into the same year, 2022-2023, without any time to plan the necessary cash flow management.

43. We understand that the government will not want any profits to escape tax as a result of implementing these proposals. Inevitably there will be an additional tax charge in the year of transition for those businesses with profit levels now that are higher than the profits made when the business first started trading and so generated overlap relief. However, we are concerned that taxpayers could be required to use their overlap relief at a time that may not be advantageous to them, perhaps because there is a loss suffered in the year of the transition. We recommend that it should be possible for a business to choose instead to continue to carry forward its overlap relief and use it against profits arising in the year of retirement rather than in the year of transition.

44. Whether or not it is agreed to allow taxpayers the option to elect to not use overlap relief in the transition, in the interests of fairness we believe that any overlap relief not used in the transition should be carried forward until retirement, as it can be now, even after a change in accounting date.

Question 8b: Are there any other specific circumstances on the transition to the tax year basis that would require additional rules?

45. There are a number of other areas of concern that arise on the transition to the new rules, many of which are not addressed in the consultation, including:

- How to give the overlap relief on transition where the overlap on creation included foreign tax credits;
- How foreign tax credits will be treated where the five-year transitional election is made;
- How apportioning tax liabilities for partnerships across tax years impacts on tax adjustment for joiners and leavers who may be allocated profit for the whole fiscal year but are only partner in one tax year, and on capital allowances claims;
- For UK-resident members of related UK and overseas firms, whether they will have sufficient UK profits in the transitional year to utilise the previously created overlap;
- How non-resident partners will claim DTR on UK tax ‘spread’ profits.

46. It is not clear from the draft legislation what happens if you have a loss in the tax year of the transition – further drafting is required to clarify this. Presumably if there is a loss in the basis period ending in the transition year or the next one, or both, you would offset these against any profits in those years. Or could these be treated as nil and a statutory basis be used to claim loss relief?

47. Some taxpayers might like the option of spreading this additional loss if it fits better with utilisation of such losses, either through sideways loss relief or by carrying them backwards or forwards. We suggest that this be included as an option.

Question 9a: Would the proposals for spreading excess profit mitigate the impact of transition without affecting the simplification of moving to the tax year basis? If not, are there any other ways of mitigating the transition impact that you would suggest?

48. It is proposed that these changes will take effect from 2023/24 with a one-year transitional period in 2022/23. This leaves very little time for businesses to prepare for the practical implications of the changes which, due to the transitional provisions which will apply in 2022/23, could include cash flow challenges arising from the possibility that a higher income tax liability will arise for that tax year than might otherwise have been the case.

49. Notwithstanding that the objective of the proposals is the simplification and modernisation of a somewhat outdated set of rules, implementation of the changes over such a short period of time could represent an added burden for the self-employed post-Covid and arguably another unwelcome level of disruption as the whole country looks towards a future after the global pandemic.

50. Under the current proposal, the transition period excess profits are to be spread over five years. We would recommend a default position of ten years, with the existing option to accelerate still applying. For professional partnerships the worry is that the amounts involved could be substantial, and the resultant strain on cashflow will hold back decisions around investment and recruitment in the professional services sector.

51. The spreading of profits, rather than tax payable, will allow marginal income tax rates to apply to the spread amount each year (as opposed to potentially higher rates if the whole sum was taxed in one year), but it does leave individuals at risk of tax and national insurance increases in the future.

52. Alternatives could include a fair calculation of the tax and NIC arising in 2022/2023 to fix the amount and then spread the determined liability over the agreed period. It is important to note in this scenario that a fair calculation would not charge all accelerated profits at 2022/23 marginal rates but would instead use an adjusted marginal rate as computed for a slice (one fifth or one tenth, depending on the spreading period) of the accelerated profits.

53. Moreover, to reduce complexity (and acceleration of deferred sums) it is considered that the additional tax liabilities arising from transition year profits should be excluded from the calculations of interim payments on account for successive years.

Question 9b: Would the proposal to spread excess transitional profits over five years be enough to resolve the cash flow impacts of the proposed reform? Are there any situations that would need additional rules or anti-avoidance provisions?

54. We are concerned that the amounts involved could be very large. For example, a business with a 30 April year end will have eleven months of 'transition period profits' and, although overlap relief can be deducted, this deduction could be small. Even with spreading of the excess transitional profits the strain on cashflow and the real risk of increased liability on those profits will hold back decisions around investment and recruitment in the professional firms' sector. As noted above, we would be in favour of transitional profits being spread over 10 years. Combined with the optional election to accelerate the taxation of the spread profits, this will also allow businesses more scope to manage their affairs and cashflow with potentially changing tax and NI rates as discussed in question 9a.

Question 10: Are there any other impacts, benefits, or costs in the core policy, transition, or mitigation proposals that we have not considered above?

55. For businesses with an accounting year end other than 31 March to 5 April - If the basis period change goes ahead in 22/23 with an adjustment made to accelerate tax adjusted profits for part of the subsequent accounting period, it will be essential to ensure that the other part is brought in correctly in 23/24, without under or over statement of income or expenses. Our worked example at Annex 1 demonstrates that reconciling this with the commencement of MTD, quarterly reporting and end of period adjustments, requires more thought.

56. Any approach to apportioning tax adjusted profits and/or tax adjustments needs to be consistent year on year to avoid duplications and omissions. New 7A of ITTOIA 2005 does not currently provide for this.

57. It is necessary to ensure that any estimated liabilities given to taxpayers under MTD for Income Tax take account of spread profits due to be assessed in the tax year in question.

58. Notwithstanding that the objective of the proposals is the simplification and modernisation of an outdated set of rules, implementation of the changes over such a short period of time will present an added burden for the self-employed post-Covid and another unwelcome level of disruption as the whole country looks towards a future after the global pandemic.

59. No consideration has been given to the fact that these changes mean that unless MTD is delayed there will be no time for a pilot of the reporting under the new basis and the interaction between the MTD End of Period submissions and the MTD crystallisation reports. The End of Period submission will no-longer be an adjustment of the accounts for the period ending in the year and the taxable profits. How these submissions will interact particularly where one period of account is estimated has not been considered or discussed. These interactions need to be thought through and probably specified and piloted before a live implementation.

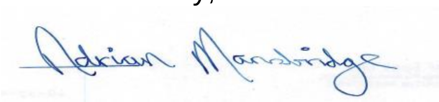
Question 11: Please tell us if you think there are any other specific impacts on other groups or businesses that we have not considered above.

60. It is believed that for the purposes of MTD quarterly reporting, HMRC is intending to make all unincorporated businesses submit quarterly reports in line with calendar quarters (or 5 April), irrespective of their actual accounting period end date.

61. We anticipate that this could lead to significantly increased complexity for the minority of businesses whose accounting period end does not align with a calendar quarter end date.

If you would like us to expand on our points above or have any questions regarding our views, please do not hesitate to contact me.

Yours faithfully,



Adrian Mansbridge BA FCA FCCA CTA
Chairman, LSCA Taxation Committee

Annex 1 - Practical example and comments

Scenario

Sole trader with the following results, prepared on a 31 December year end for commercial reasons:

	31.12.22	**31.12.23**	**31.12.24**
Profit per UK GAAP compliant accounts (prepared on the accruals basis)	**100,000**	**120,000**	**140,000**
Add Client entertaining	100	500	1,000
Add Depreciation	8,000	12,000	9,000
Deduct capital allowances	(20,000)	(30,000)	(20,000)
Total tax adjustments	**-11,900**	**-17,500**	**-10,000**
Tax adjusted profits	**88,100**	**102,500**	**130,000**

Overlap profits being carried at 1 January 2022 = £15,625.

The individual has other income.

Impact, questions and observations

22/23 – SATR on a tax year basis

- 1 x SA103 for 12m to 31 Dec 2022 (tax adjusted profits) = £88,100
- 1 x SA103 for 3m to 31 March 2023 (3/12ths tax adjusted profits to 31 Dec 2023) = 3/12th x £102,500* = £25,625
  NB – This is initially based on provisional figures and then later amended, when the 31.12.23 profit adjustment is available. **This takes taxpayer and agent time.**
  * Note that there are options on how to apportion the profits but for now a simple time basis has been used. **The taxpayer must commit to a consistent approach.**
- LESS overlap £15,625
- Accelerated profits = £25,625 - £15,625 = £10,000 – to be spread over 5 years at £2,000 per annum.

22/23 liability based on profits of £88,100 + £2,000 = £90,100.

The additional £2,000 will be taxed at the 40% higher rate, increasing the 31.1.24 balancing payment by £800 AND the first 23/24 POA (also due 31.1.24) by £400.

23/24 – MTD digital submissions

- 3m 30.6.2023 (based on transactions recorded in digital software, pre-tax adjustments – say 120,000 x 3/12 = £30,000*)
- 3m 30.9.2023 (based on transactions recorded in digital software, pre-tax adjustments – say 120,000 x 3/12 = £30,000*)
- 3m 31.12.2023 (based on transactions recorded in digital software, pre-tax adjustments – say 120,000 x 3/12 = £30,000*)

- 3m 31.3.2024 (based on transactions recorded in digital software, pre-tax adjustments – say 140,000 x 3/12 = £35,000*) – **NB – There is no spread of this profit acceleration.**

  * *Note – Timing differences aside (i.e. profits may not accrue evenly during the accounting period), this calculation assumes that the quarterly submissions are prepared on the accruals basis and adjusted for prepayments and accruals. We believe this will be unlikely for many businesses.*
- It is really not clear what the intention is regarding the End of Period (EofP) submission.
  - If made at the end of the tax year, the EofP would need to address tax adjustments made in potentially two periods of account (one of which may be on an estimated basis) as well as adjustments (for accruals accounting or otherwise) to the quarterly submissions, also spanning two periods of account. This would be incredibly complex and unlikely to be achievable by an unrepresented taxpayer.
  - It doesn't seem an EofP submission at the end of the (non-conterminous) accounting period would be workable under the current model for a tax year basis with all submissions aligned.
  - The basis period reform means that the EofP needs to be respecified.
- It appears that there is a **risk of omissions or duplications in the handling of the 31.12.23 accounting year**:
  - 3/12 of <u>tax adjusted profits</u> (£25,625) are brought into **22/23**
  - 9/12 of the <u>tax adjusted profits</u> (£76,875) , no more and no less, need to come into **23/24**. How this will be ensured on the transition to quarterly accounting on a tax year basis and with the EofP submissions points made above is unclear.
  - In particular, accounting transactions post 1 April 2023 are to be submitted through digital software – <u>but this does not necessarily equate to 9/12 of the accounting profits of 31.12.23.</u>

- For non-5 April / 31 March year ends, the link between MTD submissions and the tax liabilities arising are based on proportions of two separate profit adjustments, estimated figures and spreading following the 22/23 transitional year. Further, liabilities may change when provisional figures are finalised. This feels confusing, time consuming and unhelpful for transparency for HMRC or the taxpayer. Any 'estimated liabilities' (to encourage voluntary timely payment) are unlikely to be accurate during the year.

Key take aways from this example:

1. The transition from the 22/23 transition year to 23/24 under MTD needs greater thought to ensure that neither income or expenses are omitted or duplicated, in any of the possible approaches to MTD quarterly submissions (including accruals accounting or cash accounting).

2. Greater clarity is needed around what information (as relating to profit adjustments) would be required to be submitted to HMRC and when.

3. The need to use provisional figures for tax adjusted profits for periods that are not finalised at the times deadline arise, certainly on an ongoing basis, should be kept to an absolute minimum to ensure that excess costs are not incurred in needing to amend figures from provisional to final.

4. Any approach to apportioning tax adjusted profits / tax adjustments needs to be consistent year on year. New 7A of ITTOIA 2005 does not currently provide for this.

5. The spread of accelerated profits should default to a period longer than 5 years to give the taxpayer maximum scope to plan for the unexpected cashflow requirement and to elect to accelerate into years where there is spare banding before higher rates (or other consequences) are triggered. This is especially important as profits will continue to accelerate into 23/24 and onwards as demonstrated by the above example but no further spreading rules are currently suggested.

6. Profits being spread over a number of tax years should be excluded from payment on account calculations that otherwise have the effect of speeding liabilities back up again.

7. The ongoing approach to the end of period submission for MTD for Income Tax needs to be considered and confirmed.

8. It is necessary to ensure that any estimated liabilities given to taxpayers under MTD take account of spread profits due to be assessed in the tax year in question.

Other observations:

9. MTD needs to be delayed to allow HMRC to amend their systems to deal with these new rules and to write detailed specifications for tax professionals and developers before there can be a meaningful pilot.

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About the LSCA and its Taxation Committee

The LSCA was formed in 1871 and is by far the largest of the 22 district societies affiliated to the Institute of Chartered Accountants in England and Wales (ICAEW). It has a membership of over 35,000, representing nearly one quarter of all ICAEW members, and also provides services for other ICAEW members who live or work in London. London members, like those of the Institute as a whole, comprise a mixture of those working in all sizes of practice and those working in a range of businesses both large and small, the public sector and third sector interests, or otherwise not in practice. They include many members operating at the heart of industry and commerce in the City of London, as well as those working in the largest accountancy firms, with a wide range of specialisms and expertise. The Taxation Committee reflects this diversity and knowledge. Members give their services to the Committee on a voluntary basis and in addition to their normal full-time employment.

The Committee responds to consultation and other papers on taxation matters issued by HM Revenue & Customs, HM Treasury and other bodies. It also makes detailed representations on issues such as the Finance Bill proposals. It provides the opportunity for lively debate and selects certain topics for broader discussion and publication to LSCA members. In addition, the LSCA organises an annual Breakfast event on the morning after the Budget to review the Chancellor's main proposals, as well as holding other events on topics of current interest and importance.