



Taxing Matters

Supporting mid-sized businesses in a challenging landscape

Alice	<p>Hello, and welcome to “Taxing Matters”, your one-stop audio shop for all things tax, brought to you by RPC. My name is Alice Kemp and I will be your guide as we explore the sometimes hostile and ever-changing landscape that is the world of tax law and tax disputes. Taxing Matters brings you a fortnightly “roadmap” to guide you and your business through this labyrinth.</p> <p>In case any of you miss any crucial information, or just want some bedtime reading, there is a full transcript of this and, indeed, every episode of “Taxing Matters” on our website at www.rpc.co.uk/taxingmatters.</p> <p>We are joined today by Margaret Mousley, a tax professional of 18 years’ experience in customer compliance who now heads HMRC’s Mid-Sized Business area.</p> <p>Margaret is someone who got the customer service bug early – starting on the phones at HMRC’s call centre almost 18 years to the day – and never leaving. She has risen through the ranks, but customer service always leaves a mark – when the pandemic began Margaret became an NHS “volunteer responder” and a “volunteer steward” for the vaccination centres. She has even managed to wrap her love of customer service into her MBA that she is currently completing.</p> <p>Margaret, thank you for joining me and welcome to Taxing Matters.</p>
Margaret	<p>Hi Alice, it’s really good to be with you, thanks for having me on.</p>
Alice	<p>Tell me a little bit about mid-sized business. What is it and what does this part of HMRC do?</p>
Margaret	<p>HMRC is organised into “customer groups” and “mid-sized business customer segment” or ‘MSB’ sits within HRMC’s “customer compliance group” within their “wealthy and mid-sized business directorate”.</p> <p>The “wealthy and mid-sized business compliance directorate” focuses on wealthy individuals, mid-sized businesses as well as public bodies and employment status intermediaries – and a number of other specialist areas – and that enables us to, really, take a wide view of wealthy customers’ affairs, many of whom are owners of our mid-sized businesses. In fact, despite the size of some of our customers, around 80% of our businesses are actually owner managed.</p> <p>A mid-sized business is defined as any business with more than 20 employees, with a turnover of, broadly, between £10m and £200m. Within that mid-sized business customer population there are over 310,000 corporate entities which equates to about 160,000 businesses.</p> <p>Although, actually, these businesses make up less than 5% of the UK’s businesses, they employ around a third of our workforce. As you can imagine, the range of businesses and tax risks covered within our population is vast, incorporating those which have grown from small run family businesses right through to big multi-nationals and some household names too. We cover all aspects of their tax-affairs including their VAT, corporation tax, employer duties. The full range of risks from domestic through to any international cross-border transactions – and, obviously, all of that leads to a real range of customer service needs.</p> <p>Although it would be easy to assume that it would be our largest customers that are the most complex, actually, it’s not always the case. Sometimes it can be those that have grown really rapidly – gone through some certain life events or mergers and acquisitions etc – which might make them more complex, meaning that they require a different, or greater, support. So, it’s really important that we do support these customers to help them get their tax affairs right first time and we do a lot of that through customer service and our support offering.</p>
Alice	<p>How significant is this population and what level does it contribute to the tax base?</p>
Margaret	<p>It’s actually surprising in terms of the size of the businesses. They’re hugely important to the economy. Employees are responsible for about £120b worth of tax paid through PAYE and National Insurance in 2022/21, which equates to around a third of the UK’s income from PAYE and National Insurance.</p>

	<p>We also collect about £50b worth of tax receipts from other taxes; so, corporation tax, VAT, excise duties and capital gains. The overall tax gap for mid-sized business was estimated at about £5b for 19/20 which is about 14% of the total tax gap so, a significant population all round.</p> <p>In addition to those receipts which are collected through voluntary compliance we collect another £3.1b from our compliance activity as well.</p>
Alice	You've also spoken about a range of risks from MSBs. How does HMRC respond to these?
Margaret	<p>It is a vast range of risks and it's a challenging landscape for us to ensure that we do tackle all of the relevant risks. We've got a comprehensive programme of compliance activity – covering all the tax and duty regimes, both domestically and internationally – and we always aim to provide professional service for our customers to promote voluntary compliance and prevent those errors and mistakes happening in the first place.</p> <p>We know that around 50% of our customers import and export goods and services and have got a growing programme of international activity to support those customers. Recently we've had our "profit diversion compliance facility" as well, for any of our multi-national enterprises who may have concerns about transfer pricing policies – enabling them to work cooperatively and proactively with us to transparently resolve any tax uncertainties and risks in that arena.</p> <p>Compliance activities also encompass all behaviours from those who make those errors and mistakes, right through to those who take conscious steps to avoid or evade their tax liabilities. Whilst we, absolutely, recognise that the vast majority of our customers want to get their tax right and voluntarily comply with the UK's tax legislation, supporting the Exchequer, where we do identify fraud or avoidance, we will work with our colleagues in the Fraud Investigation Service to ensure that we maintain a level playing field for our honest and compliant customers.</p> <p>You've heard previously from Simon York and Sam Dean about some of the work of the Fraud Investigation Service – particularly around professional enablers and the corporate criminal offence – but I think, for me, the key is that we actively put enhanced customer service at the heart of everything that we do – supporting our customers to enable them to get their tax affairs right first time and provide access to tax specialists, as required, to enable them to do that. Hence, why we have been investing, significantly, in building an enhanced customer service offering in mid-sized business in the last year; we're really keen to provide greater certainty for customers. Work is being carried out around uncertain tax treatment and some of the policies around review of tax admin for large businesses will also affect many of our mid-sized business customers.</p>
Alice	You, presumably, also work with agents. How are you working with these agents to support this overall business area?
Margaret	<p>We know that around three-quarters of our customers use an agent. They play a really significant role in helping our customers to get their tax affairs right. I see that engagement with agents and agent bodies as a really key part of our work to reach out to our customers, working with them to identify where we can do some more work with them.</p>
Alice	It has been an incredibly challenging couple of years for most UK businesses. So, what have HMRC been doing to support them through all of these changes?
Margaret	<p>It has been a hugely challenging couple of years for many of us and the businesses within the mid-sized business sector are no different. We know that the cumulative effect of Brexit and Covid has entirely changed the business model of many of our customers and some of that has been really positive. A lot of it has been really challenging and it makes it even more important for us to invest in customer support services and, also, in understanding our customers and how we can most effectively tailor our support to their needs – and working with agents is a key-part of that as they can really help us to know what makes a difference to their customers as well.</p> <p>We've got nearly 1.6m taxpayers now signed up to Making Tax Digital for VAT. They've made 11m returns successfully, as at December last year, which is really fantastic and it's making a big difference for those businesses.</p> <p>Around a third of registered businesses with taxable turnover below £85,000 have also voluntarily signed up for Making Tax Digital for VAT ahead of the deadline in April 2022 this year – and more are signing up every week and, of course, listeners can find out more details on Making Tax Digital for VAT as an agent: step by step – GOV.UK (www.gov.uk) around that as well.</p>

	<p>The government's also got a vision for single customer records and accounts, which would provide a single digital account for customers bringing together all of that detail of the different taxes and although this is just a vision, at this time, we do anticipate that that would enhance the customers' experience interacting with us.</p> <p>In order for us to be able to most effectively support our customers we need to understand them and their needs. Therefore, we seek to maximise the use of all of the data that we hold including customer and third-party data to, really, target our support and activities most effectively where it's needed.</p>
Alice	Of course, there is the Covid pandemic. What about that? How has that contributed?
Margaret	<p>Whilst HMRC maintains its role in collecting the right tax to support vital services, we have seen greater emphasis, over the last couple of years, on our role in paying out the right financial support and by mid-December over £46b had been claimed through the Covid job retention scheme, and over 9.9m jobs have been protected.</p>
Alice	That's a big number!
Margaret	<p>Absolutely! It is a really big number and we've provided dedicated support, which we know that customers have appreciated and, learning from that, we've been investing in that more-direct gateway for customers to access who are in the mid-sized business sector.</p> <p>Whilst time will tell, the long-term impact of Covid-19 on our customers' financial position, we're, sadly, anticipating an increase in the number of insolvencies in our population – despite all of the financial support – and we would encourage any businesses that might be struggling, at all, to pay their outstanding tax liabilities to contact us as soon as possible.</p> <p>We have been able to support as many as 890,000 customers with Time-to-Pay arrangements – worth about £4.6b – and we provide that on a case-by-case basis, but as I say: anyone who is struggling with financial difficulties should just get in touch as soon as possible.</p>
Alice	You mentioned a couple of times that customer service really is at the heart of your ambition and strategy across all of HMRC but, in particular, in this mid-sized business area. So, what is your area doing to support that?
Margaret	<p>Mid-sized business is focused on putting the customer at the heart of everything we do and supporting our customers to get it right at the earliest opportunity. We've got a number of key activities underway which we expect to really deliver on that commitment; our customer service support team and temporary customer compliance managers – and also our upstream activities and work to enhance our guidelines for compliance.</p>
Alice	Taking the first one of those initiatives: the “customer support team” and the “temporary” – I think it may also have been referred to by others as “Floating” – “Customer Compliance Managers”, what is that initiative and what will it do?
Margaret	<p>These are both fantastic initiatives and the feedback we've had initially from agents has been really positive. We've seen from the Covid pandemic that there's a huge benefit to our mid-sized business customers in being able to access direct support in a way that perhaps they couldn't do previously. Learning from that customers' experience we've established a new team to provide additional customer support, specifically for mid-sized businesses, providing a direct route to tax specialists within my teams which can be accessed through the https://www.gov.uk/guidance/</p> <p>The primary aim of this service is, really, to enhance our customer service and help our customers to get it right first time. This team can offer help with one-off queries, or it can provide a route to find help with a more complex query too. We are testing the temporary customer compliance manager referred to, by Annis, as the “Floating Customer Compliance Manager”. It's with a view to providing time-limited, targeted support to customers who would benefit most from this extra support. So, it won't mean that customers can have access to a Customer Compliance Manager all the time – like some of our large businesses do – but it will mean that we can provide that when customers really need it most. This will be both reactive and proactive in terms of how we respond using this model. But it would be based on a number of factors: life events, mergers and acquisitions, or sales of business for example, retirement. Some really-complex international issues can mean that businesses need additional support, but it could also be where we've got a number of related enquiries and, actually, it just helps to ringmaster those to provide a better level of service for our customers – for a more joined up approach.</p> <p>We expect to offer this service both proactively and reactively but it is really important to note that this is at a testing stage at the moment. It's a small team, so we will only be able to offer this service to a small number</p>

	<p>of our customers in that time-limited fashion, initially, and we'll learn from that and then develop the model going forward.</p> <p>We will be working closely with customers and agents to get feedback on both services to ensure that we build the best possible model going forward.</p>
Alice	You mentioned earlier the “upstream approach”. What do you mean by this?
Margaret	<p>“Upstream” is all about enabling us to intervene earlier, to help customers through that upstream compliance activity. So, sometimes this can be post-return activity to help customers, to advise them where something might have gone wrong or it could equally, more commonly, be where we identify where there is a common potential theme or error that might help customers to get it right the first time – without us having to intervene after the tax return has been submitted – and we're continually developing and evolving a full suite of approaches, including some of the things like digital prompts which help customers to know when they submit their return, that something might be missing, or that they need to think about something else. We've got letters and notifications as well as some of the work to clarify policy and guidance to support our customers.</p> <p>All of this allows us to target specific parts of our population in one go which is consistent for our customers and more efficient for us as well. In mid-sized business we are expanding these activities to really allow us to support our customers through a number of projects to help collect the right tax at the right time – making it easier for customers to get it right and harder for them to bend or break the rules.</p> <p>Our initiatives really are focused on helping customers get it right first time. Focusing our support on those who find it difficult to get it right, the temporary customer compliance model helping to step-in where we need that more intensive level of support for a period of time. I think this is all about making sure that we maintain a level playing field for our customers, so that all of our customers who are compliant aren't disadvantaged by those who, potentially, aren't.</p>
Alice	You mentioned, also, earlier some guidelines for compliance. Who are they targeting?
Margaret	<p>We are also involved in work to improve our guidance for compliance through the work that was announced as part of the HMRC review of tax admin for large business, which is in recognition of the value to businesses of having a clear understanding of the tax treatment of their activities. The investment here really reflects the positive stakeholder feedback we had in relation to the guidance which was piloted as part of the profit diversion compliance facility. So, the new guidelines for compliance will provide practical guidance and greater transparency on the approaches HMRC regards as higher, or lower, risk and the associated response.</p> <p>We are keen to explore with stakeholders which areas across taxes and duties would benefit from this approach and we're looking to introduce them in a way which works for both HMRC and of course for our customers. There's further work here also to improve HMRC's technical guidance and HMRC's working with external stakeholders to identify those priority areas. We expect these products to expect to start to land in mid to late 2022 and we'll continue to engage with our external partners as we develop these products.</p> <p>This will, also, align to our work on the notification of uncertain tax treatment proposals too. Our initiative is to help customers to get things right – up front – and to encourage compliance wherever possible. It's, really, focusing our support on those who find it difficult to get it right by providing that additional support through the customer support team and temporary customer compliance manager model; and that allows us to simultaneously utilise tax and evasion specialists to identify and challenge those who deliberately bend the rules to ensure that we are maintaining a level playing field.</p>
Alice	What do you see as the emerging challenges of the coming year for businesses within this mid-sized business area?
Margaret	<p>Although we don't know what the next year will look like in terms of ongoing Covid disruptions, there's a lot of uncertainty around that for all of us. The impact of Covid will, absolutely, continue as businesses adjust their business models and rebuild their income flows following the pandemic. We know that handling ongoing challenges from Covid recovery will continue to feature heavily in the year ahead and all of our activities will continue to take account of that when engaging with our customers. But there are a number of areas where we think will be of particular interest both to our customers but, obviously, also HMRC and I think those for us, particularly are international risks, crypto assets and, of course, the uncertain tax treatment policies which I've mentioned earlier.</p>
Alice	Taking each of those in turn, tell me a bit more about the international risks that you see as an emerging challenge.

Margaret	<p>We all know that we live in a global world and, as I mentioned earlier, 50% of our businesses are involved in imports and exports. The model of reporting for that has changed for people who previously operated within the EU following Brexit. So, we know that business has had a lot to handle in terms of changes in the international space and we also know that cross-border transactions can be really challenging and complex, therefore, we are seeking to provide some additional support on transfer pricing risks and also diverted profits.</p> <p>We've invested heavily in this over the last couple of years – in educating our customers impacted by changes as a result of Brexit – but also within mid-sized business, we've invested in increased international specialist capability and utilising the profit diversion compliance facility which is available.</p> <p>Customers and their agents can contact us if they have any concerns around any risks that they might have in this space and we would encourage people who do have any concerns about their historic transfer pricing arrangements to get in touch using that profit diversion compliance facility gateway (https://www.gov.uk/guidance/get-help-with-a-tax-issue-as-a-mid-sized-business). We'll always seek to work with customers collaboratively who come to us voluntarily to seek to resolve matters as swiftly as possible.</p>
Alice	<p>And, of course, crypto assets are the buzzwords on everyone's lips. How does HMRC see these emerging over the next while?</p>
Margaret	<p>The use of crypto assets has grown considerably over the last few years. I think that's without doubt. Whilst much of the media attention has focused on individuals, I think we also recognise that this area presents a tax risk to some of our mid-sized business customer base too. So, we are keen to support customers who might be using crypto assets within their businesses, to ensure that they understand the correct accounting for crypto assets transactions, and there is further guidance available on our crypto assets manual as well on gov.uk. Should anyone be unsure, of course, they can get in touch through our mid-sized business gateway.</p> <p>Given the fast-moving nature of this field – and the likelihood of continued expansion of crypto assets within the wider economy – we continue to maximise the use of customer data we hold as well as data from third parties to assess the level of risk here and build capability in tackling this ongoing risk. Understanding where we can increase education activity, as well as where we might need to respond to anyone who's potentially using this to minimise their tax liability.</p>
Alice	<p>And what about uncertain tax treatments. How do you see that as a feature of the next 12, or so, months?</p>
Margaret	<p>I mentioned this earlier, announced in the Autumn budget, it includes a new requirement for businesses to notify HMRC when they take a tax position in their returns for VAT, corporation tax or income tax that's, in any way, uncertain, and it will affect customers with an aggregated turnover above £200m or a balance sheet value of £2b. There are thought to be about 300 or 400 of these in mid-sized business so it's a relatively small proportion of our population but we do hope that it will provide some additional certainty for customers where there is this uncertainty in some transactions.</p> <p>An uncertain tax treatment is where there is more than one way to interpret, or apply, tax legislation and the difference exceeds £5m. There are two triggers which are that a provision has been made in a customer's accounts of the uncertainty, or that the position that has been taken is contrary to HMRC's normal interpretation. So, those notifications will be from April this year and we've already been talking to a number of agents about how that will affect them and their customers. For mid-sized business customers, again, they can contact us to discuss any such uncertainties though the mid-sized business gateway available on gov.uk which will be initially managed by our customer support team and they will utilise the network of tax specialists to consider proposals and work with the customers as required.</p> <p>HMRC is continuing to work with large agent firms as stakeholder organisations on the uncertain tax treatment policies and guidance including those representing businesses and legal and accounting sectors, to provide an opportunity for them to input into our plans for introducing that measure, to make sure it works for our customers too.</p>
Alice	<p>So, what does the future look like for a mid-sized business?</p>
Margaret	<p>HMRC continues to strive to be a trusted and modern tax administration and it's set out its ambitions really clearly in this area.</p> <p>Mid-sized business and our offering is absolutely aligned to that and we will see increasing use of data and customer insight to help us understand our population, supported by enhanced digital customer products such as "Making Tax Digital" and potentially the vision for single customer accounts and records, and also the use of third-party data. And whilst we will continue to identify and tackle those who don't choose to play by</p>

the rules, and participate in tax avoidance or evasion, we are fully committed to supporting our customers to get their tax affairs right first time through our enhanced upstream and customer support offering – and that really is the future for mid-sized business.

It's a really exciting time I think in HMRC and I'm absolutely delighted to be in a position to lead mid-sized business through this period working with agents and representative bodies to really ensure that we are providing the service required for all of our customers.

Alice

So, how should mid-sized business customers and their agents engage with HMRC in this area to help you help them?

Margaret

Well, you heard, Annis Lampard talking about communications with HMRC in a previous podcast episode, and I would really agree with her: ask to engage with HMRC at the earliest possible opportunity. Whether you are concerned about your tax affairs or your customer's tax affairs, agents or customers should get in touch. Whether those are future, current or historic. We really do want to work with our customers collaboratively and transparently wherever possible to support them to get their tax affairs right. The Gateway which we've set up, specifically, for mid-sized businesses is there and we would encourage customers and agents to use this where they don't have another route. Where they've got an existing relationship with an enquiry officer, for example. The mid-sized business gateway can be accessed through the gov.uk Gateway by searching for mid-sized business/get help.

Alice

Fantastic. Unfortunately, that's all we've got time for in this week's episode. Thank you again, Margaret, for joining us and remember that if you have any questions please just go to the Gateway that Margaret mentioned.

Alice

Now as ever a full transcript of this episode together with our references can be found on our website

www.rpc.co.uk/taxingmatters.

If you have any questions for me or for Harry or any topics you would like us to cover in a future episode, please do email us on taxingmatters@rpc.co.uk. We would love to hear from you.

If you like this episode please take a moment to rate, review and subscribe and remember to tell a colleague about us.

Thank you all for listening and talk to you again in two weeks.



RPC is a modern, progressive and commercially focused City law firm. We have 97 partners and over 700 employees based in London, Hong Kong, Singapore and Bristol. We put our clients and our people at the heart of what we do.