Online filing of Company Tax Returns: two years on

It's two years since online filing became mandatory for virtually all Company Tax Returns. The accounts and tax computations within these returns must also include Extensible Business Reporting Language (XBRL) tags, to make the information in them computer-readable.

This was a considerable challenge for all concerned. It asked a lot of the tax software industry to provide the necessary products, as well as putting new demands on companies and their agents. This note summarises the outcome of the first two full annual cycles of the new requirements, and gives advice on some key issues for the future.

The past: transition to mandatory online filing

In March 2011, HMRC published guidance on managing the transition to mandatory online filing of Company Tax Returns, which you can download from the link below.

Download 'Mandatory online filing of Company Tax Returns: managing the transition (PDF 27K)

That guidance said that 'HMRC will be particularly sympathetic in the first two years…' when applying the reasonable excuse provisions where people faced genuine obstacles to filing online on time. In particular, it provided guidance and a dedicated contact point where customers experienced difficulties meeting the new requirements because of late delivery of software.

HMRC's transitional objective was to get substantially all companies filing online, using an acceptable level of XBRL tagging. Two years on, it's clear that this has been achieved as:

- some 50 software houses have developed products to support the diverse needs of the corporate taxpayer community
- 85 per cent of returns have been delivered using these products
- the remaining 15 per cent used the free HMRC product designed for companies with the simplest affairs
- nearly three and a half million Company Tax Returns have been delivered successfully online, at the top end of HMRC's expectations

Online returns flow straight through to HMRC's computer systems. This saves a lot of clerical effort previously used to key information into them, freeing up resources to focus on getting the right tax in. It improves accuracy by cutting out human error in rekeying information. It also speeds the process up, which is good for everyone.

These returns have provided more than 300 million pieces of XBRL data. Over 95 per cent of these returns include at least 70 items of XBRL data. This data is already allowing HMRC to identify new issues and focus resources on tackling their priorities. HMRC has always received a large amount of rich information from companies in their tax returns. Online filing using XBRL is allowing HMRC to make better use of that information to:

- assure compliance with tax rules
- understand their customer base better and segment their responses
- make evidence-based tax policy decisions
- make better-targeted compliance checks

As HMRC announced last summer, there will be no major change to the XBRL tagging requirement this year but HMRC will continue to work with software houses to improve their products and support agents. For example, later this year HMRC will introduce a new detailed profit and loss account taxonomy[1]. There will then be a single tagging requirement, whether the detailed profit and loss account appears in the accounts or the tax computations. It will make it easier for users to provide the right information with a consistent and comprehensive set of key data. Improvements are also being made to the structure of the HMRC computation taxonomy to make it more straightforward to work with.

HMRC's approach during the transitional period has been to advise and support people to comply with requirements, not to reject returns or penalise people for getting things wrong. There will be no sudden change to that approach. In particular, the principle of 'reasonable excuse' continues. That is, the law provides that where a person has a reasonable excuse for failing to do what they are required to do they will not be penalised.

However, HMRC is now seeing very few cases where there is still a genuine reasonable excuse for not filing online, or for failing to meet the XBRL tagging requirement. They have accepted a few thousand paper returns for periods ending after 31 March 2011. Such cases will be exceptional in the future.

The future: HMRC approach and new accounting standards

HMRC is paying increasing attention to returns which appear not to have the expected number of tags or where tagging is clearly inaccurate. XBRL data makes accounts and computations available for computerised analysis tools and the application of risk rules. This enables better-targeted compliance checks, reducing burdens for the compliant and helping HMRC get the right tax in to the benefit of society. Partial or inaccurate tagging makes it more likely that a return will be selected for detailed risk analysis leading to a compliance check.

However, there will be no short-term change to tagging requirements. Two recent developments in relation to accounting standards and UK Generally Accepted Accounting Practice (GAAP) make it undesirable to introduce other changes to accounts preparation requirements for tax purposes at this time:

1. The Financial Reporting Council has recently published new UK accounting standards (FRS 101 and 102).
2. The Department for Business, Innovation & Skills has consulted about proposals for the implementation of European Union (EU) Micros Directive (Directive 2012/6/E).

The new accounting standards, and the proposals if implemented, require or permit companies to prepare their accounts using different conventions, involving a reduced disclosure framework, compared to those currently applying under UK GAAP or International Financial Reporting Standards (EU-adopted IFRS). Each will, in time, require the preparation of a new XBRL taxonomy to fully match the new standard.

It will be some time before these new taxonomies can be finalised and built into accounts preparation software. HMRC's own tagging requirements will be amended to reflect these new taxonomies in due course but again, this will not be possible before the second half of 2014.

[1] A 'taxonomy' is the dictionary which tells you which tag to use for a particular tax or accounting concept.

However, both of the new accounting standards and the micro entities proposals are developments of the existing requirements. Companies adopting them before the new taxonomies are available will be able to meet their existing XBRL accounts tagging obligations by selecting the most appropriate tags from the existing taxonomies, as follows:

- early adopters of FRS 101 or 102 should tag using the existing IFRS taxonomy

- companies preparing accounts under any eventual UK Micro Entities disclosure framework, if adopted according to current proposals, should use the existing UK GAAP taxonomy