



## Filing deadlines for tax returns

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In the Budget in March 2006 the Government published the conclusions of a review of HM Revenue & Customs' online services, commissioned from Lord Carter in July 2005. One of the recommendations of the 'Carter review' was to introduce new filing deadlines for income tax self assessment returns from 2008.<sup>1</sup> At present individuals have a period of ten months to file their return after the end the tax year: so, for the 2005-06 tax year which ended on 5 April 2006, taxpayers must file their returns by 31 January 2007. In his report Lord Carter argued that this deadline should be brought forward: to 30 November for tax returns filed over the internet, and to 30 September for returns submitted in paper form.<sup>2</sup>

The proposal has proved to be controversial, especially with the tax profession – on the grounds that there had been insufficient consultation on this change, and that, if unamended, this measure would involve substantial costs for taxpayers and accountants.<sup>3</sup> The Government invited responses to the Carter review by 30 June, with a view to implementing its recommendations in the Finance Bill in 2007.<sup>4</sup> At a symposium organised by the Institute of Chartered Accountants on 10 July, Lord Carter announced that, having received evidence from the profession, he now recommended that the filing deadlines for paper returns should be 31 October, and 31 January for electronic filings.<sup>5</sup> The Government has accepted this revised recommendation.<sup>6</sup> This note gives some background on Lord Carter's review, and the responses there have been to this particular proposal.

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<sup>1</sup> *Budget 2006* HC 968 March 2006 p 115

<sup>2</sup> Lord Carter of Coles, *Review of HMRC Online Services*, March 2006. The review is available at: <http://www.hmrc.gov.uk/budget2006/carter-review.pdf>

<sup>3</sup> For example, Institute of Chartered Accounts press notice, *Acceleration of tax return filing dates is not in the public interest, say professional bodies*, 3 April 2006

<sup>4</sup> The Financial Secretary, John Healey, made this point during the Committee stage of the Finance Bill on 16 May 2006: SC Deb (A) c 156.

<sup>5</sup> ICAEW press notice, *Lord Carter Announces Revised Advice to Ministers on Self Assessment Filing Dates*, 11 July 2006

<sup>6</sup> HC Deb 18 July 2006 c 11WS

## A. 'Carter review' of online services

In spring 2005 the DTI and the Prime Minister's Strategy Unit published a report on improving the reach of internet access across the whole population; as part of this, the report argued that the delivery of public services could be significantly changed by the use of modern technology (although it did not discuss the work of the revenue authorities):

30. Modern technologies such as the Internet, the mobile phone, information technology in supply chains and the service sector are transforming the way that consumers engage with companies. Services and products have become cheaper, easier to access, more personalised and are delivered in real time. For consumers and businesses, choice is increasing, prices are falling and even traditional markets are beginning to change radically. More decisions are put into the hands of consumers themselves, rather than being made by the supplier – even price. These changes have permeated popular culture: whether it is buying a book, booking an airline ticket, buying a car, or insurance or simply clearing out the garage and selling things online. After the hype of the dot-com era, society is now moving to an information age.

31. People using these private sector services do so in a continuum with the public sector services that they also consume. People will increasingly expect public sector services to deliver the same personalization, choice, speed and '24x7 access' they become used to from good private sector services. As society changes, the public sector has to change with it. Rather than simplistic cost-cutting and performing existing processes more efficiently, the challenge is to transform the delivery of public services, where cost effective and appropriate, seizing the opportunities presented by using modern information and communications technology. Given the scale upon which the public sector operates, it is only the best use of information and communications technology that can provide a comparable degree of choice already apparent in commercial services. And, in many cases, despite the large scale of the public sector, the same technology and techniques used by companies can be used – reducing delivery risk and cost.<sup>7</sup>

In July 2005 the Paymaster General announced that Lord Carter would lead a review of HM Revenue & Customs online services, to be completed by late autumn that year; in setting out the terms of the review the Minister said:

"Online services have been shown to benefit both customers and HMRC. I have therefore asked Patrick Carter to consult with stakeholders and advise us on measures to increase take up of key online services such as Self Assessment, VAT and Corporation Tax. He has been asked to make recommendations about a timetable for implementation that is both manageable for taxpayers and realises the benefits of online filing for all as quickly as is practicable. Patrick is the ideal choice to lead this review, having previously produced a very comprehensive Review of Payroll Services."<sup>8</sup>

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<sup>7</sup> Prime Minister's Strategy Unit / DTI, *Connecting the UK: the Digital Strategy*, April 2005 p 43

<sup>8</sup> HM Revenue & Customs press notice 20/05, 21 July 2005

Lord Carter had published a report on the problems faced by new and small employers administering their payroll in November 2001<sup>9</sup> in which he had argued that “better and more consistent use of information technology is the key to enabling businesses to deal with the complexity of payroll.”<sup>10</sup> He recommended that all employers should be required to transact electronically with the tax authorities by a given date, and small employers should be offered cash incentives to do this prior to this deadline.<sup>11</sup> In Budget 2002 the Government announced that electronic filing of employers annual PAYE returns would be implemented in a series of steps, covering all employers by 2010, with incentives for small employers to adopt online filing before this deadline.<sup>12</sup>

Going back to the review of online services, in the *Pre Budget Report* in December 2005 it was noted that Lord Carter had “completed his work but wishes to assess the progress of HMRC’s online services over the next few months, before finalising his conclusions by early spring 2006.”<sup>13</sup>

The system of self assessment for income and capital gains was introduced on 6 April 1996, having been announced by the then Chancellor Norman Lamont in the 1993 Budget.<sup>14</sup> Arguably the most important aspect of this reform was that for those taxpayers completing an annual tax return - the self-employed and others with relatively complicated tax arrangements, such as directors and higher-paid employees – the onus for assessing their taxable income was shifted from the tax authorities to the individual him or herself.<sup>15</sup> A new style tax return was introduced: a single form covering all of someone’s sources of income and gains, as well as that person’s reliefs, deductions and allowances for one year, sent to just the one tax office.

The requirement to assess one’s taxable income brought with it two important changes. First, the tax return had to be complete. One now had to be able to work out the amount of tax one owed solely from the information it contained. Prior to this, employees relied on the Inland Revenue to provide figures, say for their salary or the value of their expenses, by contacting their employer. Similarly self employed persons completing their return did not need to estimate any figures they were unsure of: they could simply submit figures at a later date. The second important change was in timing. All income enjoyed by an individual was brought under the self assessment calculation, and the tax due on that income had to be paid by a single date. Previously the self-employed were taxed on the “preceding year” basis, so their assessment was based, not on the profits arising in that tax year, but the previous one. Self assessment brought in the current year basis for this income.

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<sup>9</sup> Inland Revenue, *Review of payroll services: chaired by Patrick Carter*, November 2001 [Dep 02/126]. The report is on the Revenue’s internet site at: [http://www.inlandrevenue.gov.uk/pbr2001/carter\\_review.pdf](http://www.inlandrevenue.gov.uk/pbr2001/carter_review.pdf)

<sup>10</sup> HM Treasury, *Pre-Budget Report*, Cm 5318 November 2001 para 3.38

<sup>11</sup> For further background see, “Mandatory e-filing”, Library standard note SN/BT/1880, 18 August 2004.

<sup>12</sup> *Budget 2002* HC 592 April 2002 para 3.35-3.36

<sup>13</sup> Cm 6701 December 2005 para 5.90

<sup>14</sup> HC Deb 16 March 1993 c 184

<sup>15</sup> At the time, just under 9 million taxpayers completed an annual tax return. Following changes to self assessment in 2004-05, about 1.1 million persons were relieved of this requirement, leaving around 8.9 million taxpayers still obliged to file a return (Public Accounts Committee, *Twenty third report*, 7 February 2006 HC 681 2005-06 paras 2-3).

The procedure for submitting the annual return which self assessment introduced is as follows: HMRC send out tax returns in April, covering income and capital gains earned over the previous 12 months. Those wishing to work out their own tax bill have ten months to complete their return, and need to submit both return and calculation by 31 January the following year. Those who prefer that the authorities should calculate their tax bill have six months to complete their return; ie, by 30 September. This gives the tax office enough time to work out how much tax is owed, so that payment of tax can be made by 31 January. Fixed, automatic penalties are imposed for late tax returns: £100 for a return not sent back by 31 January, and a further £100 for a return still outstanding six months later.<sup>16</sup>

In February 2006 the Committee of Public Accounts published a report on income tax self assessment returns. The report provides some useful statistics on the system:

Around 90% of tax payers file their returns by the 31 January deadline each year and 97.8% within 12 months ... Errors by taxpayers in completing their returns cost £2.8 billion in lost tax and result in additional costs for the Department in carrying out enquiries to correct them ... the Department makes errors in processing 5% of tax returns resulting in £65 million undercharges and £30 million in overcharges of tax ...it costs the Department £220 million a year to process tax returns.<sup>17</sup>

On the question of filing returns over the internet, the Committee noted, “e-filing is cheaper and more accurate than filing a paper return but only 17% of returns are filed electronically.” The Committee discussed the benefits of online filing and HMRC’s efforts to encourage it, noting Lord Carter’s ongoing review of the issue:

24. The Department encourages all taxpayers to file their returns electronically. Electronic filing reduces costs both for taxpayers and the Department and improves accuracy by identifying simple errors through validation checks on the return. The Department considers the cost of processing a tax return excluding overhead costs is reduced from £22 to £13 if the return is filed electronically, by eliminating the costs of data entry and of rectifying simple errors made by taxpayers in completing the form.

25. The Department has a target to obtain 35% of Self Assessment returns electronically by 2007–08, with an interim target of 25% by 2005–06. It achieved 12% in 2003–04 and met its forecast of 17% in 2004–05 –just over 1.6 million returns submitted electronically. Electronic filing in the UK is lower than in some other countries, for example the United States has achieved 44% and Australia 83%.<sup>18</sup> To increase take up of online services the Department is targeting groups with high potential to file electronically through emarketing campaigns. It has offered limited incentives, such as performing the tax calculation on behalf of the taxpayer irrespective of when they file their return, to encourage self assessment filing on-line, whereas it has used financial incentives to encourage small sized businesses to file their employer returns electronically. It has a mandatory regime for employers with 250 and more employees to have filed PAYE returns online. The review by Lord

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<sup>16</sup> For more details see, National Audit Office, *Income Tax Self Assessment*, 5 July 2001 HC 56 2001-2002

<sup>17</sup> *Twenty third report: Filing of income tax self assessment returns*, 7 February 2006 HC 681 2005-06 pp 5-6

<sup>18</sup> [In his final report Lord Carter noted that, “nearly 25% of income tax self assessment returns were filed online in 2005-06. However, this is still relatively low compared with some other countries, such as the USA where over 50% of personal tax returns were submitted electronically last year” *Review of HMRC Online Services*, March 2006 p 13.]

Carter of e-filing is expected to suggest ways in which the Department can increase e-filing.<sup>19</sup>

The Committee also noted the problems faced by the Revenue from major peaks in their workload, with taxpayers seeking to meet filing deadlines:

26. The Department acknowledges that taxpayers want a reliable service. But over the weekend of 29 and 30 January 2005, when large numbers of people were seeking to file by the 31 January deadline, the online filing service did not operate properly. Around 80,000 people did not get a message to confirm they had submitted their completed return and they were therefore unsure whether their return had been successfully filed. HM Revenue and Customs gave those affected a two week extension to file their returns. It has reviewed the problems experienced to identify the causes and prevent a recurrence. While it has increased the scale of its web-based technology, the Department cannot provide an assurance that similar problems will not occur in the future given the high number of returns that are filed on the 31 January deadline.

27. There are major peaks in the workload for the Department around the two filing deadlines of September and January each year ... which increases the Department's costs. Taxpayers are increasingly filing tax returns later each year – around 25% within two weeks of the January 31 deadline. This brings a higher risk of errors in processing as the Department seeks to process these returns by the end of March so that it can take account of the information in sending out the following year's tax returns and in issuing tax codings for the start of next tax year. The Department encourages people to file by the end of September with the incentive that the taxpayer will not have to calculate the tax and if the taxpayer files on-line this facility is extended to the end of December.<sup>20</sup>

The Committee went on to suggest that “subject to Lord Carter’s recommendations, the Department should consider bringing forward the filing dates and/or have differential filing dates for various groups of taxpayers to spread the workload”:

28. Experience of other tax authorities suggests that HM Revenue and Customs might consider more fundamental changes to the filing deadlines to reduce costs and errors. Taxpayers in the United Kingdom have 10 months to file their returns whereas overseas tax authorities typically allow taxpayers only three to four months. Some tax authorities tend to collect during the year a level of tax that is likely to be higher than the final assessment and therefore taxpayers have a greater incentive to submit returns promptly to obtain the refunds owed. Getting returns in earlier by bringing forward the January deadline to the autumn, or setting differential filing deadlines for different groups could smooth the peaks in workload and help to reduce errors in processing and setting tax codes.

29. Sending out the returns later would also ease some of the pressure on the Department to finish processing the previous year's returns by the end of March, and the forms would also reach people when they are in a better position to complete them. Lord Carter's review is considering a range of options for changing the dates when returns are sent out and the time allowed for taxpayers to return them and the

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<sup>19</sup> HC 681 2005-06 p 6, p 5

<sup>20</sup> HC 681 2005-06 p 16

findings of the National Audit Office's Report. The Department considers that any change in filing dates would need to reflect the differing circumstances of taxpayers, some of whom have more complicated financial affairs. It had not undertaken a cost benefit analysis of the various alternatives, but it intends to develop the management information needed for such analysis.

30. Differential filing dates for paper and electronic returns are in place in ten of the 30 Organisation for Economic Co-operation and Development (OECD) member countries (Australia, Austria, Canada, France, Greece, Iceland, Ireland, Italy, Netherlands and Norway). In addition the United Kingdom has the most generous return filing dates for self calculating personal taxpayers of any OECD country. The Department has provided evidence to Lord Carter to inform his review. This outlines several options for differential filing dates such as moving the Self Assessment filing deadline from 31 January to 30 November of the preceding year; proposals for introducing a paper filing charge which would apply after a certain date while still retaining a late filing penalty; and changing the cut off date when the taxpayer does not have to calculate the tax. The Department considers that differential filing would increase the take up of online filing to 57% in the first year.<sup>21</sup>

## **B. Budget 2006**

In the 2006 Budget the Government announced the conclusions of Lord Carter's review; one of these was to introduce new filing deadlines for income tax self assessment returns (*emphasis added*):

### **Carter Review of Online Services**

5.81 Lord Carter's review of the use of HMRC's online services is published today. He has concluded that well-designed online filing services can bring benefits to taxpayers and the Government. The Government agrees with his aspirational goal of universal electronic delivery of HMRC tax returns from businesses and IT-literate individuals by 2012. It accepts his recommendations, which are summarised in Box 5.3. They are expected to deliver recurring benefits of over £175 million per year for businesses and taxpayers, and secure benefits of £84 million per year for the Government.

#### **Box 5.3: Carter Review of online services**

In July 2005, the Government asked Lord Carter of Coles to advise on measures to increase the use of HMRC's key online services, in order to ensure sustainable and efficient service delivery for taxpayers, while continuing to support compliance. The review consulted with stakeholders to consider measures to deliver the Government's aim of maximising the use of online services for a number of taxes. Lord Carter recommends that HMRC should continue to invest in its online infrastructure and supporting systems to deliver robust, high capacity services, which should be rigorously tested.

Subject to these services being in place, his other key recommendations are to:

- require businesses to file their VAT returns, company tax returns and pay as you earn in-year forms (the P45 and P46) online, in phases from April 2008;

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<sup>21</sup> HC 681 2005-06 p 6, pp 16-17

- *introduce new filing deadlines for income tax self assessment returns, of 30 September for paper forms, and 30 November for online returns, from 2008;*
- promote online filing by tax agents and better-quality data by withdrawing computer-generated paper 'substitute' self assessment returns in 2008; and
- remove perceived barriers to early filing of self assessment and company tax returns by linking the period that HMRC has to query a return to the date it is filed.

HMRC will work with businesses, taxpayers, software developers, agents and other intermediaries on the implementation of these changes.<sup>22</sup>

In his report Lord Carter discussed the evidence the review team had received about international practice, specifically on filing deadlines:

4.7 In the course of this review, we have been struck by the unusual length of UK filing deadlines for individual and corporate returns. The OECD told us that the average deadline for an individual's tax return is four months, in the UK it is ten months. For companies the average is 5 months, in the UK it is 12 months. These long deadlines have restricted the scope of HMRC to offer additional time as an incentive for online filing or to work co-operatively with agents to spread the workload.<sup>23</sup>

He went on to argue that accelerating the deadlines for self assessment would help taxpayers, and encourage online filing:

5.14 We have come to the conclusion that the unusual length of time allowed in the UK between the end of the return period and the deadlines for SA and company tax returns is unhelpful. Some taxpayers may experience more difficulty in completing their returns because the information needed is no longer to hand, and it may have the knock-on effect of making enquiries more difficult because events are not fresh in the taxpayer's mind.

5.15 We recommend that consideration should be given to reducing the filing periods for SA and company tax returns and that HMRC should offer extra time for online filing of SA returns ...

5.17 For SA taxpayers, we recommend that for 2007-08 and subsequent, returns the filing period for paper returns should be reduced to six months - the new deadline should be 30 September - and the filing period for online returns should be reduced to eight months - the new deadline should be 30 November.<sup>24</sup>

Alongside the review HMRC also published a partial regulatory impact assessment on its recommendations; this set out the implications for self assessment (SA) taxpayers of the proposed new deadlines:

22.29 Lord Carter's proposals for Income Tax Self Assessment returns are that:

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<sup>22</sup> *Budget 2006* HC 968 March 2006 p 115

<sup>23</sup> Lord Carter of Coles, *Review of HMRC Online Services*, March 2006 pp 17-18. Further details of review are collated on HMRC's internet site: <http://www.hmrc.gov.uk/budget2006/carter-review.htm>

<sup>24</sup> *Review of HMRC Online Services*, March 2006 pp 20-21

- the deadline for filing 2007/08, and subsequent, paper returns should be 30 September, following the end of the tax year in April;
- the deadline for filing 2007/08, and subsequent, online returns will should be 30 November, following the end of the tax year in April;
- from 6 April 2008 paper substitute returns will not be accepted for 2007-08 and subsequent years; and
- for 2007/08, and subsequent, returns the enquiry window will be linked to the date the return is filed (this will encourage early filing and give taxpayers certainty sooner).

22.30 The SA payment dates (31 January and 31 July) will not change. The new filing dates will mean that all taxpayers that file on time will know how much they need to pay by 31 January as they will either receive a statement from HMRC before that date or, if they file online, the software will produce an automatic calculation.<sup>25</sup>

It went on to give some background on the review's rationale for this change:

22.23 Income Tax Self Assessment applies to individuals, partnerships and trusts. Included within these groups are the self-employed, employees with additional sources of income and pensioners. Within this population there is a very wide range of behaviours and abilities. There is no neat correlation between their taxable activities and their e-literacy.

22.24 The approach to this group therefore stops short of setting a requirement to file online. Instead Lord Carter has proposed measures to encourage those that are eliterate, or who use intermediaries such as tax agents, to file their Self Assessment returns online. The option to submit a return on paper will remain but taxpayers who choose that route will need to file earlier, helping HMRC to spread the processing load.

22.25 Nearly 30% of paper Self Assessment tax returns are currently submitted on substitute forms produced on computers using tax software products and then printed out and submitted by post. The vast majority of the software products can be used to file online. More than 90% of these substitute returns are produced by tax agents.

22.26 Printing and re-keying these returns is a wasteful process that can introduce error into the clean data produced by software. Substitute returns are also more difficult to scan meaning that, even where optical data capture processes are available, manual intervention is frequently necessary. For these reasons Lord Carter recommends that HMRC should stop accepting paper substitute SA returns from 2008.<sup>26</sup>

The RIA gives some details of the expected costs and benefits of the change, acknowledging that there will be transitional costs for agents – something on which HMRC is now inviting views.<sup>27</sup> In its analysis of the future benefits to taxpayers, HMRC estimates that 1.4 million taxpayers will switch from substitute returns to online filing, and this should save them in total £25 - £35 million per year from 2012. It also estimates a further 1 million

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<sup>25</sup> HMRC, *Budget 2006: Partial regulatory impact assessment for increasing use of online services*, March 2006 p 5. At: [http://customs.hmrc.gov.uk/channelsPortalWebApp/downloadFile?contentID=HMCE\\_PROD1\\_025360](http://customs.hmrc.gov.uk/channelsPortalWebApp/downloadFile?contentID=HMCE_PROD1_025360)

<sup>26</sup> *op.cit.* p 4

<sup>27</sup> *op.cit.* p 7



taxpayers will switch from standard returns to online filing, encouraged by the differential filing dates, which will save in total £10 - £30 million pa from 2012. In the latter case it is estimated that taxpayers will face one-off costs in the region of £10 million, although “once these one-off set-up costs have been incurred, the ongoing cost of submitting returns and forms will be less than the paper equivalent”, so that any ongoing effects will be part of the cost savings cited above.<sup>28</sup> HMRC also note that they have invested £500 million to date in their online services, “to maximise the benefits the services need to be robust and customer orientated” and plan to “spend some £340 million in online service infrastructure over the next 9 years. The investment will be focussed on improving the existing services so that they are resilient and tailored to user’s needs.”<sup>29</sup>

The editor of *Taxation*, Mike Truman, argued that the RIA was incomplete, because it placed an undue emphasis on transitional costs. On the acceleration of deadlines, the RIA notes:

22.38 The change to the SA filing dates will be a significant change that potentially impacts all SA taxpayers and their agents. Although the costs of completing a tax return should not change it will be essential that the new deadlines are well communicated to all SA taxpayers and we will be working with professional tax agents to achieve as smooth a transition as possible.

22.39 We also recognise that in the first year the new deadlines will pose a significant challenge for tax agents, as they will need to compress the work currently done over 10 months by at least two months. The impact will be greater for those with a high proportion of self employed clients as they will need to ensure that those clients provide their books and records sufficiently early to enable them to complete the accounts work needed to prepare the return.<sup>30</sup>

Taking up these points, Mr Truman commented:

Two main queries arise in my mind out of this. First, even on the basis of the information set out in the RIA, why is there this emphasis on the impact in the first year? Yes, it is true that ‘in the first year’ agents ‘will need to compress the work currently done over 10 months by at least two months.’ But they will also need to do the same the following year, and the year after that, and the year after that. Just because the returns for 2007-08 are completed by 30 November 2008 doesn’t mean that the returns for 2008-09 can be started before April 2009.

Second, why do they think this is just about communication and that ‘the costs of completing a tax return should not change’? Yes, you can educate clients over the coming two years that the tax return deadline is now 30 November. The best that one could hope for is that all of those who used to submit their information in November and December (or even January ...) would send it in during September and October (or even November). There’s no hope of them sending in during August because they are on holiday, and even if they did, all your staff are on holiday too. So personal tax departments which used to be working hard by September and flat out with overtime by late November will, at best, have to run flat out with a lot of overtime from September to November. At worst, they will have to hire additional staff for that busy

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<sup>28</sup> *op.cit.* tables 22.3 & 22.5, para 22.56

<sup>29</sup> *op.cit.* para 22.3

<sup>30</sup> *op.cit.* paras 22.38-39

period. Yet this isn't meant to increase costs? Of course it will increase costs, and that needs to be put across to HMRC in no uncertain terms.<sup>31</sup>

## C. Recent developments

Professional bodies were strongly critical of this announcement. In a press notice just after the Budget the Chartered Institute of Taxation commented:

Taxpayers are to be given less time to fill in their tax returns, following the publication of a new study by Lord Carter for the Government, published on Budget Day ... Anne Redston, Chair of Personal Taxes at the Chartered Institute of Taxation says: "There has been no consultation with taxpayers or agents on this measure. HMRC should first find out if this idea is practicable before they announce such a radical change. Consultations should precede decisions, not follow them. This is putting the 'Carter' before the horse." The CIOT is particularly concerned because the preparation of returns can usually only begin after 5 July (when information is provided by employers in the form of P11Ds); the pressure on agents to produce thousands of returns to these tighter deadlines may mean that large numbers of returns either miss the deadline or have to be submitted with estimates.<sup>32</sup>

The Institute of Chartered Accountants also raised this in their first reaction to the Budget:

Frank Haskew, Head of the Tax Faculty, said "We were surprised and disappointed that the Carter review has recommended that the current filing deadline for income tax returns be brought forward from 31 January to the previous 30 September, with electronic filers able to file by 30 November. Lord Carter's review was supposed to consider how to encourage take-up of e-services. This will only happen if the underlying services are improved. Instead, Lord Carter has suggested moving the goalposts and advancing the tax return filing date, a completely separate issue that should be outside the scope of this review. Advancing the filing date will have a number of unwelcome consequences and will require fundamental changes to be made to the personal income tax system. This requires wide ranging consultation with both tax payers and their advisors."<sup>33</sup>

At this time *Taxation* magazine started a campaign – "No to November!" – asking practitioners to lobby the Government to withdraw this proposal and "consult with the profession before bringing forward any further suggestions."<sup>34</sup> The magazine has published a series of stories setting out some of the reactions to the proposal.<sup>35</sup> In one of these Richard Curtis, a member of the editorial team, made an interesting observation:

I think that I can see an argument as to why the deadline for paper returns should be filed by September. This should give HMRC plenty of time to calculate liabilities and issue correct demands in time for 31 January payment. As time goes on, such returns will predominantly be completed by individual unrepresented taxpayers. Why there should be a need for online returns to be filed by 30 November remains something of

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<sup>31</sup> "Make an impact", *Taxation*, 27 April 2006

<sup>32</sup> CIOT press notice, *Tax return deadline*, 24 March 2006

<sup>33</sup> ICAEW press notice, *Budget fails to introduce much needed fundamental reform*, 22 March 2006

<sup>34</sup> for example, "Campaign: November blues", *Taxation*, 4 May 2006

<sup>35</sup> for example, "The last straw", 11 May 2006; "Dear Ms Parmeter", 18 May 2006;

a mystery as the tax calculation is performed immediately, either by the agent or HMRC's own system.<sup>36</sup>

Although the *Finance (no.2) Bill 2006*, published on 7 April, does not contain any provisions to implement Lord Carter's recommendations, the issue of accelerated filing deadlines arose during the Committee stage of the Bill, when the clause imposing income tax at the starting, basic and upper rates for 2006-07 was debated. Speaking for the Conservatives Mark Hoban argued that taxpayers would have difficulties producing the required information to complete their returns in time, agents would have to implement a major change in their working practices, and HMRC would find the new deadlines did nothing to smooth the peaks in their workload:

There is a risk that, with the shortening of the deadline, people will submit estimates or provisional figures. In addition, there is no electronic system for amending a tax return, so the HMRC will receive manual amendments that correct, update and revise data submitted online in accordance with the suggested deadline. As my hon. Friend the Member for South-West Bedfordshire (Andrew Selous) said, the current system for submitting tax returns online has limitations. As well as being unable to deal with the forms of income that he mentioned, the HMRC cannot accept additional documentation online so that, too, has to be submitted in paper format. It is clear that the implementation of the recommendations of the Carter review will create problems not just for advisers and their clients but for the HMRC ...

If we move the deadline for filing paper returns from January to September, we will create a huge spike in the HMRC's work load, dwarfing the number of returns submitted online at the moment. Even the HMRC recognised that problem, as did the Public Accounts Committee's report<sup>37</sup>, which acknowledged the major peaks in work load at the time of the September and January filing deadlines and highlighted issues around smoothing those peaks and improving the accuracy and efficiency of the tax system ... It would be no answer to the PAC's recommendations for smoothing the work loads if those of the HMRC, businesses and their advisers are simply compressed into short spaces of time creating an increase in the number of errors, estimates and re-statements that would require a long tail of remedial action.<sup>38</sup>

In response the Financial Secretary, John Healey, said the following:

We published Lord Carter's report at the Budget, and we issued alongside it a partial regulatory impact assessment. We specifically invited views and evidence on Carter's recommendations from those in the fields involved and from anyone else, and we have set a deadline of 30 June for those consultations. There has been plenty of time to contribute and to influence Lord Carter's thinking in the preparation of his report and our thinking on how we may implement his recommendations in next year's Finance Bill ...

The purpose of the Carter review and of implementing its recommendations is quite clear: it is to have the most efficient tax service and system possible for taxpayers and to continue to support the necessary and proper efforts of the HMRC to ensure compliance. I do not want to get into the detail of Carter's recommendations; we will

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<sup>36</sup> "Return to 'No'", *Taxation*, 27 April 2006

<sup>37</sup> [That is the Committee's report on SA returns discussed above: HC 681 2005-06.]

<sup>38</sup> SC Deb (A) 16 May 2006 cc 154-5

have a full opportunity to do so when next year's Finance Bill is published. I simply say that nobody will be required to file a self-assessment return online. We are looking to simplify the self-assessment to take as many as possible of those whose tax affairs are relatively simple out of the self-assessment system altogether.<sup>39</sup>

Following this debate, on 25 May Mr Hoban put down an EDM critical of the proposal; the text is reproduced below – and to date the motion has attracted 90 signatures:

That this House notes the proposal to shorten the deadline for submission of self-assessment tax returns from 31st January 2009 to 30th November 2008 for online returns and to 30th September 2008 for manual returns; further notes that this proposal was made without proper consultation with tax advisers and their clients; believes the current proposals will place an undue burden on taxpayers by requiring them to provide information to their advisers in a shorter timescale; further believes the current proposals will lead to an increase in the number of provisional and incorrect returns, which will require manual amendment by HM Revenue and Customs (HMRC) as their online systems are unable to accept amendments; further believes that, far from spreading the workload for accountants and HMRC, the proposal will create a larger peak at a different time; therefore urges the Government to withdraw the proposal; and recommends that the Government consult with the tax profession before bringing forward any revised proposal.<sup>40</sup>

The question of consultation on this issue has also been raised in a recent PQ:

**Mr. Robathan:** To ask the Chancellor of the Exchequer what consultation of accountancy firms was undertaken before the decision was made to change the deadline for filing tax returns from 31 January each year. [75879]

**Dawn Primarolo:** The proposed changes to the filing date were recommended by Lord Carter's review of HMRC online services. As part of that independent review Lord Carter and his review team consulted widely. Written submissions were also invited and over 70 were received, including several from firms of accountants. The review team included three members of the accountancy profession from different sized firms.<sup>41</sup>

In late May the Tax Faculty of the Institute of Chartered Accountants (ICAEW) announced that it had been working with eight other professional bodies on the issue:

We met with the other bodies in early April and we agreed to work largely behind the scenes because we believe that this will give us the best chance of achieving the result that we all want. We have since met jointly with officials of H M Revenue & Customs and H M Treasury to put forward our views. After the meeting Paul Aplin, the Tax Faculty's Deputy Chairman wrote to HMRC on behalf of the nine bodies to reiterate the points made in the meeting and said:

"At the meeting, we explained the very serious concerns that we have for unrepresented taxpayers, represented taxpayers and for our members, all of whom will, we believe face increases in compliance costs. We also explained the additional

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<sup>39</sup> SC Deb (A) 16 May 2006 cc 156-7

<sup>40</sup> EDM 2262 of 2005-06, *Carter review and filing deadlines for self-assessment tax returns*, 25 May 2006

<sup>41</sup> HC Deb 8 June 2006 cc 862-3W

costs that we believe any change would involve for H M Revenue & Customs arising from manual interventions to correct the increased number of errors which the proposed changes would be bound to generate. The changes would have a serious impact on many people's lives.

As agreed, we will now set out our views in detail by way of response to the partial regulatory impact assessment issued on Budget Day. It is our intention to respond in two stages. The first will be a joint response on the deadlines issue, which we believe is so important that it must be dealt with separately from and in advance of any response on the other recommendations in Lord Carter's report. We will respond on Lord Carter's remaining recommendations separately but would say at this stage that we welcome the inclusion of what we may perhaps call the 'Carter Principle' that 'each of the services should be capacity tested at least a year before [the] recommendations are implemented and if any of the tests are not successful the measures relating to that service should be deferred'.<sup>42</sup>

On 1 June the ICAEW published this joint response, which drew on a survey each body had undertaken with their members on the impact of the proposed new deadlines.<sup>43</sup> Three extracts are given below. First, the authors disagreed with the analysis in HMRC's RIA that those filing a paper return before 30 September would "incur no cost":

We disagree with this analysis, as it assumes that SA taxpayers have a choice in deciding whether to submit their returns before or after 30 September. The reality, as shown by our survey, is that many SA taxpayers are not in a position to file before 30 September. Our [survey of members] indicates that 85% of tax practitioners do not have the information needed for self employment cases by 30 September following the end of the tax year and that 68% still do not have the necessary information by 30 November. These statistics rise to over 90% and 81% respectively for small firms – to date the most enthusiastic e-filers - which will usually act for smaller businesses. Our results show similar statistics for regional practices. Those who make a concerted effort to gather information in time to submit a paper return before 30 September are likely to incur additional costs in doing so, but the majority will not have that option. In both cases costs will follow.<sup>44</sup>

The authors also disagreed with the RIA's claim that once certain one off set up costs had been incurred, the cost of filing returns "will be less than the paper equivalent":

As a direct consequence of information not being available, in order to comply with a 30th September or 30th November filing date, returns submitted will have to be based on provisional or estimated figures which will subsequently need to be corrected. As the process for doing this is manual, it will require greater effort by all parties concerned, including HMRC, to amend returns. In particular, there will be an increase in the number of transactions dealt with on paper rather than electronically and this

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<sup>42</sup> ICAEW, *Lord Carter's review of HMRC Online services*, May 2006 Retrieved on 25 May 2006 at: <http://www.icaew.co.uk/index.cfm?route=135849>. The other eight bodies are: Institute of Chartered Accountants of Scotland, Institute of Chartered Accountants in Ireland, Chartered Institute of Taxation, Association of Chartered Certified Accountants, Association of Taxation Technicians, Association of Accounting Technicians, Society of Trust and Estate Practitioners, Low Income Tax Reform Group.

<sup>43</sup> ICAEW press notice, *Profession responses to Carter suggestion on filing dates*, 1 June 2006; CIOT press notice, *Filing proposal: joint statement from professional bodies*, 2 June 2006.

<sup>44</sup> ICAEW et al., *Response to Lord Carter's Proposals to move the filing dates for personal Self Assessment Tax Returns*, June 2006 para 13. Available at: <http://www.icaew.co.uk/index.cfm?route=136439>

runs completely counter to the policy objective. Enabling electronic amendment would require further costly functionality to be added to HMRC's systems and to those of tax return preparers. Far from seeing a compliance cost saving, advancing the filing dates looks likely to increase compliance costs ... If 19 out of 20 pieces of information required for a return are available but the 20th is not yet to hand at the filing date, there are only two available alternatives: hold the return and suffer a penalty or file a provisional return to be corrected subsequently. There is no acceptable third alternative.<sup>45</sup>

Finally the authors argued that international comparisons of filing deadlines were erroneous:

Every country's tax system is different and the regulations for filing of returns are geared towards their particular regimes. Making overseas comparisons is therefore difficult as not one system mirrors our own. It is true that there are countries where the filing deadlines are shorter than our own, but in some of these countries extensions can be applied for or the majority of taxpayers are seeking repayments.

We believe that while moving closer to international norms can be justified in many situations there has to be a good reason in terms of either the UK's international competitiveness or in terms of greater efficiency. International competitiveness is not an issue here and our research shows that efficiency will be decreased rather than increased. Specifically, it will make the policy objective more difficult to achieve.<sup>46</sup>

At a conference on online filing on 9 June Lord Carter stated that he would reconsider this issue if there were a case for doing so. In response the ICAEW and the other professional bodies co-operating on this campaign issued a statement:

"We welcome Lord Carter's announcement today that he is going to look again at his recommendations for changing the self assessment filing deadlines. We are pleased that Lord Carter has not only recognised the concerns that we have raised but welcome his commitment to look again at the impact of his proposals on taxpayers, agents and HMRC. This is a very significant step forward. We're committed to providing Lord Carter with any additional information that he may require and to working with him on other ways that will help achieve the Government's aims to encourage online filing."<sup>47</sup>

The editor of *Taxation* also wrote on this issue; part of his piece is reproduced below:

It was a great relief to hear Lord Carter say that he was ready to look again at his recommendations: "Clearly in the area of accelerated self-assessment filing there has been some controversy. People have made the case to me informally that this should be looked at again. Given what people have said, if a case can be made for reconsidering that, I will look at it again, and I look forward to seeing that evidence." ... The key recommendation that has caused the greatest concern is, of course, the proposal that the final deadline for tax returns should be 30 November. It is

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<sup>45</sup> *Response to Lord Carter's Proposals*, June 2006 paras 38, 42

<sup>46</sup> *op.cit.* paras 49-50

<sup>47</sup> CIOT press notice, *Joint Professional Bodies Response to Carter rethink*, 9 June 2006. The CIOT has also published a separate response on HMRC's RIA: *Lord Carter's report .... Response to the partial RIA*, 23 June 2006 – which is available at: <http://www.tax.org.uk/attach.pl/4508/4701/CarterRIAnotSAfiling%20final230606.pdf>

reasonable to assume that, if Lord Carter is going to review his conclusions, this one is likely to change.

It is unlikely, however, that we are simply going to end up with the status quo ante. Lord Carter had a brief to encourage online filing, which is a perfectly reasonable aim for a government to have, given the improvements in efficiency which will result. So it is reasonable to expect that in most cases there will be a difference between the filing deadline for paper and online, and it does make sense that substitute returns should be phased out, because what is the point of the information being keyed in to a computer by the agent only to be printed out, posted in, and then rekeyed by HMRC?

There are some caveats to this, however. First, several of our respondents have pointed out that some classes of return cannot be filed online. In that situation, it seems unreasonable to impose the earlier deadline, since it has no purpose – it cannot encourage online filing where it is not allowed. Second, this should be dependent on the principle outlined in the Carter report that a service has to have been up and running successfully for the full twelve months of a tax return cycle before there are any penalties for not using it. That applies particularly to the ability to send attachments with returns, but would also apply to changes in those who can file online.<sup>48</sup>

On 10 July Lord Carter announced that he had changed his mind on this question, and had recommended to Ministers that 31 January should remain the deadline for returns filed over the internet, though the deadline for paper files should be brought forward to 31 October. Lord Carter made this announcement at a symposium organised by the ICAEW, and part of this speech – published by the ICAEW – is reproduced below:

It will not surprise you to know that I have received widespread representation on the issue of accelerating the SA filing date. Clearly those who emailed me thanking me for giving them back their Christmases were not representative of you all. Accordingly, as I indicated at the XBRL conference on 9 June, I invited relevant organisations to provide me with information which would support the contention that the acceleration of filing dates was not helpful.

Having now considered those representations I have written to the Paymaster General recommending that the filing date for paper is moved to 31 October but that in order to facilitate the move to electronic filing the date for such filings remains at 31 January. I would however make the caveat that I believe further work needs to be done to better understand the barriers, such as the late receipt of information from third parties, that would stand in the way of an acceleration of filing dates some time in the future.<sup>49</sup>

The ICAEW and the other professional bodies who had made a joint response on this issue issued a statement, part of which is reproduced below:

We welcome today's announcement that on the basis of this new evidence Lord Carter has revised his recommendation to ministers. We believe that this announcement demonstrates clearly the effectiveness of the process of discussion

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<sup>48</sup> "Beginning of the end", *Taxation*, 15 June 2006

<sup>49</sup> Lord Carter, *Wyman Symposium*, 10 July 2006. At present this text is available on the ICAEW's site at: <http://www.icaew.co.uk/index.cfm?route=139592>

and dialogue in which we, H M Revenue & Customs, H M Treasury and Lord Carter have engaged on this issue. We fully support the Government's stated policy objective of increasing the take up of HMRC's e-services and we endorse Lord Carter's statement that countries with a high take up of on line services attribute a large degree of their success to working with agent and software developers. We are ready to participate actively in the pursuit of this objective.

We believe that Lord Carter's recommendation that HMRC should build in more rigorous testing and if necessary delay the implementation date for a particular service is critical to successful delivery of the Government's policy objective. We welcome the statement in the Regulatory Impact Assessment issued on 22 March 2006 that "the success of the proposals will be constantly monitored and evaluated" and believe that this process should be achieved by close cooperation with key stakeholder groups. We hope that Lord Carter will wish to maintain a close involvement in monitoring the delivery of his proposals.

The bodies have a public interest obligation and we believe that unrepresented and non IT literate taxpayers and small firms of tax agents who may need to file paper returns and who find themselves without the necessary information at 31 October will face difficulties in meeting the new deadline. We wish to continue our discussions with HMRC to explore ways in which such people can be helped to meet their filing obligations. We look forward now to engaging in discussions with HMRC on the many issues necessary to achieve the policy objective.<sup>50</sup>

On 18 July the Paymaster General published a written statement confirming that the Government had accepted Lord Carter's revised recommendation

**The Paymaster General (Dawn Primarolo):** In his report on the "Review of HMRC Online Services", published at the Budget in March 2006, Lord Carter of Coles recommended that, for 2007-08 and subsequent returns, the income tax self assessment filing deadline should be brought forward from 31 January to 30 September for paper returns and to 30 November for returns filed over the internet. Lord Carter has since reviewed the responses to the Partial Regulatory Impact Assessment published with his report and has received further representations from tax practitioners. Having reviewed his earlier findings, he has now recommended that, for 2007-08 and subsequent returns, the filing period for paper returns should be reduced to seven months—the new deadline should be 31 October—and the filing period for online returns should remain at ten months—with a deadline of 31 January. He has also suggested that HM Revenue and Customs officials should work with practitioners to explore how in future the practical difficulties in collecting data earlier might be overcome so that taxpayers can complete their returns sooner if they wish. The Government have accepted Lord Carter's revised recommendation. This updating of the self assessment system takes account of both the views of tax professionals and the operational requirements of HM Revenue and Customs.<sup>51</sup>

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<sup>50</sup> ICAEW press notice, *Lord Carter Announces Revised Advice to Ministers on Self Assessment Filing Dates*, 11 July 2006

<sup>51</sup> HC Deb 18 July 2006 c 11WS