Making tax digital

Reshaping the tax climate

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kpmg.com/uk/makingtaxdigital
Earlier this year the UK Government released its conclusions from the recent consultations to transform the UK tax administration. ‘Making Tax Digital’ is a bold initiative at rethinking the way taxpayers interact with HM Revenue & Customs (HMRC) in a way that will eventually end the need to file an annual tax return by 2020. Recently the government announced a delay to the implementation timetable that was widely welcomed and we are anticipating further announcements and draft legislation after the summer recess.

The objectives of the UK Government are clear:

1. To reduce administration costs
2. Collect additional taxes by reducing the risk of errors and mistakes by taxpayers by requiring the submission of data in real time
3. Make better use of the information they receive from employers, taxpayers and third parties
4. Use Data & Analytics (D&A) to improve compliance and help focus their resources on taxpayers that need the greatest attention

HMRC have estimated a loss of tax revenue of approximately £8 billion a year from errors and mistakes alone.

It is for these reasons that, despite considerable representations to delay the timetable, ‘Making Tax Digital’ is likely to proceed as planned. The Government is investing £1.3 billion to ensure successful implementation. Furthermore, many other countries are also developing similar approaches, in line with the guidance of the OECD’s ‘Co-operative Compliance’ initiative.

Implementation will happen in phases with VAT from April 2019 and income tax and corporation tax from April 2020. We have been informed that ‘expatriates’ will be one of the last populations to be dealt with.

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KPMG LLP
By 2020, every UK taxpayer with digital access will have a personal tax account where they will be able to see their tax position in real-time, change their tax codes, see their future state pension entitlement and make tax payments. Tax returns will be replaced by an ‘End of Year’ declaration, the main change is that most of the data will be pre-filled with information from employers, third parties and the individuals themselves. The self-employed and landlords will need to submit data on a quarterly basis.

Many employers provide a tax return service to some of their employees. This may be via flexible benefit arrangements or because the employers provide tax return support for specific populations such as cross-border workers. ‘Making Tax Digital’ will change how such services are provided.

💡 It may:

- Significantly reduce the burden and time delays associated with paper form completion and postal exchange
- Potentially be accompanied by a trusted agent/employer rating
- Significantly reduce phone interactions with HMRC
- Encourage software developments that gather and submit information to the digital account in a real-time environment
- Reduce the administrative time of Global Mobility teams in tracking payments and refunds, potentially freeing up their time to track assignment costs and return on investment by the business

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Matthew Fox
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Global Mobility Tax service

Current state

The current model of managing the tax compliance of assignees is a traditional downstream model that involves the following:

- Shadow payroll processing
- Registration
- Cost projection
- Collection of personal data to prepare income tax returns (generally workday calendars and personal income)
- Preparation of tax returns, and management of payments liabilities
- HMRC audit activity

This results in a number of administrative challenges:

- Too much paper and not enough online
- Too many tax authority phone interactions
- Postal delays
- Managing compensation data from a variety of sources
- The need to ask permission from HMRC to operate correctly
- Complex law makes it a challenge to pay the right tax at the right time
- Time spent tracking and processing tax overpayments
- Accurately analysing the cost of assignments in real time

Future state?

We believe ‘Making Tax Digital’ presents an opportunity to transform the Global Mobility Tax compliance process for assignees into a more upstream end to end process with much more work undertaken in a real time environment. The transformation could involve the following:

- Set up and management of the digital account for assignees – for some assignees with very straightforward personal affairs, assignee self-service may become a viable option
- Collection of workdays in year using new technology such as apps to collate and maintain real time information of location of work which can ensure real time accuracy of tax liabilities
- Upgrade of shadow payroll compensation technology to ensure earlier reconciliation of assignment tax liabilities for tax equalised assignee populations and taxable business visitors
- An enhanced tax control framework associated with assignees and business travellers
- The potential for reviewing costs of assignment by business unit/function in real time
- A focus on upstream compliance in real-time should ensure problems are prevented or addressed when they occur
- Better processes and policies should result in more transparent and improved tax authority relationships culminating in less audits
Next steps

As chair of the OECD’s Forum of Tax Administrations, the UK is taking the lead on a number of strategic initiatives originating from this under the ‘Cooperative Compliance’ initiative of which ‘MakingTax Digital’ is one such initiative. Many other administrations are going through or embarking on a similar journey with similar objectives.

Global Mobility functions have the opportunity to transform the assignee tax compliance delivery model by working with internal stakeholders and service providers.

From a UK perspective, the next steps include:

1. Engagement with HMRC to consult on shaping the future compliance model for assignees
2. Review current mobility control framework and governance models to identify key challenges, needs and responsibilities
3. Review the business case for investment in future proof technology that will enhance mobility payroll and tax compliance

Global Mobility functions have the opportunity to transform the assignee tax compliance delivery model by working with internal stakeholders and service providers.

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Aligning our thinking to your talent management objectives, we can support you with the planning and management of your international workforce.

GMS provides advisory, compliance and administrative services, along with outstanding technology, to help you manage an international workforce.

Our network across KPMG member firms of over 4,000 leading specialists supports more than 2,500 companies across 140 countries worldwide. The tools and advice we provide helps to simplify business functions and reduces time spent on compliance, making the assignee experience more seamless.

For many organisations, the pressure to compete effectively has led to an increase in the size and complexity of their global workforce, placing greater demands on international human resource teams. Managing compensation, tax compliance and global mobility is becoming more costly, complex and time-consuming.

GMS brings together a wealth of tax, technology, immigration and mobile administration services to help you manage your global workforce in an easier, safer and far more efficient way. Whether you are considering expansion or relocation to a new location, an acquisition or more streamlined processes to help you manage your existing workforce, our practice can help support you.

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