# January madness

Personal tax

01 February 2015

Chris Mattos shares his tax return season experiences

And here I am again wondering if it's all a dream! Having hung up my personal tax 'boots' to become editor of Tax Adviser and promising my wife that 'Januarys' were a thing of the past, I find myself in January 2015 in full-scale tax return operations mode. Perhaps deep down you can never get the self-assessment fever out of your system.

But how did this all happen? It seems that my start-up marketing message that we 'take the frustration out of tax' has really resonated with people. It's safe to say that most of my clients HATE tax – some of them have quite severe phobias. I'm not sure how I've managed it, but I do seem to have attracted clients who have managed to get themselves into a complete mess. One client came with £1,300 of late filing 2013 penalties. The sad thing was that there were only two entries required to get things straight; a £7,200 salary and £8,400 of dividends.

When Keith Gordon's article arrived in my inbox (see page 38), I did hope I might find something that could help; but in my case, I cannot see how their inaction can be excused. It is a case where a bit of bad luck and illness leaves you thinking that if they'd had some help earlier we wouldn't be speaking to debt collection agencies now. It's the sort of case that helps me to appreciate the work of the tax charities and it is always with much interest when I read one of their articles about the work they do, such as this month on page 12.

Then came mum and dad whose son works in the City – it's still a big thing for some 'Stroudies'! Mum does a bit of bookkeeping for a local letting agency and started to worry for her son when she saw a request from HMRC for details of the landlords they acted for. A familiar story soon followed – boy meets girl, boy moves in with girl, boy keeps old house, boy rents out house and boy doesn't tell HMRC about the rental income. Okay, perhaps it's not Hollywood blockbuster material (and the similar girl-meets-boy sequel was not much of an improvement), but if my experiences of HMRC's Let Property Campaign are anything to go on, he should walk away with the minimal of penalties due to the losses he had made in earlier years.

Before I had a chance to reflect on the fairness of the different penalty outcomes from the non-compliance of my two clients, I read Rebecca Benneyworth's article on page 28, shrugged my shoulders and thought that's just the way it is sometimes.

I am often told by clients of their sense of relief after they have discussed their tax affairs and left their little bundle of papers with us to sort out for them. For me, it's one of the satisfying aspects of January to witness those moments when you see a client starting to understand their tax affairs.

This year I've been referred to as a magician and, more bizarrely, the 'Oz of Tax'; but personally I don't think that what I'm saying is that complicated. Evident is the lack of understanding that many taxpayers have about their affairs. They can struggle to grasp concepts that the tax profession might regard as basic. One area that seems to come as a revelation is taxation on employment income, particularly that PAYE doesn't always collect all the tax due and that it can affect the rate of tax due on other income.
Recently, a potential client visited me with an HMRC enquiry into his previous two returns which he had submitted online. He had been baffled when, on completing the entries using HMRC's software, he was presented with a tax liability.

'That's because it's the first year you had that [gas-guzzling] company car,' I said, 'and your PAYE code didn't include this.'

'Oh!' said the client.

The confused client had remedied his return by not entering his benefits and sending a letter to HMRC explaining that the expenses were 'wholly and exclusively for business' – words that a friend had advised were required.

The following year he made an even bigger mess. By now he had established that he should be entering his employment related expenses on his tax return.

However, he continued not to include his benefits. The result was that he had managed to submit a return declaring, to his delight, a refund which he banked.

‘I haven’t got £20k,’ said the client once I had calculated what was due; then, on reflection: ‘Can I pay it in 2016 when I get my bonus?’ We will have to see what we can agree.

First, the HMRC officer is considering penalties and has sent a long list of questions: ‘Why did you make these mistakes? Didn’t you read the guidance? Didn’t you take advice?’ and so on. Unfortunately, the client received his letter first and got all in a fluster protesting his innocence. I phoned the HMRC officer asking where my letter was – it was in the post.

‘So what does your letter say,’ I asked.

‘Errr, you will see.’ I declined to converse further on the subject – a job for February.

I do worry about the tone of some HMRC communications and the effect they have in the hands of unrepresented taxpayers. I have just helped a client reach a conclusion with his eBay trading affairs. When I first met him, he complained about HMRC’s relentless approach that had caused him nothing but stress in the past 18 months of trying to resolve it himself. The first letter I read started:

‘In your letter you said that your eBay activity had been purely to dispose of a very large personal collection of scale model plastic kits, acquired over the years. I have to say this is contrary to information about your eBay activity in HM Revenue & Customs possessions.’

There was a very small element of trading, but the large majority did relate to the client’s hobby and after two letters from us all is now resolved with a total of £164 tax over three years being due (no penalties were raised). Was it all worth it?

There is still a huge difference between a taxpayer trying to discuss their affairs with HMRC compared with us as agents.

As a professional, it takes me just a few minutes to establish the employment income that HMRC has for one of my clients. (I have found this to be a very good way to obtain such information where clients have been unable to find their own details.) But in my own personal experience as an unrepresented taxpayer, I must grumble that it has taken me ten times longer. I’ve heard what delight that receiving a tax refund from HMRC brings, but when I saw an expected tax refund staring back at me – I looked at it and just groaned! It took me 39 minutes – more groans – to talk to someone to explain that I should still be in self-assessment. If there was an upside to this little episode, it was that, as I sit here writing this, with 11 days of January left and 12 tax returns to submit, unusually, I’m not on the list.

In the January issue of Tax Adviser I mentioned my cunning plan for tax returns in January. I can now report that it has been a success. I adopted the production approach that we use to put together the magazine. Every month there is an important series of timelines when it is essential to have one part of the process completed before another. For us, it’s all about getting the articles in as soon as we can. So, I took time out between Christmas and new year to plan and, by 5 January, when the phone hardly stopped ringing, we were prepared and ready. I then spent the first month contacting clients and chasing some almost daily. Weeks two and three have all been about production. And, as we stand, there is only one client for whom we haven't got the information and I do wonder whether we will at all.

I have heard many different methods that have been used to encourage clients over the years, but the facts remain that, with the deadline so widely publicised and a 'do it at the last minute' culture, it is difficult to persuade clients otherwise. The statistics for 2014 give a clear picture of this, with 6% of all tax returns filed on time being sent in on the deadline day – well over half a million. Or to present in terms of what value this can translate to for HMRC in terms of late filing penalties, apparently it equates to 681.8 million Jaffa cakes.

One partner I used to work with always took off the last week of January to go skiing. Each year as 31 January approaches, I am always reminded of this and how those distant dreams of snow move from fantasy to a much-needed reality.