

Large Business compliance: enhancing our risk assessment approach

Large Corporate

Management of taxes

01 February 2018

The CIOT has responded to HMRC's recent consultation document which considered how their Business Risk Review (BRR) approach can be improved so it can continue to support a shift in large business tax compliance behaviours and provide greater clarity and confidence for large businesses.

The consultation explored whether the BRR model can be refreshed, potentially with more risk categories tailored to the tax risks encountered in the large business population.

The CIOT agrees that the BRR is an important part of the way HMRC deliver their Large Business Strategy. In line with our stated objectives for the tax system, the CIOT believes that overall the BRR process should aim to be providing large businesses with greater certainty, so they can plan ahead with confidence.

In our response we note that problems can arise when the process is not applied properly in practice. We point out that whilst the design can be modified, ensuring that CRMs operate it correctly is more urgent.

We agree that it makes sense for HMRC to profile large businesses at the whole-of-business level as well as risk assessing particular tax returns, so the BRR underpins resourcing to risk, ensuring HMRC direct resources where they will get the best return.

The BRR should also be providing HMRC with a better understanding of a business's commercial objectives, business processes and appetite for tax risk. It should provide the business with a clear view of where the business lies by reference to

different aspects of compliance with its tax obligations and HMRC's concerns in each area. Best practice is that HMRC should actively help and businesses should actively manage this so that it provides a framework for the ongoing relationship between the business and HMRC.

In our view, the frequency of BRRs should be for HMRC to decide. However, it makes sense to do reviews less frequently where a business is judged to be lower risk and to be able to do them only for tax regimes that are thought to be higher risk where the risk may vary between taxes within a business.

Using the BRR to encourage businesses to move down the risk spectrum is a sensible approach. Having more differentiation in markings can help with this, as long as it does not divert resources into arguments about borderline cases. It does need to be recognised, though, that large businesses are generally inherently complex, and for this reason there may be relatively few businesses that can truly ever be in the lowest band of risk.

We also say that HMRC need to ensure that they do not give adverse incentives. Becoming low risk has sometimes led to HMRC ceasing to pay attention to businesses. This can damage a business which needs an answer to a complex question commercially when the answer cannot be delivered in a timely manner. Fear of this may drive some businesses to ensure they do not become low risk in the current ranking system. The best way to overcome this would be to ensure the BRR discussion covers the resources HMRC and the business agree need to be allocated to support and monitor the business's tax compliance efforts so that the business can have more confidence that moving down the risk scale will help provide more certainty, not less.

The full text of the CIOT's response can be found on the [CIOT website](#).