Tax engagement letter: joint bodies' guidance updated

General Features Professional standards

01 June 2016

The revised guidance on letters of engagement for tax practitioners was published on 11 April 2016.

What has changed?

The three-stage approach remains: a covering letter, schedules of services, and standard terms and conditions of business.

However, amendments have been made so that we now cover:

- Auto-enrolment
- Universal credit
- Automatic exchange of information (AEOI), including FATCA (Foreign Account Tax Compliance Act)
- MOSS (mini one stop shop)
- Consumer clients and cancellation rights

The specimen schedules for practitioners to adapt for the different services they provide are now:

- Personal tax – individuals, sole traders and couples
- Trusts and estates
- Partnerships
- Limited liability partnerships
- Companies and associations liable to corporation tax – pre-tagged accounts
- Companies and associations liable to corporation tax – tagging services
- Payroll services
- Payroll services – auto-enrolment

- Benefits in kind returns and class 1A NIC
- VAT returns
- HMRC tax investigations
- Tax credit claims
- Specialist tax advisory services

Why bother with an engagement letter?

Although not compulsory, issuing engagement letters is strongly encouraged. Properly drafted, it is a helpful risk-management tool because it establishes the framework of your working relationship with a client and should clearly set out the scope of your (and your client's) responsibilities and any limitations on liability. If a claim is made against a tax practitioner, the first questions that will be asked are: do you have professional indemnity insurance; and what does your engagement letter say?

The impact on indemnity insurance premiums

Increasingly, insurance providers look at your arrangements in respect of issuing engagement letters and take this into account when setting the level of your indemnity premiums.

Agreement

Most engagement letters say that the client needs to sign the duplicate letter and return it. Remember to follow this up. If a signed copy is not returned, try to get some other confirmation from your client that they have received it, such as an email acknowledgment. However, the most effective engagement letter is one signed by the client before you begin the work.

The letters of engagement in the revised guidance, together with specimen schedules of service, standard terms and conditions of business and letter of disengagement, are intended to be adapted and amended by tax practitioners to suit their own practice. Practitioners are encouraged to review their existing engagement letters and update as appropriate.

The guidance is available on the CIOT website and ATT website.