Budget buzz: unpacking tax disputes

The farmers may have hogged the spotlight, but there were plenty of other matters arising from Rachel Reeves' first Budget, writes Sarah Mawson

The recent march to Whitehall in protest of the inheritance tax changes announced in the October 2024 Budget has garnered widespread attention from the international media. Surprisingly, there has been minimal public commentary or interest in the lesser-known details of Rachel Reeve's announcement, which are poised to significantly influence how taxpayers engage with HMRC on a day-to-day basis.

In the realm of tax dispute resolution, our expertise lies in guiding clients on crafting effective strategies for navigating HMRC interactions. Therefore, it is crucial to thoroughly examine and address these often-overlooked aspects.

The tax gap

This government's focus on closing the tax gap is emphasised by their declaration that this is priority one, preceding any tax adjustments aimed at 'restoring the public finances'. They state this is the "most ambitious ever package to close the tax gap, raising £6.5 billion in additional tax revenue per year by 2029-30".

Following the Chancellor's address, it was unsurprising that changes to rates, thresholds and duties received the lion's share of attention. However, bolstering revenue isn't solely about increasing taxes. The Government has pledged £1.8 billion to HMRC over the next five years to:

- Recruit and train an additional 5,000 tax inspectors and 1,500 Debt Management Officers;
- Modernize its Debt Management and payment systems; and
- Acquire supplementary customer credit information from third parties to enhance the substantial data already in their possession.

We should anticipate heightened compliance activities, campaigns, nudge letters and enquiries. This also raises the likelihood of HMRC scrutinizing the elections and claims of law-abiding individuals and businesses.

Late payment interest

No measure can be more representative of the new Labour government's plan to tackle tax non-compliance than the increase to the rate of late payment interest charged by HMRC. From 6 April 2025, the late payment interest rate charged by HMRC on unpaid tax liabilities will increase by 1.5%, taking the limited price indexation (LPI) from 2.5% to 4% above the base rate of interest. This adjustment aims to incentivise timely tax payments and ensure compliance.

However, it is noteworthy that the government has not proposed a corresponding increase in the overpayment interest rate. While the hike in late payment interest aims to discourage taxpayers from delaying payments, the stagnant overpayment interest rate may not adequately compensate those who have overpaid their taxes. Over the past 24 months we have consistently observed delays of nine months or more in clients receiving Corporation Tax repayments from HMRC. This disparity, where HMRC is responsible for making payments, raises questions about the fairness of this change.

This change seems punitive, despite HMRC's age old adage that 'interest is recompense for the loss of use of money over time. It is not a penalty.' In practice, clients are likely to question the prudence of making substantial payments on account if overpayments will be repaid slowly at a low interest rate. Conversely, we are already witnessing clients debating the merits of entering into Time to Pay Arrangements with HMRC, opting to pursue alternative financing options where a lower interest rate is applied.

Only time will reveal the impact, of taxpayer's attitudes to this change, on the government's projected yield (as a direct result of this change) of £255 million in the 2025/2026 tax year.

Criminal investigations

HMRC has always stated that criminal investigations are employed selectively, focusing on the most harmful, complex and sophisticated frauds, and only when there is a solid evidential basis for doing so. Despite this, criminal raids, prosecutions and convictions have steadily been on the rise over the past five years. Against this backdrop it's noteworthy that the Labour government has expressed a commitment to taking stronger action against the most egregious tax fraud, including an expansion of HMRC's criminal investigation unit.

While it's premature to predict the practical implications, it's conceivable that we may witness an uptick in criminal investigations in areas where HMRC was previously hesitant to engage under criminal protocols. This might encompass cases where the potential yield to HMRC was formerly considered too low to warrant intervention by the criminal team within the Fraud Investigation Service.

It is therefore more critical than ever to consider protecting clients from criminal investigation under provisions such as the Contractual Disclosure Facility.

Cryptoasset reporting

We've mentioned the government's desire to close the tax gap through obtaining further customer information to bolster their extensive CONNECT database. In the sphere of cryptoassets, this is no different. The government has concluded the consultation on the implementation of the OECD's reporting framework for cryptoassets (CARF). The draft regulations include the extension of the CARF's reporting requirements to UK account holders. This means relevant reporting institutions must report details of UK account holders to HMRC, in addition to offshore account holders. The government has similarly considered domestic reporting for the Common Reporting Standard but has declined to implement this at this time.

We've observed an increase in nudge letters from HMRC to taxpayers holding cryptoassets. The decision to expand CARF's scope to include domestic reporting underscores the government's strong commitment to addressing cryptoasset non-compliance. The current bull market, influenced by the political climate in the US, has led to a surge in investor activity. With more individuals capitalizing on this trend, we can anticipate heightened HMRC engagement in this sector.

Promotors of tax avoidance

Far too often in the past the promoters of tax avoidance schemes have sat back as the users of these schemes feel the wrath of HMRC. This has historically left these users (and in some cases they can be described as the victims) in a dire situation, defending the indefensible. The Budget announced plans for a consultation to target promoters who market these schemes. The team here at Grant Thornton are looking forward to inputting into this new package of measures.

The delivery of the October 2024 Budget reiterated the new government's assertions that they would seek strengthen HMRC and crack down on the tax gap. One thing is for sure is that the next four years at least are set to be very busy for those of us in the tax disputes world.

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