IDEAS | PEOPLE | TRUST

SENIOR ACCOUNTING OFFICER COMPLIANCE

MEETING EVOLVING HMRC EXPECTATIONS

A FORMAL REQUIREMENT IN THE UK

The Senior Accounting Officer (SAO) legislation was introduced in 2009 and requires SAOs to take reasonable steps to ensure that they establish and maintain appropriate tax accounting arrangements to allow tax liabilities to be calculated accurately in all material respects.

A combination of new leadership in HMRC's SAO team together with an increasing focus on tax risk, governance and strategy by all stakeholders has pushed SAO up the agenda in recent months.

> “HMRC continues to levy penalties (with about 750 since SAO was introduced) with HMRC recently confirming that they cannot ignore the 'binary nature of the legislation'. This means it continues to raise penalties for even small admin failures such as missed companies or wording errors. We have been informed that there is no plan to relax these rules in the foreseeable future.”

A REMINDER OF THE LEGISLATION

HMRC defines the SAO main duty as 'taking reasonable steps to ensure that the company establishes and maintains appropriate tax accounting arrangements. These include an on-going application of governance with internal controls to substantially reduce tax risk to materially acceptable levels.'

WHO IS AFFECTED?

- All UK incorporated companies with UK turnover of more than £200m and/or balance sheet total of more than £2bn in the last financial year.
- All UK incorporated companies that are members of a group (including groups with a non-UK topco) with aggregate UK turnover and/or balance sheet total that meet the same qualifying test above.
- Limited liability partnerships are specifically excluded as are UK branches of offshore incorporated companies.

PENALTIES

Three penalties may apply:

- £5,000 for not taking reasonable steps to ensure that the company establishes and maintains appropriate tax accounting arrangements (SAO liable)
- £5,000 for failure to provide a certificate, or providing an incorrect certificate (SAO liable)
- £5,000 for failure to notify HMRC of the identity of the SAO (company liable).

WHAT IS THE REQUIREMENT?

1 | Provision of Notification to HMRC

The company must notify HMRC who is the SAO for each financial year that the company is qualifying.

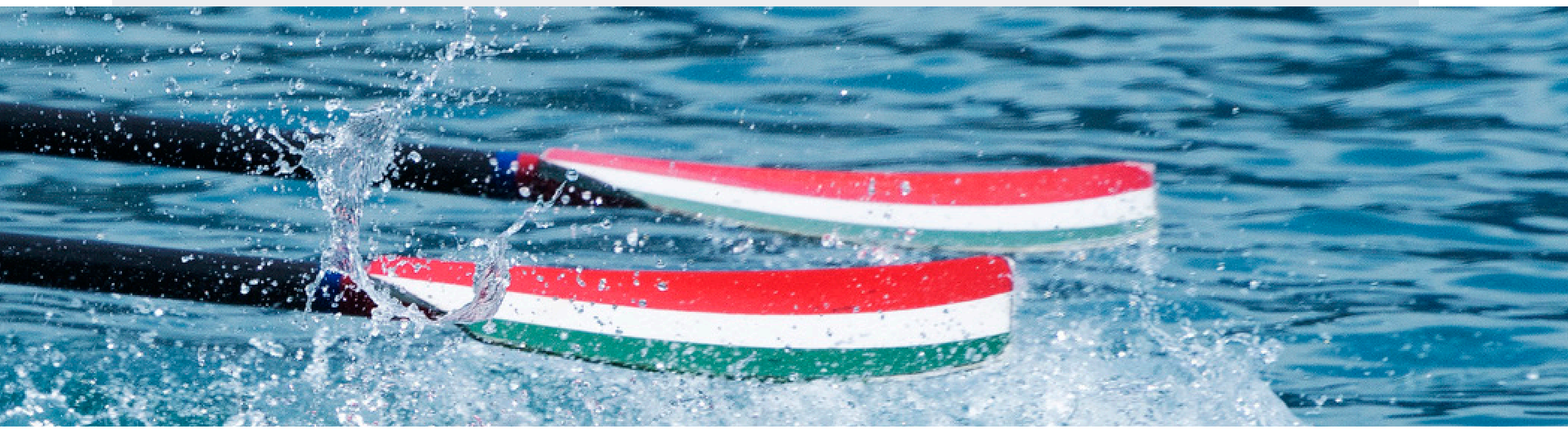
2 | Provision of Certificate to HMRC

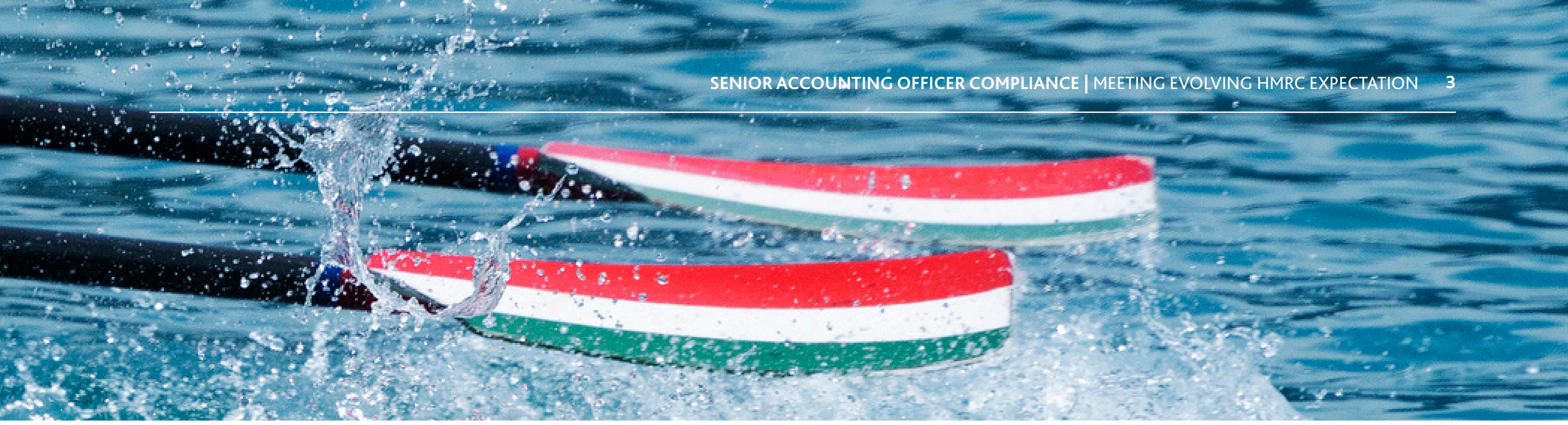
The SAO must provide a signed certificate to HMRC

The certificate must state either state that:

- The company had appropriate tax accounting arrangements throughout the financial year ('unqualified certificate'), or
- The company did not have appropriate accounting arrangements throughout the financial year and give detail about the respects in which the arrangements were not appropriate ('qualified certificate').

Both the notification and certificate must be filed either by mail or electronically (a new development in FY16) after the end of the financial year but by the date it is required to file accounts for the FY with Companies House (usually 9 months after year end if not a plc).





HMRC UPDATED GUIDANCE AND RECENT DEVELOPMENTS

BDO regularly meet HMRC leadership for SAO, most recently in October 2018.

HMRC reminded us that SAO was introduced to encourage low risk behaviours and to improve tax governance in their customers.

There is a clear overlap with HMRC's Business Risk Review (BRR) process and the requirement to publish a tax strategy. Importantly, HMRC is focused on increasing its own consistency in reviewing SAO, in particular for to the main duty requirement.

HMRC has published internal guidance on 'what good looks like' for SAO and this is being used as part of its internal training.

We have been informed that training on SAO is now no longer limited to Customer Relationship Managers (CRMs) but is being rolled out to tax specialists within HMRC, specifically its Employment Tax and VAT teams.

This is a significant development, as the majority of SAO failures relate to these two taxes. By training HMRC tax specialists in what they should be expecting as part of SAO compliance, it will encourage them to ask what is being done by organisations to establish and maintain appropriate VAT and Employment taxes tax processes.

This is likely to include questions such on how you 'monitor key UK tax risks throughout the year' and 'implement, maintain and monitor a risk-based testing programme… and evidencing what has been done.' (HMRC guidance)

HOW BDO CAN HELP – WORKING IN PRACTICE

REVIEW OF INTERNAL CONTROLS AND SYSTEMS

Incorporating a classic Internal Audit approach we will asses the control environment over the main tax processes for relevant taxes.

BESPOKE SAO REPORT AND SUPPORT

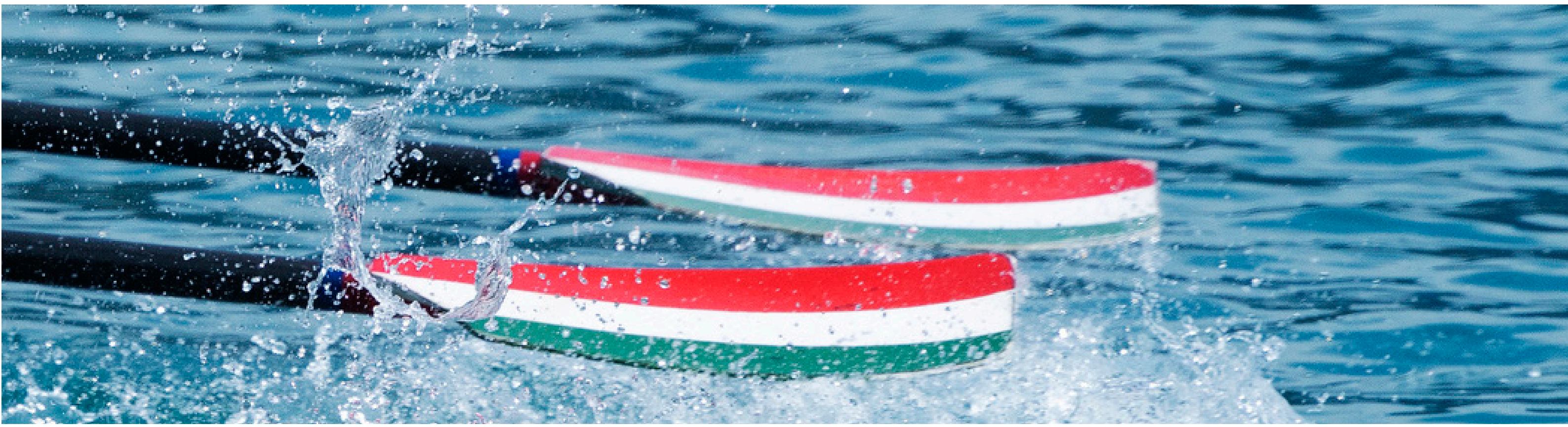
We will provide you with all you need to support your SAO compliance. Our report and methodology has been reviewed and recognised by HMRC as meeting the requirements of the SAO legislation.

We will also support you with the wording of the notification and certificate in advance of submission.

PROVISION OF 'BDO OPINION'

Our SAO methodology provides a robust approach and evidence of SAO compliance.

This includes not just our report but also a formal opinion on the appropriateness of your tax accounting processes.



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