

MAKING TAX EASIER: THE END OF THE TAX RETURN

Comments by the Association of Taxation Technicians

1 Introduction and summary

1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to comment on the Government's announcement in the Budget 2015 that the annual self-assessment tax return is to be replaced with individual digital tax accounts.

1.2 This represents another step in the Government's general move towards digital engagement with taxpayers and, if introduced correctly, could see significant improvements to the tax system and the service provided to taxpayers.

1.3 However, we are concerned by the suggestion that this could come into effect as early as next year, with the Government stating that

'by early 2016, all of the UK's five million small businesses and the first ten million individuals will have access to their own digital tax account.'

We believe that to rush into such a radical change to the tax system is a mistake and we set out our concerns in detail at section 2 below.

2 Our concerns in more detail

2.1 IT systems

The ATT is involved with a number of consultation groups that address the general move to digital engagement, such as the Agent Online Self-Serve project. This has been in discussion for a number of years and is only now reaching its private testing phase. This project highlights that such radical changes do not happen overnight. There needs to be a carefully considered design phase and then a rigorous testing phase to ensure that what is eventually 'rolled-out' is fit for purpose and will not result in immediate problems.

There are a number of other digital projects going on currently from the digitisation of tax credits renewals to the digitisation of the Inheritance Tax returns. All share the same design process – the 'agile' process as it is known – which requires that ideas and new software are

tested as the process moves along rather than designing the system in full and then launching it for testing.

We are concerned that the Government may not have fully considered just how long this IT design and testing phase needs to take before the first digital tax accounts can be made available. If the general public are to come on board and remain engaged with this new tax system then it is imperative that all normal users (as distinct from any volunteer guinea-pigs) must have a good experience right from day one. Problems that were encountered after the general launch would be damaging to the success of the project both in terms of HMRC's reputation and in redesign costs. HMRC are playing for high stakes here so it is essential that development costs and timescales are properly budgeted. If "early 2016" proves to be unrealistic, it will be far better to recognise that publically and defer implementation than to risk launching a flawed system which has the potential to damage the individual digital tax account brand.

2.2 **Security**

The Government assures us that the digital tax accounts will be secure. We assume that access to the accounts will be via VERIFY, the same as access to all Government online tools. VERIFY is still in its early stages and the ATT is aware that at present there only two forms of ID the system accepts: a passport or a driving licence.

It is not unheard of for individuals to possess neither of these documents. We know that this is already creating a barrier for individuals to renew their tax credits online and that there are plans to eventually add to the number of ID documents that can be provided.

This amendment to the VERIFY system needs to take place before digital tax accounts are launched otherwise we foresee that the very narrow list of acceptable ID documents could prevent some people from accessing their tax account, unless the Government have plans to use another method of secure access.

2.3 **Pre-population of data**

It is intended that HMRC will automatically use the information it holds, along with data from third parties, to populate the digital accounts, with the aim that taxpayers simply log-in and check the details are correct.

We applaud the general concept of pre-population. However, it can only be as good as the data available within the system. The PAYE data for employees will be coming from the RTI system, which in itself is still in its early years of operation. There are still issues within the RTI system that are being ironed out, such as duplications of income.

We believe that it will be very important to issue clear guidance to taxpayers regarding their responsibility to check the data as there is a strong (and not entirely unreasonable) perception amongst the public that if the data has come from HMRC it must be correct. This may lead to some not thoroughly checking the pre-populated details. If there will be consequences (for

example penalties) for not correcting the pre-populated information, this will need to be clearly (but unthreateningly) emphasised.

Furthermore, the Government reminds us, in the HMRC information leaflet *Making tax easier: The end of the tax return* that taxpayers will still be responsible for telling HMRC about information that is not reported by other means. However, in order to know that they remain responsible for, it will need to be made very clear to taxpayers what information HMRC are getting from third parties and what information they are not, so as to ensure there can be no confusion.

2.4 **Use of agents**

No matter how simple a process the completion of tax information is made, there will always be taxpayers who will want to appoint an agent to deal with this on their behalf. Therefore, we are pleased that agents will still be able to manage a taxpayer's digital account, if the taxpayer wishes. However, we wonder how digital accounts will fit in with the Agent Online Self-Serve project that we have mentioned in section 2.1 above. Hopefully, the two systems can be made to dovetail as it would be a shame to waste the time and money that has been spent to-date on this project.

We are assuming that agents will be able to access their clients' digital accounts right from the time that their clients can. Any delay in providing agents with access could cause significant confusion with a risk of reporting errors.

2.5 **Complex affairs**

We wonder what research the Government has undertaken to establish how many taxpayers may have "complex affairs" and whether such taxpayers will need a different version of the digital tax account.

We say this with the current pension reforms in mind where it is quite likely that when taxpayers have the ability to draw down pensions freely, their tax positions will become more complex in ensuring that the correct amount of tax has been paid at source.

We also say this with the new Personal Savings Allowance in mind, as announced in Budget 2015, where tax deducted at source from bank and building society is intended to be scrapped in favour of including the remaining taxable interest (after taking account of the Personal Savings Allowance and in some cases the starting rate band exemption) in PAYE tax codes. This is workable to some degree for employees (although we do foresee many underpayments of tax arising where tax codes are not updated correctly) and cannot apply to self-employed people. Therefore, the 'mopping up' of the tax due on the interest, or indeed tax repayable, will need to be done through the digital tax accounts.

2.6 **Digitally excluded**

We cannot complete our comments without a word on those who, for whatever reason, are not able to get online. We have been provided (in the HMRC leaflet) with the figure of over

85% of Self-Assessment tax returns completed online. It is obvious to say so, but that does leave some 15% of cases where returns are still filed on paper and that is not an insignificant amount.

We have been given assurances that those who have difficulty going online will be provided with help and support. In some cases the help may be in the form of helping them to transition to going online, which is great. However, there will always be the need for an alternative way for some people to provide their tax details – be it in person with an HMRC agent (for example through the Needs Enhanced Support service), on the telephone or, as some people will still prefer, in writing.

We trust that all of these options will remain open for this category of individuals who are not able to go online.

2.7 **Other points**

We have detailed our key concerns above. In the course of preparing this response, we have noted other points which we think it will be helpful to pick up in the ongoing consultation process. These are briefly listed below.

- (i) The ‘pay as you go’ option referred to in the HMRC leaflet could indeed be helpful for taxpayers who wish to ensure that they do not have a large tax bill to pay in the future. It will, however, be essential that entries made ‘in year’ about taxable income can be amended if circumstances change.
- (ii) The references to putting good customer service at the heart of the new system is obviously a worthy aspiration. It would, however, be unrealistic to ignore the fact that the proposed changes are driven at least in part by cost-saving objectives. It is essential that the prospect of short-term cost savings are not allowed to dictate the pace of progress towards implementation or the quality of the product with which customers are eventually presented.
- (iii) Reference is made to the new system allowing people to solve their queries easily online, rather than by phone, letter or paper forms. ‘Allowing’ is fine; obliging could be another matter.
- (iv) Reference is made to the digital account being ‘just like an online bank account’. If that is to be achieved, its design will need to be very much more user-friendly than HMRC’s existing Statements of Account which are baffling to many people outside the department.
- (v) The promise of ‘tailored support’ sounds good but we recognise that much of this is likely to be digitally driven without any human interaction. It will be essential, at least in the early days of the new system, for a taxpayer to obtain easy and fast access to an HMRC officer who can help them to get things right. Sometimes the tailoring will need to be bespoke.

- (vi) The suggestion that a business will be able to link its accounting system to the tax account such that business information could be automatically uploaded seems to be a particular element of the digital tax accounts that will involve extensive IT design and testing before it can be made available. There remains so many differences between profit for accounting purposes and tax purposes that there will need to be some very sophisticated technology in place behind this system to account correctly for disallowable expenditure in order to arrive at the correct taxable profit, or will taxpayers and agents still need to be manually involved to finalise the taxable profit figure?

3 Summary

- 3.1 We have provided in this note, the matters that we feel need detailed and careful consideration before the move to digital tax accounts take place.

We recognise that the new system has the potential to provide many wide ranging benefits to taxpayers and HMRC and we do believe that it is the way to move forward.

Our purpose of this note though is to provide a word of caution over the speed with which this new system is rolled out. It is essential that it is not rushed if it is to achieve its full potential. We believe that this change is as significant as the introduction of self-assessment was twenty years ago and this was discussed over a period of at least five years.

We are glad to see that the Government intends to consult later this year on how it will deliver changes and the ATT looks forward to playing a constructive part in that consultation process. However, we would again stress that “early 2016” seems like an improbably short timescale to implement the first stage of digital tax accounts when the consultation is only happening later this year.

- 3.2 **Contact details:**

Should you wish to discuss any aspect of these comments, please contact our relevant Technical Officer, Alison Ward, on 07762 947 910 or at award@att.org.uk.

Yours sincerely

Paul Hill
Chairman, ATT Technical Steering Group

4 Note

4.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia. The Association has over 7,500 members and Fellows together with over 5,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.