

IFA REPRESENTATION 07/21



The IFA welcomes the opportunity to provide feedback to the [Call for evidence: the tax administration framework: supporting a 21st century tax system](#) published by HMRC on 23 March 2021.

We would be happy to discuss any aspect of our comments and to take part in all further consultations in this area.

Institute of Financial Accountants
Member of the IPA Group
CS111, Clerkenwell Workshops
27-31 Clerkenwell Close
Farringdon, London EC1R 0AT
T: +44 (0)20 3567 5999
E: mail@ifa.org.uk
www.ifa.org.uk

Established in 1916, the Institute of Financial Accountants (IFA) is an internationally recognised professional accountancy membership body. Our members work within micro and small to medium sized enterprises or in micro and small to medium sized accounting practices advising micro and SME clients. We are part of the Institute of Public Accountants (IPA) of Australia Group, the world's largest SME-focused accountancy group, with over 40,000 members and students in over 80 countries.

The IFA is a full member of the International Federation of Accountants (IFAC) the global accounting standard-setter and regulator. We are also recognised by HM Treasury and the Financial Services Authority in the Isle of Man to regulate our members for the purposes of compliance with the Money Laundering Regulations.

Copyright © IFA 2021 All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title is quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact the IFA mail@ifa.org.uk

www.ifa.org.uk

1. Purpose

The views contained in this report are those of the IFA as a body and do not represent the views of any one person. Feedback was taken from a number of IFA members and supporters to form the basis of this report.

2. Approach

The IFA consulted its members concerning the Call for evidence: the tax administration framework: supporting a 21st century tax system. This response reflects the views of around 47 IFA members who took part in an IFA members' survey.

We have not formed a response to every question in the Call for Evidence but have instead we have concentrated on the key questions of interest to our members. We have referenced those responses using the original question numbers from the consultation paper.

3. Executive summary

As this consultation is a broad call for evidence the IFA is presenting a range of views from its members.

The reformed tax administration framework must be flexible enough for taxpayers to move in and out of charge to different taxes more frequently than is currently expected. The existing tax administration framework was formed at a time when taxpayers fitted into legislative boxes (old 'schedules') according to their category of income: employment, self-employment, rental income, investment income.

These distinctions between different categories of income which give rise to different taxes still exist, but today individuals frequently have many sources of income concurrently rather than sequentially. For example, an individual may be both employed and self-employed, as well as receiving both savings income and rental income.

The tax administration framework needs to cope better with taxpayers who have income from many sources and who frequently change the mixture of income they receive. Requiring a taxpayer to understand the different deduction and declaration rules for three or four different sources income is asking too much.

A unique ID for each taxpayer will be key to the reformed tax framework. At present not all UK residents have a national insurance number, so it is not a universal system. Also there are instances where two taxpayers have been allocated the same NI number, or one taxpayer has two UTR numbers, or even when data from two taxpayers has been muddled. The security and uniqueness of an ID number for every participant in the tax system – taxpayers and tax agents is key.

The reforms of the tax administration system need to focus the interaction between tax agents and the tax infrastructure and well as interaction with taxpayers directly. Tax agents should have the ability to see everything that their clients see.

In a digital tax administration framework, there will be key dependencies on computer systems and interaction with commercial software. All of HMRC's tax processing systems need to talk to each other and smoothly exchange data. Sufficient time needs to be allowed

for implementing legislative and guideline changes in computer systems and software and ensuring that those changes are implemented correctly, to avoid future manual interventions.

4. Detailed response

Q1. Are there reforms which HMRC should focus on for the framework review? Which changes should we prioritise to drive improvements in the taxpayer experience?

There are two parts to this question which elicited different answers from the IFA members.

Based on member feedback, members have prioritised the reforms for HMRC to focus in the following order of importance:

1. Simplicity and transparency of tax system
2. Building trust in the tax system so it is seen as fair and even-handed
3. Providing certainty and appropriate safeguards for taxpayers
4. Making it easier to get tax right and harder to make mistakes
5. Reducing costs to the taxpayer and tax agents
6. Flexibility in the system so HMRC can provide targeted support for taxpayers

Improving the taxpayer experience of the tax system is important to IFA members. However, reforms in this area need to focus the interaction between tax agents and the tax infrastructure and well as interaction with taxpayers directly. The top three reforms IFA members would like to see in this area are:

1. All tax administration systems built to allow tax agents to file returns and make any amendments to tax data on behalf of their registered clients.
2. Access to online accounts so that tax agents can view everything their client can view.
3. A single integrated tax account for every taxpayer which includes business and personal taxes.

Q2. Where is the tax administration framework creating challenges to the trust that taxpayers place in the tax system and HMRC's administration of it? How could the framework be reformed to address these challenges?

A large part of the tax administration framework now depends on underlying computer systems and interaction with commercial software. All of HMRC's tax processing systems need to talk to each other and smoothly exchange data.

The failure of the UK Property Reporting Service to interact with the taxpayer's self-assessment record is a disaster which could have been avoided. Building a system where manual intervention is required to repay tax that has to be estimated and paid in advance of the final figures being known, is a foreseeable problem.

Likewise, the interaction of class 2 national insurance contributions and self-assessment is still not working perfectly, as thousands of tax returns are incorrectly adjusted by HMRC to remove class 2 NIC liabilities every year. This also requires manual intervention to correct the position to what was reported accurately on the tax return in the first place.

These sorts of failures of IT systems undermine trust in HMRC and in the tax system as a whole.

The other half of automated tax compliance is supplied by commercial software which has to communicate with HMRC systems. In effect HMRC has subcontracted out the administration of tax to the software industry, but asks those businesses to perform small miracles in short periods of time.

The tax software industry must be given significant time to amend its software as a result of changes in tax legislation. The announcement of changes to tax or NIC must be made with sufficient time (preferable a full year) to allow software to be written and fully tested before implementation. The introduction of the reduced class 1 NIC rate for veterans is a good example of something that cannot be fully programmed into the PAYE system as not enough notice was given of the change.

Tax software, particularly personal tax software has to perform very complex calculations that taxpayers and tax agents rely on. However, those calculations are based on a set of examples provided by HMRC which are never independently checked. This can lead to computational errors and inconsistencies.

The long list of self-assessment individual exclusions – where the online submission of the self-assessment tax return is rejected by the HMRC computer system because the calculation or combination of data items does not fit the expected pattern, illustrates the numerous difficulties in this area. The solution in many of these cases is to submit a paper tax return, which will require manual intervention by HMRC staff to process.

IFA members have asked for tax software to be approved by HMRC, but this is a task which HMRC is not set-up to do.

A solution is to appoint an independent body to set standards for UK tax software, to check that all such software performs tax calculations according to the tax law, and not only in line with the computational examples picked by HMRC to illustrate tax law. This standards body could award a quality control badge to commercial software that meets its pre-determined standards.

Software carrying a standards accreditation would then be trusted by taxpayers and tax agents to produce an accurate tax computation, and to do what it advertises. Some software products currently claim that they check the tax return, implying that using the software means the tax return is 100% in line with tax law, when this is certainly not the case.

Standards already exist in many areas of industry, and many are developed by the British Standards Institute (BSI) in conjunction with businesses.

Q9. Are the current approaches to the timing of registration still appropriate, or are there opportunities for reform?

There are certainly opportunities for reform of when and how taxpayers register with HMRC. The procedures to register for each tax should be made easier by allowing taxpayers to register from within their online tax account and to allow tax agents to perform this task for any clients they are already authorised to act for.

IFA members favour a registration deadline tied to the time the taxpayer commences a taxable activity, rather than to the end of the tax year in which the activity commenced. The following options are preferred in this order:

1. Register within 6 months of commencing new taxable activity
2. Register within 3 months of commencing new taxable activity

3. Register by the end of the first year of new taxable activity

Q12. What likely changes and developments will the framework need to handle? What are the key priorities for framework reform in the area of calculating and assessing tax liabilities?

The reformed tax administration framework must be flexible enough for taxpayers to move in and out of charge to different taxes more frequently than is currently expected. The existing tax administration framework was formed at a time when taxpayers fitted into legislative boxes (old ‘schedules’) according to their category of income: employment, self-employment, rental income, investment income.

These distinctions between different categories of income which give rise to different taxes still exist, but today individuals frequently have many sources of income concurrently rather than sequentially. For example, an individual may be both employed and self-employed, as well as receiving both savings income and rental income.

The tax administration framework needs to cope better with taxpayers who have income from many sources and who frequently change the mixture of income they receive. Requiring a taxpayer to understand the different deduction and declaration rules for three or four different sources income is asking too much.

Tax software can provide a mechanism for tax compliance which smooths the interaction between the taxpayer and tax legislation. However, the taxpayer needs to have complete trust in the tax software to calculate the tax correctly. Currently only 34% of IFA members believe that the tax computation software can be trusted to deliver tax computations in line with tax law in every case.

See further comments on this issue under Q2 above.

Q14. How could HMRC better establish tax liability in future, to help build trust in a tax system that people see as fair and even-handed?

Changes to the tax framework which make the process of establishing tax liabilities easier for HMRC do not necessarily make the experience easier or “better” for taxpayers. An increased use of automation in establishing tax liabilities may be better for HMRC, as costs reduce with the reduction in manual intervention. However, taxpayers who cannot cope with using online services must not be excluded.

The tax administration systems also need to be designed and tested along every step from; registration, submission of data, calculation, and payment - in order to ensure a smooth journey for the taxpayer and their tax agent. Any new tax administration system must integrate smoothly with existing tax systems, or you end up with a mess and additional manual intervention as illustrated by the UK Property Reporting Service.

The tax framework needs to work smoothly and transparently for people to see it as fair and even-handed. This is a topic which has been discussed at length in the HMRC Powers and Customers Safeguards Forum.

The principles of HMRC powers and safeguards set out in Annex B of the in the report: [Evaluation of HMRC’s implementation of powers, obligations and safeguards introduced since 2012](#) should be adhered to when designing any future tax administration framework.

Trust in the tax system can only be maintained where the obligations for taxpayers are:

- Clear
- Publicised widely enough and in good time to permit compliance
- Accessible for all taxpayers and their tax agents
- Not imposed retrospectively
- Set in statute; and
- Conformant with human rights and other relevant non-tax legislation.

Q17. What likely changes and developments will the framework need to handle? What are the key priorities for framework reform in the area of data and information?

The IFA is acutely aware of the importance of tax data relating to taxpayers and for their own practices. In a survey of IFA members they ranked the following issues in the area of tax administration data in this order, with 1 being the most important.

1. Data security.
2. Ensuring each taxpayer has a unique ID number which cannot be reused, transferred or duplicated.
3. Providing safeguards for taxpayers and tax agents for data responsibilities.
4. Determining who is responsible for quality and accuracy of data provided by third parties.
5. Setting standards for quality and formatting of data from third parties.

A unique ID for each taxpayer will be key to the reformed tax framework. At present not all UK residents have a national insurance number, so it is not a universal system. Also there are instances where two taxpayers have been allocated the same NI number, or one taxpayer has two UTR numbers, or even when data from two taxpayers has been muddled. The security and uniqueness of an ID number for every participator in the tax system – taxpayers and tax agents is key.

Q20. What key issues do the current legislative provisions relating to payments present?

The IFA is concerned about a number of existing legislative and procedural issues relating to tax payments. Comments for members include:

- Not all taxes are visible in the taxpayer's online personal tax account online. For example, tax due on pension excess does not appear in on the online self-assessment account.
- The PAYE shows the tax and NIC outstanding but does not take into account CIS payments and deductions at source.
- PAYE payment matching system throws up mismatches every tax year end and there is no way to resolve them easily.
- Agents cannot see NIC records of clients thus it is difficult to advise if additional NI contributions are due or desirable.
- Tax payments are sometimes split by HMRC and reallocated which is sometimes not correct and makes it difficult to follow where the payment has gone.
- When taxpayers make an error and pay into the wrong HMRC account, it is difficult to transfer payments over.

- Paying tax by phone is difficult.
- Payment descriptions on bank statements are unclear and cannot be readily identified (i.e. a CIS deduction and a PAYE payment are not obvious).
- Payments of tax to a debt collection agent are also unclear
- There is no single balance visible online for corporation tax, the taxpayer or agent must drill down into each individual accounting year to see the balance due. This is inconsistent with the practice for income tax self-assessment.
- Taxpayers and agents are not provided with up to date statements from HMRC.

Q23. What likely changes and developments will the framework need to handle? What are the key priorities for framework reform in relation to payments?

A survey of IFA members found they ranked the following issues relating to tax payments in this order:

1. Tax Agent can't see tax payment record of employers/ taxpayers
2. Not possible to see a complete view of all tax liabilities of the taxpayer
3. HMRC staff can see different tax payment records than presented to taxpayer in online accounts
4. Period to pay tax after transaction is too short
5. Several tax liabilities due around the same date, leading to bunching of tax liabilities

Contact details

Should you wish to discuss our responses further, please contact Anne Davis, Director of Professional Standards, by email at anned@ifa.org.uk