

Making Tax Digital: Transforming the tax system through the better use of information
HM Revenue & Customs (HMRC) consultation
Response from the Low Incomes Tax Reform Group (LITRG)

1 Introduction

- 1.1 LITRG welcomes the opportunity to comment on all the Making Tax Digital (MTD) consultations issued on 15 August 2016. As this consultation document gives much more detail as to how the digital tax account is expected to work, we have included some observations regarding the digital tax account generally in addition to responding to the specific questions posed.
- 1.2 This consultation response should be read in conjunction with our responses to the other consultations on MTD.
- 1.3 We begin though with some general comments on the MTD policy.

2 Making Tax Digital programme

- 2.1 We generally support the HMRC digital strategy and recognise that many benefits may be possible in the digital world. We are though hugely concerned that much of the detail of the MTD programme is still to be considered and finalised, and as a result implementation of MTD for unincorporated businesses from April 2018 is totally unrealistic and unachievable in the timescale.
- 2.2 The current timetable does not allow sufficient time for:
- HMRC to properly publicise and educate the public about MTD;

- businesses to prepare for these very significant changes, both in terms of practical impacts and the additional costs which will result;
- the software – which is crucial to the success of MTD – to be anything like fully developed and tested.

- 2.3 We strongly urge HMRC to delay the commencement of MTD until the design has been completed and fully tested. This should substantially reduce the massive risk of the project going seriously wrong with the damage done to HMRC reputation but also the inevitable ‘teething problems’ that will without doubt occur. A more relaxed introduction will therefore lessen the chances of the public quickly losing faith in the system, reduce the chance of naturally compliant taxpayers making mistakes due to having to rush into unfamiliar territory, and protect HMRC from reputational damage.
- 2.4 We do not support the principle of mandating MTD and are wholly opposed to this approach. If we compare it to self assessment (SA) online filing which has been very successful without being mandatory, we can see that if a product is good and beneficial, taxpayers will naturally migrate to it. Mandation is very likely to have the opposite effect to that which it is intended to foster: instead of increasing tax receipts, it may act as a disincentive to businesses to trade legitimately and encourage some into the hidden economy.
- 2.5 Many businesses with low incomes will find it extremely difficult to comply with the requirements of MTD for a number of reasons, being cost, extra administrative time, lack of IT knowledge, and lack of financial literacy. To make the system work as smoothly as possible, we would strongly recommend that the exemption level is raised very substantially above the proposed limit of £10,000 annual turnover. In our view we consider that the exemption limit should initially be set at an amount equivalent to the current VAT registration threshold. This should at least mean that MTD for business will be more successful from the outset as potentially problematic traders will be below the exemption limit. In turn, fewer resources will be required to provide digital and perhaps financial support to those who will need assistance. This should result in a much smaller group than would otherwise be the case. But if MTD is as good as HMRC promise, traders will almost certainly wish to join it voluntarily.
- 2.6 The success of the MTD programme depends heavily on the use of good software. It is the responsibility of Government to provide free software where it is a requirement to have software to be able to comply with legal obligations. In respect of MTD HMRC should ideally provide good, free software to small businesses. Relying on commercial businesses to make free software available is, in our view, fraught with very significant problems and is wholly unsatisfactory. Free software provided from commercial sources will have only limited functionality, thus those unable to afford upgraded packages could be excluded from many of the purported benefits of MTD and free software providers will constantly be bombarding their customers with update requests.

- 2.7 Finally, there will always be some taxpayers who are digitally excluded for a variety of reasons such as lack of broadband due to remote location, or age, or disability. The service and support available to this group of taxpayers must be of at least the same level as that available to digitally enabled taxpayers. Regrettably, the detail of what this support will likely be has not yet been made clear.

3 Transforming the tax system through better use of information: Executive Summary

- 3.1 We welcome, with adequate safeguards, HMRC's proposals to use both information they already hold, and existing or additional third party information so that taxpayers do not have to provide this themselves. This is a sensible step towards removing administrative burdens which, if implemented carefully, should save both time and effort.
- 3.2 It is essential that the information held by HMRC or provided by third parties is accurate. People must have the right to challenge the validity of pre-populated information and HMRC should respond to any challenge in a helpful and supportive way. It will be totally unacceptable to suggest that individuals will have to challenge the third party as to the validity of the information provided.
- 3.3 It is though, and continues to be, a major concern that some of the information currently used by HMRC, for example to populate forms P800, is incorrect. Resolving these issues is crucial before the digital tax accounts go live.
- 3.4 Information provided through real-time information (RTI) for Pay As You Earn (PAYE) was chaotic in the early days and, we would emphasise, employers already held the National Insurance (NI) numbers for their employees. Banks do not necessarily know the NI numbers of their customers so matching account details to NI numbers may prove difficult. Issues such as this need to be resolved to prevent the system falling into chaos.
- 3.5 Where the receipt and inclusion of information results in a change to a projected liability, HMRC should issue immediate and automatic notifications that are clear and easy to understand. It is important that people can see full details of all information held so that they can check for themselves its validity and completeness. We are however concerned that some people may be confused, stressed or overwhelmed by continual updates so some 'tolerance' may almost certainly be needed to be built in to the system so that small differences of a few pence or pounds are not notified.
- 3.6 We also have serious reservations that removing the requirement for taxpayers to submit figures to HMRC themselves may discourage some from checking whether information automatically presented in their digital tax account is correct. Should that information turn out to be incorrect or incomplete, we are concerned that this may expose those who trust (or indeed rely on) HMRC to get things right to penalties or overpayments of tax.
- 3.7 Awareness of digital tax accounts, through which much of this information will be displayed, is still very low. And even though many people may have already accessed or will access

their digital tax account on at least one occasion there is no guarantee they will check it regularly, or even at all, even if they are sent email or text alerts to remind them to do so. We believe that HMRC should deliver a comprehensive and sustained education programme to raise awareness of the benefits and to encourage and support both the initial and ongoing use of these accounts. It goes without saying that any education programme must not be solely digital; it should be available across a range of channels so that those not familiar with digital tools do have the opportunity to be exposed to it. An education programme delivered solely through digital channels may not only discourage those unfamiliar with digital information but may also totally exclude those not able to access services in this way. We would cite the example of the marriage allowance where a campaign that was entirely digital in its early days failed to communicate the relief adequately.

- 3.8 In addition to a comprehensive education programme, HMRC must provide appropriate help and support across a range of channels to enable people to understand their digital tax account and the information contained within it.
- 3.9 The consultation document seems to imply that people will understand their tax affairs much better when information is available online compared to when they received paper information. This is unlikely to be the case in practice. We emphasise that without adequate education and help and support, this will not happen. We also stress that digital tax accounts must be ready and fit for purpose from the outset. While HMRC might say that their 'agile' systems allow for easy changes to iron out issues as time goes on, this needs to be balanced against individuals becoming confused and frustrated if what they see each time they log on has changed.
- 3.10 It is not at all clear how HMRC will identify and help people unable to interact digitally, or who have the potential to become digitally excluded as a result perhaps of a change in personal circumstances or the natural ageing process. How will these people have access to the same level of information as the digitally enabled? If they cannot, they are potentially at a severe disadvantage. For these people, alternatives that are as good as the digital options must be available.
- 3.11 We strongly urge government to ensure that the Department for Work and Pensions (DWP) provides taxable state benefit information to HMRC in 'real time'. Current delays in providing this information is a major cause of stress and financial problems for those we seek to represent. A major frustration for many is that the DWP and HMRC seem unable to communicate effectively with each other to enable HMRC to collect tax due on taxable state benefits on time – in particular, the state pension, jobseeker's allowance and employment and support allowance, among others. We recommend that this issue is addressed and resolved before the full MTD agenda goes ahead. All employers, regardless of size, are required to report pay and tax details to HMRC on a regular basis. It is completely unacceptable that the largest payer of taxable benefits is not subject to the same requirements.
- 3.12 As well as including information from third parties regarding income, the digital tax accounts should also include details of individuals' reliefs and allowances of which HMRC are aware

from their own information (or from information provided by third parties). If it is necessary to make a claim to reliefs and allowances, the system should prompt the taxpayer to check their account and claim. This should inspire greater confidence among taxpayers, demonstrating that HMRC will seek to collect the correct amount of tax due rather than a maximum amount.

4 About Us

- 4.1 The LITRG is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.
- 4.2 LITRG works extensively with HMRC and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 4.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

5 Digital tax accounts generally: matters raised in the consultation document, but not referred to in the questions

Raising taxpayers' awareness of entitlements and facilitating claims to them

- 5.1 Paragraph 1.6 states that 'digital tax accounts will give all customers a single, personalised view of their tax position across all of their liabilities and entitlements. . .'. Unfortunately, there is no further discussion of 'entitlements' in the document. Equal emphasis needs to be placed on ensuring taxpayers claim all that they may be entitled to, as to capturing all their income – that is, ensuring people pay the 'right tax' not the maximum tax. This is essential to deliver the full benefits of MTD for individuals.
- 5.2 HMRC will already be aware of gift aid donations made by individuals, who are required to provide their home address when the charity is authorised to reclaim basic rate tax on the donation. In addition, HMRC will be aware of pension contributions made to personal pension schemes where the insurance company is obliged to quote the individual's NI number so as to receive the basic rate tax 'credit' from HMRC. These 'entitlements' should also be reflected by HMRC in the individual's digital tax account.

- 5.3 For the low-income and unrepresented taxpayer, it is crucial that digital tax accounts also signpost to entitlements that may be potentially due but not yet claimed such as the marriage allowance, married couple's allowance or blind person's allowance. As HMRC can usually tell which taxpayers are married, they could flag this up, clearly setting out how allowances might be claimed for the current and previous years. This could also be extended to include flagging up potential entitlement to working tax credit, child tax credit and child benefit and a range of DWP benefits.

Transparency over data held

- 5.4 It is not clear which types of third party information HMRC already hold. It would be helpful to disclose this so that taxpayers understand what is held and what they do or do not have to disclose separately.

State benefits – giving a breakdown or calculation of the amount in the digital tax account

- 5.5 Paragraph 2.3 states that HMRC already inserts third-party information about the state pension into online SA tax returns. We are concerned however that people often query the figures used as they do not know how they have been calculated. It would be helpful to include a calculation, for those who want to see it, as it is unlikely that figures used will match the amounts received in any given period for example payments received fortnightly, four weekly and so on will not match up with the system due to the state pension being paid along with other state benefits. Further, many pensioners do not understand that the Christmas bonus and winter fuel payment, among other items, paid along with the state pension are not taxable. Similar comments could be made in relation to receipt of child benefit where an individual is subject to the high income child benefit charge (HICBC).
- 5.6 Chapter 4 deals with work to be carried out with third party providers of information. We emphasise that obtaining and using up-to-date information about taxable state benefits from the DWP must form an integral part of these proposals as so often it is the receipt of these benefits that causes underpayments and tax debts to arise, particularly for our constituents.

Accurate use of data is essential to the success of, and taxpayers' confidence in, MTD – care needs to be taken with savings income, for example

- 5.7 Paragraph 2.9 states that information on interest received during 2015/16 will be used to calculate tax due in 2016/17. Although this is a starting point, HMRC need to develop a comprehensive education programme so that people understand what is happening. It is also important to note that as interest rates have recently fallen, estimates based on a previous year may be higher than necessary. We are aware that forms P800 for 2015/16 may already contain figures for interest received but that many of these estimates are based

on (very) historic information. Indeed our colleagues from Tax Help for Older People¹ have advised us that 72% of the forms P800 they have seen for that year contain errors relating to various income figures. To us it seems incredible that accurate figures will be available in time to populate digital tax accounts by the proposed start date. We highlight our concern that if taxpayers receive a negative experience early in the life of digital accounts, then they are more likely to insist on paper interactions and use helplines more. Based on the experience of our colleagues, it seems there is still a considerable amount of work to be done to cleanse information in HMRC's system.

- 5.8 Paragraph 2.15 states that the default position will be to collect any additional tax owed via PAYE where that is affordable but customers will be able to opt out and pay this tax separately if they wish. We are concerned that many of those paying tax on interest will be pensioners – they are possibly the most likely to have savings but are amongst the least likely to be able to interact digitally. It will be essential that other channels are readily available and advertised so that this group can successfully interact with HMRC and have choices about how to pay any additional tax due.

SA tax returns and their interaction with digital tax accounts

- 5.9 Paragraph 2.20 states that some people will have other income sources in addition to bank and building society interest. Where individuals do not need to complete quarterly updates and these additional sources total less than £10,000 per year, they will be able to continue with the usual SA tax return if they wish. Alternatively, by 2018 they will have the option of reporting this income through their digital tax account and updating this as often as they choose rather than quarterly. This means that some people will be mandated to use digital tax accounts, some will opt to choose the process described at 2.20 and others will remain with the SA Online service. We assume, and indeed recommend, that the free software that is to be available to those who come within MTD will also be available for those who voluntarily choose to use their digital tax account.
- 5.10 If the SA return eventually ceases to exist there may be a risk that people forget to report something to HMRC. While potentially perceived as cumbersome, the SA return at least provides a year end 'checklist' and looking through it might prompt someone to recall something that they have forgotten, for example a chargeable event gain. What alternative checklist, nudges or prompts will the taxpayer have in the digital age?
- 5.11 We are not clear how taxpayers will be able to report employment income through their digital account where they have received no P45 or P60, for example because they were paid 'cash in hand' and the employer has not reported the income through RTI. We assume

¹ Tax Help for Older People is a service providing free, independent and expert assistance on tax matters for older people. It is run by the separate charity, Tax Volunteers, with whom we have a close working relationship. See www.taxvol.org.uk

such taxpayers will have to report the income as 'other income' but would be grateful if HMRC would confirm this.

Monthly projections of tax liability, and clarity of information provided on-screen

- 5.12 Paragraph 2.22 provides information on 'Changes to how you update HMRC'. We are not sure how useful a monthly projection of an individual's tax liability will be, especially since taxpayers are required to notify changes on an annual basis. If HMRC create monthly updates of projected liabilities that exclude crucial information held by the taxpayer, these estimates could be very inaccurate leading to confusion among taxpayers.
- 5.13 In addition, we are not sure how a monthly projection of an individual's tax liability necessarily helps taxpayers. For people with income that varies regularly, such as seasonal workers or those employed on zero hour contracts, such estimates could lead to confusion, stress and increased contact with HMRC.
- 5.14 The example at Fig 2.2 illustrates the confusion that could arise. 'Peter' can apparently understand his tax account, but many taxpayers might not; or indeed they could be alarmed at the thought that working a little extra would appear to make them liable to tax at the higher rate. This could discourage them from taking further work opportunities. Great care will therefore need to be taken as to how the information is presented on-screen such that it is understandable to taxpayers. Again, we question whether clear and simple presentation is achievable in the short timescale proposed by these changes. And although HMRC may say that the system is 'agile' and can be changed in future, continual changes of the system design in response to initial imperfections could discourage and confuse many.

Digital exclusion

- 5.15 Paragraph 2.24 envisages that by 2020 all taxpayers will be providing updates and engaging with HMRC digitally. As noted at 2.7 above, this will simply not be possible for everybody. Government itself states in its 2014 Digital Inclusion Strategy that there will always be 10% of the population who will never be able to interact digitally.¹ Alternative channels must be provided for these people. We recommend that these channels are also open to those who can interact digitally because there may be times when they will either not be able to contact HMRC digitally or where they need greater reassurance than the digital channel can offer.

Interaction of digital tax accounts with Voluntary Pay As You Go

- 5.16 We feel that the example given in Fig 2.4 is oversimplified. People without cash to spare may not be able to take advantage of Voluntary Pay As You Go (VPAYG) particularly if they are still paying liabilities for earlier years. We have made detailed comments on the proposed

¹ Government Digital Inclusion Strategy <https://www.gov.uk/government/publications/government-digital-inclusion-strategy> (updated December 2014)

VPAYG option in our response to the consultation document 'Making Tax Digital: Voluntary pay as you go'.

Free software

- 5.17 At Fig 2.5, Geeta uses a free smartphone app. We are concerned that free software such as this may not be available – or may only be available for a short time after which Geeta might have to pay to maintain or upgrade the service. What about those who cannot afford to do this? Or who cannot afford to buy or run a smartphone? How will they capture and regularly submit their information to HMRC? As noted at 2.6 above, good software is essential to the success of MTD and this should be provided by HMRC. We have made detailed comments on digital tools and record keeping in our response to the consultation document 'Making Tax Digital: Bringing business tax into the digital age'.

Varying tax payments in response to data in digital tax accounts

- 5.18 Also in Fig 2.5, HMRC envisage that Geeta's direct debit payment may adjust based on the information she provides. It is important to note that the reason many people set up direct debits is to spread bills evenly and allow them to budget better. If the direct debit changes regularly this could severely affect low income taxpayers who may not fully understand the potential impact of a variable direct debit. Seasonal businesses in particular may have set up a direct debit to average payments over a longer period. Constantly varying that payment could lead them into unforeseen debt.

Limiting data held by HMRC to the minimum required

- 5.19 Paragraph 3.5 states that HMRC will only **process** the minimum information required. We recommend that HMRC should only **request and receive** the minimum information it requires. This will give taxpayers much greater confidence that their information is secure and only being used for essential and legitimate purposes.

Joint income

- 5.20 Paragraph 3.8 recognises that some assets are jointly owned but states that HMRC will always first assume that income from those assets is shared equally, with 'tools' being available to taxpayers to advise if this is incorrect. HMRC need to recognise that some people will have completed a form 17¹ showing how income should be allocated. We think that this information should automatically be carried over to digital tax accounts. If it is not, and HMRC share the income equally this could result in a breach of confidentiality, particularly if one party to the account inadvertently becomes aware of income earned by the other, perhaps because they had forgotten that they had made such an election and financial matters are dealt with by the other joint account holder. Equally importantly, it will

¹ This form allows individuals who are married or in a civil partnership to advise HMRC of how income on jointly owned assets should be allocated between them, in accordance with beneficial ownership. If no such declaration is made, the income is allocated equally.

fail to make proper use of information HMRC already hold. This would mean that the digital service gets off to a shaky start, and hardly fill those taxpayers affected with confidence in the system.

More frequent changes of PAYE code – impacts, and the future of the PAYE code

- 5.21 We note that from April 2017 employers may receive increased numbers of P6 coding notices. While many employers will experience little disruption, because the codes will be uploaded directly to their computerised system, there are still a large number who use manual systems. Many of these are care and support employers. As well as the additional work involved in changing the codes, the consultation document recognises that there may also be more contact from employees. We are therefore concerned that an additional and harsh burden may fall upon the care and support employer sector, particularly as many of their employees may themselves be digitally excluded from time to time – perhaps because they have no credit on their phone. This could mean a ‘double burden’ for this group of employers – more manual changes to code numbers as well as additional queries from employees unable to access their personal tax accounts and so asking their employer why their take-home pay is different from what they expected. We recommend that this impact is assessed carefully in the full Equality Impact Assessment that must be produced for MTD, and monitored on an ongoing basis so that proper support can be offered.
- 5.22 In addition, frequent changes to Notices of Coding will result in different amounts of net pay for employees which can be disastrous to those on tight budgets and will impact on awards of universal credit (UC). Care therefore needs to be taken to strike the correct balance between collecting the right amount of tax in-year and causing confusion and financial disruption for employees.
- 5.23 Paragraph 4.2 states that from April 2017 HMRC will start to use PAYE information during the tax year to calculate whether the right tax is being paid by taxpayers and notify employers where this is not the case. ‘Customers will be presented with a clear, meaningful picture in their digital tax account of how their tax is calculated and being collected, rather than the current mix of letters and numbers that make up the tax code that customers do not understand.’ This seems to imply that there are plans to abolish PAYE codes as we know them and while this may be a step forward if it improves clarity for taxpayers, we recommend that HMRC consult carefully and in detail as any such proposals develop.

6 Responses to Questions raised in the consultation document

- 6.1 ***Question 1: Where events during the year result in a change to a customer’s tax projection, what is the appropriate format and regularity of notification that HMRC should send to employers and customers?***
- 6.1.1 Before making changes, HMRC must be sure that the implementation of third party information does in practice alter a projected tax liability. For example, a taxpayer may have received bank interest in the calendar quarter ending 30 June 2018. Will HMRC know

whether this is the annual amount of interest from that source, a quarterly amount of interest, interest paid up to closure of the account or some other figure? If HMRC fail to fully understand the figures provided there is a risk of making frequent and incorrect changes, potentially resulting in confusion and frustration for taxpayers.

- 6.1.2 HMRC should automatically and immediately notify people of any change to their projected tax liability arising from third-party information. This should be easy where people have registered for their digital tax account. For those unable to interact digitally, clearly set out postal notifications should be issued. Help and support must be available across a range of channels for people to discuss and, where appropriate, challenge any new projection. Care however should be taken where several changes are to be processed in quick succession. It should be possible for HMRC to manually override automatic updates in these circumstances, or else the system should be programmed to check whether any further information is likely to be coming through shortly.
- 6.1.3 There may need to be some small tolerance figure built in to the system so that people are not overwhelmed with notification of small changes (for example a few pence or pounds).
- 6.2 ***Question 2: Have you any suggestions for how we present third party information in your digital tax account in a way that will make it easier for you to understand your tax?***
- 6.2.1 All amounts shown in the digital tax accounts must be broken down and itemised. Transparency is essential to enable people to check the accuracy of figures.
- 6.2.2 Information displayed needs to clearly show the source of the third party information, for example the name of the employer or savings institution who provided the information and the date the income was received. For employment income, sometimes the name of the employer is not what the employee would expect (if, for example, they work for a restaurant called The Holly Tree, but the actual employer is Blogs Holdings Ltd), so it would be helpful to show the date that employment started and ended within the tax year.
- 6.2.3 It should show the type of income for example, savings income, property income and so on, and the effect it has had on the individual's actual or projected tax position.
- 6.2.4 In the case of bank interest, for example, it would be useful if this showed the basis on which the income arises (monthly, six-monthly or annually perhaps).
- 6.2.5 It should show clearly any breakdown of composite figures. For example, the DWP often pay state pension alongside attendance allowance. These figures should be shown separately and should clearly identify which benefit is included.
- 6.2.6 It should be clear whether the figures shown are interim figures, based on information to date, or final for a specified tax year.
- 6.2.7 It should provide clear instructions on how to get help and support to understand or challenge figures populated by HMRC or received from third parties. It is unacceptable to

suggest that individuals will have to challenge the third party as to the validity of the information provided.

6.2.8 Many taxpayers may be likely to accept figures inserted into their personal tax accounts by HMRC, especially if they perceive that the figures make no difference to their overall tax liability. Unfortunately, those same figures could have an impact on the taxpayer's entitlement to state benefits – or could be queried in the event of a divorce, for example, if it was perceived that the taxpayer had a different amount of capital than was disclosed elsewhere. We emphasise, therefore, that although many people's bank interest may not be taxable due to the personal savings allowance, it will still be important for people to check that the figures are accurate.

6.3 ***Question 3: If you are concerned over privacy impacts of HMRC's plans for improving how we use third party information we already receive, do you have any suggestions for how these concerns could be resolved?***

6.3.1 How will HMRC ensure that information is correctly allocated where there are "designated" bank or building society accounts such as accounts held by parents for their children or trustees for incapacitated persons? The income from such accounts in respect of parents would be taxed on the parents if the funds originated from them and if the interest is over £100. It is however possible in these circumstances that the funds may have come from grandparents, godparents or elsewhere. It is also important to note that many banks or building societies will not usually let anyone without parental responsibility open a designated account. How will HMRC ensure that the interest is allocated to the appropriate person?

6.3.2 Other bank or building society accounts held by trustees or executors also need to be correctly and separately identifiable. Some for example are held for another person who is entitled to the underlying capital and any interest earned such as a person authorised by a Power of Attorney who holds a bank account as 'Name of Power of Attorney for name of person for whom they act as attorney'. This may also be the case for nominee or bare trust arrangements. Some accounts are better named than others and make it clear that the first-named person appearing on the account name is not actually the beneficial owner. Where they are not so clearly named, however this may result in the first-named person being questioned about the bank account by HMRC. How does HMRC plan to address issues such as these?

6.4 ***Question 4: If a third party information provider is aware of how the ownership of a joint asset is split, do you think the third party provider should inform HMRC?***

6.4.1 We do in theory but any proposal needs to be treated with caution. We have reservations that sometimes ownership might change without the third party being notified and this could result in incorrect information being sent to HMRC. What happens, for example, where a couple come together or split up and a sole account is converted to a joint one or vice versa? Or where somebody gets married in March and then puts their savings account into joint names with their spouse? Any interest credited up to the switch would belong to

the individual and only after that would the income be split equally. Is HMRC confident that bank, building society and HMRC systems are able to deal with these scenarios? It is important to consider what happens if, for some reason or other, they get it wrong.

- 6.4.2 What individuals see in their digital tax account will need to be very clear where a proportion of income has been allocated to them – there will need to be some flag that HMRC have recorded the source as joint, and it will need to clearly show the taxpayer's own share.

6.5 ***Question 5: Information providers will want to keep their customers fully informed about the information they provide to HMRC (and have a responsibility to do so under the Data Protection Act 1988). Do you think there should be a standard approach, or should information providers design the best approach to meet the needs of their particular business and customers?***

- 6.5.1 We think there should be a standard approach as consistency of look, style and tone will provide greater reassurance and hopefully be better understood by their customers.

- 6.5.2 We are concerned however that if institutions have to report more regularly to both HMRC and customers, the additional costs involved will be passed to customers, possibly resulting in lower returns on their investment. Can HMRC clarify how often financial institutions will be required to make such reports?

6.6 ***Question 6: Do you have any preferences for how you would like to be best informed by third party information providers?***

- 6.6.1 See paragraph 6.5.2 above. We are concerned that the cost of providing very frequent information will result in this cost being passed on to customers. We therefore suggest that third party information providers retain current methods, for example, an annual statement on paper with the ability to opt in to digital updates. If HMRC commit to sending automatic and immediate notifications where there are changes to projected liability because of third party notifications, the taxpayer will be receiving this information anyway – there is no reason why they need to receive it twice (on the basis that HMRC's notification to the taxpayer is clear as to the reason for the change, and the data source used).

6.7 ***Question 7: Do you think there are any additional safeguards we should consider in relation to the protection and use of third party information by HMRC?***

- 6.7.1 Third party information should be available only for assessing tax liability, including any compliance activity, including National Minimum Wage compliance. It should not be used for any other purpose, meaning it should not be shared with other government departments.

6.8 ***Question 8: Do you agree with the principles we have set out for how information queries should be resolved? What are your expectations for how this would work in practice?***

- 6.8.1 We believe that many taxpayers may not access their tax accounts regularly and as a result may not check information displayed until after the end of the tax year.

- 6.8.2 We have very severe reservations about referring people back to the third party information provider if they have queries or want to challenge any of the figures provided. HMRC must be cautious that people might feel they are being pushed from pillar to post. Where the taxpayer has evidence that their figure is correct, for example a statement of interest earned, it should not be the taxpayer's responsibility to request that the third party send amended figures to HMRC: instead it should be HMRC's responsibility to deal with the challenge and if necessary query the figures with the third party. Even if the taxpayer cannot produce evidence HMRC must be willing to take up matters themselves.
- 6.8.3 It is wholly unacceptable that individuals would otherwise lose control of their own tax account, by being forced to challenge figures via a third party. HMRC would be able to exert some degree of pressure over third parties if figures are thought to be incorrect; if instead individuals are forced to challenge figures, they will be left to the vagaries of that party's communication channels, complaints processes and potentially protracted arguments. For example, would the cashier at the local building society branch be trained to understand what a customer was talking about if they were asked about the correctness of figures appearing in a digital tax account? Our own experiences of mystery shopping tax matters (the now defunct form R85) at banks and building societies around the country suggests this is unlikely.¹
- 6.8.4 HMRC need to consider how easy it will be for a 'trusted helper' to contact a third party information provider. Being nominated as a 'trusted helper' for somebody's personal tax account does not give that person authority to deal with their bank or building society for example.
- 6.8.5 We do not support the proposal at 3.17 which indicates that if a query has not been resolved by the end of the tax year, HMRC will raise an estimated assessment based on the information they believe to be correct. Depending on when third party information is received, this may leave very little time for resolution of a query potentially resulting in unnecessary work for both HMRC and the taxpayer.
- 6.8.6 Information from employers is likely to be incomplete until after the submission date for forms P11D (sometime in July following the end of the tax year). We suggest, therefore, that an interim measure might be to ask taxpayers to check information provided by financial institutions and other government departments soon after the end of the tax year and only to progress to assessment (simple assessment, we assume) once full information has been provided by employers.
- 6.9 ***Question 9: How best can we align HMRC's third party information requirements with information providers' circumstances? For example, with other standards information***

¹ See for example our 2013 report: <http://www.litrg.org.uk/latest-news/reports/130121-banks-building-societies-hmrc-and-their-non-taxpaying-customers-plea>

providers need to meet; other regulatory changes; internal business processes and requirements.

- 6.9.1 The main focus of third-party information provision in this document is on banks and building societies. We wonder whether there is possibly a huge burden in the pipeline for smaller organisations such as Credit Unions. We are also concerned that these smaller institutions may suffer while HMRC focus on working with larger ones to promote the opportunities that digital brings. It is vital that organisations are not given a competitive advantage because of HMRC's move to digital. And it is equally important that taxpayers with poor credit ratings are not unfairly discriminated against when they do not have the choice of using a large institution because they cannot pass credit checks.
- 6.10 ***Question 10: If you currently provide information to HMRC at year-end what would be the impact of moving to a more frequent in-year process, assuming that HMRC is able to align your circumstances as described above?***
- 6.10.1 No comment.
- 6.11 ***Question 11: We have given you a high level introduction to the standards necessary to make the exchange of data efficient and dependable. Do third party providers foresee any specific challenges in adopting standards along these lines?***
- 6.11.1 No comment.
- 6.12 ***Question 12: What opportunities do current and potential information providers and software providers see for stronger partnership with HMRC to enhance our customer experience?***
- 6.12.1 No comment.
- 6.13 ***Question 13: What new sources of third party information would most enhance the customer experience and best contribute to the aim of ending the tax return for all?***
- 6.13.1 As noted at 3.11 above, the provision to HMRC of accurate and timely information from the DWP on the payment of taxable state benefits and child benefit would represent a huge step forward.
- 6.13.2 Insurance companies already notify HMRC of any chargeable event gains. This information should be able to be incorporated into digital tax accounts by HMRC, together with projected information of top slicing relief, if applicable. We would also draw attention to the consultation on part surrenders and part assignments of life policies,¹ the outcome of which may impact how chargeable event gains will need to be dealt with in the digital era.

¹ See <https://www.gov.uk/government/consultations/part-surrenders-and-part-assignments-of-life-insurance-policies>

- 6.13.3 Contractors already advise HMRC of amounts paid to subcontractors and these amounts could be easily incorporated into the digital tax accounts. We note, though, that while the contractor may pay and disclose one figure, it does not always agree with the sum 'invoiced' by the subcontractor, possibly due to a dispute over whether or not work carried out was 'remedial'. Accordingly, there may be disputes between the two parties of the amounts due and possibly the amounts paid. HMRC need to be aware of that possibility and the potential changes that might take place to figures, particularly if the tax 'assessment' is made very close after the end of the tax year.
- 6.13.4 HMRC already liaise with the Student Loans Company regarding student loan repayments so this information should be readily available. It would be beneficial for borrowers to be able to check their repayments at any time as well as to be able to regularise the position at the end of the repayment period to avoid over-deductions from their earnings.
- 6.13.5 As noted at 5.2 above, HMRC will already have information in relation to gift aid payments and pension contributions. This information should be included in the digital accounts.
- 6.13.6 On the face of it, information from letting agents who collect rents, deduct expenses and then pay the net figure to the landlord might seem another good source of information but it is important to note that this information may not always be complete or accurate. Letting agents do not always get things right or have the information. Landlords may, for example, have incurred expenses that the letting agent has not handled such as buildings insurance or loan interest. There is no need for this private information to be passed to the letting agent. The proposal that the taxpayer must resolve any query with the letting agent rather than direct with HMRC may result in long delays. There is also the potential danger that letting agents may refuse to change figures without further fees being paid. It may be difficult to define who might be a letting agent. Such information may therefore be useful to taxpayers as a starting point for disclosure of their property income within a digital tax account, but individuals must be fully capable of editing it without having to refer to the agent.
- 6.13.7 While we can see the benefits of receiving information on dividend payments, for large companies we suggest this would be unmanageable due to many shares being held in nominee accounts. For smaller companies, provision of this information might be time-consuming and burdensome.