

**Finance (No.2) Bill 2025-26
Clause 252 and Schedule 22 – Data-gathering
Representation from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 Clause 252 and Schedule 22 enable HMRC to obtain data from third-party data holders on an ongoing basis.
- 1.2 Smarter use of third-party data can work for both HMRC and taxpayers, provided appropriate processes and safeguards are in place.
- 1.3 People who do not have a National Insurance number should be allowed sufficient time to obtain one. If they are not eligible for one, they should not be prevented from having a bank account for this reason.
- 1.4 The Treasury should use its power to require data holders to provide a copy of the data that they provide to HMRC to the person to whom the data relates, and to do in an easily understandable format.
- 1.5 Taxpayers must be able to easily challenge, amend or correct data provided to HMRC by a third party.

2 Overview and background

- 2.1 LITRG responded to HMRC's consultation on third-party data in 2025.¹ We also submitted comments on the draft legislation in late 2025.² We welcome initiatives that make it easier for taxpayers to comply with their tax obligations and get their tax right. We think that smarter use of third-party data has the potential to improve the taxpayer experience with HMRC, and we support the principle of using third-party data to that end. However, there need to be appropriate safeguards in place, transparency around the data and robust processes for taxpayers to challenge any defects or errors.

¹ Better use of new and improved third-party data – LITRG response at <https://www.litrg.org.uk/submissions/better-use-new-and-improved-third-party-data-litrg-response>

² Draft legislation: Better use of new and improved third-party data – LITRG submission at <https://www.litrg.org.uk/submissions/draft-legislation-better-use-new-and-improved-third-party-data>

- 2.2 This draft legislation gives HMRC the power to impose a standing obligation on certain third-party data holders to provide data to HMRC on an ongoing basis. This differs from the existing provisions in section 86 and Schedule 23 of Finance Act 2011, under which HMRC have the power to request data from data holders on an ad hoc basis.
- 2.3 The draft legislation also gives the Treasury various regulation-making powers in respect of the frequency and format of data provision. It sets out penalties for compliance failures and appeal rights.
- 2.4 We understand that the legislation will initially apply to bank and building society account information, as well as card sales data.
- 2.5 We have an interest in these data-gathering powers insofar as they may have an impact on individual taxpayers, and this is the focus of our comments.

3 LITRG comments on the draft legislation

3.1 *Schedule 22, paragraph 2*

- 3.1.1 This provides for data holders to make reasonable efforts to obtain identifying information, such as National Insurance numbers for individual taxpayers.
- 3.1.2 Some individuals, while eligible for a National Insurance number, do not have one. We understand that, as a result of this legislation, such individuals will be expected to apply for a National Insurance number and to provide this to the financial institution they have an account with. This may be more likely to affect foreign nationals – English may not be their first language and they may have less understanding of, or lower confidence in navigating, the UK tax and social security system.
- 3.1.3 There will also be some individuals who are not eligible for a National Insurance number.³
- 3.1.4 We would like to see the following safeguards:
- Clear guidance for individuals in relation to the need to provide a National Insurance number to their financial institution(s) in respect of this legislation;
 - Where an individual is not eligible to apply for a National Insurance number, we would expect regulations to clarify that they should not be prevented from opening an account or forced to close an account simply because they are unable to provide a National Insurance number;
 - Clear guidance for individuals as to how they can prove to a financial institution that they are not eligible to apply for a National Insurance number;
 - Where an individual is eligible to apply for a National Insurance number, they must be allowed sufficient time to apply for and obtain it. According to the GOV.UK website, it can take up to four weeks using the online process.⁴ However, in some cases, it can take longer, because of the need to attend a face-to-face appointment or send documents by post.

³ Not all individuals are entitled to a National Insurance number. In particular, children under the age of 16, British citizens who have never worked, and posted workers from the EEA who continue to pay social security in their home country.

⁴ <https://www.gov.uk/apply-national-insurance-number>

- Clarity for financial institutions as to what constitute “reasonable efforts” and the penalty position. We think there is a risk that financial institutions may deny interest-bearing accounts to individuals who are ineligible to apply for a National Insurance number, to lower their risk of facing a penalty under this legislation.

3.2 ***Schedule 22, paragraph 4, 10***

- 3.2.1 We welcome the inclusion of the regulation-making power at Schedule 22 paragraph 4 – provision of data to persons other than HMRC. This gives the Treasury the power to require data holders to provide a copy of the data that they provide to HMRC to the person to whom the data relates.
- 3.2.2 Paragraph 4 is welcome as it should ensure transparency and that the taxpayer has a record of the data that the third party is reporting to HMRC. It is important that the Treasury exercises and enforces its powers under this paragraph, such that HMRC can use the penalties set out under paragraph 10.
- 3.2.3 We welcome the fact that paragraph 4 includes a regulation-making power to specify the form and manner of the provision of information to the taxpayer. We hope that the implementation of this requirement will ensure data holders share the information with taxpayers in a consistent and understandable format. If data holders are allowed to send the data to taxpayers in a raw form, this could prove confusing to taxpayers. They may fail to understand it and use it incorrectly or not at all as a result. The best way to mitigate this would be for HMRC to set a standard format that includes links to appropriate guidance on GOV.UK.
- 3.2.4 We would welcome the opportunity to work with HMRC during development of the form referred to in paragraph 4.

4 **Additional comments**

- 4.1 While the draft legislation includes helpful provisions concerning due diligence and record-keeping,⁵ there will nevertheless be occasions when data provided by third parties to HMRC is incorrect.
- 4.2 Taxpayers need clear HMRC-supported mechanisms to challenge and / or correct third-party data – whether it affects their tax return or their PAYE code. The provisions at paragraph 4, requiring third parties to send data to taxpayers, will assist with this. Currently, we see examples of taxpayers being passed back and forth between HMRC and the third-party data holder, where a correction is required.
- 4.3 We think it is crucial that HMRC introduce an agreed, robust and clear process by which the taxpayer can challenge:
- The data that the third party provides to them and HMRC;
 - The data, if it appears that HMRC are using different data to that which the third party has provided to the taxpayer;
 - If they think HMRC have used the data incorrectly.

⁵ Schedule 22 paragraphs 3, 8, 9 and 13 contain provisions related to due diligence, record-keeping and penalties for failures.

- 4.4 The process should include escalation routes and safeguards, whereby the taxpayer can ask HMRC to suspend any compliance action, collection of a tax liability or change in a PAYE code until the issue has been resolved.

5 About Us

- 5.1 The Low Incomes Tax Reform Group (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 who are least able to pay for professional advice. We also produce free information, primarily via our website www.litr.org.uk, to help make a difference to people's understanding of the tax system.
- 5.2 LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.
- 5.3 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.

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LITRG

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