

**Better use of new and improved third-party data to make it easier to pay tax right first time
Response from the Low Incomes Tax Reform Group (LITRG)**

1. Executive Summary

- 1.1. 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.
- 1.2. However, some important questions arise from the use of third-party data that must be answered as part of this work and before any such data is used in the way envisaged by the proposals. These include questions as to whether the balance of responsibility continues to be appropriate and what happens when data provided by a third party to HMRC is incorrect.
- 1.3. One of the most important questions that arises is whether the balance of responsibility which comes from the existing statutory framework continues to be appropriate as HMRC move to a model of collecting information 'on behalf of' taxpayers. The psychological and behavioural impacts of using third-party data also need to be understood as much as possible.
- 1.4. Any responsibility placed on the taxpayer must be accompanied by robust and swift processes through which they can challenge, amend or correct data that is pre-populated on their tax return if necessary. In particular, it is important that taxpayers are not caught up between different arms of government (or between HMRC and third parties) in respect of inaccurate, late or incomplete data. Moreover, it must be clear to, and understood by, the taxpayer that the accuracy of returns containing such data is ultimately their responsibility.
- 1.5. We welcome the fact that the government plans to carry out reforms in phases, starting with key third-party data sources already received under tax legislation. We also welcome the proposal to introduce new legislation to establish standing reporting obligations for financial account information and card sales data. This would be more efficient for HMRC and probably also for third-party data holders. It would also make sense if HMRC are to move towards greater use of pre-population.
- 1.6. We think there should be corresponding obligations on HMRC, for example they should use the data they receive in a timely manner. Just as with the types of data they request being pertinent to a

taxpayer's tax position, we think it is important that HMRC only collect data according to the frequency to which they will make use of it. For the vast majority of customers, monthly reporting will not lead to any increased benefit. Thought should be given as to whether the cost of monthly reporting (for both HMRC and the financial institutions affected) is justified by the limited benefits it would offer to taxpayers.

- 1.7. Exploring the adoption of a set schema for financial account information would be advantageous to HMRC in terms of matching data from third parties with the correct taxpayer on HMRC systems. It should also improve the taxpayer experience.
- 1.8. If the policy intention is to help taxpayers to get their taxes right first time, HMRC should require third-party data suppliers to share a copy of the data they provide to HMRC with the taxpayer, for example as is required under the OECD Reporting Rules for Digital Platforms. This data should be 'translated' for taxpayers so that it is easily understandable and consistent and the most robust way to achieve this is for HMRC to set out the format of any statements.
- 1.9. While we agree with the intention to use the National Insurance number (NINO) as a unique identifier for individual customers, we think there are areas that will require careful consideration. For example, not all customers have a NINO. It is important that people are not excluded from opening a savings account if they do not have a NINO.
- 1.10. We welcome the exploration of methods of improving the quality of third-party data. To improve the customer experience, it is vital that the data HMRC use is accurate and complete, or where it is not, HMRC recognise this and there is a prompt that further action is needed. However, we question whether HMRC have the resources and / or expertise to judge whether data reports provided by, for example, a bank, are complete and accurate. We are also keen to understand if the determination of penalties under the categories listed in the consultation document is linked to or separate from HMRC's interactions with individual taxpayers whose data is included in a report.

2. About Us

- 2.1. 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.
- 2.2. 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.
- 2.3. 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.

3. Introduction

- 3.1. We welcome the opportunity to respond to this consultation exploring opportunities to improve the quality of data acquired from third parties for tax administration. We are supportive of 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. Using data to effectively help taxpayers get their tax affairs correct will help to build taxpayers' trust in HMRC and the tax system, thus improving compliance.
- 3.2. We have previously responded to a number of calls for evidence and consultations related to the gathering of third-party data. We are pleased to note that stakeholder feedback from those consultations and calls for evidence has informed the proposals outlined in this consultation.¹
- 3.3. We welcome the fact that the government plans to carry out reforms in phases, starting with key third-party data sources already received under Schedule 23 of Finance Act 2011. We think it is important that HMRC improve the quality of the data they already collect and make better use of that data, before moving to collecting additional data.
- 3.4. The scope of the consultation does not extend to include the impact on some key questions for taxpayers (set out below), which we raised initially in our response to the call for evidence published by the Office of Tax Simplification (OTS) as part of its review of Third Party Data Reporting.²
- 3.5. Perhaps the most important question is whether the balance of responsibility that comes from the existing statutory framework continues to be appropriate as HMRC move to a model of collecting more information on behalf of the taxpayer. The proposals are likely to result in greater use by HMRC of pre-population of tax returns and PAYE tax codes. The taxpayer will no longer be the originator for much of the data in their tax return. Rather, the third-party data provider and HMRC will be producing the data and ensuring it is correctly recorded and placed in the correct part of the tax return. Therefore, there is a question over where responsibility lies for ensuring the data is correct, that it is correctly recorded and placed in the correct part of the tax return. In addition, for PAYE taxpayers, the fact that PAYE tax codes are difficult for many taxpayers to understand becomes even more pressing to resolve.
- 3.6. Greater use of third-party data may have a psychological and behavioural impact on taxpayers. This needs to be understood as much as possible. It is possible that, the greater the extent to which HMRC gather third-party data to pre-populate returns and calculate tax liabilities on the taxpayer's behalf, the less likely it is (in our experience) that the taxpayer will engage with and understand their

¹ As set out in the consultation document under the heading 'Getting to this stage':

<https://www.gov.uk/government/consultations/better-use-of-new-and-improved-third-party-data/better-use-of-new-and-improved-third-party-data-to-make-it-easier-to-pay-tax-right-first-time#summary>

² <https://www.litrg.org.uk/submissions/office-tax-simplification-third-party-data-reporting-review-call-evidence>

tax return and / or calculation to ensure it is complete and accurate. We accept however, that some taxpayers will welcome having third-party data presented to them, which they only need to check, but some taxpayers may well confuse the pre-population of certain figures with some kind of assessment, which they simply trust to be correct because it comes from an authority. It can also lead to taxpayers not declaring certain sources of income because they assume that HMRC already have the information.

- 3.7. Another key question is what happens when the data provided by a third party to HMRC is incorrect. Taxpayers need clear HMRC-supported mechanisms to challenge and / or correct third-party data – whether it is affecting their tax return or their PAYE tax code. We think that third parties should independently provide taxpayers with the information that they are providing to HMRC. This should assist with transparency. It also ensures the taxpayer has a record of what the third party is reporting to HMRC. This is particularly important where the figure on a pre-populated tax return is made up of a number of amounts from different accounts.
- 3.8. If there is a move made towards greater use of pre-population, and there remains an obligation on the taxpayer to check pre-populated information, HMRC must communicate clearly that ultimate responsibility for accuracy of tax affairs remains with taxpayers – both where use has been made of pre-population and where the taxpayer has provided information.
- 3.9. It must also be easy for the taxpayer to see a copy of the data that HMRC hold about them. This must be accompanied by agreed and clear processes by which the taxpayer can challenge:
- the data that the third party provides to them and HMRC
 - the data if it appears 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.

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

- 3.10. We understand that some people now use online savings platforms to manage their savings.³ Customers in this position use the platform to move their savings between different banks and accounts. They supply their details to the platform, not the individual financial institutions. Similarly, the platform, rather than the individual institutions provides the interest certificates. There are also a number of questions about when interest data is reportable by financial institutions where interest cannot be accessed by the individual. Consideration will need to be given as to how the issues discussed in this consultation apply in such circumstances.
- 3.11. The rights and responsibilities of HMRC, the data provider and the taxpayer in respect of third-party data all need to be clear. It should be clear to the taxpayer that they have a responsibility to check data, what that data is, how to check it, how to query it and how to challenge it. In particular, it is

³ Examples include Raisin UK and Flagstone.

important that taxpayers are not caught between different arms of government (or between HMRC and third parties) in respect of inaccurate, late or incomplete data. This happens again and again with real time information (RTI) data where both genuine mistakes and systemic issues⁴ cause discrepancies. These issues can mean employees are caught up in problems between HMRC and employers, and the underlying data impacts their personal liability. Contact with HMRC results in them being told to contact the employer. Contacting the employer results in them being told it is HMRC's fault. There needs to be a mechanism whereby any disputes can be resolved for taxpayers.

- 3.12. Increased use of data and data sharing raises concerns about data security. It is important that taxpayers can trust HMRC to keep their data secure. There need to be safeguarding processes to minimise the chances of data being shared with the wrong taxpayer. As discussed below (see paragraph 5.4), the use of National Insurance numbers seems a sensible first step in ensuring that data is linked up to the correct taxpayer.
- 3.13. In terms of HMRC using data for compliance activity, this needs to be timely and considered. We explore what we mean by each further below.
- 3.14. Timely: HMRC should not 'sit' on data such that the non-compliance drifts and becomes harder to deal with. Ideally, in order to make a difference, nudges and prompts from HMRC need to be in time for taxpayers to meet their legal obligations in relation to notifying a liability or paying tax. If it is not possible for HMRC to help taxpayers get things right up front, then it needs to be as soon as possible thereafter, to minimise the impact on taxpayers: this will help to minimise the growth of problems and penalties.
- 3.15. Considered: We think there is significant scope for the data to throw up 'false positives', particularly in terms of the merchant acquirers data and small businesses due to the fact that small businesses are taxable on net profit, not turnover. So, the source data may not be easily reconciled to aggregate figures reported on a tax return. Clearly, HMRC would not have the information or the resource to determine whether there is in fact a problem in every case. However, the likelihood of a taxpayer being 'flagged' for compliance activity unnecessarily should be minimised as far as practicable by HMRC intelligently risk assessing the data.
- 3.16. As we are not a financial institution, most of the questions in the consultation are not within our remit, and we have not answered them specifically. We make some general comments from a taxpayer perspective, grouped loosely under the question headings.

4. Timely reporting – standing reporting obligations and frequency (Q. 1 – 6)

- 4.1. The proposal to introduce new legislation to establish standing reporting obligations for financial account information and card sales data seems sensible. This is likely to be more efficient for HMRC and probably also for third-party data holders.

⁴ <https://www.cipp.org.uk/resources/policy-report/systemic-issues-in-hmrc-rti-data-collection.html>.

- 4.2. Timely reporting would also make sense if HMRC are to move towards greater use of pre-population. More timely reporting of financial account information would make it more feasible for HMRC to pre-populate interest income in self assessment. It would also allow HMRC to issue P800 calculations and simple assessments on a timelier basis. For PAYE coding notices, it should enable HMRC to make adjustments sooner, so that customers' PAYE codes are more accurate and up to date.
- 4.3. We agree that it would not be appropriate to introduce a de minimis below which third-party data holders would not need to report amounts of interest or card sales. In order for HMRC to make use of data to improve the customer experience, they must receive all data relevant to a taxpayer's tax position. Lower amounts are more likely to be relevant for low income and / or unrepresented taxpayers. It is important that all taxpayers receive the benefits of improved third-party data.
- 4.4. In our view, HMRC should collect, use and share taxpayer data to help taxpayers get their tax position right first time. If the policy intention is to help taxpayers to get their taxes right first time, HMRC should consider whether third-party data suppliers should also be obliged to share a copy of the data they provide to HMRC with the taxpayer, for example as is required under the OECD Reporting Rules for Digital Platforms.⁵
- 4.5. HMRC should use the data they receive in a timely manner. Just as with the types of data they request being pertinent to a taxpayer's tax position, it is important that HMRC only collect data according to the frequency to which they will make use of it, to minimise burdens on those who have to collate and report it. The time lag for reporting offered to third-party data holders should also reflect the timeliness with which HMRC will use the data.
- 4.6. This is in part because we are concerned that some third-party data holders may try to recoup the costs of providing data to HMRC (and complying with changes in frequency or timeliness) from their customers.
- 4.7. We understand, from stakeholder engagement with HMRC, that HMRC view annual reporting of financial account information as sufficient for the purposes of PAYE coding. However, HMRC think more frequent reporting might assist other aspects of their work, such as debt management. For the vast majority of customers, monthly reporting will not lead to any increased benefit. Thought should be given as to whether the cost of monthly reporting (for both HMRC and the financial institutions affected) is justified by the limited benefits it would offer to taxpayers.
- 4.8. We are concerned about the potential for this data to be used for other purposes. For example, the RTI system was introduced to allow employers to report pay data to HMRC and HMRC to use that data for tax purposes. However, that data is now used for universal credit (UC) which creates problems because the definition of income for UC does not align exactly with the data collected for tax purposes. Although not specifically mentioned in the consultation document, it is an important

⁵ The LITRG website has relevant guidance at <https://www.litrg.org.uk/working/gig-economy/oecd-rules> and <https://www.litrg.org.uk/working/gig-economy/seller-information-statements>.

point and we would caution against using this data automatically for other purposes, such as UC because it may not provide a full picture of income for other purposes.

5. Collecting the right data – schemas and collection of tax references (Q. 7 – 13)

- 5.1. We welcome the decision to explore the adoption of a set schema for financial account information. This would be advantageous to HMRC in terms of matching data from third parties with the correct taxpayer on HMRC systems. As such, it may reduce the risk that taxpayers will need to challenge or amend pre-populated information. This should improve the taxpayer experience.
- 5.2. We would however caution that should third parties be required to share a copy of the information with taxpayers, as per our suggestion in paragraph 4.4, that this should be ‘translated’ for taxpayers so that it is easily understandable and consistent. If third parties are allowed to send a copy of the data in the raw form uploaded to HMRC, there is a risk that what will be provided (technical schema headings etc.) will be confusing to the taxpayer. This may result in the taxpayer failing to act on the information, using it incorrectly or ignoring it completely. The best way to mitigate this would be for HMRC to set a standard format for any statements, which would also be an opportunity to ensure links to GOV.UK guidance are included.
- 5.3. Taxpayer identification underpins key administrative processes associated with filing, payment, assessment and collection. Good identification procedures should hopefully help reduce fraudulent attacks on the system.
- 5.4. We agree with the intention to use the National Insurance number (NINO) as a unique identifier for individual customers. If HMRC mandate suppliers to request NINOs from taxpayers, we think that HMRC should provide guidance and wording to suppliers for requesting NINOs from existing customers. This will not only be a new requirement for suppliers, but it will also be a new requirement for the customer, and some customers may be reluctant to supply their NINO unless they receive a clear explanation as to why this is necessary. They may also fear data breaches.
- 5.5. For various reasons, a few taxpayers may not have NINOs. As a safeguard, it is important that individual taxpayers are not prevented from opening bank accounts or having existing bank accounts closed or withdrawn if they cannot provide their NINO straight away. As we state below, in paragraph 6.2 there would need to be clear guidance for taxpayers and third-party data holders as to what to do when there is no NINO/or it is not in the correct format.
- 5.6. In some situations, thought is needed as to whom a financial institution should attribute investment income. This will include situations where a trust exists, which means the account holder may not be the beneficial owner of the income. In some cases, there will be an associated record under the trust registration service. But this will not always be the case, for example, where a parent or guardian holds a bank account on behalf of a minor child.⁶

⁶ <https://www.gov.uk/hmrc-internal-manuals/trust-registration-service-manual/trsm23160>

- 5.7. In other cases, there may be a joint account, for which the income should not be split equally. Where a couple are married, they would need to have completed a form 17 in order to depart from a 50:50 split. But, where a couple are not married, the income may be split according to different proportions without formal documentation.

6. Ensuring data quality – due diligence requirements and penalties (Q. 14 – 16)

- 6.1. We welcome the exploration of methods of improving the quality of third-party data. Even with steps to improve data quality, clear processes for taxpayers to challenge and amend incorrect data are essential.
- 6.2. We recognise the importance of due diligence requirements for third-party reporting, including in relation to taxpayer identifiers. In respect of NINOs, we note that in certain cases HMRC and the Department for Work and Pensions (DWP) use Temporary Reference Numbers or Administrative Numbers.⁷ These are not NINOs, but as they are used to allow some people to pay tax and National Insurance contributions (NICs), those people may try to provide such reference numbers in place of a NINO. There would need to be clear guidance for taxpayers and third-party data holders as to what to do when there is no NINO in the correct format.
- 6.3. We recognise that penalties are a common method for trying to ensure compliance with tax obligations. While acknowledging the importance of ensuring that reports are both complete and accurate, we question whether HMRC have the resources and / or expertise to exercise judgement as to whether data reports provided by, for example, a bank, are complete and accurate. Also, in our experience of the OECD Reporting Rules for Digital Platforms, HMRC appear to be willing to give platforms the benefit of the doubt and a soft landing, but do not appear to be willing to extend the same lenience to individual taxpayers.⁸ This kind of approach is unfair and undermines trust in the system.
- 6.4. It is important to understand if the determination of penalties under the categories listed in the consultation document is linked to or separate from HMRC's interactions with individual taxpayers whose data is included in a report. By way of example, HMRC need to consider whether the accuracy or completeness of a report is something that they determine in isolation, or is it influenced by taxpayers challenging the data that pre-populates their tax returns. Equally, will HMRC's attitude towards a taxpayer challenge against the accuracy of pre-populated data in their tax return be influenced by whether they (HMRC) have determined previously that the data report in question is complete and accurate?

7. Extending reporting to new third-party data sets: dividends and other income from investments (Q. 17 – 19)

⁷ <https://www.gov.uk/hmrc-internal-manuals/national-insurance-manual/nim39110>

⁸ There have been a number of one to many campaigns directed at customers who make money through digital platforms over the past year or so.

- 7.1. We recognise that there can be benefits from HMRC gathering data relevant to taxpayers' tax liabilities. As noted in previous submissions, such as our response to the OTS call for evidence, we have concerns that HMRC do not currently make best use of the data that they already collect. We accept that in some cases there are sound arguments for gathering additional data, but in general, we think HMRC should focus on making best use of data they already collect.
- 7.2. Dividend income and other income from investments is perhaps a logical category to extend reporting requirements to cover, although we note the proposal is only to collect data where it is managed by an intermediary and therefore may not help some of those with lower incomes who have modest dividend income from directly owned shares. If HMRC were to receive the proposed data from third-party data holders, they could use the data to pre-populate tax returns and PAYE tax codes. This would not, under the current framework, remove the ultimate responsibility from the taxpayer to check their tax position. A taxpayer within self assessment would need to receive the same data from their investment institution to allow them to check the accuracy of pre-populated figures. A PAYE taxpayer would likewise need to be able to check the accuracy of the figure included within their PAYE tax code. The ease of this task for the taxpayer will partly depend on receiving a clear breakdown of what has been included within the pre-populated figure from HMRC and partly on receiving a clear breakdown from their investment provider(s) that relates clearly to the tax year.
- 7.3. The collection of data in respect of dividend income might expose historic inadvertent non-compliance. HMRC may, in due course, have to consider how they would approach compliance activity in this area.
- 7.4. There would be many issues to consider if HMRC were to pursue this proposal, and we think it would warrant a full consultation in due course.

LITRG
19 May 2025