



**Low Incomes
Tax Reform
Group.**

A voice for the unrepresented

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Ahmed Ali / Paul Herbertson /

Third-party data policy team

HMRC

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Dear Sir or Madam,

LITRG response to the government's consultation on draft Finance Bill 2025-26 clauses: Better use of new and improved third-party data

We welcome the opportunity to submit comments on the draft Finance Bill 2025-26 legislation: Better use of new and improved third-party data.¹ This is the first phase of measures to reform HMRC's bulk gathering powers and safeguards, and it focuses on improvements to the reporting of financial account information and card sales data. The aim of these reforms is to ensure HMRC receive the right data, of the right quality and at the right time to enable HMRC to deliver service improvements for taxpayers.

LITRG responded to HMRC's consultation earlier in 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

¹ The draft legislation, explanatory note and policy paper are available on GOV.UK:

<https://www.gov.uk/government/publications/better-use-of-new-and-improved-third-party-data>

² HMRC consultation "Better use of new and improved third-party data to make it easier to pay tax right first time": <https://www.gov.uk/government/consultations/better-use-of-new-and-improved-third-party-data>.

LITRG response: <https://www.litr.org.uk/submissions/better-use-new-and-improved-third-party-data-litr-response>.



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, we do have some concerns.

The legislation mainly has a direct impact on affected data holders, such as financial institutions. We comment only where the legislation will potentially have an indirect impact on taxpayers.

Detailed comments on the draft legislation

In our consultation response, we agreed with the proposal to use the National Insurance number as the identifier for individuals. However, we noted that there would need to be clear guidance for individuals who do not currently have a National Insurance number.

Within the draft legislation, sub-paragraph (2) of paragraph 2 provides for HM Treasury to make regulations requiring data holders to make reasonable efforts to obtain identifying information, such as National Insurance numbers. This will have an indirect impact on some individuals.

As acknowledged in the policy paper accompanying the draft legislation³, although most individuals aged 16 and over, who are in work are expected to have a National Insurance number, there are some individuals, who, 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 any financial institution or card acquiring service provider that they hold an account with. As the summary of impacts notes, while this may not affect a large number of individuals, it 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.

There will also be some individuals who are not eligible for a National Insurance number. Any regulations laid by HM Treasury must provide clarity around how financial institutions should deal with such situations.

As a consequence, we think the following safeguards need to be in place:

- General
 - Clear guidance for individuals, so that they understand whether they are eligible to apply for a National Insurance number, when they need to apply, why they need to provide it to a financial institution and how to provide it to their financial institution or card acquiring service provider.
- Where the individual is not eligible to apply for a National Insurance number
 - The regulations should clarify that financial institutions and card acquiring service providers should neither prevent someone from opening an account nor force

³ See the heading 'Summary of impacts' in the policy paper:

<https://www.gov.uk/government/publications/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>

- someone to close an account where that person is unable to provide a National Insurance number because they are not eligible to apply for one.
- 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 the individual is eligible to apply for a National Insurance number
 - Sufficient time must be allowed for that individual to make an application and obtain a National Insurance number. According to the GOV.UK website, it can take up to four weeks to obtain a National Insurance number using the online application process.⁴ However, in some cases, particularly those involving foreign nationals, it may be necessary for individuals to attend a face-to-face appointment or send documents by post. This would inevitably mean a lengthier process. This must be taken into account in terms of messaging to financial institutions and application of penalties under paragraph 7.
 - Clear guidance for financial institutions and card acquiring service providers as to what constitute “reasonable efforts” in terms of obtaining identifying information and how to evidence that such efforts have been made.
 - Clarity as to the penalty position where a data holder has taken reasonable steps but is nevertheless unable to obtain identifying information, where an individual is eligible to apply for a National Insurance number. There is a risk that in this situation, interest-bearing accounts may be denied to individuals, so that financial institutions lower their risk of facing a penalty under this legislation.

Paragraph 4 places a requirement on data holders to provide the data that they supply to HMRC also to the person to which that data relates, for example, the account holder of an interest-bearing bank account. The data holder must, according to sub-paragraph (b), provide this data in the form set out in a notice published by HMRC. We welcome this provision, as it should ensure transparency and that the taxpayer has a record of what the third party is reporting to HMRC.

Given the policy intention, we think it is important that this requirement should be refined such that it places an obligation on data holders to share this information with taxpayers in a format that they can easily understand, and that is consistent across third parties. If third parties are allowed to send a copy of the data that they report to HMRC in a raw form to taxpayers, there is a risk that this will be confusing to taxpayers. This could 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, that includes appropriate links to guidance on GOV.UK.

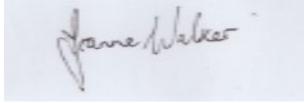
We would welcome the opportunity work with HMRC during development of the form referred to under paragraph 4.

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

Acknowledgement of submission

We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the LITRG is included in the list of respondents when any outcome of the consultation is published.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Joanne Walker', is shown within a light blue rectangular box.

Joanne Walker
LITRG Technical Officer