Consultation on draft legislation:
Better use of new and improved third-party data
Response from the Low Incomes Tax Reform Group (LITRG)

1 Executive Summary

1.1 The Low Incomes Tax Reform Group welcomes the opportunity to respond to this technical consultation on draft legislation, schemas, notices and guidance in respect of the better use of new and improved third-party data.

1.2 This consultation covers secondary legislation being made under the regulation-making powers contained in Schedule 23 Finance Act 2026.

1.3 One significant and concerning omission is that the draft legislation does not include provisions under the regulation-making powers contained in paragraph 4 of Schedule 23 Finance Act 2026 – provision of data to persons other than HMRC. We think that providing taxpayers with this data would play a key role in supporting them to get their tax right and understand their tax. It would also provide a key safeguard by allowing the taxpayer to see the information provided about them to HMRC, check its accuracy and provide a starting point if they need to challenge it.

1.4 We strongly recommend that the regulation-making powers set out in paragraph 4, Schedule 23 of Finance Act 2026 are used.

1.5 In respect of the draft notice and guidance for due diligence, we welcome the setting out of steps that might be taken where a relevant person has doubts as to the reliability of information collected and the fact the guidance includes a link to the GOV.UK guidance on how to apply for a National Insurance Number.

1.6 However, we think improvements need to be made to the guidance to protect individuals who may struggle to obtain a National Insurance Number within 45 days and individuals who are ineligible for a National Insurance Number.

1.7 We recommend that the guidance clarifies that 45 days is not a statutory time limit; that the guidance around steps to take if an individual does not provide a National Insurance Number within 45 days is expanded to include additional options, rather than bluntly stating that the relevant person should consider account closure; the guidance should clearly highlight the types of individual who might not be eligible for a National Insurance Number and be expanded to include more examples.

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1.8 While we support the smarter use of data to improve the taxpayer experience, we wish to take the opportunity to highlight again that, because of the inevitability of errors in third-party data and possibility of errors in HMRC data-matching, there need to be clear and accessible HMRC-supported mechanisms to enable taxpayers to challenge and correct third-party data.

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.litrg.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 comment on the draft legislation and accompanying schema, notices and guidance aimed at improving the quality and consistency of data HMRC receive on interest income and card sales.[1]

3.2 In recent years we have responded to a number of calls for evidence and consultations on the topic of making tax easier through smarter use of third-party data.[2] Our previous submissions emphasise our view that smarter use of third-party data has the potential to improve the taxpayer experience with HMRC. We support the principle of using third-party data to that end. However, we have also repeatedly highlighted the need for appropriate safeguards, transparency around data and robust processes for taxpayers to challenge any defects or errors in data.

3.3 Our response focuses on the areas where these proposals may affect low-income, unrepresented taxpayers.

[1] https://www.gov.uk/government/consultations/draft-legislation-better-use-of-new-and-improved-third-party-data

[2] See the Appendix for a list of our submissions on this topic.

4 Draft legislation

4.1 We previously submitted comments on the draft Finance Bill legislation in September 2025[3] and prepared a Finance Bill briefing in February 2026.[4] The data-gathering legislation on which we commented has been enacted and can be found in section 255 and Schedule 23 of Finance Act 2026.[5]

4.2 In our February 2026 submission, we welcomed the inclusion of a regulation-making power to require the provision of a copy of data supplied to HMRC to the person to whom the data relates. We also recommended that this power be used and that the data provided should be in an easily understandable format. This regulation-making power is contained in paragraph 4 of Schedule 23 of Finance Act 2026. We think that this would play a key role in supporting taxpayers to get their tax right and understand their tax. It also provides a key safeguard by allowing the taxpayer to see the information provided about them to HMRC, check its accuracy and provide a starting point if they need to challenge it. It would also reduce the burden on taxpayers to prove a negative, for example, where bank interest has been matched with their records incorrectly.

4.3 While the draft legislation currently being consulted on takes advantage of the regulation-making powers contained in Finance Act 2026 in respect of:

- Provision of data to HMRC on an ongoing basis;
- Due diligence and record-keeping;
- Notification to HMRC;

it does not make use of the regulation-making powers in respect of provision of data to persons other than HMRC. This is an extremely concerning omission.

4.4 As we have made clear in previous submissions, there will inevitably be occasions when third-party data provided to HMRC is incorrect, or when the data is correct but matched with the wrong taxpayer by HMRC. In these instances, there needs to be a clear and accessible HMRC-supported mechanism to allow taxpayers to challenge and correct third-party data. A key element of that mechanism is ensuring that taxpayers are provided with the same information that a third-party has provided to HMRC, in a consistent and an easily understandable format.

4.5 We strongly recommend that this regulation-making power is used given its importance as a taxpayer safeguard. We request confirmation that the Treasury will be making use of the regulation-making powers set out in paragraph 4, Schedule 23 of Finance Act 2026. As submitted previously, we would welcome the opportunity to work with HMRC during the development of any prescribed format, to ensure it is as helpful to taxpayers as possible.

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[3] https://www.litrg.org.uk/submissions/draft-legislation-better-use-new-and-improved-third-party-data
[4] https://www.litrg.org.uk/submissions/finance-bill-briefing-clause-252-and-schedule-22-data-gathering
[5] See https://www.legislation.gov.uk/ukpga/2026/11/part/8/crossheading/provision-of-data-by-third-parties and https://www.legislation.gov.uk/ukpga/2026/11/schedule/23.

5 Draft notice and guidance for due diligence

5.1 We comment specifically on this notice and guidance as it relates to National Insurance Numbers (NINOs) as Tax Identification Numbers (TINs) for the purpose of this legislation.

5.2 We welcome the setting out of steps that might be taken where a relevant person has doubts as to the reliability of information collected. It is also helpful that this is explicitly stated not to be exhaustive or prescriptive.

5.3 Under the heading, "Collecting NINOs for new accounts", the guidance states that "If the NINO is not provided within 45 days:

- Relevant persons should consider account closure"

5.4 We welcome the fact the guidance includes a link to the GOV.UK guidance on how to apply for a National Insurance Number.

5.5 However, we do not believe that the draft guidance provides sufficient safeguards for individual taxpayers. The issue of being eligible but not having a National Insurance Number may be more likely to affect foreign nationals, who may not have English as a first language and may have lower confidence in navigating the UK tax and social security system.

5.6 As we noted in our September 2025 submission, although the GOV.UK website indicates that it can take up to four weeks to obtain a National Insurance Number, this refers to the length of time taken following verification of identity. This means that in some cases it can take much longer than four weeks to obtain a National Insurance Number. For example, some applicants, such as foreign nationals may have to attend a face-to-face appointment or send documents by post to prove their identity. We can find no other reference to a time limit of 45 days other than in this guidance. We recommend that if this time limit is non-statutory guidance only, that should be made clear.

5.7 The messaging in the guidance should therefore be more nuanced. It could, for example, point out the types of circumstances in which obtaining a National Insurance Number might take longer than 45 days. It should certainly suggest actions that the relevant person should consider prior to considering account closure, for example, getting in touch with the individual to ask if they have obtained the National Insurance Number, if they have applied and when they might expect it.

5.8 We think the draft notice and guidance should highlight more clearly instances where individuals will not be eligible for a National Insurance Number. This is an area that could cause problems, if financial institutions, because of a lack of understanding, demand a National Insurance Number from someone who cannot obtain one, particularly where that individual does not have the capacity or knowledge to argue their position confidently and accurately. We recommend that there is a separate heading, such as "Individuals not eligible for NINOs". This could set out the main scenarios. In addition to those covered in the existing draft guidance (those under the age of 16 and recent migrants to the UK), we would add British citizens who have never worked and posted workers from the EEA who continue to pay social security in their home country.

5.9 We think these changes to the draft notice and guidance are important to ensure that financial institutions do not close bank accounts where an individual is making reasonable efforts to obtain a National Insurance Number.

6 Additional comments

6.1 We wish to take the opportunity to reiterate that, because of the inevitability of errors in third-party data (despite the best efforts of all concerned and due diligence procedures), and the possibility of errors in HMRC data-matching processes, there need to be clear HMRC-supported mechanisms to enable taxpayers to challenge and correct third-party data.

6.2 It is crucial that HMRC introduce an agreed, robust and clear process by which taxpayers can challenge:

- The data that the third party provides to HMRC (and to the taxpayer should the regulation-making powers be used as per our recommendation);
- 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.

6.3 There should be escalation routes and safeguards, such that 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.

LITRG
18 August 2026

Appendix

Our submissions on this topic include:

- Office of Tax Simplification's review of third-party data reporting: https://www.litrg.org.uk/submissions/office-tax-simplification-third-party-data-reporting-review-call-evidence;
- HMRC's call for evidence as part of the Tax Administration Framework Review: https://www.litrg.org.uk/submissions/call-evidence-tax-administration-framework-review;
- HMRC's consultation on improving the data they collect: https://www.litrg.org.uk/submissions/improving-data-hmrc-collects;
- HMRC's consultation on information and data: https://www.litrg.org.uk/submissions/tax-administration-framework-review-information-and-data;
- HMRC's consultation on better use of new and improved third-party data: https://www.litrg.org.uk/submissions/better-use-new-and-improved-third-party-data-litrg-response;
- Government consultation on draft Finance Bill legislation: https://www.litrg.org.uk/submissions/draft-legislation-better-use-new-and-improved-third-party-data;
- Finance Bill briefing in respect of the clause and schedule covering data-gathering: https://www.litrg.org.uk/submissions/finance-bill-briefing-clause-252-and-schedule-22-data-gathering.