



Modernising the administration of the personal tax system: Tax transparency for individuals

HM Revenue and Customs consultation

Response by the Low Incomes Tax Reform Group

1. Executive summary

- 1.1. LITRG welcomes this consultation and we support the initiatives it suggests. By way of assistance, we offer some points of caution and highlight areas on which to focus effort as work develops.
- 1.2. As an online system and/or annual tax statements are desirable but apparently longer term objectives, we believe there are a number of interim steps to be taken to improve transparency (see para 3.3.2 for our recommendations).
- 1.3. Encouraging people to engage with the tax system and educating them – whether at school, as students, or on arrival into the UK – is important. Indeed, we think the Government should consider making tax awareness a compulsory part of the school curriculum.
- 1.4. Lack of transparency has a variety of origins. Significant confusion is found in the workings of PAYE, for example the coding system and, fundamentally, that the DWP does not operate PAYE. These problems are exacerbated by unclear or simply non-existent information from third parties, a notable example being the lack of a tax year end (or up to date of death) statement of taxable benefits from the DWP – a particular problem for pensioners.
- 1.5. Many people believe that the PAYE system takes care of their tax, and there are few triggers to alert them to the contrary. Relatively few are likely to be proactive in looking at an online account unless there is some prompt to do so. This prompt might be a tax statement (produced annually, or more

frequently if need be – particularly where there are changes which might impact on Universal Credit entitlement) which asks the recipient to check it and contact HMRC if they do not understand or think anything is wrong. Alternative means of engagement, including paper, must be preserved for those who are ‘digitally excluded’.

- 1.6. We welcome the development of an online calculator for launch in April 2012, but urge that this be fully tested prior to launch and that HMRC offer a dedicated helpline to assist its users. This helpline should also offer an alternative means of accessing the calculator for those who cannot use it online. We recommend that, where a taxpayer has multiple sources of PAYE income, the calculator indicates how much tax and NIC they should expect to see deducted from each. The calculator should also encourage users to think about related tax credits issues, by flagging up where changes in income and circumstances might impact on tax credits entitlement. HMRC should work with third parties such as voluntary sector organisations to promote awareness of the calculator.
- 1.7. The format of tax statements and functionality of online accounts needs careful thought. Providing too much information risks the taxpayer missing something crucial. Ideally, the workings behind the tax calculation should not be the taxpayer’s responsibility. If the individual is required to check the basic details and takes reasonable care to do so, the responsibility for failing to use that information to arrive at the correct tax liability should rest with HMRC. We recommend that HMRC consider something similar to the tax credits Code of Practice 26.
- 1.8. Overall, we are in favour of pre-filled tax returns and tax statements, but the risks need careful consideration. They could be mitigated by ensuring that, if a taxpayer finds a problem (or struggles to understand), they can do something about it and resolve the matter swiftly. Another issue is that good accompanying information is needed as to what the statement is and where the figures have come from, giving a breakdown of all figures and any estimated amounts; and what the taxpayer has to do with the statement.
- 1.9. When comparing online accounts and pre-filling of returns in other countries, HMRC should take care to examine users’ experiences of the systems as well as the views of the tax authorities. In particular, we raise concerns as to what happens when there is a dispute over the accuracy of information provided to HMRC by a third party such as an employer. The taxpayer could be left in a stalemate situation between HMRC and the third party. This problem already exists to a certain extent, but could be compounded if in future third parties were to supply information only to HMRC as appears to happen in the Danish system.
- 1.10. The interaction of HMRC’s and DWP’s systems is also an important consideration. Given that HMRC data is a cornerstone of Universal Credit, a single online account or statement tying together the individual’s tax with their benefit entitlement would seem the ideal solution. At the very least, the two Departments should work together to ensure consistency of presentation for ease of cross-reference. People will need to understand that the accuracy of HMRC data is imperative for Universal Credit and that any changes to the former can impact on the latter.
- 1.11. We offer a number of suggestions as to how HMRC could engage with taxpayers as this work develops, which we would be pleased to discuss and assist with further.

2. About LITRG

- 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 on low incomes.
- 2.2. 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. General comments

3.1. *Making the tax system transparent and 'feel simple'*

- 3.1.1. LITRG welcomes the opportunity to comment on how the personal tax system can be modernised and made more transparent. Naturally, the aim should be to make the system feel simple to use – something which has, for some years, been HMRC's 'Vision'¹ and is also encapsulated in 'Your Charter'². We therefore very much support the Government taking initiative in this area and would like to work with HMRC as plans develop, in order to get the most out of any new system.
- 3.1.2. One of the purposes of Your Charter was to engender a stronger and closer relationship between the taxpayer and HMRC, together with greater mutual understanding. From the taxpayer's point of view, there is a need to increase understanding of their responsibilities and how to comply with them. From HMRC's side, there is a need to help the taxpayer meet those obligations and to understand the hurdles they may meet.
- 3.1.3. Over the last 13 years, LITRG has *inter alia* engaged with government departments and a wide range of other voluntary sector organisations, piloted a tax assistance service – Tax Help for Older People – for pensioners which continues today as a separate charity³ and received letters, phone calls and emails from many hundreds of low-income taxpayers struggling to understand the system. We know that Tax Help for Older People is submitting a separate response to this consultation, in which many comments are made which reinforce the LITRG response, with a particular focus on the pensioner population.

¹ HMRC Purpose Vision and Way: ". . . our customers will feel that the tax system is simple for them . . ." <http://www.hmrc.gov.uk/about/hmrc-vision.htm>

² Your Charter: "We also want to make it as easy as we can for you to get things right." <http://www.hmrc.gov.uk/charter/charter.pdf>

³ Tax Volunteers, running the service Tax Help for Older People – see <http://www.taxvol.org.uk/>

3.1.4. Our experience has shown that the current system is opaque in many respects. Although PAYE is largely effective in terms of removing burdens from individuals having to engage with HMRC, it also perpetuates ignorance. This has been all too evident in the mass ‘catch-up’ reconciliation exercise of the last two years which is still continuing. It is welcome that the consultation acknowledges this issue and that there is a willingness to explore the possibilities for addressing it.

3.2. **Short term versus longer term aims**

3.2.1. It is clear that development of an online gateway through which PAYE taxpayers can engage with HMRC is some way off. The timeline within which it could be delivered is unclear, but the wording of the consultation suggests that this would not be before completion of the P800 reconciliations from past years, nor before implementation of RTI. Our assumption is therefore that it would not be before 2014/15.

3.2.2. We would therefore recommend that, in the meantime, more immediate changes should be considered which would improve transparency – for example:

- HMRC should send PAYE Coding Notices to all taxpayers for all sources of PAYE income; and, importantly, a single statement of coding for those with more than one such source.
- HMRC should look at improvements to the year-end PAYE tax calculations (P800s), in particular breaking down into individual sources the single line of ‘PAYE income’, clearly flagging where estimated figures are used and how any underpayment will be collected.
- Where a taxpayer is paying off underpayments, either through their PAYE codes or by another arrangement with HMRC, there is currently no reconciled statement of the underpayments, how much has been paid off and how much is still to be collected. This needs to be addressed to improve transparency for those caught in this position so that they understand how much they still owe and when it is likely to be repaid in full.
- Information provided by third parties which is needed to prepare tax returns or to check P800s should be reviewed. Opportunities should be explored for standardising and improving the format and availability of third party information. For example, interest details from banks and building societies can vary in format, with some statements showing an ambiguous ‘interest paid’ figure rather than clearly defining the gross (‘before tax’), tax deducted and net (‘after tax’) amounts. Moreover, information from the DWP about the state pension arrives in a letter to the claimant before the beginning of the tax year, with no final summary of the taxable amount paid at the end of the year (a ‘P60 equivalent’) and no clear definition of taxable amounts as against non-taxable amounts (such as winter fuel allowance or attendance allowance). It can also prove difficult to obtain taxable state pension information for the tax year to date of death.
- A significant barrier to transparency in the tax system is that the DWP does not operate PAYE. This causes significant confusion for state pensioners and claimants of other taxable benefits - Carer’s Allowance, Widowed Parents’ Allowance, contribution-based Employment and Support Allowance, Incapacity Benefit and Jobseekers’ Allowance. The long term solution would be to bring the DWP into the sphere of PAYE in the same way as any other major ‘employer’. But we offer thoughts under question 11 as to how transparency could be

improved in the meantime.

- Resolving the current confusion around the practice of some employers taxing benefits in kind via the payroll ('payrolling of benefits') would also be a step forward to transparency. As we have discussed with HMRC, there is a real risk that some benefits in kind could be double-counted in tax credits calculations and means-tested state benefits assessments as a direct result of the present practices, which will continue until a clear policy direction on this issue is established.

3.2.3. Addressing some of the above points now would help to inform the design of an online system as and when it can be commissioned.

3.3. ***An online calculator from April 2012***

3.3.1. We note that HMRC are currently designing an online calculator for launch in April 2012 and we would be pleased to offer assistance in reviewing this tool. However, the timescale for completion of this work is tight and we would urge HMRC to ensure that it is properly tested before launch.

3.3.2. As the calculator will require input from its users, its usefulness will depend upon the availability and clarity of information from HMRC and third parties. How do HMRC intend to deal with queries relating to the calculator? It may in itself encourage greater transparency if, for example, the taxpayer has to make contact with HMRC to ask how to use it and where to obtain the information to input. We recommend that HMRC ready themselves for such queries – will a separate and adequately-staffed helpline be available?

3.3.3. Furthermore, it is noted that the calculator will allow 'individuals to work out how much tax and NICs they may expect to pay...'. It would be helpful if, in so doing, it were to give a breakdown of how much tax one could expect to see deducted from each PAYE source, helping those with multiple sources to understand their payslips from each. We therefore recommend that the calculator includes such a facility.

3.3.4. Whilst this online calculator will supplement existing channels of help for taxpayers, we note that it does leave those who are 'digitally excluded' at a potential disadvantage. What will HMRC do to provide additional support to them? We recommend that HMRC work closely with voluntary sector organisations to promote awareness of the new calculator, so that those who cannot access it for themselves may become aware of it and be helped to use it via third parties.

3.3.5. Furthermore, we recommend that HMRC helpline staff have access to the calculator so that if a taxpayer without access to it telephones and asks for guidance as to how their tax liability might be affected by, for example, an increase in salary, HMRC are able to input the figures for them and send a print-out of the result.

3.3.6. Whilst the calculator might not in itself be capable of assessing tax credits and other benefits matters, it would also be helpful if it could flag up where a change in circumstances might impact on tax credits entitlement. For example, a self-employed taxpayer might be using the calculator to determine the impact on their tax position and payments on account following a change in trading profits. It would be useful if the calculator could flag up to such a user that they might consider

contacting the Tax Credits Helpline if, say, a significant change in profits is likely to impact on their entitlement.

3.4. **Consultation questions**

3.4.1. We now answer those consultation questions on which we have specific comment.

4. **Vision (page 11)**

Question 1. Do you want to know more about the tax you pay, and what do you want to know?

- 4.1. This is likely to be a difficult question for many people. It could elicit answers that people may not **want** to know more about the tax they pay and how it is paid, but that does not mean that they do not **need** to know more.
- 4.2. It would perhaps be better to rephrase the question as *'Do you want to know more about **how** you are being taxed?'*
- 4.3. A key issue is that people understand clearly their rights and responsibilities; and how they respectively obtain and meet them. The problem with the current system is that there are insufficient triggers to alert taxpayers that they need to take action. As noted in our introductory comments, there are some immediate steps we feel HMRC could take to addressing these issues which are arguably simpler than the apparently longer term objectives envisaged in the consultation document.
- 4.4. Realistically, there are likely to be a good number of people who are not interested in knowing more about their tax and who will not use an online account to seek out more information. Therefore a system which relies on taxpayers being proactive is likely to be under-utilised unless there is a prompt for them to take action. We would therefore suggest that the best way forward would be to send taxpayers an annual statement by post (or eventually by email for those who choose it) and to combine this with the ability to transact with HMRC online, or by telephone, or indeed on paper.

Question 2. Where do you currently look for information on how much tax you have paid?

- 4.5. Employees should have access to information about how much tax they have paid by looking at their payslips. However, they have little ability to check whether that figure is accurate without an understanding of the tax system.
- 4.6. Pensioners may struggle as a result of not receiving payslips at all. Practically all pension companies issue only an annual P60, or a payslip when the rate of payment changes. Consequently, those receiving level annuities may not have much contact with their pension provider at all. There is no equivalent obligation for pension companies to provide payslips as there is for employers¹.

¹ Employers are obliged to provide payslips under the Employment Rights Act 1996, Section 8

- 4.7. A simple step towards transparency would be to amend the PAYE Regulations¹ to make it compulsory to issue a P60, even when no tax has been deducted.

Question 3. If you had better access to tax information do you think that you would have more confidence in:

a. HMRC; and

b. the accuracy of your own tax?

- 4.8. Yes, we believe this would increase confidence.
- 4.9. For instance, and particularly in compliance or in PAYE reconciliations cases where there are issues regarding quality or accuracy of data supplied by third parties, we have seen examples of where greater transparency would have helped to resolve matters more speedily.
- 4.10. Recent examples of taxpayers writing to our website have demonstrated that HMRC have been asking taxpayers to prove negative information – that they have never worked for a certain employer although HMRC's system seems to suggest that they did; that they no longer hold an employment from which they long ago ceased but where HMRC's system still apparently shows a 'live' record; or, in the context of ESC A19, that HMRC did not receive information on which they failed to act.
- 4.11. Hopefully such incidents will become fewer with regular filing of data under real-time information (RTI), but we have raised concerns about employers still potentially being able to submit inaccurate data, so the problems are unlikely to be eradicated altogether². At present, the taxpayer has no means of checking their full record short of making a subject access request under Section 7(1) of the Data Protection Act 1998.
- 4.12. It is also difficult for some taxpayers to have confidence in their employer and pension provider, given experience with automatic reconciliations. Where there has been a failure to follow the PAYE Regulations, HMRC's default approach has been to pursue the taxpayer for any resulting underpayment.
- 4.13. This practice is in contradiction to the PAYE Regulations which place the primary responsibility on the employer or pension provider to make good any under-deduction of PAYE, but little protection seems to be afforded to the taxpayer – particularly if 'reasonable care' and 'good faith' arguments are put forward by their employer or pension provider (even if HMRC investigate that far). There is

¹ The PAYE Regulations 2003, Regulation 67, currently state:

'67.—(1) Before 1st June following the end of the tax year, an employer must give a certificate (Form P60) to every employee—

(a) who was in the employer's employment on the last day of the tax year, and

(b) from whose relevant payments the employer was required to deduct tax at any time during that tax year.'

² See LITRG submission on RTI draft regulations, 9 January 2012, para 6.2ff

http://www.litrg.org.uk/Resources/LITRG/Documents/2011/12/LITRG_response_to_RTI_Regs_consultation_9January2012_final.pdf

therefore a need to review the operation of the Regulations¹ in this respect – RTI providing an ideal opportunity to do so – in order to recognise that the balance of responsibility lies with HMRC and employers as together they arguably have far more control over the an individual's tax affairs than the individual themselves.

Question 4. Do you know what to do now if you are unsure your tax is right?

- 4.14. In our experience, many employees will ask their employers if they are not sure if their tax is right. Similarly, pensioners will often contact their pension provider to raise queries about their tax deductions. In some situations, this has resulted in an unfortunate situation where underpayments have accrued, but the taxpayer is unable to convince HMRC that ESC A19 should apply as they did not check their tax with HMRC – instead they relied on advice from their employer.
- 4.15. We also know that people turn to online forums. This might be because HMRC channels are inadequate (the explanation given on the telephone may have been incomprehensible to the taxpayer, or they were unable to get through during a busy period). Also, many digitally capable individuals are used to interacting with private companies in that way – using online chat facilities, email or securely logging on to their account – so they might wish to pursue an online option in preference to other channels. Such taxpayers will be disappointed that HMRC currently offer little in the way of interactive online service for those not in self-assessment, and only a limited service for those in self-assessment.
- 4.16. The danger is that when people turn to forums, either on financial advice sites or elsewhere, they may receive well-intentioned but inaccurate advice from other members of the public. Even tax professionals answering questions on such forums will be able to give only limited help as the taxpayer's full background may not be obvious from their posting.
- 4.17. Furthermore, the existence of what we might term 'tax refund companies' proves that people do not know how to check their own tax (and claim refunds which might be due). If they did, such companies – which often work on large commissions and target low-income elements of the population such as migrants and students – would not exist.
- 4.18. Finally, people's ability to find the right help would be strengthened if HMRC were to develop further with the tax charities - Tax Help for Older People and TaxAid - the advertising of those organisations' services in official forms.

Question 5. Do you know what your responsibilities are regarding tax?

- 4.19. Under question 16 below, we make suggestions for how taxpayers' responsibilities could be more clearly defined.

¹ Regulation 72, SI 2003/2682 – The PAYE Regulations 2003

Question 6. Do you want to know why tax is paid and more information on how it is spent?

- 4.20. Making people aware of why tax is paid and providing more information on how it is spent could help to build trust and confidence in the system, which should surely be one of the aims of transparency.
- 4.21. But, whilst this may be an aim of the Government, we do wonder whether raising such awareness is in fact the task of HMRC if the role definition in *Your Charter* is comprehensive:

‘We make sure that the money is available to fund the UK’s public services by collecting taxes and duties as laid down by Parliament. We help families and individuals with targeted financial support.’

5. Online Accounts (page 14)**Question 7. If you could access online accounts as described in the Irish example, how do you think this would improve your awareness and understanding of tax?**

- 5.1. Our Agents Strategy response in September 2011¹ recommended that individual taxpayers should have the ability to view their data on HMRC systems, coupled with a swift way of getting in touch with HMRC to make corrections.
- 5.2. We argued that, as well as putting unrepresented taxpayers on a more even footing with the represented (whose agents might be offered an online self-service facility), such a system ‘obviates the need for the bureaucracy and delays within the paper-based procedures of the data protection laws. Furthermore, it encourages a taxpayer to become more involved in and take more responsibility for their tax affairs.’²
- 5.3. Online accounts might be able to tackle common areas of misunderstanding, such as clearly showing how a taxpayer’s benefits in kind have been dealt with.
- 5.4. We note that there are some limitations with the Irish Revenue’s site, for example that it cannot be updated for certain personal information (eg change of address). In order to get the maximum benefit from investment in such a system, HMRC should ensure that their site is secure so that all changes and updates can be made online.
- 5.5. As well as making international comparisons, HMRC also have the opportunity of learning from experience closer to home. For example, the Student Loans Company (SLC) has developed an online application portal and a facility for students to view their loan balance and repayments. In years to come, it might even be useful to ensure that HMRC systems are compatible with theirs, so that any

¹ See LITRG response: HMRC Agent strategy consultation, para 3.4ff
[http://www.litrg.org.uk/Resources/LITRG/Documents/2011/09/LITRG_Agent_strategy_Final\(16_Sept_11\).pdf](http://www.litrg.org.uk/Resources/LITRG/Documents/2011/09/LITRG_Agent_strategy_Final(16_Sept_11).pdf)

² Ibid, para 3.4.9

loan repayments made via the tax system are automatically updated to the borrower's SLC online account.

- 5.6. The example of the Irish online account in the consultation document (page 13) notes that 'It allows [Michael], under the Irish tax rules, to re-allocate credits between himself and his wife.' Whilst the transferability of allowances in the UK is limited to the dwindling married couple's allowance (MCA) and the blind person's allowance (BPA), this function to review and transfer allowances online might be useful.
- 5.7. This is perhaps not so much in the case of the MCA, which is now limited in availability to couples one of whom was born before 6 April 1935 and are much more likely for reasons of age to be 'digitally excluded'¹.
- 5.8. But it could help in the take up of the currently much under-claimed BPA², if those eligible are helped to understand that the allowance can be transferred to a taxpaying spouse or civil partner if the claimant is unable themselves to benefit from it³. This is assuming of course that claimants are able to use the online function which comes back, in part, to ensuring that the service functions well for those with sight and other disabilities. As however, many people with significant sight loss are older people or people with learning disabilities⁴, arguably with an even greater likelihood of digital exclusion, an online resource might again not prove to be of much assistance.

¹ 10.9 million people in the UK do not have access to the internet – 39% of the people in UK without such access are over 65. Level of internet use among the oldest, age 65 and over, continues to hover between 25-35% compared to 85% for those in prime working years (25-55 years). The level of internet usage by those aged 65 and over has not changed since 2005 (source: OXIS 2011). Those age 65 and over who are non-users of the internet comprised more than half of the overall population who did not have access to the internet at all (ONS Data 2011).

² The Office of Tax Simplification's Review of Tax Reliefs, Final Report says (Annex E, para E.7): 'E.7 Available figures suggest that BPA is only taken up by about one third of those eligible for it.'
http://www.hm-treasury.gov.uk/d/ots_review_tax_reliefs_final_report.pdf

³ Ibid (Annex E, para E.18) says: '...most blind people do not earn sufficient income to make use of the allowance. . .' – however, it may be that their spouse's or civil partner's income is higher and they could make use of the allowance if awareness and ease of transferability were to be improved.

⁴ See RNIB:

'... Almost two million people in the UK are living with sight loss. ... Sight loss affects people of all ages, but as we get older we are increasingly likely to experience sight loss.

- 1 in 5 people aged 75 and over are living with sight loss.
- 1 in 2 people aged 90 and over are living with sight loss.
- Nearly two-thirds of people living with sight loss are women.
- People from black and minority ethnic communities are at greater risk of some of the leading causes of sight loss.
- As many as three quarters of people with learning disabilities are estimated to have either refractive error or to be blind or partially sighted.

... Age-Related Macular Degeneration is by far the leading cause of blindness in adults. Other significant causes of sight loss are glaucoma, cataracts and diabetic retinopathy.'

- 5.9. No mention is made in the consultation of what alternative support the Irish authorities offer for those who are digitally excluded and therefore cannot use the online channel. HMRC should investigate this further. Some taxpayers will not be able to benefit from having a tax account if it is available only online, so print-outs should be available on request.

Universal Credit (UC)

- 5.10. Online access to individuals' tax accounts would need to link carefully with UC as there is potential for changes to tax data to impact on the taxpayer's benefit award, where the individual is also a UC claimant. Individual users would therefore need to be aware of these interactions (as would agents, if an agents' portal is developed per previous consultations). However, an online portal might have advantages if it allows for the quicker resolution of any inaccurate data which could mean the UC award is wrong. This comes back to the functionality of the system. We comment further under question 10 below on resolution of disputed figures.

Question 8. How often do you envisage you would use an online account?

- 5.11. The answer to this will depend very much on the functionality of the online account – for example, whether there is a forum on which queries could be posted and answered, or whether it is less interactive and only serves as an information tool.
- 5.12. It will also depend upon the circumstances of the taxpayer – their ability to access the internet, how frequently they change jobs and may therefore have PAYE code queries, the complexity of their tax affairs and so forth.

6. Pre-filled Tax Returns (page 15)

- 6.1. Before answering the specific questions here, there are some fundamental points to address. The consultation, page 14, mentions that 'Many countries require all taxpayers to file annual tax returns'. With the advent of automatic reconciliations through the NPS system in recent years, one question is whether the UK would eventually move to universal completion of tax returns, or some other form of annual declaration – perhaps by confirming that a pre-filled annual tax statement is correct and complete or by stating in what respect(s) it is not?
- 6.2. The desirability of such a system depends on a number of factors, but perhaps most important of all is to define clearly the roles of each party to the system – the authorities (HMRC, and other government Departments such as the Department for Work and Pensions which supplies information to HMRC); agents (such as employers, pension providers and deposit-takers); and individual taxpayers. We return to this point in more detail when answering question 16 below.
- 6.3. We note that the consultation document quotes the system in Denmark. In particular, the paragraph on page 15 immediately after the box quotes the views of the Danish authorities as regards the success of their system of pre-filling tax returns. Although there is an example on page 16 of how Danish taxpayers use the system, there is no mention of Danish taxpayers' views of it and how well it works for them. We recommend that any international comparison of this kind considers not only

the perspective of the authorities in the relevant country, but also any feedback and thoughts of those using the system.

- 6.4. From a digital exclusion viewpoint, the Danish example is also interesting. Page 16 of the consultation document notes that ‘90% of Danish adult citizens... now has an annual pre-filled statement from the tax authority’, and ‘80% of Danes... log in online to look at their assessment’.
- 6.5. What is the situation for the other 10% who do not receive a pre-filled statement? And how do the Danish authorities ensure adequate support for the 20% who do not use the online service? Do they have a paper-based system? It is essential to look at those in these margins of the system to ensure they are not left behind in the development of something similar in the UK. We therefore recommend that HMRC explore these issues further.

Question 9. If you complete an SA return, do you think you would benefit from your information being pre-filled in your SA return?

- 6.6. Pre-filling of tax returns may be of help to advisers within voluntary sector organisations who are trying to assist low-income taxpayers to complete tax returns. Whilst pre-filling does not obviate the need to check the data (see comments on risks below), it may make life quicker and easier to check figures that are already there than to start from scratch, particularly if assisting a taxpayer who is confused. Pre-filled figures could then be compared to the taxpayer’s own paperwork to check for accuracy and completeness.
- 6.7. Much depends, however, on the quality and detail of the pre-filled data provided. The current shortcomings of the P800 process can be highlighted here as a useful comparison.
- 6.8. P800 calculations are difficult to check due to the absence of detail behind the data. A single line of ‘PAYE income’ might mask a number of jobs, pensions, or both; and it is very difficult to check where the total has come from. More detail can usually be obtained from HMRC on request, but we recommend that HMRC should provide full details of pre-filled data at the outset. After all, the breakdown must be available within the system – it should be a simple matter to ensure that it is printed out on the statement or shown on the online account.

Question 10. What do you consider the benefits and risks of pre-filling to be?

- 6.9. We have mixed views about pre-populating SA forms. Potentially it would be a good thing and reduce burdens on the SA population, but the risk is that people could be lulled into a false sense of security by a pre-populated form which they might be more inclined to believe simply because it is in print. Careful consideration would need to be given to what might be viewed as taking ‘reasonable care’ in checking the figures.
- 6.10. The Danish example is of interest in this context, as it is not entirely clear from the consultation where the boundaries of responsibility for ensuring accuracy of information lie. Page 15, within the box, notes ‘The Danish Government decided in 2004 that all third parties who reported information to the tax authority would not also have to report to their customers as they were able to view their details through their statement on their online account.’ Yet the example of Caroline on the following page says that she must raise a dispute over accuracy of information with her employer.

- 6.11. This seems to leave the individual in rather an odd twilight world of having to ensure accuracy of their taxes yet being reliant on third parties passing accurate information to the tax authorities, without receiving information from which to check their position.
- 6.12. This presents a significant risk for the taxpayer (although we do acknowledge this is a risk inherent in the current system). How do they resolve the situation if they dispute a figure with an employer only to find that the employer provides inadequate explanations or refuses to change a figure which the employee strongly believes to be incorrect? The taxpayer could find themselves in a stalemate. Much would depend on the dispute and appeal provisions laid out in the law and what obligations there are on the employer or other third party to ensure accuracy and resolve problems. Safeguards should be weighted in favour of the individual rather than the tax authorities or third parties, given it is the individual who has the least control over the situation.
- 6.13. There is also a risk with third party information that it could be matched to the wrong tax account. For example, we have noted enquiry cases in the past where HMRC believe the taxpayer has not disclosed sufficient bank interest, yet the information on which their enquiry is based attributes interest to them which belongs to someone else – for example, in a designated/nominee account, trust account, executor's account (ie interest they hold in another capacity than beneficial owner); or even someone unrelated to them but with the same name. This, like the RTI example, comes back to the quality of information available.
- 6.14. Using estimated data is also a concern, from our experience of P800s. Net bank interest has been estimated in cases we have seen, and repayments of tax have been issued which may not have been due. This is a significant risk for taxpayers, especially as there is no note on the face of the calculation to show that an estimate has been used – the only indication is a non-specific reference in the accompanying notes to estimates possibly being used¹. This issue must not only be addressed as a matter of urgency to ensure transparency in the current system, but also must not be allowed to continue in any future system of pre-population of returns or annual tax statements.
- 6.15. The risks could be mitigated by ensuring that, if a taxpayer finds a problem (or struggles to understand), they can do something about it and resolve the matter swiftly. Another issue is what comes with the statement – it will need good explanations of what it is and what the taxpayers has to do with it. Overall, we are in favour of this initiative as it offers a great deal more than taxpayers get at the moment.

¹ See P800 Notes 09/11, page 2 – 'There may be occasions where we have included an estimate for income or allowances because we don't have all the latest information we need to work out your tax correctly. This may mean that the underpayment or overpayment shown on your tax calculation is wrong. If you let us have the correct figure we will send you a new calculation.'

<http://www.hmrc.gov.uk/helpsheets/p800-notes.pdf>

Question 11. What do you think the most important areas are to pre-fill that would reduce the potential for mistakes and save time?

- 6.16. The comments at the bottom of page 14 of the consultation document about those in self-assessment do not reflect that pensioners – often with quite simple affairs – will default to being in self-assessment. This might be for a number of reasons, for instance:
- Their state pension is their only source of income and, not being taxed at source, the only means of collecting the tax on it is through self assessment
 - Their state pension is their largest source of income and their other pensions are not large enough to allow their entire tax liability to be collected via PAYE
 - Their income is within age allowances withdrawal range, in which case - even if all their income is from PAYE sources – HMRC default to issuing tax returns¹
 - They have a foreign pension (even, it seems, if the overall income is well within the personal allowance and no tax liability would ever arise).
- 6.17. In many cases within the above groups, HMRC will already have all the information they need to work out the taxpayer's liability – state pension data from the DWP and pension data from pension companies (P14 returns). These are therefore good examples of cases where pre-filling of returns or an annual tax statement reconciliation could apparently relatively simply take the place of their present self-assessment requirement.
- 6.18. Mistakes are often made when returning state pension data. This problem arises chiefly from the fact that the DWP provide only a letter before the beginning of the tax year advising pensioners of the weekly amount they will receive and no year-end tax statement (or P60 equivalent). The pensioner is left to attempt to calculate their own state pension figure and can encounter problems properly counting the number of weeks' pension to include (particularly in the first year of payment or where payments are made 4-weekly). Given that the DWP pass this information to HMRC, it should be relatively simple to pre-fill it.
- 6.19. This would also help to avoid mistakes where state pensioners include non-taxable items (such as winter fuel payments and attendance allowance) with the taxable state pension figure on their return.
- 6.20. An element of caution is needed to ensure that the taxpayer is able to adjust or dispute figures with which they disagree. For example, problems with PAYE codes have been noted where HMRC include a restriction for state pension but the taxpayer has in fact deferred claiming it.

¹ See Self Assessment Manual 100050 – this notes that 'Where the taxpayer has reduced age-related allowance and apart from one type of payment or expense that affects their estimated income, you may on request from the taxpayer deal with the case outside SA.'

7. Tax Statements (page 18)

Question 12. Would you like to have an annual tax statement that sets out your income and tax liability for the year?

- 7.1. We think that further consideration needs to be given to how frequently a tax statement would be updated – the suggestion here is annually.
- 7.2. Importantly, tax data is increasingly being used for other purposes such as child maintenance calculations and for Universal Credit (UC). Therefore, the suggestion that a tax statement should be updated annually may be too infrequent. If UC is payable monthly, it might be necessary to update, or at least confirm, the tax data more frequently than once a year. In an ideal world, an integrated UC/tax statement would be sent, thus avoiding the taxpayer having to tie the two together. As a minimum, if statements are sent separately, HMRC and DWP should strive to ensure that so far as possible data is presented in the same format to ensure ease of reference.
- 7.3. Also, taxpayers might want to check their tax position in other circumstances such as when they change jobs, or move house, or start in business, or open a savings account or get extra taxable income and so forth. So if the data is only reconciled to the end of the previous year, this might give users a false impression.

Question 13. Would you want to view your annual tax statement if it included your overall personal tax contribution, your average tax rate and other general tax information?

- 7.4. Here we would draw attention to the ongoing debates surrounding the Scottish Rate of Income Tax and whether Scottish taxpayers would wish to see specifically on payslips and tax statements what contribution they have made locally as against nationally.
- 7.5. If introducing an annual tax statement across the UK, similar issues are likely to arise and, in the devolved administrations, consideration must be given to having a tailored tax statement making this differentiation.
- 7.6. Some might find it helpful to have their tax (and NIC) liability shown as a percentage of overall income, but for those on lower incomes, this could be a point of confusion if, for example, the statement expresses that overall they have paid 13% of their wages in tax and NIC when they had thought they paid 20% income tax and 12% NIC.
- 7.7. Indeed, this does lead to a general word of caution – that including too much information on a tax statement could result in the taxpayer being confused. If there are items to check on the statement, it is crucial that it is presented clearly and that other ‘nice to know but not essential’ items are relegated to an appendix or supplementary statement.

Question 14. What else could an annual tax statement show that would be of use and/or of interest to you?

- 7.8. Again, consideration needs to be given to the interaction with Universal Credit. Information used to determine the PAYE code is also used by DWP to determine UC entitlement. An easy link from HMRC

straight through to UC data on DWP systems should ensure that any changes made to tax data at the taxpayer's behest is immediately reflected in UC data. Otherwise underpayments/overpayments of benefit will happen. Ideally UC entitlement will show up on the online account, based on the tax information that is there.

- 7.9. Similarly, as noted above, clear links to the student loan borrowers' SLC accounts would be useful, so that the relationship between repayments deducted via the tax system and amounts shown in the SLC online system are reconciled and easily understood.

8. Education/ Improving Customer Experience (page 19)

Question 15. What educational material would you like to see to help taxpayers understand and comply with their tax responsibilities?

- 8.1. Taxpayers need to be told if HMRC are changing anything on their online account, so they can check it immediately. Under question 16 below, we explore the possibility of a responsibilities test under which a taxpayer might be required, once they are told by HMRC they need to look at their account, to do so and tell HMRC of any discrepancies within a particular timeframe – say 30 days. HMRC would then have a duty to act on that information. If they do not, HMRC should bear the cost of their failure to do so – ie agree to write off any resulting underpayment. If on the other hand the taxpayer fails to check the account, or to report any discrepancies to HMRC, there may be a case for the taxpayer bearing any resulting burden.
- 8.2. The Irish Revenue's site has a PAYE Anytime video tutorial that is helpful. Similar examples of online training with accompanying podcasts or video material have been attempted by others, for example training by tax voluntary sector organisations for other voluntary sector advisers (non-tax specialists) and for the general public, with some success. Development of further material could be outsourced to the voluntary sector via Grant in Aid funding to build on the existing expertise of the tax charities and LITRG would be happy to put forward further ideas in this area.
- 8.3. The consultation document refers to the Tax Matters training for those of school age, but no detail is given as to the extent of its use and consequently how wide is its penetration. If take up is limited, might it be possible to consider making such training a compulsory part of the curriculum, on the basis that understanding tax to some degree is an essential life skill? At present, pupils leave school without knowing how tax and NIC are paid and what they are for, and expect that the system deals with everything behind the scenes as they have never been told otherwise. For many, PAYE does indeed deduct the right tax in-year, but it comes as a tremendous shock when it does not and the taxpayer is faced with an underpayment, or when someone reaches state pension age and they are faced with a self assessment tax return for the first time as PAYE is not operated on their state pension. Raising awareness would be beneficial in driving down taxpayer contact with HMRC.
- 8.4. There is also a need to educate those new to the UK, and LITRG is helping in this quest by running a project, supported by HMRC Grant in Aid, to improve migrant workers' tax awareness. Further innovation projects of this nature could be considered.

- 8.5. For example, LITRG has long held the view that tax information and support offered to students is lacking and that it would be beneficial to embark on a project to develop a single tax web-based resource for students. This should involve working with student representative groups to draw on their expertise in communicating with students and to help disseminate the information.
- 8.6. Engaging students in their tax affairs is essential, as this may be the time when they have their first working experience and there is much to be said for setting off on the right foot. Now is also an ideal time to address education of students in tax matters, with changes coming through RTI and the likely demise of the P38(S) system as a result. LITRG would be pleased to discuss the idea of a student project with HMRC again in more detail.
- 8.7. There is also currently a lack of information available at certain other points, or life events, which trigger a change in circumstances and therefore a potential need to engage with HMRC. For example, the information booklet available on bereavement – the DWP1027 – is inadequate in its coverage of tax and we reiterate earlier recommendations¹ that this ought to be reviewed.

Question 16. What areas of the personal tax system cause you most confusion or difficulty?

- 8.8. The most common problem in the last two years for PAYE taxpayers has been the catch-up reconciliation exercise.
- 8.9. Where underpayments have accrued, taxpayers have found difficulty in understanding why they arose and why they should have to pay them back. The liability for an underpayment has caused particular distress in cases where their employer or pension provider made a mistake, or where HMRC delayed or failed to use information in their possession, where it is difficult to come to a satisfactory resolution – either to make the liability stick with the employer (Regulation 72 of the PAYE Regulations refers) or whether HMRC should write off the tax using their Extra-statutory Concession A19 (ESC A19).
- 8.10. Whilst the catch-up exercise from earlier years should, we hope, be completed by the end of 2012, the consultation confirms that reconciliation will remain a feature of PAYE.
- 8.11. With the introduction of RTI, taxpayers will find it even harder to understand how tax underpayments accrue, if HMRC have all relevant information in their possession even earlier than they do now. Consequently HMRC must not delay in using that information to get people's tax right as soon as possible in-year.
- 8.12. The introduction of RTI arguably provides an excellent opportunity to explain to all concerned – employers, pension providers, employees and pensioners – the changes to the system and how it could affect their taxes moving forward.
- 8.13. From the employee and pensioner side, we think it possible to move to a system similar to tax credits, whereby if tax credits overpayments arise as a result of HMRC official error (ie a mistake, or

¹ See LITRG's report – Bereavement and the Tax System, November 2009
<http://www.litrg.org.uk/reports/2009/bereavement-the-tax-system-a-litrg-report>

a failure to use information in their possession to avoid an overpayment arising in-year) the Code of Practice 26 provisions (COP 26) allow the overpayment to be written off. This is provided that the tax credits claimant has met their responsibilities in terms of checking award notices according to a checklist provided by HMRC.

- 8.14. Crucially, however, under the current COP 26 provisions, whilst it is up to the claimant to provide accurate and timely information and check their tax credits statements match the information they have provided, the claimant is *not required to check that the calculations have been done correctly* – that is HMRC's responsibility.
- 8.15. We recommend that the Government considers introducing something similar alongside a single tax statement/online account facility for taxpayers, thus making it much more clear where the boundaries of responsibility lie.
- 8.16. We recommend also that the design of PAYE codes is reviewed as it is currently unclear and unnecessarily complicated, with the numbers and letters combination.

Question 17. Do you have any other ideas for how the Government can achieve greater engagement of UK citizens in tax?

- 8.17. Secure email access would be useful so that queries can be raised online and directed to the correct person, reducing the need to have taxpayers hanging on the phone. With delays in answering calls exacerbated in peak periods, this can lead to taxpayers giving up on trying to engage with HMRC, or forgetting to try to call back, or experiencing a delay in getting through.
- 8.18. As suggested in the consultation, other technologies could be considered such as applications to access a taxpayer's online account via smartphones and similar tablet devices.
- 8.19. Other tools might be useful, such as the previously suggested decision tool for working through the proposed statutory residence test. This is on the proviso that the accompanying guidance is clear and that one can have the assurance of relying on the tool's answer so long as a reasonable effort was made to complete it accurately. This should help to obviate taxpayer frustration at the current difficulty in finding an answer or solution quickly, without having to read page after page of web material which can often lead the reader around in a circle without having answered their question.
- 8.20. We have also commented in the past that HMRC could offer freephone helplines from landlines and mobiles. The current system particularly affects those calling from mobile phones, as charges to 0845 numbers are often high and possibly altogether prohibitive for those on low incomes. Indeed, we welcomed a move of the Tax Credits Helpline from an 0845 number to 0345 as a step in the right direction.¹
- 8.21. As HMRC staff numbers contract, it is all the more important that enquiry points should be fully staffed at all times to handle the calls effectively. If HMRC cannot deal effectively with the need for

¹ 0345 numbers are charged at the same rate as 01 and 02 prefix numbers.
See <http://www.litrg.org.uk/News/2011/new-tc-help>

face to face interviews, they should make more use of those who can, for example Tax Help for Older People; or work with the tax charities to trial new forms of engagement with taxpayers such as video links.

- 8.22. More openness and communication about tax generally would be helpful, together with explanations of where tax monies are spent, thus building trust and confidence in the system.

9. Public Engagement (page 19/20)

Question 18. How do you think we can engage individual taxpayers to tell us how the personal tax system should be modernised?

- 9.1. The Government states that it would ‘also welcome views as to how [it can] reach more individuals who may not normally take part in public consultations to survey their opinions.’ In order to facilitate such a review, HMRC’s questions could also be made available in the form of an online survey. Attaching them to the end of the current consultation document means that the results will have to be further collated by HMRC to be of use, whereas an online survey can be structured for easy collation of responses. We hope that the further independent research to be carried out referred to on page 19 of the consultation document will take advantage of such technology.
- 9.2. Any summary of responses to this consultation should also differentiate between responses from individuals and other representative groups, for clarity.
- 9.3. An online survey could be promoted via websites already visited by taxpayers, for example government-run sites such as Businesslink, Directgov; and also other sites such as our own, or Taxationweb. On the latter site, HMRC has its own dedicated section, however there is no mention within it of the transparency consultation. Had it been included, this might have disseminated the message to more individual taxpayers. In any further round of consultation, we would be pleased to assist in raising awareness.
- 9.4. The independent research envisaged in the consultation needs to reach out to low-income or other particular groups to seek their views, for example migrants to the UK and people with disabilities. It should also attempt to get in touch with people of all ages and working/non-working groups, such as students and pensioners. HMRC should make attempts to engage with them via voluntary sector organisations which are already accustomed to dealing with those sectors, or for migrants it might be useful to use large employers of migrant labour as a conduit. LITRG would be pleased to assist HMRC in suggesting and engaging with such organisations where possible.
- 9.5. Similarly, views of individuals might be obtained via engaging with local authorities and sessions that they run for various groups.
- 9.6. Importantly, any survey of public opinion needs to be couched in easy language. As with HMRC communications of any sort, it is vital to avoid jargon. Although it is clear that the current consultation document has been written with the intent of being accessible to the general public, providing an introductory explanation of the system, it does use some challenging phrases which would be meaningless to the ordinary person. For example, page six of the document includes the

phrases: 'PAYE is a sophisticated withholding system'; and 'The employer also collects NICs on an earnings period basis.' But the terms 'withholding system' and 'earnings period basis' are not explained.

- 9.7. Any attempt to engage with the public should therefore have a plain language review prior to launch.

LITRG

24 February 2012