Consultation: Simplifying and modernising HMRC's Income Tax services through the tax administration framework

A public consultation issued by HM Revenue and Customs

Comments from ACCA to HM Revenue and Customs

7 June 2023

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ACCA RESPONSE

Simplifying and modernising HMRC's Income Tax services through the tax administration framework Consultation

ACCA response summary:

- Trust lies at the heart of a healthy relationship between a tax authority and the taxpayers and agents who interact with it. A lack of investment has, over time, damaged relationships between HMRC, compliant taxpayers, and the agents supporting them, with service standards at HMRC falling to an unacceptably low standard.
- Since 2009 HMRC has positioned the Charter as a central element in building that trust. Stakeholders' expectations have evolved over time as the legislative framework of powers and safeguards, and HMRC's interpretation and implementation of those laws, has developed. The principles in that Charter will be vital in ensuring that the simplification and modernisation of the tax system not only improve the framework under which HMRC operates but ensures that the lives of taxpayers and those that represent them are made easier.
- While HMRC plays a critical role in the administration of the tax system and funding for public services, customer service levels delivered by HMRC have fallen to an unacceptably low level.
- Transparency and accountability come up in every forum as being the key to tax morale and good tax engagement. This applies across the board, and tax authorities should be every bit as transparent and accountable as taxpayers and the agents who support them when it comes to paying tax.
- Stability[1] is just as important as certainty and simplicity when it comes to the tax system. Too often changes are poorly planned, poorly communicated and poorly executed; with too many last-minute changes, this has impacted on taxpayer, agent and stakeholder confidence.
- We are keen to see more detailed improvement plans for HMRC service standards as a matter of urgency. Closer partnership working with professional bodies, such as ACCA, could help highlight and prioritise areas for improvement including efficiencies that could be gained through improving access to certain information and functions for professionals.
- We value the role we play in supporting the operation and development of the HMRC Charter. It is a useful tool to ensure continuous improvement, with independent scrutiny a key part of its success. However, notwithstanding this, current service standards at HMRC have fallen to an unacceptably low level. While we recognise the improvement plans in place, we are not confident about progress without additional measures:
    - Value of professionally regulated agents – government and HMRC should recognise the value of timesaving and trust offered by professionally regulated agents. HMRC should seek to enable professionally regulated agents to provide services which can provide time and resource savings for HMRC, for example, altering information such as tax codes.
    - Partnership – building on the work of the Charter Stakeholder Group, partnership and trust between HMRC and professional bodies should be built upon to quickly identify and address areas of concern, particularly where they waste time and resources for taxpayers, their agents and HMRC.

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[1] Foundations for a Sound Tax System: Simplicity, Certainty, Stability

Question 1: What barriers do you experience when accessing digital versions of the forms above that drive you to a paper option? Are there any particular forms/processes that cause major issues?

ACCA member feedback suggests that taxpayers and agents are driven to paper options as a return to a comfort level when digital versions do not work, do not capture the information the previous paper form captured or where they make the process of submission more challenging. Agents also revert to paper forms where they are forced into using paper forms where the digital preferred options are not available, where approval using digital methods is made harder by the way forms are accessed, saved and used, where unable to access or unable to get an appropriate response from the agent helpline, or the agent helpline is closed and the waiting time on the general line is too long or the advice too general.

There is also concern about processes that are part digital and part online, agents and taxpayers are still required to shift modes from digital to paper for some of their interactions.

Individuals and businesses often require professional support to set up account details with HMRC, check calculations and use office tax portals and will frequently engage a professional agent specifically to deal with all tax obligations. Wherever possible, HMRC should ensure that it creates mechanisms which allow taxpayers to exercise that right to representation. The inability of agents to act on behalf of their client could lead to an unnecessary proportion of incorrectly submitted claims and delays. In addition, the process for setting up a Government Gateway account is unnecessarily complicated and drawn out.

We are heartened that this area is being reformed but remain concerned that the changes will take far too long.

Question 2: How would you like HMRC to provide support and guidance to assist digitally able taxpayers with accessing digital versions of the forms above?

In principle, guidance must be simple and accessible for all users, including taxpayers. Guidance needs to include examples, which should, as a matter of course, include complex cases as well as easy ones, this will serve to reduce the number of referrals to HMRC for detailed advice. Current guidance provided through gov.uk is unclear; in some instances, the format and style requirements of gov.uk hinder the accessibility of the information.

The complexity of the tax system and legislation can cause considerable difficulty for HMRC when it produces guidance. It must ensure that it does not stray into providing consultancy advice to taxpayers. For example, where options are available to the taxpayer a simple example being the choice of the choice of reliefs available to a taxpayer. We continue to work supporting HMRC on this area and as to when the best advice to a taxpayer is to seek support from independent support including agents and low-income support groups.

Question 3: What would be your preferred options for the digitally excluded to access non-digital services for the forms above?

ACCA research indicates that among those who do not use computers at all, lack of awareness of and access to digital services is the main reason for continued failure to take up the advantages of digital communications. For those who do have some internet awareness, security fears are the main barrier to further commitment.

These should therefore be the focus points for HMRC assistance into digital. The issue of those unable to access the internet at all due to lack of reliable broadband coverage across the UK will be outside HMRC's scope as far as assistance into digital is concerned. For those with low or no awareness of digital channels, HMRC will of course face the further hurdle that businesses who do not utilise digital communications for their business activities will question the need to divert scarce resources towards expensive and hard to maintain equipment purely to satisfy an administrative requirement. Currently, the only investment required for some to communicate with HMRC is a cheap biro and a supply of stamps and while there has been progress in some areas, progress has been slow. Many businesses, particularly small and micro businesses, operate within tight budgetary constraints and HMRC need to be mindful that transition to digital services is of far less importance to business than it is to HMRC. The advantage of HMRC physically providing a secure channel of digital information would be that it would address the concerns of those who are digitally aware but concerned about security and would also generate significant amounts of publicity in itself, thereby reaching those whose awareness is currently low.

Looking to more practically achievable aims, HMRC's systems should be designed for ease of use, and to be compatible with as wide as possible a range of hardware and software configurations. HMRC should provide consistent messaging highlighting specifics of digital benefits - instant access to guidance, reduced processing times, automatic provision of taxpayer copies of submissions etc. (This of course, presupposes that the system will be quicker for taxpayers than paper and that it will provide a useable 'audit trail' for users.)

Question 4: How can HMRC encourage more PAYE taxpayers to open digital tax accounts to help automate the repayment process?

We believe there are three fundamental considerations - simplicity, certainty and stability[2] - are used to support the reform. As we recognise when describing these principles, "technologies change so the administration of tax systems will change. Improvements in technology can offer significant enhancements to both the efficiency and effectiveness of tax collection. Yet rushed or poorly thought through change can compromise those beneficial impacts" and consequently result in detrimental impacts on the economy and successful modernisation and may result in a loss of trust in the tax system.

During the pandemic, all involved stakeholders – professional bodies, tax professionals, and by extension, taxpayers, have benefited from HMRC embracing technology to open channels of communication. We would encourage HMRC to continue to embrace technology, but also to recognise the value of professionally regulated agents and the value of timesaving and trust they offer. HMRC should seek to enable professionally regulated agents to provide services which can

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[2] Foundations for a Sound Tax System: Simplicity, Certainty, Stability

provide time and resource savings for HMRC and wherever possible, HMRC should ensure that it creates mechanisms which allow taxpayers to exercise that right to representation.

HMRC should also build on the work of the Charter Stakeholder Group to support communications to agents and taxpayers. Partnership and trust between HMRC and professional bodies should be built upon to quickly identify and address areas of concern, particularly where they waste time and resources for taxpayers, their agents and HMRC.

Question 5: What safeguards should be in place for any new data HMRC collects?

We would question the purpose and need for the data. As we have previously highlighted in other consultation responses[3] HMRC is insufficiently resourced to fulfil its business-as-usual obligations at present. As it is currently resourced, we do not believe that HMRC can perform the functions of a tax collection agency, play a role in the benefits system, and act as a government data hub. We continue to have concerns on HMRC's move to be the government data hub.

Where information is required for its tax collection the digital security process developed should be standard across this function.

Question 6: What specific processes or data points could be simplified to speed up information flow between employers, employees and HMRC when employees have a change of circumstance, while maintaining quality of data and keeping information secure?

Individuals and businesses often require professional support to set up account details with HMRC, check calculations and use office tax portals and will frequently engage a professional agent specifically to deal with all tax obligations. Wherever possible, HMRC should ensure that it creates mechanisms which allow taxpayers to exercise that right to representation. The inability of agents to act on behalf of their client could lead to an unnecessary proportion of incorrectly submitted claims and delays.

Question 7: In what ways could advances in Information Technology allow for an alternative to the tax code or more real time interaction between employer, employee and HMRC to ensure that tax and employee NICs deductions keep pace with changes as efficiently as possible?

HMRC should facilitate ways for taxpayers (or more specifically their agents) to interact with and where necessary to adjust their own tax code.

Flag one-off events so they do not repeatedly get coded out.

Keep the tax code in the background and give a clear explanation to the taxpayer of their tax position and the items that have been taken into account.

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[3] ACCA's response to HMRC's consultation on improving data collected from customers

Question 8: Would you support a change to require new ITSA registrations to be made online, with a digital by default approach to subsequent notices to file, and a requirement for annual returns to be delivered digitally?

A useable and user-friendly system will be the chief requirement. The availability of the portal, and its benefits should be publicised. Previous online filing services have made use of financial incentives to encourage take up, and while these can never be a viable long-term feature of a system, they may have a role to play in the short term as an extra prompt to taxpayers. Clearly in tough economic times the Treasury will need to be comfortable that the extra HMRC administrative costs saved outweigh the financial cost of providing the incentive. However, set at a relatively low level, say £20, this should remain feasible.

Question 9: How much notice would taxpayers and agents need for this change, and how could HMRC best communicate it?

For each change, HMRC needs to plan and communicate that plan with taxpayers, agents and stakeholders before moving to implementation. The complexity and scale of changes, will have an impact of on the amount of notice required, as would the number and volume of concurrent changes. HMRC should make consideration of the administrative and regulatory burden on businesses and their agents and, wherever possible, seek to phase implementation and align changes with other existing thresholds and windows.

In its research and strategy, HMRC acknowledges the importance of clarity and transparency in delivering a seamless taxpayer service. Yet, feedback from our members would suggest that too often, taxpayers hear about changes (like MTD) for the first time from their professional adviser. Worryingly, ACCA members have encountered scepticism from taxpayers, some of whom perceive forthcoming obligations as either an administrative convenience or revenue raising opportunity for the accountant rather than as a government mandated requirement. As the most trusted stakeholders in the tax system[4], our members clearly have a role to play in explaining the new requirements, but HMRC can and should do more to raise public awareness. Doing so will help taxpayers, especially the unrepresented, as well as HMRC.

In principle, guidance must be simple and accessible for all users, including taxpayers. Guidance needs to include examples, which should as a matter of course include complex cases as well as easy ones, and this will serve to reduce the number of referrals to HMRC for detailed advice. Current guidance provided through gov.uk is not clear; in some instances, the format and style requirements of gov.uk hinder the accessibility of the information.

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[4] Public trust in tax: surveying public trust in G20 tax systems

Question 10: Do you agree these are the main issues? Where possible please rank in order of magnitude/impact.

We agree with these main issues, however, we would also include communication.

In order of magnitude/impact:
1. HMRC's IT systems
2. Legislation
3. Guidance
4. Communication
5. Thresholds

In terms of communication, our members' feedback would suggest that taxpayers are too often hearing about changes (like MTD) for the first time from their professional adviser. As we described in our response to question 9, we have worrying feedback about scepticism from taxpayers due to the lack of formal communications from HMRC / government.

Question 11: What other difficulties do taxpayers face in understanding and navigating the ITSA criteria?

While adequate guidance can be found, by those with tax knowledge, regarding the criteria for ITSA on GOV.UK the process it explains could be simplified with a single system of registration for all types of criteria. An aim should be to avoid taxpayers getting 'lost' within the multitude of forms available for registration and potentially giving up on registering altogether.

Furthermore, the continued use of older communication methods, result in confusion and uncertainty for taxpayers and their representative. For example, postal delays with the issuing of UTRs can impact compliance levels and any digital by default system needs to be fully digital and secure to avoid such issues.

The return criteria do not impact those in business. It does impact many who are within PAYE and many which rely on their employer to deduct tax. Many in this group would not search out the guidance and criteria, nor would they log on to search their tax account but would react to proactive communication. Additionally, and requiring similar proactive communication, are taxpayers who have one-off income changes.

HMRC states that it "wants taxpayers to understand whether they will need to submit a tax return, so that they can self-serve, making the right decision whether to register with HMRC and seek a unique taxpayer reference number (UTR) or to understand that they do not, or no longer need to, submit tax returns. A clear, modern and rational set of ITSA criteria, supported by high quality guidance, should allow them to do that. We would highlight that a growing number of taxpayers submit returns as the other methods available to them to keep their tax affairs current, especially regarding unclear or in some cases incomprehensible notice of coding amendments, are failing.

Question 12: What additional complexity exists for taxpayers who are navigating multiple criteria or for those whose circumstances change frequently? Where possible please give examples, including how you think HMRC can resolve the issues.

Simplicity is absent from the tax system with the taxpayer and their representatives often having to deal with many different heads of tax, many of which interact with each other and systems that have been built for the tax collector rather than the taxpayer trying to meet their obligations.

Greater emphasis should be given to agent representation on complex cases as this will avoid the taxpayer getting it wrong from the outset and save HMRC administration time in dealing with enquiries on complex cases which can easily be dealt with by professional agents. Building systems that allow for trusted professional agents to correct data will be vital to build efficiency and simplicity back into the tax system.

A number of taxpayers may find that the simplest option for them is to complete a return.

Question 13: Are these the right changes and opportunities to be considering? Are there others?

The agent authorisation process, particularly for non-resident taxpayers can be fraught with difficulties of obtaining the authorisation codes in time for agents to enter these on to the system. More secure digital methods of providing these codes, perhaps via the Personal Tax Account or HMRC App should be considered to simplify and expedite these processes.

The challenges faced are increased significantly where multiple agents are required.

Question 14: In what way will each simplify things for taxpayers?

With a digital by default system, agent authorisation codes being digitally issued to taxpayers to pass on to agents should minimise delays or codes getting lost in the post and enable a quicker authorisation process.

An alternative is to completely overhaul the system of agent authorisation by getting the taxpayer to directly authorise an agent by selecting certain unique agent identification criteria passed on by the agent selected by the taxpayer. These could be items of information such as the agent name (as registered with HMRC), agent business postcode and a unique identifier for each agent registered with HMRC. This way, no new authorisation codes would need to be issued each time a taxpayer wants to authorise an agent. Instead they could simply authorise them directly, perhaps via their Personal Tax account or Government Gateway account by selecting the identifying pieces of information of their chosen agent.

Question 15: Which are better? Could you rank in order of preference or greatest improvement?

Service level improvement and effective communication are priorities. Our preference from the areas highlighted are:
1. legislation (1)
2. thresholds
3. IT Systems
4. legislation (2)
5. guidance