

Improving the data HMRC collects from its customers

Consultation issued by HM Revenue & Customs in July 2022

Comments from ACCA
Ref: TECH-CDR-2012

11 October 2022

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GENERAL COMMENTS

ACCA welcomes the opportunity to respond to HMRC's consultation on *Improving the data HMRC collects from its customers*.

At the heart of these proposals lies the fundamental question: what is the role of HMRC? As noted in [our response](#) to HMRC's consultation on *Digitalising Business Rates*, HMRC has a long-established role as assessor and collector of taxation, payments and customs in the United Kingdom, but its primary role is not that of a data collection body. HMRC data is shared under specific instances of legislation with other Government bodies and certain public sector entities to facilitate their activities, but it is used to supplement, rather than replace or outrank, the data held by those bodies. We advise HMRC to put these plans on hold, pending a comprehensive assessment of the data collected under the *Making Tax Digital* (MTD) programme.

We are concerned that the proposals have neither been costed, nor do they outline key processes that would be critical to programme success. As noted in [our letter](#) to the Chancellor of the Exchequer in September 2022, 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.

The UK has entered a technical economic recession; we believe it would be unjust and inappropriate to increase reporting requirements on businesses at a time of significant cost pressures and economic upheaval. We are concerned that HMRC seeks to prioritise the collection of data from self-employed businesses; these customers need the most support from HMRC, which is already challenging, given HMRC's under-resourcing. We are also concerned at the widespread cost of increasing the data reported under RTI, which would offer no net benefit to the taxpayer while requiring many UK businesses with employees to incur a cost they can ill-afford. The costs of implementation for both small and large businesses would include system changes, training and collecting data. This is not the time to increase the burden on business.

We vividly recall HMRC's introduction of iXBRL-formatted reports and financial statements for corporation tax purposes in 2011; to date, we and our members have not observed any benefit for UK business, and note that this initiative has only resulted in circa £14.6 million of savings¹. We would emphasise that HMRC has not satisfied the accountancy profession on the benefits of iXBRL tagging, when probed. We are very concerned that the proposals outlined by HMRC in this consultation could lead to a similar situation where arbitrary additional reporting has been imposed on business without a net public benefit.

Whilst we acknowledge the benefits of these proposals providing more reliable data to HMRC and other central government bodies, we question the timing of these changes, alongside other significant business and data changes. Until data collected by HMRC under existing mechanisms is used appropriately, we are concerned that the increased data to be collected under these proposals will serve no purpose and will not be used in a way that benefits the business community. We would highlight the £11bn mismatch of R&D tax credits data collected by the

¹ [Companies House: how iXBRL is shaping our digital future \(January 2020\)](#)

Office of National Statistics (ONS) and HMRC in 2020², which demonstrated the impact of HMRC's decision making on large numbers of UK businesses and the tax agents supporting them, and the potential for conflicting data to be provided at scale to different government bodies.

SPECIFIC COMMENTS

Sectoral data

1. Within this option, should HMRC prioritise improving self-employed data as set above, or another customer segment (for example, employers, companies, partnerships, businesses registered for VAT)?

We do not support HMRC's proposal to prioritise collecting data from self-employed businesses; of all the customer segments, this is the segment that needs the most support from HMRC in understanding its obligations and minimising unnecessary burdens. Whilst we acknowledge that the income tax self assessment form does not require the self-employed to specify the nature of their business, if a self-employed business is selected for investigation or review by HMRC then they would certainly be asked what their business does and the sector it operates in. It is important to note that self-employed businesses can be extremely fluid, and naturally evolve as the business progresses through its initial start-up and ramp-up phases. The nature of starting a business often involves a degree of experimentation, until the proprietor discovers a commercial approach that yields results. We would emphasise to HMRC that the SIC code of a self-employed business is unlikely to be relevant in determining its tax liability, because industry-specific taxation regimes and accounting rules typically only apply to incorporated businesses and not to sole traders. We do not believe there is any benefit to a sole trader by searching for, and providing, a SIC code for their business; neither do we believe the provision of a SIC code would materially improve HMRC's assessment and collection processes, given that tax mitigation practices are usually observed in incorporated businesses rather than at sole trader level.

We appreciate sectoral data could have been useful for targeting support when the covid-19 pandemic emerged and lockdowns were imposed; however, many businesses, particularly in manufacturing, adapted the type of activity undertaken, so we would question the reliability of sectoral codes in determining where to direct government support.

If HMRC wishes to gather consistent sectoral data on all businesses – not just those businesses registered for VAT or incorporated taxpayers – we suggest that implementation is phased to initially require firms subject to corporation tax and/or VAT to provide their SIC code upon registration, or for this to be sourced directly from Companies House. This could then be gradually deployed to self-employed businesses, phased over a minimum three year period to allow for the self-employed to familiarise themselves with the new requirements on a sector-by-sector basis – for example, businesses under the Construction Industry Scheme will already be familiar with a higher level of HMRC scrutiny and provision of additional information compared to other firms and will likely be better prepared/resourced to comply.

² [Rufus Meakin: How a £15bn revision to UK R&D statistics could change R&D tax credits](#)

- 2. Are there any areas of the tax system where HMRC's collection of sectoral data could be streamlined or where we could collect this information in a different way? In particular, does your business provide sectoral data to HMRC (or other parts of government) in more than one place (for example, to HMRC through both VAT and Self Assessment; or to HMRC and to Companies House)?**

It is important that an organisation need only provide sectoral data to HMRC once in its lifetime, and thereafter only when its primary activities materially change; it would be unjust for HMRC to impose such a duty to report sectoral data every year, given that SIC codes are not in common business use and the taxonomy is not well known. We would expect HMRC to transmit SIC codes and basic information about a business between its taxation regimens as that business becomes subject to new taxation, for example when it registers for VAT. When a business incorporates, we would expect Companies House to share its SIC code(s) with HMRC. Taxpayers would reasonably be justified in asking why HMRC does not receive sectoral information from Companies House via a direct feed; in any event, it would not be an onerous task for a competent programmer to build a lookup subroutine into HMRC's systems.

Ultimately, HMRC needs to consider the impact of requesting this information annually from all incorporated businesses in the UK: a simple exercise that may take one person a minimum of 10 minutes to perform, multiplied by over 2 million actively trading companies³, is the equivalent of one person working a typical 8-hour day for 160 years, not accounting for annual leave or public holidays. Given the Chancellor's recent fiscal statement with a strong emphasis on raising productivity⁴, we would suggest that this effort is better deployed in responding to the challenging inflationary environment and developing innovative products and services that create jobs and contribute to tax revenues to pay for public services.

- 3. For taxpayers and their agents: How easy or difficult are SIC codes to use for your business? What would make it easier for your business to find and input your SIC codes(s)? What level of SIC would be most appropriate (i.e. three or four digits)? Do you prefer using the full version from the Office for National Statistics (ONS), or the condensed version used by Companies House?**

No single classification system will ever achieve a 'one size fits all' solution that works for all businesses; we strongly recommend that HMRC works closely with the ONS and Companies House to determine a consistent method of classification that allows for comparability. We recommend that all three bodies adopt the international SIC system that is due to be endorsed at the United Nations in March 2023 in the interest of international comparability, but note that businesses are incorporated daily in the UK with an incorrect or inappropriate SIC code, sometimes due to error, otherwise to impersonate another business or defraud the public. We were troubled to note the recent incorporation of Nat West Ltd⁵, which has no discernible links to the banking group of similar name, and has disclosed a SIC code of 'central banking'. It is clear that Companies House does not perform appropriate checks prior to permitting an entity to incorporate, fuelling a lack of confidence in the robustness of the SIC code regime which would only worsen if HMRC were to proceed with its sectoral data proposals.

³ [Business population estimates for the UK and regions 2021: statistical release](#)

⁴ [The Growth Plan 2022 speech](#)

⁵ [Nat West Ltd, company number 14374942, incorporated 25 September 2022](#)

We would emphasise that businesses can very easily explain what they do in clear terms, if HMRC were to ask them; asking businesses to identify their closest SIC code match, however, involves effort and would require significant monitoring by HMRC.

Whilst we recognise the benefits of collecting a SIC code to assisting HMRC analytics, tax assessment and collection activities, and for central government in designing appropriate support and/or relief measures, it is important to note that an individual business' financial performance (and, in turn, its taxation liability) is primarily dependent upon its leadership, strategies and business objectives, together with its processes and operations. It would be inappropriate for HMRC to compare businesses under the same SIC code, as one business may prioritise short-term profit while another adopts a social enterprise business model with a view to generating long-term social impact, which may be more intangible than financial in nature.

Occupational data

Overarching question: across all of the options, we would like to understand which would be the most useful and would offer the most benefit for businesses and taxpayers. Do you think the options for collecting additional data we have prioritised here are the right ones, and are there any other areas where collecting more, better or different data would support tax administration and/or broader public service delivery?

We do not believe any of the options proposed by HMRC would provide sufficient information to enable HM Treasury, the Department for Education, and other central government bodies to monitor the effectiveness of the Apprenticeship Levy and the extent to which businesses are investing in their employees' skills development and growth. The collection of employee occupations is a challenge, as a job title and/or occupation grouping alone will not give any meaningful indication of the investment in skills by employers. We suggest that the data central government seeks would be better obtained via the ONS from a targeted skills census in specific sectors, perhaps every 4-5 years. HMRC's proposal might have been effective in the 1990s, when job titles were largely descriptive of the role an individual performed, but are inappropriate in the 2020s, as job titles are now often 'marketed' to attract the best talent in a highly competitive environment.

Self-employed

5. Would you find this information useful, if published in an anonymised form by the government (potentially linked with other datasets, such as salary, qualification or location information)?

In a cost-benefit analysis, we do not believe the information sought by HMRC in these proposals would provide any tangible benefit to self-employed businesses. In the SME sector, drawings and/or salaries are often more a determinant of how much an owner can afford to pay themselves and their staff, although talent scarcity pressures in some sectors (e.g. agriculture and hospitality) means that SMEs often need to weigh up the risk of lost revenue against higher wages.

We would highlight the significant challenge in grouping self-employed owner-managers by occupation type. In virtually all self-employed businesses, particularly those without

employees, the proprietor performs a wide variety of tasks that any categorisation would not provide sufficient meaning to HMRC and other central government bodies. As stated in our response to HMRC's overarching question above, we believe the data it seeks to obtain would be better sourced via the ONS from a targeted skills survey at specific sectors.

6. For employers/payroll providers: How easy or difficult would you find it to categorise each of your employees by occupation? If you have used SOC codes previously, how easy or difficult to use, and what, if any, challenges do you find with them? Do you have any suggestions as to how we could modify or design this option in a way that minimises cost burdens?

It is not often the case that a business' payroll and HR functions use the same software; payroll software does not normally require an employee's job title to process their salary and any taxation or National Insurance contributions thereon. This alone would be a challenging task for many businesses to upgrade their payroll software, to provide data that would only offer limited value to HMRC and other central government bodies.

We are concerned at the use of SOC codes in particular; while a SOC code may provide broad, general information, they are insufficiently proscriptive to allow HMRC and other central government bodies to assess the effectiveness of the Apprenticeship Levy and general business investment in employee training and skills. We propose HMRC puts its proposals on hold until a comprehensive assessment has been made of alternative means of collecting this data, such as via a targeted skills survey by the ONS.

7. For the self-employed/their agents: How well do SOC codes describe your, or your clients', occupation?

SOC codes are a blunt instrument; they are very generalised and insufficiently dynamic to express the wide variety of roles performed by an owner-manager/their employees, and would lead to significant additional input by their agents/professional advisors to ensure compliance. Given that the activities performed by an employee of an owner-managed business can vary widely, we do not believe that SOC codes are an appropriate basis for assessment.

8. How easy would it be to extract job titles from existing payroll systems into RTI?

As mentioned in our response to question 6 above, job titles are sometimes, but not always, recorded in a payroll system, because this field is not pertinent to the calculation of their salary, PAYE and National Insurance contributions. If HMRC were to proceed with its proposals, we envisage a significant data input exercise for many, if not most businesses; and the need for widespread updates across software platforms. Regardless of the relative ease or difficulty in extracting such data, we would highlight to HMRC the fruitlessness of such an exercise from a business' perspective; HMRC's proposals provide no direct benefit to UK businesses or employers.

Location data

Overarching question: Across all of the options, we would like to understand which would be the most useful and would offer the most benefit for businesses and taxpayers. Do you think the options for collecting additional data we have prioritised here are the right ones, and are there any other areas where collecting more, better or different data would support tax administration and/or broader public service delivery?

We question the benefit of providing specific location data to HMRC at the employee level. It is common for employees, particularly in larger businesses, to work across multiple sites, prioritising the location that best suits their needs (or those of their clients and customers). While it might be possible for an employer to provide location information via RTI, the best they could hope to provide would be the *contractual* working location of an employee, rather than the *actual* working location. This would reduce the accuracy of any insights determined by HMRC and other central government bodies.

We are concerned at the use of such a 'niche' example provided in HMRC's proposals; the example of Kitty and 'ASIT Building Supplies Ltd' having office locations at different sites would naturally be identified from an HMRC examination of Kitty and her business' tax affairs, and, for that matter, a quick Google search and review of her business' website.

We would propose that the insights central government wishes to obtain on employee working locations might be better sourced from either the business rates system (for example, by asking ratepayers to specify an average number of employees working from that location), or via a specific question in the 2031 census, requiring the population to specify the postcode of their primary working location.

9. Within location data, is HMRC correct to prioritise improving data on businesses with multiple locations, and on the location of real economic activity?

As noted in our response to HMRC's overarching question above, we do not believe that the collection of employees' location(s) is appropriate due to the onerous burden on business and the need to update payroll systems, particularly given the very limited benefit that collecting this data at an employee level would bring to central government. If HMRC wishes to proceed with its proposals to collect such location data, it needs to emphasise why this data is relevant to its activities in the assessment and collection of taxes, duties and customs in the UK; in any event, such data would only be of value, albeit very limited value, in particular sectors.

To consider some of the primary employment sectors in the UK:

- Retail: Location data of employees offers only limited value and is of secondary importance to sales data, which HMRC might obtain from its MTD programme;
- Manufacturing: Factories and processing sites are typically static, so there is no benefit for businesses to report identical data each time they process employee payroll;
- Financial services and knowledge-based sectors: The specific location of each employee is subject to change at very short notice, and indeed is one of the factors that attracts talent to these sectors, in that the work can vary considerably from one day to the next; and

- Public services, local government, the civil service and not-for-profit organisations: Employees can travel between many locations throughout their working day, particularly those engaged in enforcement, assessment or community service provision.

Considering the list above, which is not exhaustive, it would be unjust to impose penalties or a sanctions regime if incorrect or incomplete data for such organisations and businesses were to be reported, given that any data reported would be unlikely to generate significant insights for those organisations and businesses, and indeed, HMRC. We recommend that HMRC places these proposals on hold pending a comprehensive assessment of the data it will obtain under the MTD programme.

10. Are there any areas of the tax system where HMRC's collection of location data could be streamlined or where we could collect this information in a different way? In particular, does your business provide detailed location data (e.g. covering multiple branches of your business) to HMRC (or other parts of government) in more than one place? Which avenue do you find the least burdensome?

As noted in our response to HMRC's overarching question above, we believe that employee location data would be better collected by providing average staff numbers working from a premises via the business rates process, or by updating the 2031 census to require employees to specify the postcode of their primary working location. These avenues are the least burdensome for business.

11. How easy or difficult would it be for your business [or, for agents, your customers] to provide work location information for each employee through RTI?

We do not believe that RTI is the appropriate means of reporting work location(s) for specific employees, because employees of larger businesses may naturally work between multiple sites. We suggest that HMRC assesses whether this data might be better obtained via the 2031 census or via the business rates process.

Employee hours worked

Overarching question: Across all of the options, we would like to understand which would be the most useful and would offer the most benefit for businesses and taxpayers. Do you think the options for collecting additional data we have prioritised here are the right ones, and are there any other areas where collecting more, better or different data would support tax administration and/or broader public service delivery?

We are sceptical that collection of employee hours will generate any meaningful insight for HMRC. Employee hours will naturally fluctuate in a seasonal business, and actual hours worked can vary significantly from an employee's contractual hours. We are unable to identify a net benefit for HMRC and the public purse by collecting this data.

We would highlight that a substantial proportion of UK employees receive an annual salary as opposed to hourly wages; in such instances, it is rare for an employer to operate a timesheet system to collect hours worked, unless an employee has expressly opted into the Working Time Directive or that employer wishes to track productivity. Whilst we recognise HMRC's responsibilities in relation to regulating the National Minimum Wage (NMW), it seems

unjust for HMRC to expect businesses to invest in such processes when HMRC does not typically monitor the time worked by all of its salaried employees and other civil servants. We would be keen to understand the processes HMRC has in place to ensure its own compliance with National Minimum Wage legislation, in its capacity as an employer, and for those processes to be published for UK businesses so they can learn from and potentially replicate these.

The proposals incorrectly state that *‘employers... are required to show the hours worked by employees on their payslips, however this information is not currently shared with HMRC’*. We would stress that this duty only arises where the pay varies by the amount of time worked, under Article 2 of [The Employment Rights Act 1996 \(Itemised Pay Statement\) \(Amendment\) Order 2018](#)⁶.

Reporting this data via the RTI process imposes a considerable burden on business without providing any benefits to them; and any employers non-compliant with NMW requirements will likely mis-report employee hours. HMRC is no doubt aware of the Office of Tax Simplification’s (OTS) recent call for evidence in its [Review of hybrid and distance working](#); we propose that HMRC postpones any changes to RTI reporting until the OTS review is complete. We believe that it would be more appropriate for HMRC to target specific sectors for NMW compliance reviews, which would be identified through consumer research on working hours.

13. How easy or difficult would it be to provide information on specific hours worked and/or actual hours worked?

As stated in our response to the overarching question above, we believe that many businesses would need to implement a timesheet process to log and track hours worked. This would create significant additional costs for larger businesses, and contradicts the culture at more progressive employers, where an employee’s outputs, and outcomes generated, are more important than their inputs.

14. How predictable are the hours of your employees? How often do you use category e) hours worked (‘no regular pattern’), and what for? For example, pension payments or irregular working patterns (and if so what type of irregular pattern)?

We note a substantial shift in working trends in recent years, notably as a result of the covid-19 lockdowns and evolving attitudes towards rigid working arrangements. As noted above, many employers prefer to focus on optimising employees’ outputs and the outcomes they create for the employer’s stakeholders; focusing on inputs such as hours worked, while of limited benefit, can be counter-productive by inferring that an employer does not trust its employees to manage their time effectively. As stated in our response to the overarching question above, we encourage HMRC to postpone any changes to RTI reporting until the OTS review is complete.

⁶ UK Statutory Instrument No. 147 (2018), Article 2

Dividends paid to shareholders in owner-managed businesses

Overarching question: Across all of the options, we would like to understand which would be the most useful and would offer the most benefit for businesses and taxpayers. Do you think the options for collecting additional data we have prioritised here are the right ones, and are there any other areas where collecting more, better or different data would support tax administration and/or broader public service delivery?

We acknowledge the significant challenges that company owner-managers experienced during the covid-19 lockdowns, where in many cases such individuals were unable to access the Coronavirus Job Retention Scheme and other government support, but we are unclear as to HMRC's intended use of the dividend data it proposes to collect.

Dividends from UK companies – whether from a close company or otherwise – are generally taxed equally, and there is no benefit to company owner-managers in providing this data to HMRC.

Whilst we support the Chancellor's recent announcement that the 2017 and 2021 reforms to the IR35 regime will be repealed, we are mindful that HMRC's processes prior to these reforms were still extremely confusing for many company owner-managers, and indeed were in many cases demonstrated at tribunal to be inconsistent or non-compliant with legislation. HMRC's employment status indicator tool remains non-compliant with legislation, and in many cases is unable to give a clear indication of employment status, fuelling the extreme confusion that the IR35 rules, and HMRC's implementation of those rules, create for many contractors and company owner-managers. We believe that HMRC's efforts would be better focused on a wholesale reform of its implementation of IR35, which has long been a source of contention and confusion for company owner-managers, and, in our view, is not fit for purpose.

Company owner-managers represent a significant part of the SME economy in the UK, and HMRC's singling out 'tax-motivated incorporation' in the proposals appears unjust. Company owner-managers choose to incorporate for a variety of reasons, not least the liability shield that incorporation provides them.

We encourage HMRC to defer the implementation of these proposals until it has reformed the implementation of IR35 rules for close companies and company owner-managers.

15. Do you agree that building on the pre-existing definition of a close company is the best approach? Are there any other approaches you would prefer?

As noted in our response to the overarching question above, we see no benefit for company owner-managers in providing this data to HMRC and encourage HMRC to focus its efforts on reforming the IR35 rules.

16. How great would the administrative burden be for you or your customers in splitting out dividend income from controlled companies and/or determining the percentage of shareholding in that company?

In many cases, it is relatively straightforward for a taxpayer to segregate their dividend income by source. Complications in reporting shareholdings arise where the taxpayer's shareholding varies over time or is subject to dilution and/or performance-related measures, particularly where an employee share ownership scheme operates. As HMRC has noted in its proposals, ownership structures of private limited companies can be complex and may be split across multiple connected parties; a single taxpayer may be a shareholder of both the parent and a subsidiary undertaking. As such, requiring taxpayers to enter a numeric percentage of ownership could be highly onerous for many businesses, and would be counterproductive to the government's efforts to champion the SME sector and encourage employee ownership schemes. In our view, this data could only accurately be captured by providing taxpayers with a discrete free text field to describe the ownership structure of a close company; and completion of such a field would be highly onerous for high net wealth individuals with hundreds of individual investments.

We encourage HMRC to delay the implementation of these proposals until it has reformed its implementation of the IR35 rules for close companies and company owner-managers.

Self-employed start and end dates

Overarching question: Across all of the options, we would like to understand which would be the most useful and would offer the most benefit for businesses and taxpayers. Do you think the options for collecting additional data we have prioritised here are the right ones, and are there any other areas where collecting more, better or different data would support tax administration and/or broader public service delivery?

We do not believe the collection of self-employment start dates and end dates would create any direct benefits for UK business, only burdens. Whilst we acknowledge there may be some indirect benefits of collecting such data, the cost of implementing these data collection requirements will substantially outweigh any indirect benefits to UK self-employed businesses.

We are sceptical as to the need to collect this data, given that many taxpayers launching a business for the first time would need to notify HMRC to inform them they have commenced trading as a sole trader, and in many cases, this would trigger the first self-assessment tax return that those individuals would need to complete. We are not clear what benefit this data would provide to central government or to the businesses concerned. In terms of government interventions to assist small- and micro-businesses, if an individual is ready to notify HMRC that they have commenced trading, such interventions might be too late in the process to create a tangible impact on the business and its business model.

We would emphasise to HMRC that a clearly-identifiable 'start' or 'stop' date rarely exists in the self-employed economy; an individual may run their business as a sole trader while also in employment, or may alternate from one to the other several times in the course of a tax year. Identifying the specific point at which a business transitions from a venture concept into business activity can be a grey area for many self-employed people.

As noted in our response to question 1, the self-employed typically require the highest level of support from HMRC and their professional advisors; any unnecessary or non-essential communications from HMRC could increase confusion or cause stress that could have been avoided. We encourage HMRC to view its proposals from the perspective of a self-employed business, to understand how its communications might be perceived by a time-poor individual running a business for the first time. ACCA stands ready to support HMRC in understanding these perspectives.

If HMRC were to proceed with these requirements, we recommend that it asks for the month and year only, rather than a specific date in the self-assessment return, and does not link the date provided to the onset of Class 2 and 4 National Insurance contributions.

17. How easy or difficult would it be for you/your clients to identify the dates that your business/your client's business started and ended trading within a tax year?

Please refer to our response to the overarching question above.