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

Response from ICAS

About ICAS

The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants and we represent over 23,600 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors.

ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. From a public interest perspective, our role is to share insights from ICAS members in the many complex issues and decisions involved in tax and financial system design, and to point out operational practicalities.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Our response

1. The following submission has been prepared by the ICAS Tax Board. The Tax Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community; it does this with the active input and support of over 60 committee members.

Background comments

2. ICAS is grateful for the opportunity to contribute its views on this HMRC [consultation](#), entitled "Simplifying and modernising HMRC's Income Tax services through the tax administration framework".

General comments

3. ICAS is strongly supportive of the principle of tax simplification and recognises the role that digital services can play in facilitating this. We appreciate the importance of developing a system of tax administration which is easy to use at the point of contact between taxpayer and taxing authority, allowing all taxpayers (including the digitally challenged) to have effective and efficient access to the tax system.
4. ICAS does not support mandatory digital tax services for everyone. Our members are generally willing to use HMRC's digital services, indeed this would be preferable to spending hours waiting in queues for telephone helplines. ICAS believes that digital facilities should be accessible to all, on the terms that they want.
5. As a means of encouraging the uptake of HMRC's digital services, ICAS would suggest that these need to be so good that everyone wants to use them. There also needs to be appropriate recognition of the role of agents, whom we would argue should be enabled to carry out more actions for their clients in all matters relating to HMRC for the taxes they have been appointed to act.
6. Whilst digital services will be an option for most taxpayers, it is important to recognise the needs of taxpayers who are digitally excluded, including those who have additional needs or disability and those who do not have reliable access to the internet.

Many of our members based in rural areas continue to raise concerns about digital connectivity, resulting in exemption applications being submitted for Making Tax Digital for VAT. The lack of digital infrastructure in rural areas remains an issue for our members and their clients.

Reduction in paper communications from HMRC (Questions 1 to 3)

7. ICAS is supportive of taxpayers and their agents being able to deal with more matters electronically with HMRC. However, our members regularly provide us with feedback that HMRC's current electronic services are inadequate. There have been longstanding issues with the Trust Registration Service, Employment Related Securities reporting and Capital Gains Tax returns for the disposal of residential property. Improving the existing digital services and ensuring that taxpayers and their agents have confidence in those systems is essential before more significant moves towards a 'digital first' model are pursued.
8. Our members have reported that the existing HMRC digital systems do not always work as they should and taxpayers and/or their agent are currently required to revert to paper based communications. For example, we have received feedback about the Form SA1 and how online versions of the form were disappearing on HMRC's systems and this meant that a paper form needed to be submitted. Being required to submit forms by paper is counterproductive, as it complicates matters for taxpayers and their agents and is arguably less efficient for HMRC, impacting on service standards overall.
9. Recognition of the role of the agent in the process is vital. Agents are not currently notified of changes to PAYE Coding Notices and this can lead to overpayments/underpayments of Income Tax, as errors are not identified and corrected. ICAS believes that, in order for more electronic communication to be successful, agents need to receive copies of all correspondence being sent to their client for the taxes they have been appointed to act on.
10. In terms of barriers to less paper communications, we would flag up that HMRC's existing systems do not operate effectively for taxpayers based overseas. Issuing agent authorisation codes by post to an overseas address often results in the authorisation code having expired before it is received. This limits the ability for taxpayers resident overseas to authorise an agent online. HMRC needs to find a way of ensuring that all taxpayers, wherever resident, can communicate electronically with HMRC.
11. In respect of the specific forms mentioned in the consultation, we would suggest that routine notices to file tax returns (both personal and corporate) are likely to be low risk, particularly where the taxpayer and/or their agent is aware that they would normally complete a tax return. For new instances of being required to submit a tax return, HMRC should consider whether any additional measures are necessary to cover instances where the taxpayer has changed their email address and not notified HMRC, but receives a penalty.
12. For those taxpayers who are digitally able, ICAS would support investment in app based technology. The HMRC app is presently limited to being able to send information for follow up by a member of HMRC staff (with several weeks delay), whereas there is greater scope for taxpayers to self serve, which would be helpful. Improved functionality, including the ability to authorise an agent, would be advantageous as we note that there are delays when the authorisation code for agents is sent by post.
13. For those taxpayers who are digitally excluded, ICAS believes that HMRC needs to make it easier for them to access the Extra Support Team as appropriate. This could include instances where taxpayers wish to liaise with HMRC regarding their own tax affairs but also to appoint an agent to act on their behalf. The recent introduction of the Income Record Viewer, and the insistence by HMRC to require a 'digital handshake' to authorise an agent, has presented challenges for taxpayers who are digitally excluded.

In the case of the Income Record Viewer, this meant that the benefits of the service were not being maximised. But in the context of a wider 'digital first' model, the ability for digitally excluded taxpayers to appoint an agent should not be overlooked. In some cases, the appointment of an agent will enable the needs of digitally excluded taxpayers to be met.

Reduction in Payable Orders (Questions 4 and 5)

14. ICAS is broadly supportive of moves away from payable orders, as part of taxpayers receiving their payments faster and more securely. As noted earlier, taxpayers are likely to register for digital accounts if they have confidence and can see the benefit to them of interacting with HMRC in that way. At present, HMRC's online services have a reputation for being inadequate and this needs to be addressed. Ensuring that HMRC's digital tax accounts can enable taxpayers to better self serve, supported by a communications campaign to raise awareness of the benefits, should increase the number of taxpayers who register.
15. Where HMRC is aware of particular sectors that have a low sign-up rate, engaging with external stakeholders in the sector could help identify the issues behind this in order that these can be addressed.
16. Where repayments are issued electronically but are overstated due to HMRC error, HMRC should ensure that there are measures in place to ensure that taxpayers are not charged interest where this is identified in a prompt manner. A taxpayer who receives an incorrect Payable Order is able to return it for cancellation, but this is not possible where payment is made directly into a taxpayer's bank account.

Pay As You Earn (PAYE) (Questions 6 and 7)

17. Where a taxpayer changes employment, ICAS believes that HMRC needs to make it easier for the taxpayer and/or their agent to notify changes to their circumstances that could impact their PAYE Coding Notice.
18. A change in employment could result in the commencement or cessation of benefits in kind or a change in the taxpayer's income. Our members tell us that, at present, HMRC systems are unable to recognise that they need to change PAYE Coding Notices when a taxpayer's income is above £100,000. Similar concerns could arise where the taxpayer becomes liable to, or ceases to become liable to, the High Income Child Benefit Charge (HICBC).
19. As noted earlier, the ability of a taxpayer and/or their agent to better self serve would enable more taxpayers to be on the correct coding notice for their circumstances.
20. For those taxpayers that are unrepresented, they may not be able to understand what their PAYE Coding Notice means in terms of the Income Tax that they pay. HMRC could consider revisiting how PAYE Coding Notices are communicated to employees, so that they can understand the assumptions made in their PAYE Coding Notice and ensure that they are aware of any allowances that they could claim as a deduction from their Income Tax liability.
21. Making it easier for taxpayers to make changes to their PAYE Coding Notice will reduce the attractiveness of Repayment Agents, as if it is easier for taxpayers to self serve then more of them are likely to choose to do so.

Income Tax Self Assessment (ITSA) – new registrations (Questions 8 and 9)

22. As noted earlier, ICAS does not support mandatory digital tax services for everyone. ICAS believes that digital facilities should be accessible to all, on the terms that they want. As a means of encouraging the uptake of HMRC's digital services, ICAS would suggest that these need to be so good that everyone wants to use them.
23. ICAS believes the focus of HMRC needs to be improving the existing digital services before moving towards mandation. More effective digital services, which take account of the needs of both taxpayers and their agents, could be a positive step forward. However, lessons need to be learned from the rollout of the VAT Registration Service, which resulted in significant delays in registration and a reduction in service levels. In some cases, the inadequacy of the VAT Registration Service has resulted in some of our members reverting to paper based forms, which is not desirable.
24. Before any such change could be rolled out, ICAS believes that at least a full compliance year would be required so that taxpayers and agents could be fully aware of the change.

Reviewing the circumstances in which taxpayers should file a tax return (Questions 10 to 12)

25. ICAS believes that the recent fiscal changes in terms of the freezing of thresholds, reducing the dividend allowance and reducing the Capital Gains Tax Annual Exempt Amount are unhelpful and do not support the simplification of the tax system. They will bring more taxpayers into ITSA or result in 60 day Capital Gains Tax returns being required for disposals of residential property, albeit for relatively modest amounts of tax. ICAS believes that there has been insufficient publicity about these changes so many taxpayers (particularly those who are unrepresented) will be unaware of a need to complete tax returns.
26. Our members have also identified a particular issue in respect of executors of deceased estates, who may now need to submit tax returns for Capital Gains Tax, when they would not otherwise be required to do so for Income Tax purposes. Again, these changes have not been widely publicised so this could impact on the level of awareness of the changes.
27. To avoid further issues in future, ICAS would recommend that the exemptions for small amounts of income/gains be reviewed regularly and increased/indexed over time so that they are not eroded over time. If they are not increased, there will be a further impact of taxpayers being brought into ITSA.
28. Taxpayers with rental income covered by the Income Tax Personal Allowance are still being required to submit a tax return, even though no Income Tax liability arises.
29. We have received anecdotal reports that, contrary to HMRC guidance, directors are still being required to submit tax returns under ITSA for the sole reason of them being directors. Whilst many directors will have other reasons (such as untaxed income or gains) requiring a return, it would seem logical to ensure that only those directors with such additional complexity are required to submit a return. Many directors will have straightforward affairs and ICAS believes it is right that this should be recognised in the system, in the interest of simplicity, but it is important that the guidance is consistently applied.

30. Clients with overseas issues can also present a challenge for our members. Clients with overseas portfolios continue to be within ITSA due to their income being above the limit to report, even though there may not be any UK Income Tax liability payable. Members with clients resident outside the UK have also highlighted it is not always possible to complete online returns – this goes against the ‘digital first’ approach which HMRC advocates.

Opportunities for reform (Questions 13 to 15)

31. ICAS welcomes digital initiatives like the Single Customer Account, but the functionality needs to be so good that taxpayers will choose to interact with HMRC in this way. HMRC needs to ensure that taxpayers and their agents can notify changes quickly and easily and that there is greater ability to self serve than is currently available.
32. Our members would find it useful for agents to have a single portal to access all HMRC services, as the Agent Service Account covers new services but not legacy services.
33. HMRC needs to give greater consideration to agents in the design of digital services, both in terms of making it easier for a client to authorise an agent and also in granting access to agents so that they can view all taxes that they have been given authority for and are able to self serve on low risk changes and updates.

Summary

34. Overall, ICAS welcomes moves towards the use of digital systems as a means of achieving greater tax simplification. The feedback from our members is broadly supportive of digital methods of interacting with HMRC. However, the clear message from our members is that HMRC’s existing digital services need to be improved before further steps towards a ‘digital first’ model are explored. If HMRC’s systems are so good that taxpayers will wish to use them, this could be beneficial for both taxpayers and HMRC, as there should be greater ability for the taxpayer or their agent to self serve, freeing up the telephone lines for those taxpayers who need additional support.



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