



MAKING TAX EASIER THROUGH SMARTER USE OF THIRD-PARTY DATA

Issued 18 March 2021

ICAEW welcomes the opportunity to comment on the consultation Making tax easier through smarter use of third-party data published by The Office of Tax Simplification (OTS) on 27 January 2021, a copy of which is available from this [link](#).

The Tax Faculty held a round table in February 2021 at which members of its technical committees met with the Office of Tax Simplification (OTS) to discuss and give feedback to this consultation. We have also encouraged ICAEW members to respond directly using the OTS survey accessible through GOV.UK.

A major impediment to pre population of data into HMRC systems by third parties is the absence of a unique tax identifier for each UK taxpayer. Although many do have a National Insurance Number, not all UK taxpayers are required to have one. This aspect needs to be addressed in moving this project forward.

Problems also arise where the beneficial owner of property is unclear, for example in the case of a nominee bank account.

There is also a danger that prepopulated data could be accepted by taxpayers as automatically being correct. Clarity would be needed on whether HMRC or the taxpayer would ultimately be responsible for checking its accuracy. A system would also be needed to allow a taxpayer to challenge and correct the data and to determine who would be responsible for making those corrections.

This response of 18 March 2021 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business.

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INTRODUCTION

1. The Tax Faculty held a round table in February 2021 at which members of its technical committees met with the Office of Tax Simplification (OTS) to discuss this consultation and provide feedback. In addition, we have encouraged ICAEW members to respond directly using the OTS survey accessible through GOV.UK.
2. To enable accurate and useful taxpayer data to be entered directly into HMRC systems, a comprehensive and reliable identification system will be needed. The UK does not currently have a system of unique identifiers which covers all individuals, and although the National Insurance Number (NINo) is perhaps the most common suggestion, not all UK taxpayers are required to have one. This aspect needs to be addressed in moving this project forward.
3. The beneficial owner of property is not always clear, for example in the case of a nominee bank account.
4. There is a danger that prepopulated data could be accepted as being automatically correct by taxpayers. Clarity is needed on whether HMRC or the taxpayer will ultimately be responsible for checking its accuracy. A system will also be needed to allow a taxpayer to challenge and correct the data and to determine who would be responsible for making corrections.
5. We have summarised below the additional feedback to the consultation questions sent to us by ICAEW members after the round table.

ANSWERS TO SPECIFIC QUESTIONS

Question 1. What sources of third party data do you currently use in order to complete a return, claim a relief or otherwise engage with HMRC

6. Additional sources of third party data might include
 - Bank certificates of interest
 - Bank statements
 - Trade union websites for membership subscription rates
 - Professional body subscriptions
 - Status Determination Statements
 - Annual dividend summaries or dividend vouchers
 - Broker statements
 - Completion statements from solicitors for property sales. Also details of original cost, enhancement expenditure, evidence of entitlement to CGT main residence exemption and letting relief if property has been let or more than one residence is owned
 - Details of overseas property sales and taxes paid
 - Copies of non UK tax returns
 - Evidence of gift aid donations, eg receipts from Just Giving etc
 - Pension contributions paid
7. Reference will also be made to information HMRC should already hold in relation to employment and pension income such as P60, P45 and P11D

Question 2. Are there any areas where the provision of third party data currently creates issues with the accuracy or timeliness of your return, for example due to delays in receiving the data?

8. It can take longer to obtain third party information held non digitally or where it arises overseas.
9. Other complications arise where there is uncertainty regarding beneficial entitlement in cases of jointly owned assets.
10. Duplicates may be needed, for example where a taxpayer mislays a certificate of interest.

11. It is not always clear which statement relates to which client, particularly in dealing with several members of the same family. A unique taxpayer identifier would resolve this.

Question 3. To what extent do you think that it would be simpler for you if third parties submitted data directly to HMRC (as well as to you)?

12. Having third parties send information directly to HMRC as well as to the taxpayer would be helpful if it was accurate and easily matched with the taxpayer. It would also depend on how easy it was to correct mistakes. For example, would a bank be able to split deposit interest between two taxpayers owning a joint bank account? If the interest had all been allocated to the first named individual on the account, how easily could this be corrected and would this correction have to be repeated every year?
13. If HMRC already holds data, we note that the information could be used in two ways:
- a. It could be used actively to prepopulate tax returns. In this case, clients would be asked to review the information already held and just supply missing items or query differences. The risk would be that taxpayers might just accept this information as given on the basis that it was 'known' by HMRC, and so must be correct.
 - b. It could be used passively. So, it would be used perhaps by the adviser's tax software to cross check taxpayer supplied information before the tax return was submitted. The third party software could communicate with the data already held by HMRC and highlight items of mismatch prior to returns being submitted.

Question 4. What would you consider to be the main benefits of third parties providing such data to HMRC on your behalf?

14. If done well, this could relieve much of the administrative burden of income reporting for tax returns, resulting in
- An increase in completeness of reporting
 - Better reporting accuracy
 - Time savings

Question 5. What, if any, are your main concerns about third parties providing data to HMRC on your behalf?

15. Loss of data by third parties, either due to software failure or a security breach.
16. Inaccurate reporting, for example due to mismatched identities (husband and wife) or problems with cut-off at the end of a tax year such that income was reported in the wrong tax year. Rather than saving time this could create additional work and possibly lead to unwarranted investigation of client's affairs.

Question 6. Is there any information currently held by HMRC or other government departments that it would be useful to have shown in your online tax account or prepopulated in a tax return?

17. State pension information. Although this should be available it is not always shown on the HMRC website under the heading 'information to help you complete your tax return'.
18. The presentation of tax payments made to HMRC and how these have been allocated by HMRC systems is difficult to follow, particularly where interest is involved.
19. Payroll information, see answer to Q1 above.
20. The amounts of different classes of National Insurance Contributions paid for the year.

Question 7. Which types of third party would you find it most helpful to be required to provide data to HMRC on your behalf (for example, banks, investment managers etc)?

21. The following third parties could be required to provide data:

- Banks and building societies
- Overseas banks
- Employers
- Companies as regards dividends
- Pension providers
- Letting agents.

22. Consideration should also be given to how websites which offer a market place to taxpayers for sales of goods and services, might also provide information in a more useful format. This could be in the nature of a taxpayer account on the website itself, accessible only to the taxpayer, although this could be developed further into a tool to provide information to be pre populated into tax returns by HMRC.

Question 8. Are there any particular types of third-party data that it would be useful - with your approval - to have the option of being submitted to HMRC on your behalf (such as rental income from an agent managing a property for you)?

23. Rental income by the agent managing a property would be a useful addition. See also the answers to Q7.

Question 9. If third parties were to provide data to HMRC on your behalf, what would you want HMRC to do with it to make life easier for you, for example, reflecting it in an online tax account?

24. Reflect in an online account identifiable as the taxpayer's. This could be prepopulated into the tax return by ticking a box for each type listed.
25. The system would have to allow for the data prepopulated in the return to be adjusted to correct mismatches or errors.

Question 10. To facilitate a third party providing HMRC with data in an effective way, you may need to provide them with identification information (National Insurance number). How would you expect to provide this information for example, by letter, phone or an online form? Are there some types of third parties that you would be more comfortable providing this extra information to and what are your reasons for this?

26. All UK taxpayers need a unique identifier, which is allocated at birth or for arrivals into the UK, when they become a UK taxpayer. The National Insurance number is not suitable as not everyone has one. This would need to be given to the third party at the point the account is opened or when the taxpayer subscribes to the service.
27. Neither a letter by post nor a phone call would seem to provide adequate safeguards. Perhaps some form of digital handshake might be needed although this would require further discussion with the agencies involved.

Question 11. What do you think would be the most effective way for you to be able to query the accuracy of the data provided to HMRC by third parties? Are there particular taxpayer safeguards you think should be considered to maintain trust?

28. In the first instance, it would be simplest to allow the taxpayer to say that the prepopulated information is incorrect and ask HMRC to check with the provider of the information. The taxpayer is responsible for ultimately determining the figures for their own tax returns, so should be able to override the third party figures.
29. The taxpayer should be able to see from the online account who provided the prepopulated data.

30. A third party should not be able to complete information which directs repayments to bank accounts.

Question 12. Do you have any comments on steps HMRC could take to build and maintain trust in the way it handles and uses customer data from third parties?

31. When HMRC has inconsistent data it should assume, in the first instance, that the data is incorrect not that the taxpayer is wrong.
32. HMRC should be specific about incorrect data – not just allude to errors or missing information which can create unnecessary and costly cross checking.

Question 13. Are you aware of examples of approaches to the use of third party data by other tax authorities that should be considered by HMRC?

33. We are not aware of approaches used by other tax authorities.

APPENDIX

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see <https://goo.gl/x6UjJ5>).