Addressing simplification

General Features



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Paul Morton shares his personal views on tax simplification

Key Points

What is the issue?

There is near universal consensus that it would be a good idea to simplify the tax system.

What does it mean to me?

For a variety of reasons it seems very hard to remove what might be referred to as ‘technical complexity’ in the tax system. It may therefore be that a more fruitful aim is to make the taxpayer interaction as simple as possible.

What can I take away?

There are many things to consider when thinking about simplification. The future will be with us very soon.

There are few things on which almost everyone agrees. However, there is near universal consensus that it would be a good idea to simplify the tax system. We might therefore ask how exactly do we do that?

Those of us who have grappled with various versions of the Taxes Acts over the years may feel that the Tax Law Re-Write Project, designed to re-craft the tax code into more modern and accessible language, was a success. However, whether the tax system is really simpler as a result seems unlikely. It is certainly longer and there was, perhaps, a certain quaint quality about the older language which prompts a little nostalgia!

Some people feel that reducing the length of the tax code would be a worthwhile pursuit in itself. The UK has one of the longest tax codes in the world and shrinking the volume of legislation would seem to point in a simpler direction. However, a strength of the UK approach to legislating tax policy is that we aim for completeness and precision in order to deal clearly and decisively with all possible eventualities. Other approaches, arguably, leave much more to judgment and therefore the risk that different taxpayers are treated differently in similar circumstances may be greater. Is such a system really simpler?

Another idea is that the number of tax reliefs should be reduced so that we have a simple system which might be thought of as ‘flatter’ than a system based on a higher rate with more reliefs. Experience at the Office of Tax Simplification (OTS), however, suggests that as soon as there is the slightest suggestion that a relief

might be abolished, an interested party comes forward with forceful arguments as to why the relief has some essential purpose. It may be that a system with a large number of reliefs, all of which can be easily accessed in the right circumstances, is actually simpler than one in which the tax system is seen to bear unreasonably on unrelieved taxpayers.

Some complexity arises as a result of cliff edges such as the VAT registration threshold. The OTS has recommended that consideration be given to a smoothing mechanism to ease the entry of growing businesses into the VAT system. Another example of a cliff edge is the withdrawal of the personal allowance for those whose income exceeds £100,000. Again, the cliff edge could be smoothed in principle but each of these smoothing mechanisms introduces more complexity rather than less.

For all of these reasons it seems very hard to remove what might be referred to as ‘technical complexity’ in the tax system. It may therefore be that a more fruitful aim is to make the taxpayer interaction as simple as possible and for this reason the OTS has been very focussed on the ‘user experience’.

Can we make it as simple as possible for a taxpayer to understand his or her obligations such as the requirement to register, to submit relevant information and to pay tax at the right time? How can we make form-filling as simple and intuitive as possible? How can we best provide guidance when some may be looking for the most basic information while others may have quite deep technical issues to resolve. Some, including readers of this journal, will have extensive knowledge of the subject while some might find the topic rather challenging and some, perhaps, will not have English as a first language. Some will be more comfortable with numbers than others. It seems right to focus primarily, or at least initially, on the user experience of the much more numerous non-specialist taxpayer and to make that as simple as possible.

A thought-provoking example is that of those employees, for example in the hospitality industry or the health sector, who can claim the cost of cleaning a uniform for tax purposes. For many, one can imagine that the simple exercise of claiming the expense online could be quite daunting, although to a tax professional it really does look very simple. So, for those less familiar with the process there are numerous firms which can submit a claim on behalf of the taxpayer, for a fee. Could we design a system instead in which employers identify all individuals for whom a claim might be made and we find a way of simply allowing a standard amount of

relief subject to some very basic level of confirmation by the taxpayer? It may be that relief is given inappropriately in some cases. Some people might still miss the relief. For many, though, this will be a better, and less costly, experience.

A wider question, which this example touches on, is whether we can use new technology to smooth over the complexities of the tax system for the user. The short answer is that we can and we should but it does raise a concern regarding the extent to which the taxpayer can still understand what is going on beneath the surface. It follows that if they might not be able to understand ‘what lies beneath’ we might ask why or how they could be expected to take responsibility for it.

An important element of the taxpayer experience is the extent to which people worry about tax either now or for the future. This raises an interesting question about how HMRC is perceived by members of the public. Is it seen as a kind of wolf which leaps at taxable income in a frightening manner? Is it seen as a wise but disappointed parent, chastising the children for their less than perfect behaviour? Or is it seen as a friendly mentor, willing and able to help and coach to enable the taxpayer to arrive at just the right answer? There will be times when each of these personas might have its place and perhaps, we can use technology to apply the right approach at the right time. The tone and ‘personality’ of a technology enabled user interface is very important and HMRC should be complimented on the outstanding work they are doing in relation to behavioural insights.

Returning to the core question, at the heart of every attempt to improve the user experience must be the effective use of new technology. Perhaps one might dream of a world in which technology works seamlessly in the background.

In fact, in Scandinavia there are many people who will be provided with a simple summary of their tax position on their smartphone. All that is required is for them to open a simple App and confirm by the click of a button that they agree with their tax assessment. The tax administration is concerned about the number of people who do not even take the time to do that. Do they trust the system so much that they feel they do not need to look? Or do they just not care?

All kinds of questions arise of course. Who is responsible when something goes wrong? Is it the software provider for not producing perfect software or her professional adviser, if she has one, or HMRC or Sarah, even though she may not be aware of what is going on in the background? Should she be aware of the detail or

can she just let the system do its work? How much does she need to understand about it? An interesting thought, if the algorithm uses data from other businesses to increase the accuracy of the classification in her business who should we hold responsible if the process imports bias or error derived from others into her tax position?

All this is for the future, although that may be with us quite soon! Once we have driverless cars on the road how far behind will be the ‘driverless tax return’? Will we then be in a wonderful world in which we are all liberated from our tax compliance obligations or will is this a dystopic vision of a world in which we have lost control of our finances? Just as questions of responsibility and liability need to be addressed today in relation to driverless cars we also need to think about these wider questions of tax simplification quite soon.

In the meantime, there is a great deal that can be done with the current tax system and the OTS will continue to play a leading role in that under the leadership of Bill Dodwell and Kathryn Cearns. HMRC is also making enormous efforts to improve the taxpayer experience, to improve the use of technology and to provide better guidance and the tax profession as well as the business community provide huge amounts of support. In short, everyone is now thinking about simplifying the taxpayer experience and the future looks rather exciting.