ATT welcome, July 2019

Welcomes

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‘Garbage in, Gospel out’?

I hope you are getting ready to file the first quarterly VAT return under Making Tax Digital for VAT. You may have some clients who bit the bullet last year and joined the pilot scheme, in which case, for you, at least, it will be ‘business as usual’ in August. I am interested in gauging how the tax community has experienced MTD for VAT so please do take the time this summer to let me know.

HMRC has been scratching at the surface of a true digital tax system for many years. I can recall the days before the introduction of Self-Assessment when a Revenue officer was responsible for managing the personal tax affairs of an allocation of ‘taxpayers’ (now called ‘customers’) every year. Depending on the complexity of the tax affairs of those customers, the size of the allocation could vary between staff members.

At the end of the tax year, and having successfully filed paper forms P35 and P14s (two copies – one for the Inland Revenue; the other for the NI Contributions Office), a first review of all taxpayers would begin. Staff had to type the information shown on the forms P35 and P14s into a computer, which carried out a basic check of pay and tax (from the form P14) against the final tax code issued on the system. If the tax deducted was within the ‘assessing tolerances’, and no special attention signals were set, the computer automatically pronounced the taxpayer’s tax affairs were up to date.

Speaking of computers, I always think of the saying ‘garbage in, garbage out’ (GIGO). I think we all understand the concept: the results produced are only as good as the data originally input. That explained why the Revenue always had ‘exception lists’ for cases that were not cleared automatically by the computer. Sometimes for genuine reasons, and sometimes because of something as minor as an incorrect National Insurance number.

Think forward to the introduction of Real Time Information (RTI) for payroll reporting; gone are the days of manual data-inputting inside one of the Revenue's big processing houses. I do believe there can be efficiency savings (for both the agent and HMRC) through better use of technology, especially where it avoids having to re-type data that originates in another computer system. As long as the data is processed correctly at the input stage, one hopes (and therefore should always check) that the output is correct.

Taking computerisation to the next level, the expression mutates to 'garbage in, Gospel out'. If that is what the computer produces, it must be right – mustn't it? This is when I insist on carrying out a manual tax calculation to check that the result produced by the computer is correct, or simply just to check that I still know how to carry out complex income tax computations! I do not believe it sufficient to state that an underpayment has arisen because insufficient tax was deducted during the year through the operation of PAYE. My response to that is always, 'Why was insufficient income tax deducted?' This is where the clerical review by a Revenue officer was important and provided a safety check for those members of the public unable to check their own tax affairs.

At present, although RTI and Self-Assessment have determined that a person may have underpaid income tax, I never see too many people checking the reason for the underpayment. Has there been a failure to operate PAYE? Maybe the employer/pension provider failed to operate PAYE correctly and should make good the shortfall? Back in the day, the Revenue officer would have considered this point and referred the matter to the Employer Unit for a compliance check review. Does anybody nowadays ever think about 'Official Error' – Extra Statutory Concession (ESC) A19?

As we look back at SA, RTI and MTD for VAT, and think to the future with MTD for Business and MTD for corporation tax, is there anything that we can do as a profession to manage the tax compliance activity for our benefit and to protect our clients and the public in general? Is it really satisfactory to think that whatever the computer says, it must be right? Computers are only as good as the person who writes the tax program.

And of course, as the UK tax system becomes ever more complex, can a computer really replace a human? Maybe for dry data processing, but do remember GIGO.

Please do let me know about your experiences with MTD for VAT. Pointing out the shortcomings can only help develop a system that does what it is supposed to do.

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