Education, education, education

General Features



01 October 2019

Bill Dodwell addresses the need to raise general understanding of the tax system in the UK

One of the most common comments by those who have been involved in an unsuccessful tax scheme is that they didn't understand it, or thought it set out to do something different. For example, some investors in unsuccessful film schemes have said they thought they were supporting new films being made. Perhaps this was true in some cases, but in all cases the intended tax benefits were more significant than the film investment. Mr Hoey, who participated in a loan scheme within the ambit of the loan charge, was found by Judge Philip Gillett not to understand the arrangements he had signed up to. 'The cash which he would receive under the [loan] arrangement was slightly better than he was currently receiving but Mr Hoey did not really understand that this was because he would be paid in a way which was designed to avoid paying UK tax on a large part of his earnings.'

A key objective of the Office of Tax Simplification is to help make it easier for taxpayers to interact with the tax system. This comes through identifying potential changes in tax policy (tax law), as well as suggesting improvements to administration. A further way to help taxpayers, though, is to improve tax education. Knowledge about tax comes at three levels: the first is how to comply with tax obligations and appreciate that tax (and national insurance) is levied on our income and gains. For many people this is for the most part managed for them through the PAYE system. However, knowing what might need to be reported to HMRC is also important. The second more advanced level helps people to make good choices about their family and economic position, taking account of taxation. The third level helps people understand how the overall tax system supports the UK economy and public services – and the trade-offs within that system.

The Office of Tax Simplification is thus keen for more people to understand their compliance obligations and the choices they can make. The recent 'Simplifying everyday tax for smaller businesses' report (bit.ly/2Rs5Iem) noted that many people ended up in self-employment without understanding what this meant. Some became company directors, again without necessarily understanding the implications of the company being a separate legal person from its owner. Even explaining that complicated fiction is difficult.

A really tricky question is how to improve knowledge about taxation. HMRC have an excellent 'Tax Facts' package, intended for schools. Finding curriculum space is not easy – and there probably aren't enough offers of external help to cover all secondary schools. Some further education colleges commendably include training in accounting and tax in courses where participants are likely to end up running their own businesses.

Employers and engagers of freelancers could supply tax information to their workers – but that information needs to come with the backing of the tax authority. Employers are unlikely to want to give tax advice to their employees – and the risks for engagers are possibly even higher, given the extra complexity of self-employment. Deloitte has just commissioned a survey from YouGov on the Tax Education Gap. The survey asked some 2,000 adults what they knew about various tax topics – and awarded a score out of 30. The average score was 10.6. Unsurprisingly, older taxpayers had gathered more knowledge of the tax system; the group with least knowledge was the 18–24 age group. Members of this group are of course starting their first jobs, including potential self-employment. A lack of

awareness of tax certainly makes it harder to deal with practical issues, such as incorrect tax codes, or appreciate the record keeping and notifications needed for self-employment.

Interestingly, the survey suggested that quite large numbers appreciated that sources of additional income (for example, renting holiday accommodation) is taxable. This is encouraging for HMRC in seeking to ensure overall tax compliance.

Disappointingly, though, the survey indicated low awareness of the Personal Tax Account. This is set to revolutionise communication between HMRC and individual taxpayers. HMRC said in its 2018/ 19 Annual Report that over 19 million taxpayers had signed up for an account. Yet the Deloitte survey showed that only 19% realised that they had a Personal Tax Account – a massive difference. Users found it very or somewhat helpful, though; communication of the account and its benefits seems the issue that needs to be overcome.

A future Office of Tax Simplification report on Taxation and Life Events looks at particular events which cause tax complexity, such as starting work, or starting to receive pension income. In all cases, greater taxpayer knowledge and understanding of the tax issues would help to reduce their complexity. However, it’s always hard to offer education in general terms, as people may not appreciate its relevance to them. Perhaps there is a good case for targeting knowledge resources at those likely to be approaching a particular life event. For example, employers could send a link to resources about tax and retirement to those who had given notice of impending retirement.

There’s surely a case for government, professional bodies, employer organisations, HMRC, schools, colleges and universities to work on targeted tax education to support all current and potential taxpayers current and potential taxpayers.