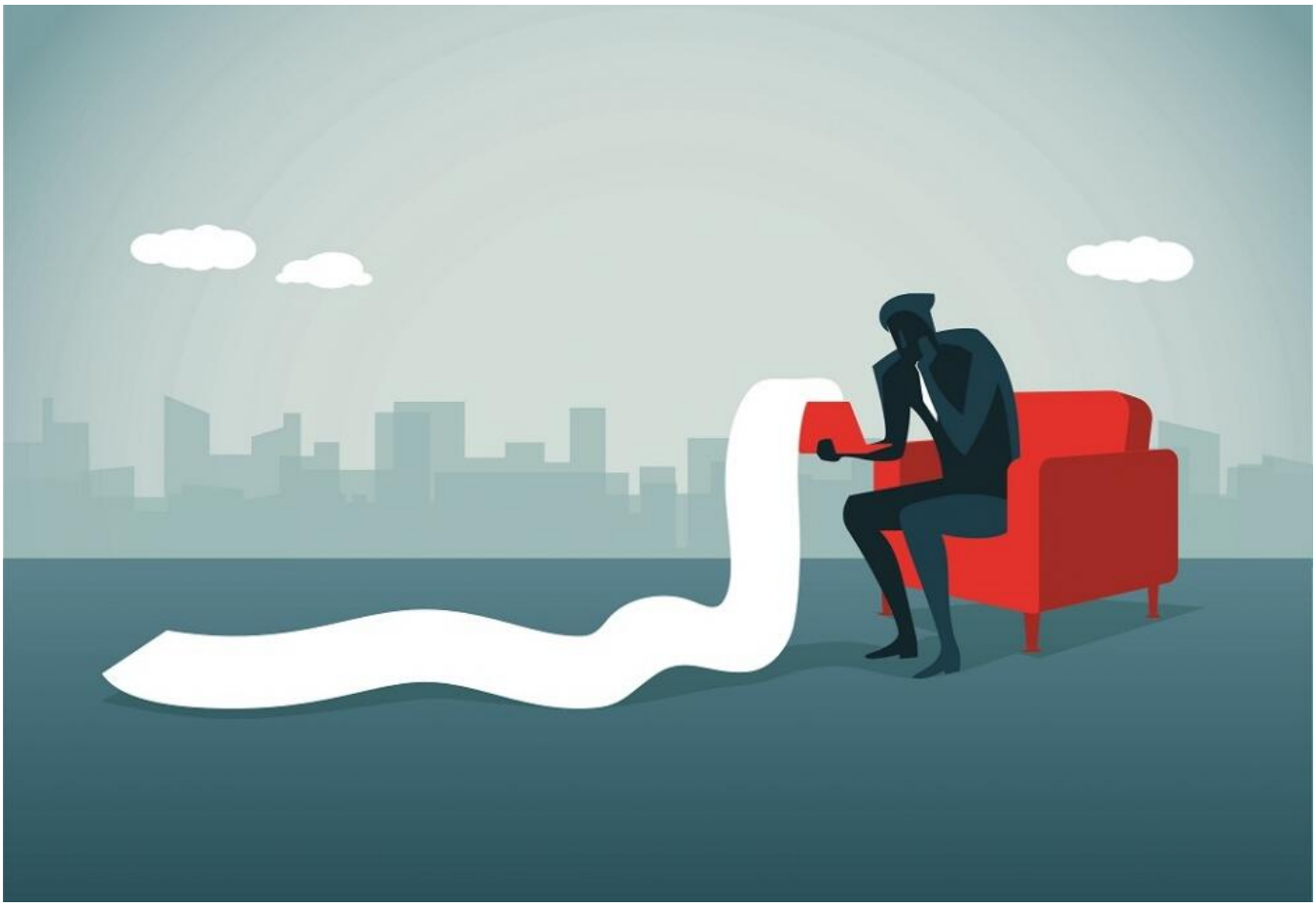
An end to confusion?

Employment Tax | Personal tax



01 December 2019

Bill Dodwell asks whether tax reporting for the self-employed and residential landlords can be simplified

The Office of Tax Simplification released an unusual report on Halloween – just before Parliament was dissolved for the general election. It's a scoping study with a rather long name: 'Tax reporting and payment: Simplifying tax for self-employed people and residential landlords'.

The study starts from the position noted in a number of other OTS reports – that many self-employed people find tax reporting and payment confusing, complicated

and easy to get wrong. The UK is unlike some other countries in that we don’t expect most individuals to need to manage their own tax affairs. The PAYE system means that most income tax payers don’t need to fill in a tax return. Their tax reporting and tax payments are mainly handled by their employers and pension providers, aided by tax reporting of interest income by banks and building societies. However, self-employed people don’t have anything to help them, although many employ tax agents to assist them with keeping business records and filing tax returns. HMRC statistics show, though, that 46% of this group don’t use an agent.

The OTS was thus tasked to consider whether any form of third party reporting could help self-employed people and, if so, identify further work to develop a more detailed plan to take forward. The study also considered other ways to help self-employed people with their tax affairs. The main recommendation of the scoping report revolved around the Personal Tax Account. Other recommendations followed, based on the delivery of the main recommendation.

Over 19 million taxpayers have accessed their Personal Tax Account, the modern way for a taxpayer to report income and expenses to HMRC and receive information about their tax affairs. For self-employed people and landlords, it is linked to their Business Tax Account. The Personal Tax Account continues to be developed by HMRC, which is important as there are currently a range of gaps and inaccuracies.

Fast forward three years, though, and imagine that HMRC have merged the Personal Tax Account and the Business Tax Account, so that self-employment and rental income are simply new tiles in the new Individual Tax Account, alongside others for employment income, savings income and NI. Suppose a taxpayer logs on to the Individual Tax Account, clicks the self-employment tile and notes that gross income from several intermediaries has been reported to HMRC. The taxpayer has the option of uploading unreported income and expense data, possibly from an app or software package. The Individual Tax Account then calculates the net income and takes account of the personal allowance and other income sources, before presenting the taxpayer with a calculation for the year to date, preferably by month. The taxpayer is presented with the option to pay on a monthly or less frequent basis the tax calculated – or indeed another amount. The account will show the estimated tax liability to date, together with the tax already paid on account. The report notes that “this would ease the administration burden for some taxpayers, and help those who struggle to pay their tax”.

The report asks whether third party reporting could make a useful contribution to helping the self-employed (and potentially landlords too) with tax compliance. For third party reporting to be useful and effective, it would need to cover most of a particular sector. Only a minority of property rentals take place through letting agents which manage the property (thus having information about the rent and some of the property expenses). Asking only a minority to do reporting could distort the sector.

Third party reporting thus requires the widespread use of intermediaries (whether platforms or other types of intermediary) which have sufficient data so that reporting would be useful for taxpayers and not unduly burdensome for the third parties involved. The OTS recommends doing more work to establish those sub-sectors where these conditions exist, giving the example of short term and holiday letting, where the majority of landlords let their property by using an intermediary. Another example is taxis and private hire, where data from the Office for National Statistics shows that the overwhelming majority of drivers are self-employed and almost all use a third party to book customers. It’s also a regulated sector, where licensing authorities must check whether drivers are registered with HMRC.

The initial evidence about payment mechanisms was less encouraging. Few taxpayers wanted a third party to withhold tax from gross payments; those that did were more likely to be on lower incomes. Some countries apply withholding tax to business bank accounts; more investigation would be needed to develop the case for adopting such an arrangement with UK taxpayers. The next steps will be for the new government, the Treasury and HMRC to digest these recommendations and decide how best to take forward this important issue.