The tax system of the future

Management of taxes



01 September 2020

Bill Dodwell examines the ten-year Tax Administrati on Strategy set out by the Treasury and HMRC

On 21 July, the Treasury and HMRC published a ten-year Tax Administration Strategy (see bit.ly/31b47QI), introduced by the Financial Secretary to the Treasury.

The document ‘sets the government’s vision for the future of tax administrati on in the United Kingdom, designed to improve its resilience, effectiveness and support for taxpayers’. Inevitably, there is mention of how well HMRC has responded in

making the various Covid-19 payments, but it has been a struggle to get data from older systems. Ministers have been clear that systems limitations – rather than policy limitations – have meant that they could not provide support to everyone who has lost significant income due to the pandemic.

Importantly, the introduction notes that: ‘This is a ten-year strategy. The government’s ambition over the next few years is to make substantive progress, but also to lay the foundations for further reforms in the period to 2030.’ This is clearly correct for a vision of this scale – and it flags the need for HMRC to receive the necessary capital investment in hardware and software to deliver the strategy.

Finally, the document sets out a roadmap for the extension of Making Tax Digital and opens up a wider conversation on longer term reforms to the tax administration system.

Key recommendations

The UK tax system of the future will be focused on real-time information, rather than the substantially delayed reporting of the past. This should allow the government to assess changes to the real economy of businesses and individuals, at small or large scale, as those changes are happening. The UK version of real-time information seems to be summarised information, rather than the invoice-level data that systems in Russia, Brazil and Spain seek. This sounds far more effective and achievable than the gigantic data warehouses now expanding in those three countries. It’s thus inevitable that Making Tax Digital will be a part of this – although the document emphasises that no decisions have been taken on corporation tax.

One important section formed the key recommendation of a report from the Office of Tax Simplification last October. Our Reporting and Paying Tax scoping report (see bit.ly/3j1dOHB) focused on the need to substantially improve the functionality of the Personal Tax Account – and merge it with the Business Tax Account. As the proud holder of both accounts, I can confirm that they don’t talk to each other, which means that taxpayers receiving two or more forms of income (employment, self-employment and rental) will find it hard to understand their overall tax position.

This report now states: ‘Taxpayers should be able to view their tax position and tell HMRC anything it needs to know through a single online account.’ Clearly, this will take some time to achieve, not least because the Business Tax Account sits on different (and older) HMRC systems than the Personal Tax Account, but it has to be

the right way to go.

Having a unified single account opens up the way for HMRC to get additional third-party data. There's some evidence that many higher rate taxpayers do not claim the higher rate relief due on pension contributions and on Gift Aid payments. If, for example, pension providers and charities gave HMRC the relevant informati on every month, tagged with the individual's National Insurance number, the system could give the tax relief due automatically.

There's another reference to a concept covered in several OTS reports: timely payment of tax. We have found that many lower and middle income self-employed people want to pay their tax much more frequently than twice a year. The strategy talks about 'exploring appropriate timing and frequency for the payment of different taxes, and the technology infrastructure needed to support that'.

Call for Evidence

The final area covered in the strategy document covers the need to reform the tax administration framework – both the law and its operation. HMRC will launch a Call for Evidence later in the year to help identify the range of potential reforms. This is likely to cover:

- how taxpayers are identified and registered by HMRC;
- how tax liabilities are identified, amended and assessed;
- the obligations on HMRC and taxpayers;
- penalties and sanctions for failing to comply with obligations; and
- taxpayers' rights and safeguards, including appeals and dispute-handling.

Most importantly, the strategy document acknowledges that we all have a part to play in delivering the vision. 'HMRC will involve taxpayers, agents and software providers in taking forward this vision, and work closely with representative bodies, including the Office of Tax Simplification, in developing the elements. This open and consultative approach will also recognise public concerns for the need for proper constraints and safeguards over HMRC powers. It supports and extends HMRC's vision to be a trusted, modern tax and customs department, and ultimately, it has the potential to yield huge benefits for us all, both individually and collectively.'

We should all take up the invitation to work collectively and collaboratively to deliver the tax system and tax authority of the future.