The tax administration framework: Supporting a 21st century tax system: CIOT, ATT and LITRG responses

General Features | Management of taxes

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CIOT, LITRG and ATT have responded to HMRC's Call for Evidence, which was seeking views on how the tax administration framework could be reformed as part of the government's commitment to creating a trusted, modern tax administration system.

In July, the CIOT, ATT and LITRG all responded to HMRC's Call for Evidence in respect of the tax administration framework. The Call defined the tax administration framework as all the legislation relating to the collection and payment of tax over the complete duration of engagement for both direct and indirect taxes, comprising initial registration, compliance, payment, review and enquiry, safeguards and finally deregistration. As a result, the Call had a substantial scope and was somewhat challenging to respond to.

A common theme through all three responses is that problems with the existing tax administration framework concern not just the legislation underpinning the framework, but also HMRC's operations and digital systems. People do not engage with the legislation directly, but with HMRC's systems, processes, communications and guidance. All three bodies think that significant progress can be achieved by making improvements in these areas, including to HMRC's service standards, to help reduce burdens on taxpayers. Poor customer service, such as long telephone delays, poorly drafted letters and a lack of support, all erode trust in the tax system.

All three bodies also highlighted that systems cannot be developed in isolation from policy, with both ATT and LITRG noting how COVID-19 support schemes were

implemented successfully by bringing together policy operations and communications teams from the start. The ATT considers that any policy changes in the administration framework should be developed jointly with operations teams, while the CIOT highlights that when there is inadequate consideration as to how a policy is implemented digitally, this creates administrative and cost burdens for taxpayers.

The CIOT's response

The CIOT, in its response, said that we support this broad review of the UK's tax administration framework, which we believe is long overdue. We are pleased that it is going to be a ten year project. However, we would have liked the review to have focused more on the end goal. In other words, what sort of tax system do we want to have in place by 2031 and how do we get there? Once there is a clearer picture of the end goal, a roadmap should be drawn up setting out the stages of the journey to reach that goal over the next ten years.

A new tax administration framework should not be designed around a flawed and complex existing tax system. We think that simplifying the tax system needs to go hand in hand with reviewing the tax administration framework. Some of the key underlying problems with the UK tax system should also be addressed first, such as removing the differences in taxation of income from employment and self-employment so as to eliminate the tax incentives to move from employment to self-employment. Once fundamental issues like these are addressed, a clearer picture will emerge of how the tax administration framework can support a reformed tax system.

We would like to see the government commit to sticking to their objectives for the tax administration framework, as set out in the call for evidence, during the review, including when introducing legislation on any new tax measures that have an impact on the tax administration framework. If they do not stick to these principles, this will undermine the commitments and purpose of the framework review. Given that the review will outlast the current Parliament (and probably the one after), we would encourage HMRC to build consensus and cross-party support for proposals for reform that emerge from the review.

We are conscious, however, that any suggestions we make are dependent on the investment being available to reform and improve HMRC's systems and to increase

HMRC’s resources. This is why a ten year roadmap is needed, as big system changes need long lead times and the costs and benefits need to be carefully analysed in advance. But we would not want to see improvements to systems being made without also addressing the complexity, where it exists, of the underlying legislation.

We note that significant changes to the current tax system are due to be introduced very soon, such as Making Tax Digital (MTD) for Income Tax Self Assessment (ITSA) in April 2023 and a new late filing and late payment penalty regime starting with VAT in April 2022. These are both significant changes, and it is hard to see how they will be successfully and smoothly integrated into the existing self-assessment and penalties frameworks. Ideally, we would have liked the ten-year review of the tax administration framework to be done first, not overlapping with the introduction of MTD and a new penalty regime. We note that there is a risk that any changes to the framework will just end up tweaking what is already in place rather than making any big structural changes; this would be a missed opportunity.

The existing tax administration legislation is spread over several Finance Acts and other Acts, including the Taxes Management Act (TMA) 1970. The eventual outcome should result in the replacement of all existing legislation by a new Taxes Management Act, which should also contain the legislation underpinning the new tax administration framework that results from the process which this call for evidence is beginning. Future legislative changes can then be made to the new Act, ensuring that all administration legislation is kept together and is easier to find and follow for HMRC, taxpayers and professional tax advisers.

Chapter 3: Ensuring consistent obligations for people to enter and exit the tax system

We broadly agree with HMRC’s aims here. Registration requirements and processes should be as consistent and simple as possible. The main difficulties with the current systems of registration and deregistration lie mainly with how HMRC process applications, how their systems support applications for different taxes and how taxpayers interact with HMRC’s systems. There should be a single system for taxpayers to use to register and deregister for different taxes, to track the progress of applications and appoint an agent.

We also think the government should explore the wider use of a single taxpayer identifier number which a person would use for all interactions with government, not

just HMRC.

In our view, improvements to processing and HMRC's systems in the area of registration and deregistration should be looked at in the first instance before considering any legislative changes to the timing of registration.

Chapter 4: Improving the way tax liabilities are calculated and assessed

Most issues here stem from the legislation and case law for each type of tax. The government should take the opportunity to simplify the legislation in this area where possible; for example, by reviewing the adjustments that are required to establish a tax liability, reforming basis periods and changing the UK's tax year. This is a golden opportunity to 'think big' about modernising the UK's tax system and for the government to consult on moving the tax year from 5 April – either to 31 March or 31 December.

Better and more timely use of taxpayer and third party data should be explored, as this will help with the calculation of tax liabilities and drive compliance.

A single customer account should be developed where taxpayers can see their tax liabilities in one place, and which could reduce the need for taxpayers with simple affairs to have to complete an annual self-assessment tax return. Authorised agents must have access to the same information that their clients have in their digital accounts, and at the same time.

Chapter 5: Using data and information to make tax compliance effortless for the majority

HMRC should develop a rigorous and secure system for collecting and using data from third parties to pre-populate a taxpayer's digital record, tax return, etc., with full consultation and a roadmap and timeline setting out each stage of the journey.

More timely use of real time data and information should be explored, which could help to build a picture of a taxpayer's tax position, but this needs a cautious approach since much of the UK's tax system works in arrears, not in real time.

There should be rigorous safeguards introduced so that taxpayers know what data and information about them is being collected by HMRC and have the right to challenge and correct it.

Chapter 6: Tax payments and repayments

Most of our comments on payments and repayments are connected with HMRC's processes and systems not currently working efficiently, rather than issues with the underlying legislation. It would be helpful, for example, if HMRC could introduce a better payment system for taxpayers to use to make payments to HMRC in order to avoid the problems often encountered at the moment, such as using the wrong reference number or bank details which means that payments end up in the wrong place and cannot be matched with the correct liability.

It should also be made easier to arrange set-offs of underpayments and overpayments between different taxes. Taxpayers may find it easier to make regular, more frequent or earlier payments (if they want to) if they have a single view of their tax liabilities and payments in one place, for example in a new single customer account, so we think HMRC should explore this further alongside a commitment for the same information to be available to agents.

Chapter 7: Building in effective methods of verification, sanctions and safeguards to promote compliance

It is essential for building and maintaining trust in the tax system that the way HMRC use their powers and operate safeguards can be effectively monitored and subjected to appropriate oversight. In Appendix One of our response, we set out the CIOT's ten principles against which HMRC's use of its powers, sanctions and safeguards and any proposed powers, sanctions and safeguards can be compared.

One area of concern is that it is difficult for a taxpayer to obtain certainty on their tax affairs by putting enough information and disclosures on their tax return to be sure that the tax year is closed after the end of the normal enquiry period. Another is that most taxpayers simply do not comprehend the different avenues HMRC have to challenge tax returns. These differ depending on the tax in question. Trust in the tax system would be enhanced by simplification and by harmonising rules for challenging tax returns across all taxes.

Then there are often delays in the enquiry process, meaning tax disputes can sometimes take many years to resolve which erodes trust in the tax system. We also note that there are several areas involving penalties that are problematic, and we highlight some specific issues with various aspects of legislation in the area of compliance and administration that we think need to be addressed.

The ATT's response

In addition to many points we had in common with CIOT's response, ATT's response highlighted how much has changed over the tax landscape since TMA 1970 was introduced. In this period, many major changes have occurred (from the introduction of VAT and self-assessment to the merger of the Inland Revenue and HM Customs & Excise). During this time many obligations have been transferred to the taxpayer at the same time as HMRC has become less accessible.

Rather than attempt to reformulate the framework across all the taxes at once, we suggest that, while there are merits in agreeing some overall principles as a starting point, the priority for forthcoming reviews should be the framework in relation to MTD for ITSA. Having established a framework for one major tax, consideration could then be given to other taxes in turn, taking the general principles as a starting point but then adapting and adjusting them for the specific purposes of the tax in question.

The Low Incomes Tax Reform Group's (LITRG) response

LITRG's submission to the call for evidence focuses on the difficulties that unrepresented taxpayers face in dealing with HMRC and their tax obligations. Under the present tax administration system, a person's own tax is largely their own responsibility. But with more pre-population of tax forms, people will potentially believe that HMRC 'already know everything' and LITRG is concerned that the taxpayer may not add to or correct this information. The present lines of responsibility therefore need to be closely considered and potentially re-drawn.

Taxpayers will also need clear guidance, on which they can rely, to understand their tax obligations. LITRG's submission therefore highlights concerns that information on GOV.UK does not cater for all circumstances. Furthermore, HMRC now use channels such as Twitter to impart guidance or advice, the brevity of which risks misleading taxpayers.

LITRG also stresses that HMRC need a clear roadmap for reform and that this should work incrementally towards the end goal.

The CIOT's response is here: www.tax.org.uk/ref772

ATT's response is here: www.att.org.uk/ref373

LITRG’s response is here: www.litrg.org.uk/ref2509