Filing software: should HMRC set more in-depth standards?

General Features | Management of taxes



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Given the huge number of options available, should HMRC set more in-depth standards for software?

One area of increasing importance concerns responsibilities where taxpayers and/or their agents use software to file returns with HMRC. The Tax Law Review Committee has commissioned a discussion paper on this topic (see tinyurl.com/2bvjb4s5); I am one of the four co-authors.

The longstanding rule in UK taxation is that taxpayers are responsible for their tax affairs, including tax returns and any other information provided to the tax authority. If there are errors in a return, or information is missing, the taxpayer remains responsible for the consequences. These can include penalties for late or incorrect filing, and the extension of time limits for the tax authority to enquire into a return. In addition, interest will be charged where tax payments are made after the due date.

Third-party software

There is a surprisingly large amount of software available to submit returns to HMRC, covering 16 areas (see tinyurl.com/mrycbrht). Naturally, these include Self Assessment, corporation tax, PAYE and VAT – but there are multiple systems covering imports and exports, alcohol and tobacco warehouses, and charities' gift aid repayment claims. HMRC does not provide software for taxpayers, with the exception of PAYE Tools, which works well for employers with fewer than ten employees.

Corporation tax and Self Assessment returns submitted to HMRC by software do not look like a paper copy of the return. Instead, the entries are turned into a computer-readable format – the submitted return is an XML stream, which identifies the fields and their entries, with headers to identify the taxpayer. Tax return software will usually render this into an electronic copy of a paper return so it can be reviewed and approved by the taxpayer.

Legislation provides that the online submission held by HMRC is presumed to be correct unless the taxpayer can prove otherwise. The generic IRmark – a unique computer-generated reference, based on the actual return – and HMRC's Digital receipt service for online internet submissions are intended to provide assurance for Self Assessment and corporation tax that what is submitted is received. However, it is not used for Making Tax Digital.

HMRC lists 41 providers of Self Assessment return software (see tinyurl.com/43k73cfv). In addition to setting the format of the data submitted, and the IRmark, HMRC requires that third party software uses HMRC's tax calculator – even in the small number of cases when it may be incorrect.

HMRC lists 34 providers of corporation tax return software (see tinyurl.com/nk68hyp6), with others undertaking iXBRL tagging of accounts.

HMRC lists 541 software packages for VAT, which shows the wide range of business accounting software available (see tinyurl.com/yc3m4879). There are 433 providers of software which meet VAT record-keeping and return submission requirements, as well as 198 bridging packages (software which takes outputs from accounting software or spreadsheets to submit returns). Twenty providers are listed as

providing free software although only a handful are permanently free, with most simply offering one or two free returns.

Software standards

HMRC does not review third party software. Instead, the recognition process involves successfully submitting a number of test scenarios provided by HMRC's Software Developer Service team to the appropriate test service, and then sending the test file XML outputs to the HMRC team for review.

HMRC is developing standards for providers of Making Tax Digital for Income Tax software. This is a more complicated set of standards, since it needs to accommodate a wide range of accounting software (and indeed spreadsheets). HMRC has set out the minimum functionality, as well as standards for software that includes additional functions.

HMRC intends to provide a service (to be known as HMRC Assist) to prompt users to consider tax-specific matters and potential errors. It also requires software to either provides users with an estimate of tax due based on in-year income (calculated by HMRC) or direct them to HMRC's online services. In August 2024, HMRC listed seven available software packages and 19 in development. The range includes 'end to end' software for individuals; bridging software to link from record keeping software; and software specifically for tax agents.

Our study will attempt to ask whether HMRC should set more in-depth standards for software – and perhaps carry out more testing of compliance with those standards. It will also consider what steps software providers could take to reduce errors. For example, the taxpayer often double counts expenses by including them both in invoices entered and also in imports from the business bank account. VAT classification is also challenging for many businesses. Could software help with checks? What role will HMRC Assist play in helping taxpayers to cut out errors? And, finally, if something does go wrong, should it always be the taxpayer's liability?

If you have any thoughts on common problems and possible solutions, please do get in touch. We hope to publish our study early in 2025.

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