Tax simplification: places to start improving our experience

General Features



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As the issue of tax simplification arises once again, we consider some of the practical ways to make life easier for taxpayers.

There was a great deal in the Budget documents, but one paragraph in the Red Book stuck out. Alongside a commitment to seek views on the policy making process and to have a single fiscal event, simplification made an appearance:

‘The government will announce a package of measures to simplify tax administration and improve the customer experience in spring 2025 with a focus on reducing burdens on small businesses. The government will meet stakeholders to understand the priorities for administration and simplification, ensuring that this work is driven by the views of taxpayers.’

The Office of Tax Simplification closed at Christmas 2022 but it left a treasure trove of reports, many of which remain relevant today.

Tax reforms

A good place to start would be thresholds in the tax system. Alongside the major policy decision to freeze the income tax and NI allowances and thresholds until 2028 sits a range of more administrative thresholds, which haven't been increased for many years, as highlighted in a discussion paper for the Tax Law Review Committee (see tinyurl.com/5n77t9xz).

Limits designed to ensure that small businesses are not affected by measures aimed at their much larger peers need to be reviewed to ensure that they continue achieve their purpose. For example, the corporate interest restriction introduced to limit tax relief for certain interest payments by multinationals is unlikely to apply to wholly domestic medium and small companies. Yet interest rates mean that more companies have interest payments over £2 million annually and so have to meet the compliance requirements, even if there is no actual tax effect.

The OTS noted in its 2017 VAT report that: 'There is research evidence that the Capital Goods Scheme is burdensome, complex and results in minimal adjustments.' The OTS suggested raising the value of items within the scheme in line with inflation, introducing a de minimis limit and a new increased threshold for owner-occupied properties, applying the Capital Goods Scheme over longer intervals and increasing the period allowed for the deduction of VAT on construction services prior to VAT registration from the current six months to four years to mirror the period allowed for deduction of VAT on goods. It would be good to look again at this area.

HMRC improvements

HMRC could make improvements to the PAYE IT systems to allow full two-way communication with employers/pension providers, and to enhance the types of data that employers can report; and the tax code calculation engine should be better able to adapt to modern working. The focus should be on areas that cause taxpayers the most problems in practice, such as those arising in connection with starting work, changing jobs or taking on additional jobs. These issues affect millions of people every year.

Building HMRC's Single Customer Account has the potential to fundamentally improve tax administration for over 50 million adults, enhancing productivity and creating cost savings for taxpayers and HMRC. The online account and related HMRC app already offer useful functionality, but extra functions would make a big difference. Combining all income sources would help people to get a full picture of their tax affairs and could help those million plus individuals with both employment and self-employment income to pay the right amount of tax as they earn.

OTS research showed that one of the areas that lower income people found problematic was paying tax in large unknown amounts twice a year. Keeping more up to date via the HMRC app could help – and for those with higher incomes the Making Tax Digital tax calculator could also provide more insight.

More could be done to engage taxpayers and a broad range of advisers and representative bodies, such as Citizens Advice, Money Helper and the Low Incomes Tax Reform Group. Their input – and the publication of a timeline for new functionality – would help to make this a true benefit to all individuals.

Achieving this potential requires continued commitment and funding over several years, and consideration of various design factors, most notably:

- Incorporating data from multiple sources should be integral, including from intermediaries and other third-parties who know about taxpayers' affairs.
- The Account should be the hub for taxpayers to interact with HMRC, including making claims and elections, uploading supporting information (such as the new system for evidencing employment expenses) and capital gains returns.

Appropriate agent access to all client filing data should be incorporated through agent software or a portal.

One completely different idea could be for HMRC to set up temporary support units in shopping centres to help people set up their digital log-in and perhaps download the HMRC app. Some years ago, the Irish Revenue found this worked well in bringing tax to taxpayer customers. Digital contact will be best for a clear majority – but many of us need help getting started. So-called high street banks now transact digitally with almost all their customers and there are potentially similar benefits for taxpayers.

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