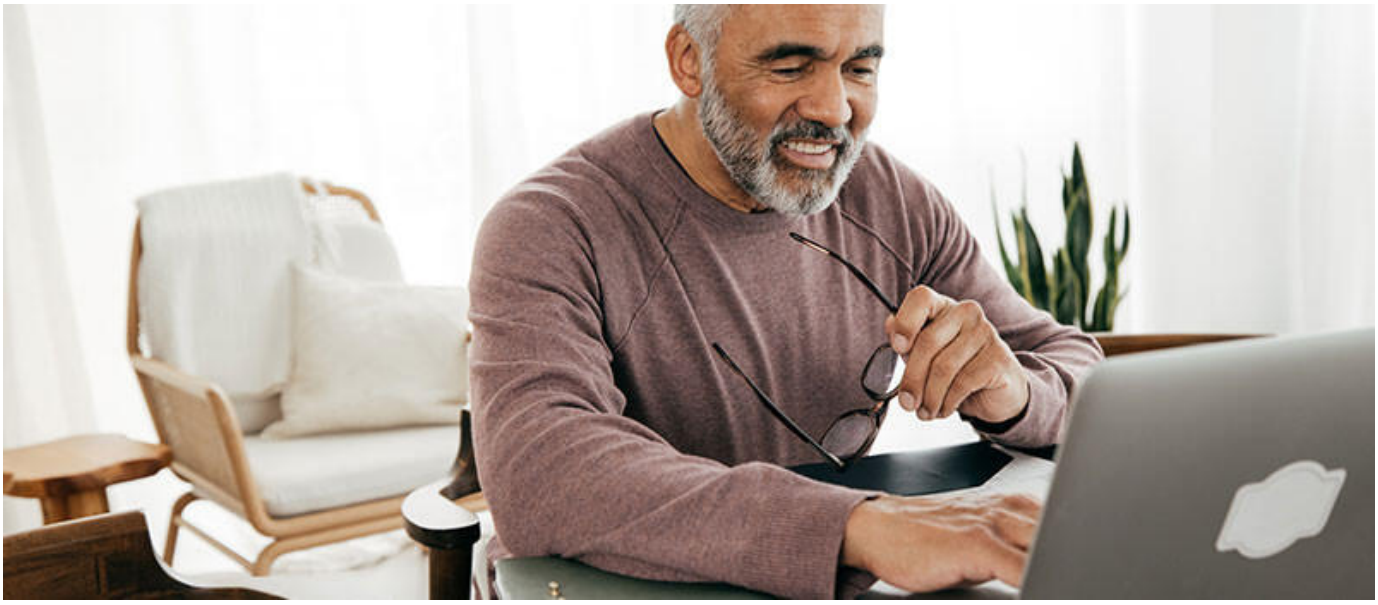
HMRC’s Tax Administration Framework Review: new ways to tackle non-compliance

Management of taxes



18 February 2025

CIOT, LITRG and ATT have responded to an HMRC consultation which explores whether HMRC’s approach to correcting mistakes, particularly by large numbers of taxpayers, could be improved.

The consultation sought views on four areas:

a) amendment to conditions for making claims;

b) reform of revenue correction notice conditions;

c) introduction of a partial enquiry; and

d) a new power to require taxpayers to self-correct their own return.

The CIOT response

The CIOT response begins with a general observation that HMRC appear to have paused more fundamental reform of the UK's tax administration framework, including the overhaul of their enquiry and assessment powers and the introduction of a new Taxes Management Act. The harmonisation and alignment of processes and powers across the different taxes remains uncertain as a result.

In our view, HMRC should be doing the harmonisation work first and forming a view on what the new processes should be across all the taxes; only then should they consider whether any of the new powers proposed in this consultation document are needed. Otherwise, they risk wasting time and resources introducing new legislation that may ultimately prove to be unnecessary, or which may make harmonisation more difficult.

We encourage HMRC to press on with their overarching review with the goal of making compliance checks more efficient for all from start to finish. Our comments on each of the proposals in the consultation document are subject to our preferred option of more fundamental reform.

In terms of the specific proposals, we note that there is a risk that their scope could be much wider than the mischiefs they are being created to address.

We agree that the proposal to introduce additional information requirements for making claims for tax relief and allowances could be a useful way to prevent incorrect or excessive claims, but it needs to be appropriately balanced with ensuring that legitimate claims are accepted and not deterred.

We support the proposal to introduce reform and alignment of revenue correction notice (RCN) conditions but believe that alignment should be to the more restrictive stamp duty land tax version, rather than to the corporation tax self-assessment or income tax self-assessment versions. They should never be used as an alternative or short cut to opening an enquiry.

We do not support the proposal to introduce a partial enquiry. HMRC already have sufficient enquiry powers and this proposal risks creating more uncertainty for taxpayers by the introduction of additional rules and thereby more complexity.

On the proposal to introduce a new power to require taxpayers to self-correct their own return, we believe it would be better to have a general statutory requirement to correct within a specific period when the taxpayer becomes aware of a mistake in their tax affairs, not just after HMRC prompt them about it (for example, by issuing a self-correction notice).

The LITRG response

The LITRG's response agrees with the CIOT's response, also saying that HMRC should continue to carry out work on reviewing the overarching tax administration framework. Nevertheless, we think it is important that HMRC continue to address and fix problems with the existing system in the interim, where harm is being caused to taxpayers. This is to ensure that trust between HMRC and taxpayers does not break down during the time taken to design and implement a new system.

The LITRG's response makes the point that before proceeding with any of the proposals, it is important for HMRC to clearly identify the risk, scale, drivers and cost of the existing problems. This will help them to determine whether the proposal will address the problems effectively and efficiently.

From the LITRG's experience, we think it is likely that, to some extent, the increase in low value inaccuracies is driven by high volume repayment agents. So, in addition to considering the options put forward in the consultation, we think HMRC should be checking the processes of high volume repayment agents from end-to-end for compliance with basic standards for agents and electronic communications processes.

We think it would be worthwhile for HMRC to further explore the proposal for amendments to conditions for making claims. We do not think it is unreasonable for HMRC to request supporting evidence for claims as a general principle. If HMRC introduce additional information requirements, they would need to make sure that the evidence they require is proportionate and relevant to the claim and ensure there is clear guidance as to what documents they would accept as evidence.

Although additional information requirements would place a burden on the taxpayer, we think they could also serve to protect the taxpayer, as this type of requirement is likely to disrupt the business models of high-volume repayment agents.

While we think some of the proposed reforms of RCN conditions could be effective, we also think that HMRC need to consider whether they could make better use of their existing powers to issue these.

We do not support the proposal to introduce a partial enquiry. It is not clear to us how this would assist HMRC, and we think there are several grey areas in respect of this proposal that could cause practical difficulties.

The final proposal is for a new power requiring taxpayers to self-correct their return. It is not clear from the consultation how this would interact with current powers to issue RCNs in respect of income tax.

The ATT response

As a general observation, the ATT consider that the strategic focus of the 2020 report 'Building a trusted, modern tax administration system' (tinyurl.com/mpsyh9vv) is being clouded by a series of consultations addressing current mischiefs in the tax system. The ATT support the need for HMRC to respond robustly to non-compliance in all its guises, but it is essential that the focus of the 2020 report is not lost.

Addressing the consultation areas, the ATT support the submission of additional upfront information for some reliefs and allowances, which could help HMRC make better judgments when claims are received, and payments could be processed and paid more promptly and with certainty.

The ATT agree that greater alignment of RCN conditions across all taxes could make them simpler and easier for HMRC to administer, and for taxpayers to understand and comply with their obligations.

Requiring HMRC to provide details of why an RCN is being issued could improve taxpayer understanding of the rationale for the correction and could promote transparency and openness, leading to greater trust in the tax system.

One area the ATT does not support is the introduction of a partial enquiry process. We consider that there are already adequate statutory provisions for enquiring into an aspect of a return or claim, and that creating more unnecessary legal powers undermines the drive to simplify the tax code.

Finally, the ATT consider that the requirement for taxpayers to self-correct could provide a ‘lighter touch’ for correcting errors or mistakes that HMRC are aware of from their data collection and interrogation, especially where the evidence is clear and unambiguous. This would provide a quick, efficient, less intrusive and cost-effective alternative to a full statutory enquiry.

The full CIOT response is available here: www.tax.org.uk/ref1405

The full LTRG response is available here: www.litrg.org.uk/11003

The full ATT response is available here: www.att.org.uk/ref470

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