Better use of new and improved third-party data: CIOT, LITRG and the ATT responses

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The CIOT, LITRG and the ATT submitted responses to the latest consultation on the topic of third-party data. The consultation is mainly concerned with improving the quality of data that HMRC already gathers in respect of financial account information and card sales.

The consultation explores opportunities for improving the quality of data that HMRC acquire from third parties for tax administration. HMRC consider financial account information and card sales in the consultation, as well as exploring the possibility of collecting new data from financial institutions on dividend income and other investment income.

The intention is for there to be a phased approach to reform. The plan is that phase one will encompass HMRC’s bulk data gathering powers in respect of financial

account information and card sales. The consultation included three sets of proposals for the existing data sets:

- options for improving reporting, by introducing standing reporting obligations and considering steps to improve the timeliness (and frequency) of reporting;
- options for improving the quality of data reporting, by introducing set schemas and collecting tax references to support better data matching; and
- options for ensuring data quality through due diligence and penalties.

It also explored the possibility of extending reporting to new third-party data sets – dividends and other income from investments. The proposals would apply to financial institutions and are aimed at removing the reporting gap between the information that HMRC receive on financial accounts held by UK taxpayers overseas and domestic reporting.

The consultation can be found on GOV.UK here: tinyurl.com/27da4u25.

CIOT response

The CIOT welcomes policy and processes that make it easier for taxpayers to meet their tax obligations. Improved data collection and effective data matching – helping to deliver pre-populated returns and tax codes, adding depth of information to a future 'Single Customer Account' and improving tax compliance – are welcome long-term aspirations. However, it is important that these plans are feasible and fit with HMRC's plans for change in the next five to ten years. There are significant IT infrastructure upgrades required at HMRC to enable their current legacy systems to use this data to deliver upgraded functionality.

For pre-population to result in an easier, more streamlined self-assessment process, HMRC need to be able to accurately identify the correct taxpayer; provide data which is sufficiently split between source and periods; and, of particular importance, provide taxpayer or agent functionality to override incorrect pre-populated figures.

The use of pre-population to update PAYE codes during the tax year would improve their accuracy and reduce post year-end adjustments – again all welcome long-term aspirations. However, a realistic approach is needed, with the priority being to focus on fixing current PAYE pre-population issues first.

The CIOT highlight that the consultation appears to assume there are benefits to the extension of third-party data collection to partnerships, companies (and non-UK businesses), trusts and charities. We await a further policy update on whether Making Tax Digital will be extended to partnerships and companies and a consultation on e-invoicing has recently closed. It is unclear at present how this all fits together.

The CIOT also highlighted interim steps which could help to reduce complexity in the short term, including developing a common reporting template for tax packs; and ensuring that tax packs cover both income tax and corporation tax treatment.

The full CIOT submission can be found here: www.tax.org.uk/ref1485

ATT response

The ATT agrees that the process of pre-populating bank and building society interest needs to be improved, as higher interest rates in recent years mean that more people have had tax to pay on their savings income. Our response highlighted the kinds of problems with the current system reported to us by members.

HMRC currently receive information on around 130 million bank and building society accounts each year. This data is matched by HMRC to individual taxpayers to enable them to produce tax computations and Simple Assessments to collect tax on interest, while keeping savers with straightforward affairs out of Self-Assessment. However, according to the consultation, around one in five accounts cannot be matched to a taxpayer. This has implications for HMRC's ability to collect the right tax from savers efficiently.

As part of any changes, it is important that any third-party data used by HMRC to calculate a taxpayer's position is made available to the taxpayer and their agent in a format that can be easily checked and corrected. Even when HMRC has produced the calculation, based on information they hold, the taxpayer remains responsible for ensuring that their tax affairs are correct and complete. It is therefore vital that taxpayers can see and understand the data that HMRC has used. Taxpayers should also be told when HMRC has used estimates and be able to update or challenge them if needed.

The consultation also asked for views on the merits of requiring financial institutions to provide details of dividend information to HMRC. While there would be some limitations to this data, we considered that on balance this would be welcome – provided that sufficient detail is provided so that the taxpayer and their agent can meaningfully check and challenge the figures.

The full ATT submission can be found here: www.att.org.uk/ref481

LITRG response

We are supportive of initiatives that make it easier for taxpayers to comply with their tax obligations and get their tax right. We also support the principle of using third-party data to improve the taxpayer experience with HMRC.

However, LITRG has concerns about the increased use of third-party data and pre-population by HMRC; in particular, whether the current balance of responsibility remains appropriate, since the taxpayer will no longer be the originator for much of the data in their tax return. There is also the question of what happens when the data provided by a third party to HMRC is incorrect.

We welcome some of the proposals in the consultation, such as establishing standing reporting obligations for financial account information and card sales data. We think there should also be an obligation on HMRC to use the data they receive in a timely manner; and should only collect data according to the frequency that they will make use of it.

We suggest that, if the policy intention is to help taxpayers get their taxes right first time, HMRC should require third-party data suppliers to share a copy of the data they provide to HMRC with the taxpayer; for example, as is required under the OECD Reporting Rules for Digital Platforms.

We agree with the intention to use the National Insurance number as a unique identifier for individual customers. However, there are areas that will require careful consideration, as not all customers have a National Insurance number.

We welcome the exploration of methods of improving the quality of third-party data. To improve the customer experience, it is vital that the data HMRC use is accurate and complete; or where it is not, HMRC recognise this and there is a prompt that

further action is needed.

The full LITRG submission can be found here: www.litrg.org.uk/11053

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