The trouble with tax data: getting reporting right

Personal tax Management of taxes

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Taxpayers face inconsistent, unclear and inaccessible tax information from financial providers, highlighting the need for standardised, timely and digital reporting.

Key Points

What is the issue?

Taxpayers often receive tax information from HMRC, banks, property agents and investment platforms in inconsistent, unclear or inconvenient formats.

What does it mean to me?

Preparing a Self Assessment return can involve extra work, manual data entry and a greater risk of mistakes.

What can I take away?

Standardised reports, clearer explanations, firm deadlines and downloadable CSV files would make tax reporting quicker, easier and more accurate.

It's that time of year when taxpayers with complicated affairs start pulling together the details for their personal tax returns. This isn't as easy as it should be, mainly because many providers don't provide information in a helpful or usable way.

Getting the right information

Let's start with HMRC. At the time of writing (mid-August), some software can't pull PAYE information from HMRC systems as it takes several months for the batch process to run, although the information does feature in the online personal tax account and the HMRC app, as well as in online services for agents.

HMRC hasn't provided details of the taxable state pension amount in the online account or the HMRC app. However, it does prepopulate an incorrect amount (52 weeks at the current year amount, instead of 51 weeks plus one week at last year's amount) in the online Self Assessment return service and in agent services. There is now guidance on how to work out the correct amount of taxable state pension, although it is perhaps unlikely that a taxpayer would check an HMRC-supplied figure.

There is no mention of the winter fuel payment, which is now withdrawn in full through a tax charge on those with gross income over £35,000.

Banks and building societies must provide details of interest income to HMRC by the end of June. Gold star institutions provide their customers with a single document listing all accounts receiving interest in the tax year, including closed accounts. Some deliver this within a month. Others provide information by account, sometimes asking the taxpayer to submit a request for interest data. It's all too easy to forget a closed account. The timing is wildly variable, with some not providing the information until August.

Everybody provides the information in a PDF document, which doesn't link to any form of tax return software – or even a spreadsheet. Copying data from a PDF to a spreadsheet doesn't normally work, so there is much more potential for error and no chance at all of a digital link. Many banks offer statement data in CSV files, which can easily be imported into a spreadsheet. Why can't the tax return data be offered in multiple formats?

The next port of call is managing agents or platforms for rental property. The PDF problem applies, naturally, although some do now offer CSV files, which is to be applauded. But there are other issues, too. HMRC requires that property income and expenses be categorised in a particular way (there are six income and ten expense boxes) but the agents leave this for the taxpayer to work out.

The problem with investment reporting

Let's move on to investments. There's a proliferation of new investment platforms, such as Nutmeg (now JPM Personal Investing), Wealthify, Plum, Moneybox and many others. These new offerings supplement long-established platforms, such as Hargreaves Lansdown, AJ Bell and platforms offered by many banks.

It's not always easy for investors to know what they're investing in. Is it a single fund, or is it a collection of investments advised by a manager? Most people won't realise that an accumulation fund (one which doesn't pay out dividends) can still have taxable dividends. Many apparently UK funds, for example a FTSE 100 tracker, turn out to be based overseas. Equalisation is impossible for a taxpayer to understand, mainly because the dividend voucher doesn't explain exactly what to do with it.

What needs to change?

There's surely an opportunity for the government, advised by HMRC, to work with financial institutions to improve the information given to their customers – the taxpayers.

These are some of the improvements that would make a difference:

- Banks and building societies should automatically provide a single certificate in a standard format setting out interest income from all accounts held by the taxpayer during the tax year, including closed accounts and any one-off items. The certificate should include joint accounts and list both the gross amount paid on a joint account and the presumed 50% share per individual.

- Managing agents and real estate platforms could usefully provide their information split out according to the captions required by HMRC for disclosure. How useful this is will partly depend on how much costs are borne directly by the owner, rather than by the agent. This may not be possible for platforms, which will be using the format set out for international disclosures under the Common Reporting Standard.
- Investment managers and platforms should explain how the items disclosed are taxed and where they should go in a tax return. Having boxes for ‘Gross dividends’, ‘Net dividends’ and ‘Equalisation’ isn’t sufficiently clear or helpful. Are the so-called ‘Gross/Net dividends’ taxed in full, or should the equalisation amount be taken off?
- There should be clear deadlines for providing the reports, which should be provided both as PDF files and, at the option of the taxpayer, as downloadable CSV files. All financial institutions should make it easy for their customers to find the tax data and send them an email or other communication when it is ready. Unless this sort of information is provided easily and quickly, there’s no opportunity to bring forward submission of the Self Assessment return, as HMRC regularly urges.