



Tax Faculty

# Tax Representation

## TAXREP 46/04

### NATIONAL AUDIT OFFICE STUDY OF TAX RETURN FILING

*Response dated 11 August 2004 from the Tax Faculty of the Institute of Chartered Accountants in England & Wales to the National Audit Office's value for money study of Inland Revenue tax return filing*

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## NATIONAL AUDIT OFFICE STUDY OF TAX RETURN FILING

### INTRODUCTION

1. The National Audit Office (NAO) is carrying out a value for money study of the Inland Revenue's administration of tax return filing. The study is focused specifically on the filing of income tax Self assessment returns.
2. The key issues being studied by the NAO are whether the Inland Revenue:
  - Is doing everything it reasonably can to enable the filing of accurate returns on time to meet its needs;
  - Is taking reasonable action to get correct tax returns in on time from all those who should submit a return; and
  - Gives due regard to the burden on compliant taxpayers in determining the distribution and content of tax returns and potential alternatives.
3. The ICAEW was invited by the NAO to contribute to the study. The NAO issued a questionnaire in July, seeking views on specific questions. Our response was submitted on 11 August and the NAO have now agreed that we may publish it.
4. The text of the response made by the ICAEW's Tax Faculty is set out below. We have retained the format of the NAO's questionnaire.
5. The Tax Faculty's response is based on:
  - Feedback from ICAEW members who have practical experience of filing SA tax returns.
  - The Tax Faculty's involvement in consultation work in this area, including the Inland Revenue's Self Assessment Review consultation, and Working Together.
6. The NAO's study is still in progress and will report in due course.

### WHO WE ARE

7. The Institute of Chartered Accountants in England and Wales is the largest accountancy body in Europe, with more than 128,000 members. Three thousand new members qualify each year. The prestigious qualifications offered by the Institute are recognised around the world and allow members to call themselves Chartered Accountants and to use the designatory letters ACA or FCA.

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8. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry (DTI) through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy (which includes taxation).
9. The Tax Faculty is the focus for tax within the Institute. It is responsible for technical tax submissions on behalf of the Institute as a whole and it also provides various tax services including the monthly newsletter **TAXline** to more than 11,000 members who pay an additional subscription.

## RESPONSE TO THE NAO QUESTIONNAIRE

### 10. National Audit Office examination: Inland Revenue - Filing of Income Tax Self Assessment Returns Questions for Stakeholder Organisations and ICAEW responses

*Note: The following text retains the format of the NAO's questionnaire.*

1. Please outline your main views on the standard Income Tax Self Assessment return:
  - The structure of the form and the supporting guidance

The structure of the main return, with 10 core pages and with supplementary pages to cater for particular types of income or gains, is a practical way of dealing with all the issues which might need to go on the return.

We accept that it is difficult to produce a simple 'one size fits all' return, faced with the UK's very complex tax system. Having said that, the core part of the 2004 tax return still comprises 10 pages of text plus 2 blank pages. In many cases, only a few of the boxes will apply to any one taxpayer. (One of our small practitioner members commented that the information for any of his clients can be set out succinctly on two sides of A4 including a computation.)

The length of the form, and the number of boxes, with their dense accompanying text, are off-putting. Taxpayers may be daunted by it and not encouraged to complete it.

We have no problem with the approach of producing notes for the core return and individual helpsheets for specific pages or aspects of the return.

- The clarity of questions and information provided

The core tax return is generally not too difficult to complete if you are familiar with it and have specialist knowledge.

However, for those not in that position, the sheer number of questions and boxes on the core return is daunting, and many of them use technical terms which the average taxpayer may not understand. Many of the questions also require a detailed reading of

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the notes in order to get the right answer. This is likely to lead to incorrect returns or delays in filing.

Some of the supplementary pages are not at all user-friendly – notable examples being the Foreign and Capital Gains pages. Many taxpayers will only have one or two items to go on these pages, and yet they have to wade through a plethora of confusing boxes and columns.

In many cases, particularly some of the supplementary pages there is a lack of clear instructions as to how some of the most simple or common items should be entered correctly on the form. For example:

- Many people receive a foreign pension, from which there is often a 10% tax deduction. This has to be entered in column A on page F2, but there is no prompt for this on the Foreign page itself, and even if you read the notes (page FN6) this important relief is by no means obvious, nor is it very clear how the 10% should be claimed (you have to deduct it and then enter 90% in the box).
- It is common for many taxpayers to sell a house which is partly exempt due to Principal Private Residence Relief, lettings relief, indexation allowance, taper relief, or any combination of these. It is extremely difficult to see how to enter this correctly in the spreadsheet on pages CG2 and CG3.

With regard to the guidance notes, some agents find these helpful, others do not use them.

Although the notes contain some useful and well-written information, we would query whether many taxpayers actually read or understand them. The general impression the notes give is not a user-friendly one – they are lengthy and contain a lot of closely-written text. They are particularly useful where they provide examples or worksheets, and more use could be made of these.

On the other hand, the notes give insufficient information in some key areas, an example being the notes to the Self Employment pages. The only information about allowable expenses is given on the very dense-looking page SEN8, in a tiny font which is hard to read. This does not give adequate explanations of items which commonly appear in accounts and which people get wrong, such as costs where there is a private use element.

You have not asked specifically for comments on the Tax Calculation Guide (either long or short versions). However, these are extremely difficult for anyone (including tax specialists) to use and be confident of getting the right answer.

We have received comments about the volume of paper in the package of tax return and notes, and the cost of producing this. E-filing reduces the paper load but not everyone wants to use this. We would mention that using the internet has its own costs – the taxpayer or agent, not the Revenue, has to bear the cost of the internet service and the paper and printer supplies when downloading tax returns or leaflets.

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2. If you have experience of the Income Tax Self Assessment Short Form, please outline your main views on this document:

- The structure of the form and the supporting guidance

The Short Tax Return is a welcome innovation for many taxpayers, and we understand that it has been well received. It is certainly more user-friendly and less off-putting for the taxpayer with simple affairs.

The Revenue are to be commended on a clear but brief set of notes to the Short Tax Return. They have been innovative in leaving out 'caveats' and too much technical detail.

Agents have limited experience of this form, since it has been targeted at taxpayers who tend in the main to be unrepresented, and since agents often prefer to use commercial software rather than fill in a paper form.

However, there are some aspects of the Short Tax Return which could be changed:

- There is no 'white space' for the taxpayer to make disclosures or clarify tax return items. We realise that space is at premium in order to keep the form to four pages, and that the Revenue do not want people to use the white space to adapt the form and give information for which there are no boxes, when in fact they should not be using this form at all. But the white space disclosure provides an important protection for taxpayers, in the event of an enquiry or discovery assessment, as has recently been highlighted by the case of *Langham v Veltema*.
- There is no electronic version of the Short Return. We have been told that taxpayers who want to file electronically will not need the Short Return because the e-filing process only presents them with the boxes they need. But in fact the Short Return and its questions have a completely different 'flavour' from the electronic version, and if this were available on the internet, it might encourage more people to efile.

The Short Tax Return notes also include an admirable two-page tax calculation proforma, which enables the taxpayer to make an estimate of their liability.

- The clarity of questions and information provided

See above.

3. Please outline your main views on filing the Income Tax Self Assessment return electronically through the Inland Revenue's internet service. In providing your views, please consider:

- Ease of use
- Time required

Our members have mixed experiences of using e-filing.

Some have found it quick and easy, with the advantage that the return is processed there and then, and repayments made automatically.

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Others have found the system for authorising agents to be cumbersome and time-consuming. A major constraint here is the system for authorising agents using form 64-8, which is a particular source of frustration close to the 31 January deadline. There are a lot of problems with this system, which the Revenue accept, and we are aware that they are working to improve the current system and provide a better one. (We are participating in these consultations.)

Some practitioners have found the completion and processing of the return to be slow using the internet, and have commented that preparing a paper form would have been quicker. One member said that the Short Tax Return took him about 10 minutes to complete, but he then tried electronic filing for the same return, which took one and a quarter hours.

The speed of e-filing will of course depend on the speed and quality of the user's IT systems, particularly the availability of broadband. We hope that any developments to the e-filing system will have regard to the fact that not everyone will be want, or be able to afford, modern IT.

The online forms are more user-friendly than the paper ones in that there are prompts which provide links to guidance information.

One criticism of e-filing is that (at least for the 2004 return) not all categories of taxpayers can use it. Only some of the supplementary pages are available online. There is also no facility to send attachments such as accounts, dividend summaries or backing information for capital gains calculations. We are aware that the Revenue are working on these issues.

We would welcome the facility to send attachments electronically. However, taxpayers and agents should be able to send documents using 'simple' software such as Word or Excel, rather than have to use more sophisticated packages which might be ideal from the Revenue's point of view but beyond the means or ability of many users.

Agents will be more reluctant to use e-filing while it continues to be only 'partial' ie can only apply to some clients, and does not allow submission of full supporting information with the tax return.

It is worth noting that when ELS was introduced, many agents invested in software and staff training, only to find that it was to be superseded by e-filing. In consequence, agents may be reluctant to invest in the necessary technology and system changes etc for e-filing, unless they can be confident that they will be able to recoup their costs and that the present e-filing system will not be superseded by something else in the near future.

Some practitioners or their clients are wary of using the internet in case of security risks. Whether there are grounds for this or not, there is clearly a perception that there might be risks to confidentiality, and the Revenue need to tackle this perception if they want to encourage e-filing.

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4. Please outline your main views on the services offered by Inland Revenue to deal with queries from taxpayers completing their Income Tax Self Assessment return:
- Service provided by Inland Revenue Enquiry Centres

Our members tend not to have experience of using IRECs – they are more likely to contact a specific tax office on a particular client. However, those that use them have commented that:

- It can be very difficult to get through on the phone, though this depends on the time of day
- Staff in IRECs are pleasant and helpful, but do not have breadth or depth of technical knowledge. They may answer the particular point but not probe further to take a more 'holistic' view of the person's circumstances. They may not take the initiative to call for technical help when faced with a trickier question, or may not be aware of the further help that might be available.

This second point, about the staff technical knowledge, has been made not just about IRECs but about Helplines and the service provided by individual tax offices.

There may be some issues that IRECs cannot tackle easily. A perennial problem for unrepresented taxpayers is that IRECs offer limited help in sorting out information and preparing figures to go on a tax return, though they can explain how to fill in the boxes. Self-employed people are a case in point, because they are likely to find the preparation of their accounts more difficult than filling in the tax return form itself. The Business Support Teams can offer help, if taxpayers are aware of them, but apart from that, our impression is that the assistance offered will depend on the initiative and abilities of staff at the IREC in question.

- Service provided by the Inland Revenue Helpline (0845 9000 444):

Again, practitioners tend not to use the helpline, but to contact a particular office.

Therefore, the feedback we have received is limited, but it does appear that the quality of service is variable. Some staff appear to have limited technical knowledge and cannot easily handle any but the more basic questions.

We have also been told that helpline staff may undertake to find an answer and call back, but that the call back does not always happen.

- Service provided by telephoning Tax District offices:

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Following the Revenue's change to their Area Management structure, most calls to tax offices are now channelled via contact centres. Also, it is no longer the case that a taxpayer's affairs will be allocated to one particular caseworker. Although we can appreciate that there may be cost savings and efficiency gains from organising things in this way, there are a number of problems.

Every since the contact centre system was introduced, we have had a steady stream of feedback from our members about the difficulties they have in getting through on the contact centre numbers. A constant engaged tone, or lengthy queuing in order to speak to someone, is frustrating, and costly in terms of our members' time. The introduction of dedicated agents' priority lines has helped but the problem still exists. Also, priority lines may help agents, but what of the unrepresented taxpayer?

Revenue literature tends to tell people to contact 'your tax office', but it can be difficult to know which office to contact, or to find an officer with the necessary knowledge and experience to deal with a question. It is not unknown to be passed on from office to office, or person to person, with the need to re-explain the issue every time. This is a problem for agents, so we can only assume that it completely defeats some unrepresented taxpayers. Agents often rely on their own contacts with named individuals at local Revenue offices in order to sort out problems (and Working Together has built on this) but unrepresented taxpayers do not have this option.

Members have commented that the quality of technical advice from tax offices has deteriorated in recent years. This is cause for concern – even allowing for the fact that we tend to hear of problems rather than successes. On the other hand, we have had good reports of the speed and quality of advice on the agents' dedicated contact lines.

- Information available on the Inland Revenue website  
[www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk):

The website contains useful information but it is difficult to find what you need. In our view, the site is actually now more difficult to navigate around, after its redesign.

The search facility is very poor. A search using a particular term or word will often produce either nothing, or a long list of irrelevant and unintelligible items.

The published Revenue manuals are a particular problem. It is very hard to find anything in these if you do not know where to look, since they do not provide an index or decent search facility. Also, the Revenue add material to the manuals, or make changes, but do not date this in the text. This makes it hard to find and track changes to the manuals.

There is undoubtedly much useful and well-written guidance on the site, and the Revenue should make it more readily available through better presentation and good search engines.

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5. Please provide your main recommendations on how the Inland Revenue might reduce the burden on compliant taxpayers from completing and filing the Income Tax Self Assessment return, whilst still obtaining the information needed accurately to assess the taxpayer's Income Tax liability.

We have made a number of suggestions as part of our comments on other questions in this document. Some further points are listed below.

The Inland Revenue is supplied with a considerable amount of data about an individual's income and personal circumstances before they issue the tax return. Pre-populating the form with known information would avoid the need to provide the same information again. We realise there are pros and cons to pre-population – for example, if someone sees a figure in print on a form, they may assume it is right and not check it. They may even be disinclined to declare income that the Revenue does not already know about. And without joined-up Revenue computer systems it may be difficult to collate the necessary information. However, we are aware that the Revenue have considered this option in various contexts and would like to see them take it further.

We are aware that the Revenue are reviewing the main tax return, and we are involved in consultations on this. We would encourage them to tackle the most difficult supplementary pages now and not wait until the whole form has been redesigned.

One way to make the return shorter would be to reduce the core return and have more supplementary pages. We can see potential disadvantages to this – the basic core return at present can act as an aide memoire for taxpayers, and does enable them to fill in one-off income and to claim allowances without having to order extra pages. Consideration should be given to refining the core return to make it shorter and more user-friendly while keeping its essential features.

One way to reduce the burden of self assessment is to take people out of the system if their tax affairs can be dealt with another way. The Revenue already has a program for this. We support the idea that people should not have to be in self assessment if there is no need for this and they do not want to be. However, we are concerned that once people come out of SA, they should clearly understand what the alternative system will be for dealing with their tax affairs and what is expected of them (especially in terms of notifying new income or gains). Many of those being taken out of SA will now be dealt with under the PAYE system, and it is important that this system be robust enough to cope with all that it will be expected to do.

6. Please provide your main recommendations for how Inland Revenue may provide further support to taxpayers / agents if there are difficulties in filing ITSA returns accurately and on time:

We are not sure what you have in mind here. We have given our recommendations at Question 5 or elsewhere in this questionnaire.

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7. Please outline your main views on the incentives and penalties adopted by Inland Revenue to encourage taxpayers to file Income Tax Self Assessment returns on time

You ask about incentives to file on time, but in fact the Revenue are keen to encourage people to file not just on time, but as early as possible. However, there are virtually no incentives for taxpayers to do either of these things.

The Revenue publicises 30 September as a filing deadline, but of course this is not a statutory deadline and people often misunderstand this.

- Revenue publicity says that if you file by 30 September, they will work out the tax liability. This is not strictly correct – they will provide a calculation at any time, but will not guarantee to do so in time for the payment date. Anecdotal evidence suggests that once 30 September is past, some people may actually be deterred from filing, since they think they have to work out the tax but they can't understand the calculation. Also, having the Revenue work out your tax is no incentive for those who efile or use proprietary software.
- Another advantage offered for filing by 30 September is that underpayments can be coded out. But we suspect that the technicalities of this are lost on many people and that it does not act as an incentive.

The penalties of £100 (at 31 January and 31 July) are too small to be an effective deterrent for many taxpayers. Indeed, many people with more complex affairs, where there is some difficulty in obtaining all the information, would prefer to delay filing and incur the penalty rather than risk submitting an incorrect return.

The £100 penalty at 31 January can of course be avoided by paying the tax on that date, even if the return is not filed. Many people do not appreciate this, and it provides an unfair advantage to those who have tax advisers or who 'know the ropes'.

For those who cannot afford an adviser but who are struggling to complete the tax return, the £100 penalty may be a real fear but will not encourage them to file, if the problem is not that they are unwilling but that they need help.

If penalties and incentives are to encourage people to meet deadlines, people need to understand what the deadlines are. As noted, the relevance of 30 September is often misunderstood. There is also some misunderstanding around 31 January, following the decision in *Steeden v Carver* – returns can be submitted in certain circumstances on 1 or 2 February and yet avoid a penalty. We now also have an additional deadline for those who efile and want their underpayment coded out – 30 December. The situation is made potentially more confusing at 31 January because this is the date for both filing and paying. It does appear that the Revenue's publicity about deadlines and their significance is not getting the message across as well as it might.

Those people who claim tax credits will now be facing a 30 September deadline for renewing their 2004/05 claim. The Revenue need to ensure that people who are also in SA are not confused by the timetable and requirements of these two different systems. But there is also scope here for some positive publicity to encourage SA

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filing by 30 September.

8. Please outline any other actions which you consider Inland Revenue could take to encourage or assist taxpayers complete and file Income Tax Self Assessment returns accurately and on time;

The time limit for raising an enquiry into an SA tax return is the same, regardless of how early the return is filed. Some people believe that early filing increases the risk of an enquiry, because the Revenue have longer to look at the return, though the Revenue have assured us that this is not the case. One suggestion made by many of our members is that the enquiry 'window' should run from the date the return is actually filed, rather than be a set time period after the statutory deadline.

There are two aspects of the tax return where clearer and more prominent guidance is required:

- The use of provisional and estimated figures – many people do not appreciate the difference between these, and do not realise that it is possible to use estimates.
- The use of the White Space and the importance of disclosure

There is a clear need for better customer support for taxpayers and their agents. We have commented above on the telephone service. The Revenue is encouraging telephone contact from its customers (rather than written contact), so they need to ensure that customers can get through quickly to a person who can help them, and receive advice of good quality.

The Revenue should offer longer opening hours for Helplines and IRECs, especially at peak times (approaching 30 September and 31 January), so that people can obtain help outside working hours. We realise that some tax offices do open for longer, in the run up to 31 January, but this needs to be more consistently done and better publicised.

The Revenue produce a huge volume and variety of written guidance, in hard copy and on the website, in the form of leaflets, FAQs, tax return helpsheets, etc. We are aware that the Better Guidance project is working on this aspect of customer service, but we would just mention here that much of this material needs to be rationalised and made more accessible.

Another suggestion which has been made before, but could be considered again, is whether accountants' fees for preparing returns could be tax-deductible (as in the US for example). There could be an upper limit on the fee which could be claimed, and only if the filing is on time.

Offering a monetary incentive for early filing is a suggestion which has been made before. There are mixed views on the desirability or effectiveness of this, and we recommend that further research is needed into this idea.

There are no incentives for agents in connection with SA filing. We are not suggesting that agents should need incentives for carrying out their ordinary business. However the Revenue want to change taxpayer behaviour, especially

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towards e-filing and the role of agents is important in this. As noted (in 3 above), practitioners may be reluctant to invest in new systems or change their way of working unless they can see that it will be cost-effective and will produce benefits for themselves and their clients. We have no particular recommendations on what incentives (monetary or otherwise) might be offered, but flag the issue for consideration.

9. If you have any additional comments you would like to make about Filing of Income Tax Self Assessment returns, please use the space below or on a separate sheet.

The complexity of the tax return is a consequence of the complexity of the tax system. It is an obvious point, but worth repeating, that people are more likely to be compliant if they understand how the tax system affects them, and can make a return on a short and simple form. The Short Tax Return is a step in the right direction, but it does not tackle the root problem, namely the complexity of the system itself.

Similarly, if people are to self-assess and be able to calculate their own tax and plan ahead to pay it, they need to understand how to do the calculation. There is now a range of tax rates applying to different sorts of income, and some added complications for those entitled to the age allowance and married couple's allowance. Many tax advisers would baulk at working this out without the aid of a computer package. This too is an area urgently requiring rationalisation.

Filing the return is only part of the Self Assessment process. We receive a great deal of feedback from members about problems with administrative aspects of the SA system generally – lost or misplaced tax returns, incorrect inputting of figures, incorrect repayments, incorrect penalty notices, incorrect statements of account, etc. We appreciate that there will be errors in the operation of any large system such as this and we are aware that the Revenue is addressing at least some of these issues. However, if the system as a whole is made to run as efficiently and smoothly as possible, it will expedite the tax return filing process.

Every year a significant proportion of SA tax returns are filed late, and there are still a number outstanding from earlier years, including 1996/97. We are aware that the Revenue has carried out research on filing behaviour and the reasons for late filing, and has also researched and analysed the multiple old outstanding returns. To our knowledge, the results of this have not been made available to representative bodies, and we would be interested to know more about the Revenue's findings and how they propose to apply them.