

Tax Representation



TAXREP 36/08

MODERNISING PAYE PROCESSES FOR STUDENTS

Memorandum submitted on 23 May 2008 by the Tax Faculty of the Institute of Chartered Accountants in England and Wales in response to a consultation document published on 20 February 2008 by HMRC

Contents

	Paragraph
Introduction	1-2
Key point summary	3
General Comments	4-9
Answers to questions and detailed comments	10-43
Other detailed points	44-61

Annex A - Who we are

Annex B - The Tax Faculty's Ten Tenets for a Better Tax System

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INTRODUCTION

1. We are pleased to provide our comments on the Consultation Document published by HMRC on 20 February 2008 at http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ShowContent&propertyType=document&columns=1&id=HMCE_PROD1_028381.
2. Details about the Institute of Chartered Accountants in England and Wales and the Tax Faculty are set out in Annex A. Our Ten Tenets for a Better Tax System which we use as a benchmark are summarised in Annex B.

KEY POINT SUMMARY

3. We consider that:
 - Modernisation of PAYE processes for students should not be undertaken as a standalone exercise but should be included as part of a wider review of the PAYE system, which can operate disadvantageously for any taxpayer who does not have a regular single employment.
 - Ideally, PAYE should be applied in the same way to all taxpayers and there should not be different PAYE rules for different groups of taxpayers which would mean that option one would be adopted.
 - If students are to be afforded special treatment, option two is our preferred option to benefit students and save HMRC costs.
 - Any special arrangements for students should require the minimum of work by students, employers and HMRC.

GENERAL COMMENTS

4. We welcome the proposals to change the current arrangements for students so that they are not disadvantaged by the way PAYE operates. However, there are other taxpayers who are equally disadvantaged by the PAYE system and we would like to see any new arrangements being available to these taxpayers as well. We are therefore not persuaded that the suggested approaches are an appropriate solution.
5. We agree that the existing arrangements would benefit from changing, especially as the P38(S) arrangements are currently voluntary on the part of the employer, to the detriment of those students whose employers choose not to use them.
6. In our view, however, the aim should be to have a robust and responsive PAYE system which can deal with multiple employments and low earnings so that employees are not over-taxed during a tax year and have access to prompt repayments. Changing patterns of work mean that there is an increasing number of employees who are not well served by the existing PAYE system.

7. We appreciate that it is necessary to protect individuals, including students, from the risk of unexpected tax underpayments and the Treasury from abuse of a system but we also believe HMRC's PAYE and compliance systems should be able to monitor employees in multiple and changing employments more effectively than they seem to at present. Improved use of technology could achieve this. We do not consider that arrangements should be adopted which involve a lot of extra work simply to prevent a few from abusing or falling foul of a system that works for the majority.
8. If special arrangements are to be made for students, we do not consider that the definition of "student" should depend on having a NINO and, as an interim measure, we should like to see the existing P38(S) arrangements being extended to foreign (EEA) students and to term-time working. This would reduce the number of students needing to claim repayments – with the added benefit of a cost saving to HMRC.
9. It is unlikely that any system will be able to deal effectively with all employment scenarios but something which works well in the majority of cases could be adopted.

ANSWERS TO SPECIFIC QUESTIONS AND DETAILED COMMENTS

Q1 Which is your preferred option and why?

10. From the students' perspective, option two would be the preferred one, because no tax is deducted until the student's earnings exceed the personal allowance. This would allow the student to benefit at the earliest stage from the personal allowance but at the same time would limit opportunities for an underpayment to arise. Students with multiple employments during the tax year, who may otherwise be taxed using the non-cumulative emergency code or the basic rate code on some of their income, are likely to benefit the most.

Q2. What other benefits do you think it would bring?

11. All three options have the benefit of integrating students into the PAYE system once they start working so that they will have a PAYE record with HMRC. We believe that this is a good idea. A further advantage of option two (and also option three) is that the student should avoid needing to claim one or more repayments of tax during or after the tax year, saving both the student and HMRC time and costs.
12. As the operation of the P38(S) arrangements is optional for employers, option two (and also option three) would allow students to have the benefits afforded by the P38(S) arrangements on a statutory basis even when they work during term time.

Q3. Will there be any impact because of having to complete P11 WS and P14s for all students you employ or do you already do this anyway?

13. One potential problem area is that, as with the P38(S) arrangements, if the student has multiple employments and incorrectly estimates their total taxable income for the tax year, a tax underpayment may arise.

Q4. Do you see any downsides to your preferred option or situations where it might not work as effectively?

14. Practitioners and employers advise us that relatively few still use manual payroll systems. Standard practice seems to be that all employees are entered onto the computerised payroll system when the employee takes up employment. This makes payroll processes easier to deal with, to monitor and to reconcile to business nominal records.
15. Where there is a manual system, a P11WS will often have had to be created to deal with NI so a P14 would already be required and so the extra work would be limited to entering total earnings in the tax section.

Q5. Do you have a view on whether the criteria listed accurately reflect the definition of a student and are a workable definition for employers to use?

16. The definition of student appears unnecessarily restrictive:
 - a. The requirement for a NINO would automatically exclude under 16s because a NINO is not issued until just before the 16th birthday. Therefore the exclusion of those under 16 seems superfluous if the NINO requirement remains.
 - b. The NINO requirement would exclude short term foreign (EEA) students from any special arrangements. This is because such students find it particularly hard to obtain a NINO because they may not have the necessary documentation with them and be able to attend a Job Centre Plus during their short stay here. This group is likely to overpay tax if normal PAYE is used, resulting in additional work for HMRC processing repayments, and significant inconvenience for the foreign (EEA) student who will have difficulty dealing with a repayment claim from abroad and also in having the sterling repayment cheque cashed abroad, with inherent financial costs and further delays.
 - c. Although we believe most people would understand “full time” to mean “in term time only”, this does perhaps need stating in any definition.
 - d. It is unclear whether students with paid work placements as part of their courses would be “students” under the definition. Would they still be treated as “attending or studying ...full-time”? If not, but the student will not earn more than the personal allowance in the tax year (including the placement earnings), it seems unreasonable to exclude them from the arrangements.
17. You ask whether the definition is workable for employers. As it is the student who is signing the form, it would need to be the student (rather than the employer) who should understand the definition, but we accept that the employer may need to be able to answer students’ questions. Given that ultimately the responsibility for their tax affairs rests with the student we do not see any issues with its workability.
18. If there are practical or other issues surrounding the issue of NINOs to those under 16 and others eg foreign (EEA) students, this should be addressed and temporary numbers issued so that these groups are not excluded from the arrangements through no fault of their own.

Q6. Options two and three would require the inclusion of the student definition on a new P45 and P46 – what are your views on this?

19. The condoc notes that the P45 / P46 will require changes to boxes to include students. This is an inevitable consequence of changing the way students are taxed. We believe that employers would prefer to have a single form which can be used for all employees rather than a separate one dealing with students. It may also mean that students who would not previously have been aware of the P38(S) arrangement would have the new student arrangement drawn to their attention. This in itself may reduce work for HMRC because overpayments may not arise where they might have previously.
20. There will obviously be a cost to having forms re-designed and printed and a cost to educating employers that they should be used. If the information on the new student arrangements is put in Employer Bulletin and the annual PAYE information packs, the cost of this will be minimal. Any costs would be offset by the savings achieved by HMRC by not processing so many repayment claims.

Q7. Option two envisages that students would be able to use the Student Tax code across all employments in a tax year – what are your views on this?

21. If it is to benefit students who have earnings from more than one employment during that tax year, especially where those employments are concurrent, the new student code in option two must be available across all employments in a tax year. However, where there is more than one employment in the year, there will be a greater risk that an underpayment will arise if the student underestimates earnings for the tax year. This is because the earnings in each single employment, rather than in the employments in aggregate, need to exceed the personal allowance before tax is deducted.

Q8. Option three envisages creating a new tax code which works in a similar, but not identical way to the current NT code. For example, currently employers are not required to issue P45s where a code NT is in use, but the new student code would require employers to issue P45s. What are your views on this?

22. Not all employers are aware that a P45 does not have to be issued when an employee on NT code leaves and so P45s are routinely issued by some employers even where an NT code operates. It would seem straightforward, and sensible, to change the guidance and ask employers to issue a P45 to employees who have NT or student NT code on leaving. This would help students and employees complete their tax returns by providing them with a statement of earnings in the employment. Issuing the P45 is unlikely to prove onerous for employers using computerised payrolls but will add a time cost for those using manual ones.

Q9 Option two - in circumstances where the pay in one particular employment exceeds the Personal Allowance for the year it is proposed that the employer puts the student on to emergency code non cumulative. Do you have any views on this?

23. Under option two we believe that, where a student exceeds the personal allowance in one employment in a tax year, that they should be moved to the BR code rather than the emergency non-cumulative code. This seems to be what was envisaged by paragraph 44 but the question suggests that the emergency non-cumulative code will

be used. If the emergency non-cumulative code is used, arrears of tax will build up because the student will receive more personal allowance than they are entitled to.

Although the BR code will result in a significant reduction of net earnings (the “cliff edge” referred to), we do not consider that allowing arrears to build up by granting the benefit of further personal allowances would be sensible. The drop in pay when the personal allowance has been exceeded in a tax year should be seen as an inevitable consequence of the advantage of having the cash-flow benefit of no tax deduction earlier in the year. The key is to educate and inform students, and employers, about this issue.

Q10. Where aggregated pay exceeds the Personal Allowance during the year, but not in any one job, HMRC will not become aware of this until after the year end reconciliation. HMRC will then adjust the student's tax code in the following year to collect this underpaid tax. There is currently no formal assessing machinery for PAYE cases outside the Self Assessment process, so this would mean that these students would go onto standard PAYE to allow the underpayment to be coded out. Do you have any views on this?

24. If underpayments are “coded out” as proposed, if we understand correctly, where a student has an underpayment at the end of a tax year they will be removed from the new student arrangements and will be taken into normal PAYE part way through the following tax year. Our view is that this will simply reintroduce some of the issues which the new student arrangements was trying to avoid and should thus be reconsidered.
25. Depending on the precise circumstances, where the coding out of the underpayment starts in the tax year following the tax year in which the underpayment arose, it will usually start on a “month 1” basis part way through the year. Depending on the timing of the introduction of the month 1 code, and the timing of the student's earnings, this may result in overpayments of tax during the tax year or it may fail to collect the underpayment in full. The student could have a cash flow disadvantage or he could have an ongoing tax underpayments position which may spread forward for two or more years if he is not in regular employment.
26. It is quite likely that if the collection of arrears starts in the tax year after the underpayment arose, there will be further arrears to collect in the next tax year so the student will be ineligible to use the student scheme for the rest of his course, with consequent complications and disadvantages.
27. Where the underpayment is relatively small, the use of a normal PAYE code, particularly on a month 1 basis, may unduly affect the student's cash flow for the reasons identified in the consultation document.
28. We suggest that a better option might be to defer collection of any underpayment until the second tax year following tax year when the arrears occurred. This would allow the student potentially to benefit from the new student arrangements for another complete tax year, rather than have an underpayment in one tax year take him out of the arrangements for the two following tax years, which would be an inevitable consequence of the proposal to start collecting the arrears part way through a tax year.

29. Option two, however, has the potential advantage that it should be possible to code out the underpayment by reducing the full annual allowance in the following tax year or years. The student would then receive a reduced personal allowance before paying tax. Students would need to be aware that where an underpayment has arisen in a previous tax year, and they continue to use option two, they will be able to earn a reduced amount before paying tax and the declaration on the P45/P46 should be read accordingly. This is likely to present practical problems.

Q11. If a student drops out of education part way through a tax year, and has previously worked in the tax year, they will be put on to the emergency code non cumulative week 1 basis in their next employment until HMRC can confirm the correct code to be used. If however they stay in the same job they ought to inform HMRC of this change in circumstance and HMRC should send the employer a new code. Do you have any views about this?

30. If the student drops out of education and continues working for the same employer, he should be obliged to notify HMRC of his change of circumstances. This should be a requirement of being able to use the new student arrangements. In practice, students may forget. This is where option two has an advantage over option three because, if the student forgets, he will receive a maximum of the personal allowance tax free from that employer before paying tax, thus limiting the potential tax underpayment.
31. If the student drops out but then works for another employer the P45 / P46 procedure will operate in the usual way and HMRC should become aware from their records that he has had other employment in the tax year and be able to amend his tax code within a few weeks so, again, any underpayment is minimised.

Q12. When a student completes their education it will not usually tie in with the end of the tax year, so we think the same logic should follow as in 11 above – ie to be put on the emergency code non cumulative week 1 basis in their employment until HMRC can confirm the correct code to be used. Do you have any views on this?

32. Completion of the student's education presents further issues, not least of which is that the student may forget to advise HMRC and/or employers that he is no longer eligible for the student scheme. Education will often occur in the summer months but may also occur at other times. The student may have worked previously for one or more employers. Depending on previous earnings, and the timing of the new employment, the operation of the emergency non-cumulative code on cessation of education may result in an underpayment of tax during the tax year as a whole. The operation of a BR code would limit an underpayment but may result in over-taxation of the student.
33. There should be an obligation for the student to notify HMRC of the change in his circumstances but also recognition of this obligation being overlooked. Where option two has been used, we suggest that it could continue to be used for the rest of the tax year, with a BR code being applied once earnings reach the personal allowance. We favour the use of the BR code rather than the emergency non-cumulative code on cessation of education because this will limit underpayments of tax. However we would like HMRC, using appropriately targeted advertising, to encourage students to contact them after cessation of education so that their tax code can be corrected to the appropriate level at the earliest time.

34. The transition from student tax codes to ordinary PAYE codes is likely to be a difficult one to deal with and there is a good argument that students should not be entitled to the student codes in the tax year in which they intend to cease their studies and should go onto normal PAYE in that year. This would mean that students who cease studies early, extend studies unexpectedly or have more complicated tax affairs may still be disadvantaged but would have the advantage that the transition to normal PAYE will be very much easier for the vast majority of students.

Q13. In order to reduce the compliance risk some thought has been given to the idea of time limiting these tax codes for individuals. This could be say three, five or seven years. Do you have any views on how this might work?

35. While we understand the need to reduce compliance risk, we believe that time-limiting the student codes is an unnecessary complication to the arrangements. Under all options being considered, the students will be brought within the PAYE system and therefore be monitored in the same way as all other taxpayers so the risk of abuse of the codes and tax loss should be minimised.
36. If the codes are to be time-limited, are the arrangements going to allow “renewal” of the codes? If no renewals are allowed, students who start working while at school or those that go back to education after a break would be disadvantaged because they would not be able to take advantage of the student codes when they might otherwise have been entitled to. If renewals are allowed, this is an increased administrative burden to employers and HMRC.
37. Option three seems to bring with it the most significant risk of tax underpayments and therefore time-limiting may be appropriate if this option is used. If option two is used there seems to be less risk of abuse and consequent tax loss.
38. If the codes are time-limited, it should be for five years so that the whole of most University courses would be covered. A period of seven years would also cover work while students were at school. However, as stated above, we believe time-limiting will create extra work for all; it would seem to be an administrative and practical burden for employers and for HMRC. We consider that HMRC’s existing review systems should identify any abuse and tax underpayment.

Q14. Do you have any data or comments on the impact that complying with a change to the current P38(S) process may have? We are specifically interested in the time or cost for both business and individuals.

39. We have limited data on the impact of the change. Employers have told us that the P38(S) arrangements adds about twenty minutes overall annually per student because the student is still added to the payroll for NI and management reasons. A new arrangement which integrate students into PAYE is likely to reduce rather than increase time spent. The time is currently spent on giving the form to students, helping them to complete it, completing the employer’s section of the form and monitoring that the annual allowance has not been exceeded.

Transitional Issues

Q15. Do you foresee any particular issues around implementation and transition?

40. The major issue with implementation of the new student arrangements will be educating employers and students about the new rules and preparing appropriate stationery and distributing it in time. An awareness programme will be required if students are to learn about the new options and HMRC is to reap the cost savings from processing a reduced number of repayment claims.
41. As far as transition is concerned, students currently using the P38(S) arrangements should transition into the new one relatively easily because they or their employer are used to needing a new form for each tax year and each employee.

Q16. What sort of support and guidance might be required from HMRC?

42. We would expect support to include leaflets for students about the changes (and about tax for students generally) distributed in schools, colleges and universities. We recommend that HMRC discusses the design of these with students in order to create a leaflet which will attract students' attention and will be read. Ideally HMRC should ask education establishments to include such leaflets in all starter packs for students as well as having them available on the premises.
43. In addition, there should be clear information and guidance on the HMRC website, articles and reminders for employers in Employer Bulletin, focused attention on traditional student employers eg shops and restaurants and changes to relevant manuals on-line and for employers.

OTHER DETAILED POINTS

Non-students

44. It is not just students who can lose out by the operation of non-cumulative tax codes and PAYE generally when work patterns are erratic and employment changes frequent. There are many other individuals who are not students who are low-paid workers and have more than one job or change employers frequently. In addition, some employees only work in term times or for certain periods of the year. Such employees have similar issues to students which need addressing. HMRC should consider reviewing PAYE processes generally to deal better with the needs of these individuals, including students. Although we would like to see students helped, we would also like this help extended to other sectors of the working population.

Amounts paid after P45 is issued

45. The Consultative Document does not mention a practical difficulty which affects students (and many others). Where payments of earnings are made after leaving employment, eg bonuses, overtime, tips, holiday pay (all very common in the type of work which students do) or where wages are paid say weekly but a week in arrears, the employer must deduct BR tax and advise HMRC. There seems to be no structured procedure for the employer notifying HMRC of such payments in-year and details of both the amount paid and tax deducted may not reach the employee's

record for some time, probably not until after the P35 is submitted. Students (and others) may not be aware that these amounts are not included on the P45 and, although they should, do not always retain payslips because they do not realise that this is the only proof they have of tax having been deducted.

46. We believe that there will continue to be a problem with such payments and this needs addressing. The employer should ideally still be able to apply the student code to the payment being made after the P45 has been issued.

Form P50

47. If a student knows that he can get an in-year tax repayment (and many students do not know that they can ask for repayment of PAYE tax deducted), the wording of form P50 (in year repayments of PAYE) implies that in-year repayments of PAYE can only be made if the student signs the declaration to say that they do not intend to work again in the same tax year or are “unemployed”. Students do not consider themselves to be “unemployed” while studying which means they don’t think they can ask for their tax back using this form if they intend to work later in the same tax year. We recommend that HMRC re-word the form to include the phrase “not currently undertaking paid work” so that students (and other individuals who give up working for long periods during the tax year) are clear that the form can be used by them.
48. We do, however, see a problem where a student would not normally be issued with a P45 by an employer because he intends to work for the same employer in the next holiday period. If the P50 procedure requires the employer to issue a P45 so that an in-year tax reclaim can be made, this would result in considerable extra work for the employer at the end of the current and at the start of the next employment period as he would have to provide a form P45 and subsequently reinstate on the payroll details of the “new” employee. This would mean that option one would be onerous for the employer in these cases.

Estimates

49. In line with the P38(S) arrangements, options two and three rely on students being able to determine their income for a particular tax year. Students may not always be able to do this and, as noted above, this is a particular issue if option three is used because significant arrears may build up.

Sandwich students

50. Sandwich students (ie students who undertake paid work placements, usually of six or twelve months) have not specifically been mentioned in the Consultation Document. Although these students should know in advance when they will be working, they are likely to have more difficulty than most students in estimating their income for a particular tax year. Many will not know until late in a tax year how much they will be paid in their placements and so will have no idea what they expect their income to be for a tax year. Others will not realise that the placement may mean they exceed the personal allowance in a tax year, seeing it as part of their course rather than as a source of income. These students are more at risk than many others of under-paying tax during the tax year.

Overseas students

- 51. Many students could benefit from the current P38(S) arrangements if it was extended to include non-UK students working legally in the UK and was not restricted to those working only in the holidays. We do not know the reason for these restrictions and suggest that they are reviewed if, for any reason, the proposals currently being considered are not implemented.
- 52. Unfortunately where employers choose not to operate the P38(S) procedures, the suggested changes to the rules will not help students working for these employers.

Tax underpayments

- 53. The difficulties which underpayments of tax will create has been commented on above. Students need to be aware that they have to advise their employer and HMRC when their total earnings (or income) reaches the personal allowance so that the BR code can then be operated. We anticipate that many students would do so either through ignorance of total earnings or through lack of awareness. However, if we expect individuals to advise of changes in earnings and circumstances for tax credits purposes, we should also expect them to do so for tax purposes. It should be the start of learning to deal with their tax and tax credits responsibilities.
- 54. We understand that employers generally favour option one because this would mean that they could deal with students in the same way as all other employees.

Very low earnings

- 55. Another issue which is not aired in the document is that of workers who earn too little in one employment to be included within the PAYE system. As intimated above many employers with computerised payrolls will include such employees on their computer payroll and hence they will be included in the P35 at year end. We understand that this is more time and cost effective for employers than keeping separate records of such employers outside the normal payroll records. Strictly, however, HMRC do not require, and indeed asks that employers do not send in, a P46 for such employees.
- 56. In the age of increased computerisation, where the majority of employers are using computerised payroll systems, it might be appropriate to reconsider whether or not the existing procedures continue to be appropriate and whether there are compelling reasons for not preparing a P11 or equivalent for all employees. If all employees are within PAYE it should be easier to ensure that they pay the correct amount of tax.
- 57. Options two and three should result in fewer students failing to receive repayments to which they are entitled. The PAYE system, option one, is currently far from perfect at identifying overpaid PAYE and repaying it. Students will often be using a combination of term-time and home addresses so correspondence will go astray. Some students will be unaware that they are due a tax repayment and fail to claim one.
- 58. The students who have the most to gain from options two and three are those earning in total below the personal allowance in a tax year but who have several jobs which change from time to time. Under the current arrangements, they will almost certainly have BR tax codes for additional jobs and casual work and then have to wait until the end of the tax year to get the tax back on these, unless (and this is not

usually practicable given the transient nature of some work), they have been able to have some allowances reallocated to second job via PAYE codes. Where a BR code would have been operated in the past, no tax will need to be deducted now which will be of significant cash flow benefit to the student.

59. There is also an advantage to HMRC. They should now be in receipt of earnings figures for students which, under the P38(S) regime, do not have to be submitted. This means that HMRC will know about and be able to collect tax where students earn more than the personal allowance in any one tax year. With the new arrangements they would be better placed to identify and monitor the whole of a student's earnings.

HMRC help for students in estimating income

60. We suggest that it might be useful to prepare a helpsheet/calculator on the HMRC website which a student can use to see if they are likely to have taxable income over the annual allowance. This should be in a format which prompts the student to think about all sources of income on a weekly / monthly / annual basis as appropriate by asking questions eg what are your usual weekly earnings in job 1, job 2, job 3 etc and for how many weeks will you do these jobs in the tax year (remember to include tips)?; What will you earn in your industrial placement during this tax year per week, month and how many weeks / months?; Do you have income from savings (excluding ISAs, student loans, grants)?; Do you receive rental income or income from other students for rooms you let and, if so, how much after allowable expenses?

Burdens

61. We do not believe that arrangements should be adopted that involve a lot of extra work on the part of students, employers or HMRC simply to prevent a few from abusing or falling foul of arrangements that work for the majority.

ICAEW AND THE TAX FACULTY: WHO WE ARE

1. The Institute of Chartered Accountants in England and Wales (ICAEW) 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.
2. The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department for Business, Enterprise and Regulatory Reform through the Financial Reporting Council. 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, including taxation.
3. The Tax Faculty is the focus for tax within the Institute. It is responsible for tax representations on behalf of the Institute as a whole and it also provides various tax services including the monthly newsletter *TAXline* to more than 10,000 members of the ICAEW who pay an additional subscription.
4. To find out more about the Tax Faculty and ICAEW including how to become a member, please call us on 020 7920 8646 or email us at taxfac@icaew.com or write to us at Chartered Accountants' Hall, PO Box 433, Moorgate Place, London EC2P 2BJ.

THE TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as **TAXGUIDE 4/99**; see <http://www.icaew.co.uk/index.cfm?route=128518>.