Tax Representation

TAXREP 39/05

REVIEW OF HM REVENUE & CUSTOMS' ON-LINE SERVICES

Response submitted in September 2005 by the Tax Faculty of the Institute of Chartered Accountants in England & Wales to Lord Carter of Coles in response to the invitation to contribute to the review of HMRC's on-line services announced by the Paymaster General in July 2005

CONTENTS

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INTRODUCTION

1   This document sets out the views of the Institute of Chartered Accountants in England and Wales (ICAEW) in response to Lord Carter's review of HMRC on-line services. It has been prepared by the ICAEW's Tax Faculty and also includes comments from the ICAEW's Faculty of Information Technology. The review was announced by the Paymaster General on 21 July 2005 with the following terms of reference:

'To advise ministers on measures to further increase the use of HMRC's key online services, in order to realise benefits for HMRC's customers and to ensure sustainable and efficient service delivery, whilst continuing to support compliance. In particular the review should:

- *Consider what measures could most appropriately be adopted to deliver the governments aim of maximising the use of online services for income tax self assessment, VAT, corporation tax and PAYE, taking into account the effectiveness of measures already adopted, as well as examining barriers to take up;*

- *Consult with stakeholders to understand how to maximise the potential benefits taking into account the impact on them of any measures proposed, and their access to and readiness for online services;*

- *Suggest a timetable for new measures to be introduced.*

- *The review should make recommendations to meet the goal set out above by late autumn 2005.'*

WHO WE ARE

2   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.

3   The Institute operates under a Royal Charter, working in the public interest. It is regulated by the Department of Trade and Industry 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).

4   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 11,000 members who pay an additional subscription.

5   Our members in practice act for large numbers of individuals and for all types of businesses, ranging from micro businesses through small to medium sized enterprises to large corporate groups. They operate payroll bureau services and file self assessment, corporation tax and PAYE returns on behalf of clients. Members in industry act as financial controllers and finance directors for businesses of all sizes and sit on the boards of most major UK quoted companies. Our members make daily use of HMRC on-line services and their views have been reflected in this response.

KEY POINT SUMMARY - CONCLUSIONS AND RECOMMENDATIONS

6   Our key conclusions and recommendations are set out below.

- We fully support the Government's stated aim to encourage use of e services, subject to those services being well designed and efficient in operation. Much has been achieved to date but we believe that better progress could have been made if lessons had been learned at an early stage.

- There remains considerable potential for e-services in the UK tax system, but we believe that the barriers and drivers to take up have still not been fully understood by Her Majesty's Revenue & Customs (HMRC). The main barriers (as we see them) are set out below. We believe that if – and only if – they are properly addressed, significant progress can be made towards the Government's goal of further increasing the use of HMRC's on line services.

- Despite the existence of an e-strategy, the impression created is often of disconnected initiatives driven by arbitrary and unrealistic deadlines.

- Some HMRC e-services work very well and incorporate excellent functionality, but a number have been launched before they have been adequately tested and with insufficient capacity to cope with the volume of transactions. User expectations have not always been managed effectively. This has created bad publicity and reinforced negative attitudes to e services. New e-services must be fully tested before launch, they must be easy to use, robust and must have sufficient capacity to meet demand throughout the year.

- In 2000, the then Inland Revenue published a detailed e strategy document on its website but this appears to have been withdrawn. We believe that HMRC's e-strategy should be available in a public document.

- We believe that to ensure sustainable and efficient service delivery, an independent body similar to the Electronic Tax Administration Advisory Committee (ETAAC) in the USA, should be established. The body would report on HMRC's progress against its published e-strategy, encouraging the delivery of effective services to realistic timescales rather than flawed services to unrealistic timescales.

- While we are aware that there have been high level contacts between HMRC and tax authorities overseas we believe that there is still much to learn from experience in other countries. We recommend that the effectiveness of e-service delivery in the UK should be compared with that in countries where the tax authorities design their own applications and the cost effectiveness of using external suppliers re-evaluated.

- We believe that intermediaries, including agents and their professional bodies, can be of great value to HMRC in delivering its e service objectives through an effective consultation process.

- We oppose mandatory e-filing – we believe that functionality and a clear business case should be the drivers to take up. It must also be understood that not all taxpayers and businesses have access to IT or to broadband.

- Forcing taxpayers and agents to e-file using inadequately designed and tested services with insufficient capacity creates considerable resentment, whereas an alternative and inclusive approach could work well for agents, taxpayers and HMRC. While efficient e-services can reduce costs for taxpayers, agents and intermediaries, inefficient e-services impose additional burdens.

- We question the effectiveness of the apparent policy of moving the design team away from the service they have been developing at the point of launch.

DETAILED COMMENTS

Potential for e-services

7   We fully support the government's wish to develop effective e-services in the tax arena. We believe that the development of effective e-services has the potential to bring significant benefits to HMRC, to taxpayers and to agents and intermediaries. We emphasise the word 'effective' as we believe that although considerable progress has been made in the development of e-services, many are not as effective as they should (or could) be, and examples are provided below.

HMRC e-services strategy

8   In 2000, the Inland Revenue posted on its website a document setting out its e-services strategy, which identified potential drivers and barriers to take up of e-services. It appears to us that some of the factors so clearly highlighted have not been addressed in practice and this reinforces for us the need to have independent monitoring of progress. The following extracts are particularly pertinent:

   'Focus on driving take up – ensuring that we understand the drivers for take up and have taken the necessary action to maximise use of electronic services.'

9   We do not believe that all drivers have been understood or acknowledged; furthermore we believe that some barriers have been ignored. This is despite the fact that the Public Accounts Committee urged the then Inland Revenue in 2002 to maintain close links with advisers so that they obtained a better understanding of the barriers to take up.

'Delivering external email'

10   HMRC still lags behind business in its use of email. This was originally a milestone set for 2002, but in 2005 it has still not been reached. If there are concerns over security, we cannot understand why email had long been available to senior Inland Revenue staff who necessarily deal with confidential and sensitive information and to Customs and Excise staff before the merger into HMRC.

'Joined up services -…There is a clear commitment to provide [services] driven by customer not departmental needs'

11   Despite the existence of a published over arching strategy, many e-service elements seem to have been designed in isolation and do not fit effectively with other elements. We do not believe that HMRC e-services could be described as 'joined up'. While some research and consultation – which we have welcomed and have participated in actively – has been undertaken, we believe that more is needed.

'The extent to which intermediaries are willing and able (or can be incentivised) to take up the opportunities presented'

12   We believe that intermediaries as users have not been engaged as potential allies in driving e-services. This seems at odds with the attitude to involving intermediaries in e-services development and delivery in, for example, the USA and the Netherlands. We believe that an opportunity – which was identified and still exists – has largely been missed.

'Delivering directly to customers – Our early experience …is the critical impact of the initial customer experience…external customers are not as tolerant as internal staff of early glitches …and an early bad experience may lose that customer for good…these services provoke considerable press interest, particularly when there are problems to report'

13   Repeatedly, e-services have been launched before having been fully tested and with insufficient system capacity; a recent example being PAYE on-line earlier this year . The result has been an unnecessarily bad press for e-services and alienation of intermediaries and agents who have as much interest in seeing e-services work effectively as HMRC.

Barriers to take up

14   While a number of barriers were identified in the Inland Revenue's e-strategy paper, some have, it would appear, been ignored in practice. We believe that the main barriers, which have been well documented in the press, are:

- lack of capacity at peak filing times;
- lack of robustness;
- lack of adequate testing before launch;
- failure to properly address the issues of disclosure and discovery (a major issue for agents);
- failure to make the business case for use of e-services; and
- failure to provide an electronic means of filing tax repayment claims to users of form R40 (issued to significant numbers of individuals excluded from the SA system who are normally due refunds).

15   The Faculty has, on a number of occasions, cautioned against the release of specific e-service products until they have the required functionality. We cannot see the merit in launching services that will generate bad publicity and reinforce negative attitudes simply to meet unrealistic deadlines.

16   We found the lack of capacity built into the PAYE on-line service this year disappointing. The incentives offered must have alerted HMRC to the need to build in sufficient capacity to meet a high demand. To ask users to e-file at weekends and outside normal office hours or to withdraw the secure mailbox is unacceptable, especially as use of the secure mailbox over other forms of delivery is pre-selected as the default option on registration.

17   It is also unacceptable that several months after the filing deadline, incentive cheques have still not been released because of problems with the ERIC system and in September 2005 local tax offices cannot see many of the employers returns that were e-filed in April and May 2005. This is unfortunate, because the lack of capacity issue masked the fact that PAYE on-line is a very well designed system that has been well received by users.

18   The Electronic Lodgement System (ELS) allows agents to file attachments (accounts and computations for example) to SA tax returns. Filing by Internet (FBI) does not. HMRC takes the view that the white space in an FBI return is adequate to make sufficient disclosure to avoid a discovery. Agents disagree. This will continue to be a major barrier to take up until this issue is openly debated and a mutually acceptable solution found.

19   The Faculty has made this point on many occasions and it has also been made by other professional bodies and by the Working Together Steering Group. Removing this barrier would, we believe, result in a significant increase in use of e-filing by agents.

20   Abandoning ELS on the grounds that FBI has made it redundant could result in ELS users returning to paper filing. One major software supplier offering both ELS and FBI reported an increase of 44% in the number of returns filed electronically between 2003/4 and 2004/5 using its product; the number of users filing by ELS however only fell by 8%. We believe that this clearly demonstrates that many agents regard ELS as a better service.

21   We understand that approximately 30% of SA tax returns prepared by agents are electronically generated and we suspect that most of these returns would also be filed electronically if agents could file attachments and if systems were sufficiently robust.

22   Several of our members have suggested that e-filing workshops for agents would be well received.

23   We believe it would be helpful if HMRC publicised, via the website or perhaps the Working Together or Tax Bulletins, improvements to services and the correction of system errors.

24   In other countries, such as the United States, the rapid payment of tax refunds is used as a major driver. In the UK, most individuals who consistently receive refunds are outside the SA system and file using form R40. There is no electronic version of the R40. The simplified four page return is only issued to SA taxpayers. Introducing an electronic version of the R40 could significantly increase the number of returns filed electronically and reduce the time spent by HMRC on processing.

25   Every year, in respect of all the e-filing systems, there are significant changes and extensions and every year there are problems in relation to aspects of end-to-end process and service quality. We recommend that there should be testing and validation of the end-to-end process of preparing and e-filing a return, not just the processes within HMRC and not just the processes carried out by software, This could be done, for example, by way of a structured walk-through by representatives of all stakeholders in the system. This should involve the testing of live data from actual cases before a new version of an e-filing system goes into live operation.

26   Customers become confused when an e-filing system becomes unavailable because of technical problems, both as to how they should deal with the problem (particularly if the filing deadline is close) and as to what attitude HMRC may take if the filing is late as a result of the problem.

27   We recommend more rapid and open communication of the nature of any technical problems and of the action being taken by HMRC to put it right.

Drivers, incentives and compulsion

28   We do not believe that taxpayers or agents should be compelled to use e-services. Well designed, robust and reliable e-services will largely sell themselves if they are clearly superior to other methods of filing and if the business case is properly made.

29   It is clear, however, that the cash incentives for PAYE on line were extremely successful in encouraging use of the service, despite the fact that there were serious problems with capacity in the weeks before the filing deadline and that the ERIC system was not ready. It is unlikely that people who have used PAYE on line will revert to paper filing as long as the problems experienced this year are not repeated next year. We believe, therefore, that the potential role of incentives, whether cash or practical, has been proved to some degree. Cash incentives set at different levels

tapering away towards the deadline could be effective in spreading the workload for HMRC and easing capacity requirements.

30   One alternative to a cash incentive for SA on line filing might be to make the enquiry window for on line filers run for twelve months from the date of filing rather than twelve months from 31 January. A number of agents file in bulk on 31 January in the belief that this minimises the enquiry window. Adopting the alternative method could spread the workload for both agents and HMRC staff and reduce the capacity needed in the system. We appreciate the need to undertake statistical work on the whole population, but nevertheless we believe that it should be possible to offer some incentives.

31   Another possibility would be an extended filing date for e-filers.

32   Other non cash incentives could include later tax payment dates, for which there is some precedent in VAT return filing.

Cultural attitudes within HMRC

33   We believe that on occasions cultural attitudes have defined e services in an illogical way.

34   A taxpayer who is a sole trader *cannot* file his accounts and computations electronically with his tax return if he wants to file on line. If he incorporates his business, however, he cannot file on line *unless* he files his accounts and computations electronically. We can see no reason why someone doing the same job and making the same profit should be treated in completely different ways dependent only upon his trading medium, particularly as the tax bill is likely to be lower when trading through a company.

35   In the light of the need for taxpayers to make adequate disclosure to preclude a discovery, this illogical approach poses serious problems. If accounts and computations can be filed as PDF attachments to CT returns, why can this solution not be used for ITSA returns? Every PC user will be familiar with PDF files and many routinely use scanners; so we cannot understand why this needs to be seen as such a difficult technical issue.

36   Other delivery methods, such as XML and XBRL have been explored and hold the potential to enable electronic filing of documents. Outside the Big 4 accountancy firms, take up by agents will be dependent upon commercial software providers being persuaded of the potential benefits to their target market of incorporating the necessary functionality in their products.

37   We understand that once a product goes live, the team who have delivered it to that point are deliberately withdrawn from the project. We do not understand the reason for this and it seems to us to be odd: these are the very people who should be dealing with teething problems (a) because they know the product and (b) to avoid repetition of systematic errors in other products. We recommend that the team responsible for delivery should also be responsible for sorting out any teething problems.

Role of stakeholders (including intermediaries)

38   Although there have been numerous consultations over the last few years on e-service issues, these have often sent conflicting messages to participants.

39   The consultation on the development of PAYE on line, from the two day brainstorming session in London to the launch of the live system was admirable in its openness and inclusiveness; it should serve as a model for consultation on other e-service roll outs. The rollout itself, sadly, was in some contrast and a number of serious failings generated bad publicity.

40   Consultation on the CTSA on-line product began well and was regarded by the then Inland Revenue as a model for the incubator approach to product evolution. However, the consultation process then seemed to peter out leaving those who had participated unclear as to the future direction of the project.

41   On many occasions comments from intermediaries and agents have been ignored with the result that new services have been launched with inadequate functionality and have inevitably attracted adverse publicity. This is true of applications directed at taxpayers, such as ITSA on line, and at products aimed at agents, such as on-line ITSA statements. This discourages agents and intermediaries from participating in consultations, from using e-services themselves and from recommending them to clients.

42   In conclusion, we believe that the use of intermediaries as a major ally in the drive to encourage the use of e-services has not been as effective as it could be.

Benefits of e-services for intermediaries

43   The business case for HMRC has clearly been understood but it appears to us that the business case for agents and intermediaries has not been. HMRC could learn much from the way intermediaries and the tax authorities work together in, for example, the USA and the Netherlands where the business case is recognised and used as a major driver.

44   Robust, reliable and well designed e-services have the capacity to deliver significant cost savings to taxpayers, agents and intermediaries. In contrast, services without sufficient functionality, capacity and reliability can (and do) actually increase the costs borne by agents and intermediaries.

Other factors

45   The National Audit Office (NAO) in its report on ITSA filing in June 2005 noted that electronic filing by individuals in the UK is currently 17% compared with 44% in the USA and 83% in Australia in 2004. One reason the NAO report identified was the fact that a greater number of taxpayers in those countries routinely received refunds.

46   We note that the HMRC Public Service Agreement 2005 – 2008 sets a target of 35% for on line SA tax returns and 50% for on line VAT returns by 2007-08. We believe that these targets are attainable if the drivers and barriers are properly understood.

47   Many individuals and some businesses do not have access to computers or the Internet. Some have religious objections to both.

Future opportunities

48   Although some opportunities have been taken to create electronic solutions that do more than replicate paper based systems, there are other opportunities that exist.

49   For example, we understand that in the Netherlands electronic payroll returns are made monthly so that payroll information is available in setting and amending social security benefits. While this would not help in the UK in the case of self employed individuals, it could potentially provide an element of a solution to the problems experienced with the Tax Credit system.

50   The PAYE on line system has the potential to change the way PAYE is operated. We know that HMRC are already looking at this and the notification of events 'real time' via the Internet could bring radical change and reduce still further the amount of paper processing involved.

51   We believe that there is scope to learn from experience elsewhere particularly with regard to pre-population of tax returns. For example, we understand that in the Netherlands, the tax authorities plan in a few years' time to issue a pre-populated tax return to individual taxpayers, who will then accept or amend the return data. We do not underestimate the potential difficulties but with more and more information being held electronically, the potential for pre-population will grow.

52   Other countries (for example Canada, Australia and Estonia) pre-populate returns to some degree. Pre-population was identified as a potential driver in the National Audit Office report on filing of ITSA returns in June 2005, but the report also noted the technical difficulties HMRC would face in delivering this.

53   We believe that it would be useful to compare the respective benefits of an intermediary based, private dial up system (such as ELS in the UK and E-File in the USA) with 'open' Internet based solutions. Experience in other countries (particularly the USA, Estonia, Australia and New Zealand) should be taken on board.

Monitoring progress

54   We would urge regular consultation with intermediaries via their representative bodies. Regular consultation was recommended by the Public Accounts Committee in 2002.

55   We would also commend the creation of an ongoing body independent of HMRC which would report directly to government and which would seek the views of all stakeholders, including HMRC, similar to the Electronic Tax Administration

Advisory Committee in the USA, which reports annually directly to Congress. Such a body, especially if it maintained contact with overseas equivalents such as ETAAC, could be of great assistance in driving the effective roll out of new electronic services.

56   It is clear from the June 2005 ETAAC report to Congress that many of the barriers to take up in the USA are also present in the UK. We need to take on board the experiences of other countries and not seek to 'reinvent the wheel'.

PA/FH
21.9.05

COMMENTS ON SPECIFIC E-SERVICES

THE GOVERNMENT GATEWAY

- In order to access some details on the HMRC portal, agents first have to allocate clients to a specified user or assistant on the Gateway. This means accessing both portals.
- Clients are identified only by tax reference number and in no particular order. This necessitates a manual exercise to identify each client. This is very poor functionality. It is also a barrier to take up because agents with a large numbers of clients do not have the time to do this and even if they did the cost of doing so could not be passed on.
- Each client, once identified, must be allocated individually, a process taking up to 45 seconds for each client. Tick boxes or a 'select all' option should have been provided. Again, this poor functionality represents a barrier to take up.
- These failings were brought to the Department's attention three years ago and have not been addressed.

PAYE ON-LINE

- Users speak highly of the system. The functionality is very good and the system has huge potential for further development.
- Inadequate capacity was built into the system which caused severe problems in the run up to the filing deadline. Withdrawing the secure mailbox to temporarily increase return filing capacity was a very poor solution, especially as use of the secure mailbox over other forms of delivery is pre-selected as the default on registration.
- System slowdowns were such that at times end of year returns were taking up to 45 minutes each to file; this necessitated overtime and weekend working, costs that agents cannot realistically pass on to clients.
- Local tax offices still cannot see in September 2005 documents that many employers for which they are responsible efiled in April and May 2005.
- The fact that the ERIC system was not functional by (or indeed some considerable time after) the filing deadline has led to payment of incentives being delayed; this – quite rightly – generates poor press coverage.
- Incentivising or compelling people to use the system when the back end did not work and with inadequate capacity generated poor publicity which, as the IR e-services strategy document correctly pointed out, itself discourages use of e services.
- Software suppliers claimed that some problems with their products resulted from the late release of information by HMRC.
- Many points regarding this year's problems are covered in the minutes of HMRC's Modernising Payroll Procedures for Customers Consultative Committee, on which we are represented.

AGENT AUTHORISTION

- There is considerable scope for streamlining the current chaotic system.

ITSA

- ELS is a more effective system for agents than FBI and enables agents to attach electronic copies of documents such as accounts and computations. FBI is an inferior system and if ELS is withdrawn, the number of agents who e file client's SA returns may actually fall.
- Failure by HMRC to address the issue of enabling agents to attach electronic copies of documents to FBI returns represents a major barrier to take up.
- Capacity at peak times has been an issue.
- Cash incentives may have a role in establishing the e-filing habit.
- Cash incentives set at different levels tapering away towards the deadline could be effective in spreading the workload for HMRC and easing capacity requirements.
- FBI is still, we understand, not capable of dealing with all SA returns.

CTSA

- Most agents use third party software and so do not use the HMRC on line product and most companies use agents to prepare their returns.
- The product was initially designed to facilitate the use of XML and XBRL but seems to have stalled at the PDF stage.

SDLT

- This was another example of an inadequate period of time being allowed for design, testing and delivery, though we appreciate that there were legislative as well as IT issues involved. The withdrawal of the proposed system added to the poor publicity generated by HMRC e services.

STATEMENTS OF ACCOUNT

- This is an extremely useful facility but client information can only be accessed when each individual client has been allocated to a user on the Gateway. This is exceedingly frustrating and an example of very poor functionality.

HMRC WEBSITE

- While the website is a valuable resource some features could be improved.
- Finding what one wants on the site is difficult.

- The search engine provided is not as good as it could be and Google is normally more effective in finding things on the site.
- Updating of the site is slow; for example Business Briefs usually appear earlier on the Government News Network site.
- Certain pages are not comprehensive to the extent of being virtually useless, notably Latest Updates - VAT.
- Certain pages list items with latest new item last rather than first, for example Current HMRC Consultations, necessitating scrolling down to the end to see whether anything has been added.
- Some pages are not printer friendly.
- Guidance, such as VAT Notices, is in PDF format rather than HTML. PDF is not user-friendly as, unlike HTML, it does not contain hyperlinks, which make for speedy navigation, nor can users select what portions they wish to print without cutting and pasting, and they need to be opened, which wastes time.
- The HMRC manuals are in a page by page format and frustrating to navigate.
- It is not easy to see when guidance in the HMRC manuals has been changed; it is simply overwritten with the revised guidance.
- The email alert service is woeful.

EMAIL

- Email communication between agents and HMRC and between taxpayers and HMRC should be available; it is used routinely by banks and other commercial organisations with security and confidentiality issues.
- A secure web based system (such as is used in the Netherlands) could be a solution for agent/HMRC communications.
- We are aware of the 'shared workspace' project and believe that this has great potential.
- HMRC call centres represent a backward step for agents; a facility to email a query requesting a call back by a suitably-qualified person may be more effective than explaining problems to HMRC staff who do not understand them.

VAT

- Take up could be encouraged by offering a cash incentive for registration or for the first year's returns.
- The system for agent submission of VAT returns is good.
- The use of direct debit makes it impossible for a trader who can pay some but not all of the liability on time to do so, thereby reducing any default surcharge; whilst such traders can agree payment dates with HMRC, they have pay by cheque.
- It would be helpful to have a facility for electronic payment of VAT liabilities that exceed the upper limit that can be made by direct debit; at present these very large traders have to pay by cheque.
- A simpler e-registration process would be helpful.

EMPLOYMENT STATUS INDICATOR TOOL

- We welcome HMRC's inviting us and other external people to test pilot versions.
- This tool has not yet been released but, having seen a test version very recently, we are concerned that this is potentially yet another product destined to be launched with significant shortcomings and that the result will be further adverse publicity. This outcome is (at this stage) entirely avoidable.

SA AND CTSA STATEMENTS ON-LINE

- The CTSA statements facility was launched first and gave access to a statement correct at the previous day's close of business. This is an extremely useful facility for agents and taxpayers. The main drawback is the need to allocate each client – by UTR as no name is shown – via the Government Gateway before details can be seen on the HMRC portal. This is very time consuming and most agents do not have the time to do this.
- The SA statements initially available on line were simply electronic versions of the paper statements issued to agents. The latest version is up to date and very useful to agents except that once again there is a need to allocate individual clients via the Government Gateway before details can be seen on the HMRC portal. Again, this is very time consuming and most agents do not have the time to do this.

SHARED WORKSPACE

- We believe that this has great potential.

NATIONAL INSURANCE

- We believe that there is scope for adding further on-line facilities, for example relating to deferment and small earnings exception claims.