

TAXREP 11/00

AGENT/REPRESENTATIVE FILING OVER THE INTERNET

The text of a letter prepared by the Tax Faculty in response to an Inland Revenue document on possible methods of offering tax agents the option to file tax returns over the Internet

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Filing by Internet Project – Agent/Representative Filing

Introduction

1. This is our formal response to an Inland Revenue letter dated 25 January 2000 (the letter) which was sent to representative bodies and included further details of the Filing by Internet Project (E-filing) and how it might be extended to agents and representatives.

General comments

2. We are very pleased to note that tax agents are being considered for inclusion in the E-filing Project. We have noted already our view that once the policy decision was taken to offer discounted filing for those sending in tax returns over the Internet, the initiative should have been extended to tax agents. It is wrong that those who offer a tax service to clients should be placed at a disadvantage by a discounted filing scheme which is only open to individual taxpayers. However, we would welcome confirmation that when E-filing is extended to tax agents, the appropriate discounts will also be made available. The proposal does not specifically mention that this will be the case. We believe without the discount there will be little incentive for agents to file over the Internet or worse, there will be pressure placed upon them to provide electronic versions of tax returns to clients to enable them to file and claim the discount. We do not believe this will be an efficient way of working.
3. We are disappointed to note that the suggestions made in the Inland Revenue letter are cumbersome, impractical and therefore unworkable. Below we set out our detailed views on the suggestions and make proposals for improvement.
4. We think it is important to note that some tax agents have already invested heavily in the Electronic Lodgement Service (ELS) – the Inland Revenue led initiative to encourage the transmission of tax returns to the Revenue electronically via private networks. We believe it is very important that those who have spent time and money in assisting the Revenue with this project are not penalised or disadvantaged by any new electronic delivery scheme.

Detailed comments

The issues

5. We note that the Revenue has highlighted two key compliance issues:
 - a) The client must notify to the Revenue that he or she wished to use a nominated agent to file on their behalf; and
 - b) The Revenue must have proof that the client has seen and authorised the content of the return.
6. We are surprised at the importance given to these two issues, neither of which was a problem when the ELS project was set up – nor have they apparently caused any

difficulties to those filing under the ELS scheme.

7. The first point is covered by the taxpayer signing a 64-8 form. Once a taxpayer has signed such an authorising form, he or she is responsible for the actions undertaken on their behalf by the agent until that authority is withdrawn. If it is not felt that the current form is drawn sufficiently widely to encompass electronic filing, it would be easy to redesign the form to make it so.
8. We have received no correspondence to suggest that the second issue raised above has been a problem under the operation of ELS. If it has been we would like to know what the difficulty has been. If it has not been a problem for ELS, it does not appear that it should cause difficulties under E-filing.

Where to start?

9. Our suggested starting point is that if the Government wants to encourage E-filing it needs to make the process quick and simple. We accept that the methodology used needs to be electronically and uniquely identified. However, we do not think that the taxpayer needs to electronically authorise the tax return. Many taxpayers do not have access to the Internet (in particular the elderly and the less well off). We believe it is wrong to exclude such individuals from the benefits of E-filing just because they are unable to provide electronic authorisation.
10. We also believe it will be a significant deterrent to tax agents using the Internet method if they have to segregate out returns for filing electronically in a significant manner from those that are being mailed to the Revenue.
11. A possible solution here is to adopt the same strategy as has been shown to work for ELS. Namely, make the agent obtain approval from the Revenue before he or she can file electronically and enable the agent to file the tax returns provided he or she holds a written authorisation from the taxpayer. We are still unconvinced that a paper copy authorising the return is essential but it may be useful in case of a dispute and it is a proven methodology. We are not in favour of scrapping methods that have been shown to work in practice.

The possible solution

12. We note that the suggested method of offering E-filing to agents has been put forward only as a 'basis for discussion' and has already been the subject of some criticism. However, a review of this methodology highlights the problems that will arise and suggests alternative courses of actions.
13. The procedure being suggested is far too cumbersome to work in practice. It will be so laborious it will detract anyone from using it. Time is a critical factor in preparing and processing a return. The first suggested solution envisages a procedure where:

- i) The client obtains their identification information (user ID).

- ii) The agent obtains their identification information (agent ID).
- iii) The agent then tells the client what his or her agent ID is (which appears to be a major breach of Internet security measures).
- iv) The client goes on-line and keys in both his or her own ID and the agent's ID.
- v) The tax return is prepared by the agent and sent to the client for approval.
- vi) The client has to log on again to authorise the return.
- vii) The agent has to complete the above process for all relevant returns before sending the returns in batches electronically to the Revenue.

14. We believe that to fulfil the above procedure will be so time consuming and so cumbersome that many potential E-filers will prefer not to bother. It will be particularly difficult for partnership returns which would presumably require all partners to fulfil the above procedures. This would be very hard to organise, to track and to control.
15. It also appears that if the procedure is not followed by even just one of the clients whose return is being submitted, the whole batch will be rejected. It may be very difficult to determine which client is 'at fault' and to rectify this matter. Equally it will be very hard for the agent to ensure that all clients have followed the necessary procedures correctly before the agent makes the batched submission. We are particularly aware of how hectic the tax return submission schedule becomes from October onwards and the proposed solutions introduce whole new layers of administration which will not be helpful to clients or agents.
16. Once again we suggest that the procedure currently being used by agents under ELS would be sufficiently thorough and robust enough to satisfy the needs for security of data and proper authorisation of returns. However, the E-filing for agent proposals are far too restrictive. We accept that the Revenue needs to be constantly vigilant about fraudulent behaviour but we do believe that making agents follow a registration procedure along the lines of ELS will be a sufficient barrier. Furthermore, in the unlikely event of an accountant abusing their authority, the Revenue already has sanctions available by means of section 99, TMA 1970.
17. The suggested solution also incorporates a second option which has some advantages over the first as it allows returns to be submitted to the Revenue without the electronic rigmarole of approval. However, it is still then for the taxpayer to log on and formally submit a return. This appears to duplicate effort and again detracts from the role of the agent. It also introduces potential areas of dispute over responsibility for submission of returns.
18. We do not believe that electronic filing offers any different problems, on the whole, to filing using the postal system. Under the postal system, the taxpayer gives the agent authority to prepare the return and relies on the agent's ability to meet the filing deadlines and prepare an accurate and complete return. The suggested solution re-introduces the client at several stages, slowing down the process and detracting from the job the agent is contracted to undertake. Equally many clients may object to being bothered with following such a long-winded routine before their return can be dispatched.

ELS

- 19.** We also suggest that those agents presently using ELS have demonstrated a high level of suitability for E-filing already and should be 'fast-tracked' on to any new scheme.

Conclusion

- 20.** We welcome the introduction of the extension of E-filing to agents but do not accept the suggested Revenue solutions as being the right way to progress. We look forward to discussing these issues with you further at forthcoming meetings.

FCL/AM14-100-61
16 March 2000