



# ICAEW REPRESENTATION 176/16

## TAX REPRESENTATION

### **MAKING TAX DIGITAL: TRANSFORMING THE TAX SYSTEM THROUGH THE BETTER USE OF INFORMATION**

ICAEW welcomes the opportunity to comment on the consultation paper [\*Making Tax Digital: Transforming the tax system through the better use of information\*](#) published by HMRC on 15 August 2016.

This response of 7 November 2016 has been prepared on behalf of ICAEW by the Tax Faculty. Internationally recognised as a source of expertise, the Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world. Appendix 1 sets out the ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark proposals for changes to the tax system.

We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.

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## MAJOR POINTS

### Key point summary

1. The proposals for the use of third party information will have at least as great an impact on individual taxpayers as on the third party information providers.
2. The consultation process on MTD for individuals is lagging well behind the consultation process for businesses and landlords. ICAEW would welcome involvement in a consultation process on MTD for individuals as many of our members represent taxpayers who are not required to complete self assessment tax returns.
3. The government has indicated that it aspires to bring about the end of the tax return. What is lacking is a clear picture of how HMRC expects to achieve this ie. how quarterly updates and data from third parties will fit together and be combined with the other pieces of information which are required to calculate the tax liability for a year. The process for crystallising and finalising liabilities for individual taxpayers (especially those who are not in self assessment) is unclear.
4. There is a need for better and clearer communication and education about the legal responsibility of taxpayers to notify HMRC of sources of income and to check the information in their digital tax account.
5. Agents urgently need access to Personal Tax Accounts for all their clients including those who are not in self assessment.
6. We welcome the fact that HMRC will be making greater use of PAYE RTI data but there are a number of ongoing difficulties with HMRC's processing of PAYE RTI data affecting employers, pension providers and individual taxpayers that need to be resolved before further use is made of this data. The impact of frequent changes to tax codes needs to be carefully considered.
7. The rules that are used to generate tax codes need to be reviewed and be made more transparent.
8. Quarterly reports of interest income may give a distorted view of the interest income for the full tax year.
9. The presentation of information in the Personal Tax Account needs careful consideration. ICAEW would be pleased to assist with the design.
10. There will be a continuing need for alternative channels for the digitally excluded.
11. International experience demonstrates that a unique identifier is an essential element of using third party information. We are concerned that there is no mention of the use of unique identifiers.
12. Public trust would be increased by reassurances that third party information (including that from employers) will be used only to calculate tax and NIC liabilities and the other limited statutory exceptions.
13. The proposals for how queries about third party information should be resolved are not satisfactory. Taxpayers should have the right to amend incorrect third party information. We recommend that consideration be given to a simpler appeals or arbitration process to deal with such disputes.
14. HMRC should give priority to using information provided by employers, pension providers, construction industry contractors, DWP and banks and building societies and should not look to use further sources of third party information until the processes for these main sources are well established.
15. The data feed of information on taxable state benefits from DWP to HMRC is particularly unreliable and improving this should be a priority.

### General comments

16. Businesses who are employers or otherwise providers of other third party information have a very direct interest in the proposals in this consultation document but they would also have a very significant impact on individual taxpayers; this impact does not seem to be getting the same attention. There is a lot of context missing from this consultation document and many questions and issues which are not raised. ICAEW would welcome involvement in a consultation process on MTD for individuals as many of our members represent taxpayers who are not required to complete self assessment tax returns.

17. The government has indicated that it aspires to bring about the end of the tax return. What is lacking is a clear picture of how HMRC expects to achieve this ie. how quarterly updates and data from third parties will fit together and be combined with the other pieces of information which are required to calculate the tax liability for a year.
18. The consultation document *MTD: Bringing business tax into the digital age* covers quarterly updates and end of year activity for non-exempt businesses and landlords. This consultation document gives some insight into what information might be obtained from third parties – essentially income from employment, pensions, taxable state benefits and bank and building society interest. There is little detail about how, in the absence of a tax return, HMRC intends to collect the other information that is required to calculate the liability for the tax year. For example, the reporting mechanisms that will be in place for: income from businesses and landlords exempt from quarterly reporting, foreign income, income from dividends and the information that is currently reported in the residence section of the self assessment tax return.
19. The MTD consultation documents refer to an end of year declaration crystallising the income tax liability but it is unclear where this declaration would be made – eg. in the business tax account, personal tax account or in commercial software? HMRC has not indicated exactly which categories of taxpayer will be required to complete an annual declaration – in particular whether a declaration will be required from those whose income information is completely pre-populated – or how matters will be finalised for those who are not required to complete a declaration.
20. The power to make Simple Assessments has been put on the statute book, but no further information or guidance has been forthcoming.
21. No information has been forthcoming about how the current annual PAYE reconciliation process that generates P800s would operate under MTD. We presume that PAYE RTI data will be transferred to NPS in real time and understand that HMRC expects there to be fewer under and over payments but there will presumably still be a need for an annual reconciliation process because some relevant information will be received by HMRC after the end of the tax year or too late for any adjustment to the tax code to be effective.
22. There is a need for better and clearer communication and education about the legal responsibility of taxpayers to notify HMRC of sources of income and to check the information in their digital tax account. For example, there is currently contradictory information on GOV.UK about the requirement for taxpayers to notify interest income. For those who are in self assessment, the return acts as a checklist of income sources – a similar checking process in the Personal Tax Account would be helpful.
23. There are currently no online services available to agents who represent individual taxpayers who are not in self assessment. Agents have not been given any access to the services available in the Personal Tax Accounts of their clients and there are more and more forms that taxpayers can file online but which agents cannot. (There is some agent access for clients who are in self assessment but this is currently very limited). There is an urgent need for agents to have access to all HMRC services and forms on behalf of all their clients, not just those in self assessment.
24. Whilst the use of PAYE RTI data to generate more accurate tax codes is welcome (and long overdue), we remain concerned that, three and a half years after the start of PAYE RTI, there are still significant problems with the way that HMRC systems process this data. ICAEW's response to HMRC's [\*PAYE RTI post implementation review \(ICAEW REP 163/16\)\*](#) contains further details; although this submission was made in April 2016, comments received during the last month from members who are employers and payroll agents reveal that the accuracy of HMRC's records has not improved. We recommend that HMRC publishes the PAYE RTI post implementation review and ensures that these issues are resolved before further use is made of this data.

25. We suggest that HMRC takes this opportunity to review other processes which relate to the use of third party information. For example, the rules which are used to determine tax codes may need to change to take into account the fact that codes are being reviewed more regularly and in the light of the increases to the personal allowance in recent years.
26. HMRC should follow the principles in Lord Carter of Coles [\*Review of HMRC Online Services\*](#) published in March 2006 and allow sufficient time for software development and testing, delaying implementation if that proves necessary.

## RESPONSES TO SPECIFIC QUESTIONS

**Question 1: Where events during the year result in a change to a customer's tax projection, what is the appropriate format and regularity of notification that HMRC should send to employers and customers?**

27. We welcome the fact that HMRC will be making full use of PAYE RTI information to generate more accurate tax codes and to reduce P800 under and over payments. PAYE RTI has not resulted in more accurate tax codes or reduced the number of P800 under and over payments and doubts remain about the accuracy of RTI data. Nevertheless, this change is long overdue.
28. HMRC has already started work on what it calls a "PAYE refresh project" and we would welcome more details about this initiative. We would welcome clarification of the triggers that will prompt a review of tax codes and how new codes will be notified. It is not clear whether more frequent adjustments to tax codes is intended to mean the end of the P45 as was proposed when PAYE RTI started in 2013 (and which was part of the cost benefit analysis). We would welcome clarification about HMRC's intentions with regard to what would be a significant change which would need to be explicitly communicated well in advance of any change.
29. We would welcome a consultation on the internal rules and logic that support the updating of tax codes (including codes that employers must use when taking on new employees) particularly given the number of issues that have arisen recently and HMRC's reluctance to provide details of their current coding regimes.
30. Specifically, to ensure more accurate tax codes we recommend that HMRC changes the RTI FPS software specification to allow employers to submit non-financial data on an FPS (eg. employee leaving date) without any financial data (eg. pay). The current problem is that a new employer will, on occasion, submit an FPS with a start date and pay before the old employer submits the FPS with final pay and leaving date, thereby giving HMRC the incorrect impression that the employee has two jobs, even though both FPSs were submitted on time.
31. There is a balance to be struck between ensuring that estimates and tax codes are updated regularly and adjusted quickly so that the correct amount of tax is paid, and creating unnecessary work, confusion and contact by having too many changes. If codes are updated too frequently they will be ignored by some taxpayers but others will burden their employer, pension provider or agent with queries. Monthly notification to employers, employees and pensioners will be appropriate in many cases. However, there will need to be a facility for tax codes to be updated more frequently for employees who are paid at more regular intervals.
32. We assume that adjustments for changes in employment and pension income could occur each time HMRC receives an RTI report – this could be very frequent if there are several PAYE sources and careful consideration needs to be given to how frequently adjustments are made. Most employers and pension providers will process such changes fairly automatically but will receive more queries from employees and pensioners, increasing workload. There are employers who cannot engage digitally (mainly care and support employers) whose needs must also be considered.
33. A concern is the impact on taxpayers and those agents who do check codes; it is important that employers, pension providers, taxpayers and agents are all notified simultaneously each time a tax code is changed. Agents representing taxpayers who are not in self assessment do not currently receive details of tax codes; agents need to be given access to this information for all their clients, along with other information held in the Personal Tax Account.

34. We are not aware of any reason to change the current format for notifying tax code changes online to employers and pension providers, provided that HMRC can guarantee that employers and pension providers receive all the codes issued by HMRC.
35. There will be a continuing need to provide paper notifications to many PAYE taxpayers – email or text messages alerting taxpayers to a change in their Personal Tax Account will be easily overlooked.
36. There has been quite a lot of discussion about the format of tax code information provided to taxpayers. The consolidated P2 was a huge step forward but little time was allowed for its impact to be felt before the move to the Personal Tax Account. HMRC suggests in paragraph 2.13 that it may be considering providing taxpayers with estimates rather than tax codes; taxpayers will continue to need information about their tax code or it will not be possible for them to make the link between an estimate and the tax calculation on their payslips. What is needed is more education of individual taxpayers so that they are in a position to understand their codes without reverting to HMRC or their employer or pension provider.
37. We recommend that HMRC reconsiders some of the current rules used to establish tax codes as they may no longer be appropriate, especially when codes are being updated more regularly. There may be ways that the personal allowance could be better allocated to minimise the likelihood of frequent changes of tax codes. These rules have not been revised in the light of the significant increase in the personal allowance in recent years. Appendix 2 lists some of the areas that require review but it is not necessarily a complete list – the whole process needs reconsidering. These rules are to some extent there to protect the taxpayer but they are not necessarily helpful if not kept up to date or they result in the taxpayer receiving a demand at a later stage.
38. HMRC has indicated that information on interest income from banks and building societies will be reported on a quarterly basis and we assume that the intention is to use it to update tax codes quarterly. We see no reason not to use this information as it is received but it should be recognised that the quarterly report could result in a distorted view of the interest income figure for the year as HMRC would not be aware of the reason for any increase or decrease or whether it will be ongoing.
39. As members have highlighted:  
If HMRC receives a quarterly report of bank interest which shows an increase in interest income the system will presumably make some assumption about the level of income for the rest of the year. To do this accurately the system would need to know whether the interest is paid monthly, quarterly or annually and whether the account remains open. Therefore, the reports from third parties would need to include this information. Even with this additional information, the system would not be able to distinguish between increases due to new funds in the account and funds which have been transferred from another account. The additional funds may be there temporarily if, for example, someone sells a house and has cash to put on deposit until a new purchase completes. If the underlying funds have been moved from another account the interest estimate for that other account would need to be reduced accordingly but the system would not be aware of the requirement for that adjustment if the interest is received on a different cycle.
40. It is important that, as suggested in paragraph 2.15, taxpayers retain the right to opt out from adjustments to tax codes and can instead pay any tax due separately.

**Question 2: Have you any suggestions for how we present third party information in your digital tax account in a way that will make it easier for you to understand your tax?**

41. The information in the tax account must be complete. For example, it must show income from interest and dividends even if no tax is due because of the personal savings allowance, the nil rate band for interest and the nil rate band for dividends. There are many reasons why an individual may need to be able to confirm their total income and it is likely that the personal tax account will be increasingly used for this purpose. There may also be interactions with other parts of the tax system, such as offsetting trading losses against total income, that require complete information on income. The consultation is misleading in that it suggests that details of interest and dividends covered by the allowances and bands are not needed.

42. The format must make it easy for the individual to cross check the information to source documents be that payslips or information provided by another third party. This includes the ability to check that the employer or pension provider is using the correct tax code.
43. To facilitate checking of information, estimates and actual figures must be clearly distinguished. There must be a full breakdown by individual source (individual employments, pensions and bank and building society account) and dates of payment. Annual estimates with no breakdown as are currently shown in Personal Tax Account are often meaningless eg. for those with variable or seasonal income. The Personal Tax Account should provide a breakdown of actual figures reported by third parties by source, HMRC's estimate for the rest of the year (again by source) and how that adds up to the annual estimated income figures. There will need to be a facility for the taxpayer to adjust the estimates for the remainder of the year.
44. We are concerned that many unrepresented taxpayers will not check the information in their Personal Tax Accounts; a major public information and education campaign is required. Without this, there is a risk that even more taxpayers will take the view that their tax is handled by their employer, pension provider, bank, building society and HMRC and won't engage when they should.
45. It is essential that agents have access to the information in Personal Tax Accounts for all categories of taxpayer. We are aware that HMRC has plans to give agents access to information in digital tax accounts for those taxpayers who are registered for self assessment but there does not appear to have been much discussion about how agents will be given access to information for clients who are not in self assessment. The number of taxpayers outside self assessment is expected to increase.
46. We would welcome further clarity on the alternative channels for the digitally excluded. A number of research reports have indicated that there will be an ongoing need for such channels; it is unrealistic to expect all taxpayers to make the transition to digital services as envisaged in paragraph 2.24.

**Question 3: If you are concerned over privacy impacts of HMRC's plans for improving how we use third party information we already receive, do you have any suggestions for how these concerns could be resolved?**

47. Public trust in the state and "big data" is a huge issue which extends beyond the scope of this consultation but is very relevant to it. Communication of the statutory bars on HMRC sharing data with other government departments, demonstrating that there are only minimum necessary exceptions, for example DWP to calculate state pension and social security benefit entitlements and the gateways covered in s.17 et seq. *Customs and Revenue Commissioners Act 2005*, would be reassuring. Privacy is a particular concern in relationship breakdowns – for example, where an asset such as the beneficial ownership of a bank account changes when spouses or partners separate, third party information providers and HMRC need to be able to respond quickly to that change and avoid disclosing information about assets to a party who no longer has beneficial ownership.

**Question 4: If a third party information provider is aware of how the ownership of a joint asset is split, do you think the third party provider should inform HMRC?**

48. Yes, we think that the information provided to HMRC should reflect the entitlement of joint owners to income from jointly held assets and this should include the effect of any Form 17 which is in place.
49. International experience demonstrates that having a unique identifier is an essential element of pre-populating third party information in tax returns or digital tax accounts. We are concerned that there is no mention of unique taxpayer identifiers in the consultation document and we would urge HMRC to give priority to such a requirement. If third party information providers are not required to collect and report an identifier such as a National Insurance number, reporting of third party information is likely to give rise to ongoing queries. A solution will need to be found for those who do not have a National Insurance number and for duplicated and temporary National Insurance numbers.

50. The use of a unique identifier would also assist with accurate reporting where the beneficial owner of the income is different from the name on the account and to assist with other situations eg. interest income on children's accounts which is taxable on the parents and trust and executor accounts.

**Question 5: Information providers will want to keep their customers fully informed about the information they provide to HMRC (and have a responsibility to do so under the Data Protection Act 1998). Do you think there should be a standard approach, or should information providers design the best approach to meet the needs of their particular business and customers?**

51. HMRC should specify the information to be provided to a customer when an information provider makes a report to HMRC. There can be scope for the information provider to include design elements but it is important that the customer is made aware of the significance of the information being provided and that it should be cross checked to the Personal Tax Account. The format must make it easy to carry out this check.
52. The third party provider should be obliged to provide a copy of the information to the customer each and every time that a report is made; this does not currently happen – many third party information providers supply information only on request. New EU general data protection regulation is expected to be implemented within 18 months (so before the UK leaves the EU) – these regulations will need to be taken into account by HMRC.

**Question 6: Do you have any preferences for how you would like to be kept informed by third party information providers?**

53. The method of communication should be a matter for the information provider and their customer but the information should be in a form that can be printed. The digitally excluded will require this information in paper form and HMRC may need to specify that this option be available.

**Question 7: Do you think there are any additional safeguards we should consider in relation to the protection and use of third party information by HMRC?**

54. The key safeguard is the right of appeal against tax assessments made by HMRC based on third party information which is disputed by the taxpayer. The current appeals process is time consuming and expensive and not well suited to dealing with disputes of this nature. We recommend that consideration be given to a simpler appeals or arbitration process specifically for disputes about third party provided information where this is the only issue at stake.
55. We recommend that further consideration be given to the protection of information held by third parties, particularly where information is held overseas and possibly outside the reach of UK law.

**Question 8: Do you agree with the principles we have set out for how information queries should be resolved? What are your expectations for how this would work in practice?**

56. We do not agree with the principles set out for how information queries should be resolved. Taxpayers will be put in a difficult position if a third party makes an incorrect report (or fails to make a report) and does not cooperate with the taxpayer and provide correct information to HMRC. Difficulties are already encountered by employees where there are errors in information provided by employers, particularly when the employer has subsequently gone out of business. We envisage a similar issue if and when construction industry sub-contractor income information is pre-populated from reports made by contractors and with other pre-populated information. Taxpayers must be permitted to amend incorrect third party information in their digital tax account, where necessary providing HMRC with supporting evidence.
57. We are particularly concerned by the suggestion in paragraph 3.17 that if a query has not been resolved by the end of the tax year HMRC will make an assessment based on the information it believes to be correct. How does information received after the end of the tax year (eg. p11D data or an earlier year update) fit with this proposal? The timeframe could be very short and

result in an increase in the number of appeals that would be required. We have legislation for Simple Assessment but no information about how this would operate in practice.

- 58.** We recommend that HMRC should formalise “month 13 adjustments” ie. have a period of time when PAYE RTI can be adjusted by the employer. This is particularly important where the employee is globally mobile. We also would like to understand the interaction between the end of year declaration and the benefits in kind that have been payrolled. Currently there appears to be a mismatch in the law which needs to be addressed. HMRC guidance suggests that taxpayers should accept as correct erroneous information provided by an employer when benefits in kind are payrolled. However, if the employee is in self assessment they must report the correct benefit in kind.
- 59.** HMRC should bear in mind that the principle of self assessment has become well established and taxpayers and agents have become accustomed to providing income information to HMRC, with HMRC having the power to check it later. Although the pre-population of information held by HMRC and provided by third parties will generally be very welcome, if the data is inaccurate and the process for disputing that information is time consuming and difficult the benefit of pre-population is lost. It is essential that taxpayers are not sent backwards and forwards between information providers and HMRC where there is a dispute about data.

**Question 9: How can we best align HMRC’s third party information requirements with information provider’s circumstances? For example, with other standards information providers need to meet; other regulatory change; internal business processes and requirements.**

- 60.** We suggest that HMRC takes this matter up directly with the third parties concerned, and their representative organisations. ICAEW not received any comments from members who are third party information providers.

**Question 10: If you currently provide information to HMRC at year-end what would be the impact of moving to a more frequent in-year process, assuming that HMRC is able to align to your circumstances as described above?**

- 61.** See our response to question 9. Banks and building societies currently have systems in place to provide information but there may be significantly more work required to provide this information quarterly – we are not in a position to be able to comment. We are aware that the systems involved are often very inflexible and any change to the specification to report fuller information or to include an additional field such as a unique identifier is likely to be expensive to implement and take a considerable period of time to develop. There may also be a significant increase in the number of customers contacting third party information providers and additional costs, with no benefit accruing.

**Question 11: We have given you a high level introduction to the standards necessary to make the exchange of data efficient and dependable. Do third party providers foresee any specific challenges in adopting standards along these lines?**

- 62.** See response to question 9.

**Question 12: What opportunities do current and potential information providers and software providers see for a stronger partnership with HMRC to enhance our customer experience?**

- 63.** See response to question 9.

**Question 13: What new sources of third party information would most enhance the customer experience and best contribute to the aim of ending the tax return for all?**

- 64.** HMRC should give priority to using information provided by employers, pension providers, construction industry contractors, DWP and banks and building societies and should not look to use further sources of third party information until the processes for these main sources are well established and operating with a minimal level of dispute arising and there has been a full assessment of the impact on the third party information providers.

- 65.** We suggest that particular priority be given to the feed of information from DWP to HMRC on taxable state benefits such as State Retirement Pension, Job Seekers Allowance, contributions based Employment and Support Allowance and Bereavement Benefit. These information feeds are notoriously unreliable and the cause of underpayments, particularly for those who are on low incomes. We understand that the underlying cause is that DWP reports changes only, which leaves room for error. A reporting system similar to PAYE RTI, that employers and pension providers are required to adopt, would be more reliable. Ideally DWP would operate a full PAYE system; the minimum requirement is a full feed of information on all payments of taxable state benefits. Taxpayers should receive at least an annual report of taxable state benefits from DWP, similar to a P60.
- 66.** We recommend that other investment income such as dividends should be the next candidate to consider for third party reporting. HMRC should bear in mind that this would potentially involve not only companies and investment funds but also investment managers. After dividends, the return from including further sources is likely to diminish and may be outweighed by the cost that would be imposed on the third party information provider.

**Question 14: How can we best open up discussions and begin to work with new potential information providers who are not currently providing information to HMRC on a regular basis?**

- 67.** HMRC should focus on the main sources of third party information before opening up discussions with new potential information providers.

## APPENDIX 1

### ICAEW 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 via <http://www.icaew.com/en/about-icaew/what-we-do/technical-releases/tax>).

## APPENDIX 2

### RULES FOR DETERMINING TAX CODES THAT NEED TO BE RECONSIDERED

1. Tax codes will only help to align the tax collected via PAYE with the actual liability if they are cumulative rather than week/month 1, even towards the end of the tax year.
2. Non-cumulative codes will presumably be less of a feature of the system when codes are being updated more regularly but where week/month 1 tax codes are issued, HMRC needs to tell taxpayers on the P2 and in the Personal Tax Account that the code is week/month 1 to enable them to work out the impact of the tax code on their net income.
3. There are cases where tax needs to be collected on a state pension which is above the personal allowance. If there is no PAYE source HMRC has to resort to self assessment or possibly simpler assessment for 2016/17 onwards). There are other cases where there is a small PAYE source which HMRC could use to collect the tax on a taxable state benefit or an earlier year underpayment but internal rules prevent this happening (the rule that does not allow an adjustment which collects tax which is more than double the deduction on that source). This is not necessarily helpful as the taxpayer will eventually have to pay the tax which will come as an unexpected demand.
4. Tax collected via PAYE in-year would in many cases align more closely with the final tax liability if employers were instructed to apply a code of OT (instead of BR) to new employees who have more than one job. This was discussed with HMRC some years ago on the former Employer Consultation Forum where representatives expressed the view that, as so many taxpayers now pay tax at higher rate, OT would be more accurate.
5. It is possible for individuals to work or receive a pension while also claiming working age taxable state benefits; for example, permitted work alongside a claim to contributions based Employment and Support Allowance. The starter information and process for establishing tax codes need to recognise this which they do not at present.
6. Looking at 'Peter' in example 2.2, we question whether he would want a code change to reflect the fact that he earned a lot of money working over Christmas in a temporary job to be followed by another code change a month later to reflect the fact that he did not work in the pub in January. Under present conventions, the codes are likely to be week/month 1 so it would mean that Peter's net income from his main employment would fluctuate (Peter is unlikely to welcome a net pay reduction in January/February when he is settling Christmas credit card bills) and the PAYE tax collected would diverge from the actual liability. Also, on present instructions, the tax code that the brother applies to Peter's pub job would be BR as it is a second job. It would be better to apply OT to second jobs or in Peter's case D0 if his first job means he is already near the HR band (which would result in an overpayment). Week/month 1 code numbers will inevitably mean that the right amount is unable to be collected via PAYE in year.