

TAXREP 5/99

SELF ASSESSMENT

Text of a letter submitted in December 1998 to the Treasury Sub-Committee for its inquiry into the Inland Revenue to review the progress of self assessment for individuals and companies. The inquiry also includes a review of Inland Revenue joint working initiatives and the impact of the transfer of the Contributions Agency from the DSS to the Inland Revenue.

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INQUIRY INTO THE INLAND REVENUE

1. We are grateful for this opportunity to submit evidence to the Treasury Sub-Committee.

Who we are

2. The Tax Faculty is the focus for tax within the Institute of Chartered Accountants in England and Wales. Our membership numbers 9,150, of which over half are practising tax accountants and the majority of the remainder are in business. We represent not only our own members but all of the 115,000 or so chartered accountants who deal from time to time with the Inland Revenue.
3. We have been actively involved in consultations with the Inland Revenue relating to self assessment and have attended many meetings and made representations on key issues.
4. We set out below our comments on the main areas we believe are relevant to your current inquiry.

SELF ASSESSMENT FOR INDIVIDUALS

5. We refer to two of our main published documents on self assessment for individuals which review the issues arising from the introduction of the new regime (Reference TAX 11/98 'Review of the Introduction of Self Assessment' and TAX 18/98 'Supplementary Points'). We would also like to highlight several matters that are of particular relevance to the operation of self assessment which we believe the Treasury Sub-Committee should consider when reviewing the progress of the implementation of the new system. We are of course happy to provide any further information on these matters if required.

Inland Revenue Errors

6. One of the main matters arising from the introduction of self assessment was the number of errors committed by the Inland Revenue in handling tax compliance work. A high proportion of tax returns were processed incorrectly with data input errors or miscalculations.
7. A particularly common example was data on submitted tax returns not being entered onto the Inland Revenue system resulting in obvious errors. We have seen many examples of self employment income being missed off the Inland Revenue calculations, leading to large repayments of tax that were not due. Clients have received cheques for up to £60,000 when in fact no tax was due to be repaid.
8. Correcting such Inland Revenue generated errors has taken tax advisors considerable time and effort, much of which is irrecoverable in terms of cost from the client. It has also soured relations between tax advisors and their clients as the client frequently can not understand how such errors have arisen and place some of the blame on to their advisors.

Efficiency of the Inland Revenue's computer system

9. We are very worried about the effectiveness and efficiency of the Inland Revenue's computer system. Our members are frequently informed at the Revenue's Local District level that errors are arising due to computer programming faults. However, at the Head Office level our members are being told that there are no such faults and the errors are due to Revenue staff not knowing how to process data properly.
10. We believe it would be extremely helpful if the Sub-Committee could ascertain whether there are inherent programming problems with the computer system or whether there is inadequate staff training or alternatively that tax advisors are being deflected with misleading information.

Misinformation

11. Our members have had numerous incidences of Inland Revenue officials at Local Districts giving technically incorrect information about self assessment. The Inland Revenue did set up a telephone 'hot-line' internally to help with self assessment but we do not believe it can have been extensively used as so often the information being given out over the telephone was incorrect.
12. On the positive side, this matter is improving as everyone becomes more familiar with the new rules.
13. We are still worried that there is a misunderstanding about the significance of the 30 September dead-line, which has been largely fuelled by misleading Inland Revenue advertising. Many taxpayers think this is the ultimate tax return dead-line as opposed to the 31 January. Concerned clients take up a lot of advisors time on this issue and hence this slows down the whole compliance process.

Inland Revenue delays

14. A particularly frustrating aspect of the introduction of self assessment was the time taken by the Inland Revenue in replying fully to day to day correspondence both on self assessment and on other matters. Delays of several months were not uncommon.
15. Furthermore, the processing of tax returns was much slower than anticipated. It was publicly announced by the Inland Revenue that 99.9% of tax returns submitted in January 1998 would be processed by the end of the month. However, many tax returns submitted as early as October 1997 were not processed until December or January, leaving taxpayers with little or no time to make any necessary corrections etc.
16. The date shown on some urgent Inland Revenue documents caused a great deal of confusion as it was dated up to two weeks earlier than the date of receipt. People assumed it was the date the document was produced and that the Revenue were slow to dispatch the information. In fact the date shown was the date when the computer run was started. It would have been more helpful if the document made clear that the date shown was the date information was extracted.

Design of forms other than the tax return

17. We have received more complaints relating to the design of the taxpayer's statement or Statement of Account than on almost any other issue relating to self assessment. This Statement is sent to all taxpayers with a tax liability under self assessment and is meant to show tax due and any tax payments.
18. There was some consultation on the design of the form but it was undertaken very late in the process. The whole form was computer driven and the computer program was already written before the consultation took place. The resulting Statement was unintelligible and left even tax advisors bewildered as to what all the entries meant. Considerable time and effort had to be spent deciphering the form and trying to put right any necessary corrections.
19. It soon became apparent that correcting the form was extremely difficult due to the way in which data had to be entered and consequently there were frequent examples of artificial transactions having to be added to make the Statement show the correct final result.
20. Other common errors on Statements of Account include:
- * incorrect balances of tax payable or repayable due to a variety of reasons, including incorrect processing of tax returns;
 - * errors made by the Inland Revenue when correcting previous errors;
 - * allocations of single payments of tax against different outstanding items causing confusion;
 - * surcharges levied when none are due; and
 - * interest charged when none is due, with incorrect calculations of interest charges.
21. The Inland Revenue is making changes to its Statements of Account but not all of these matters will be resolved. We believe the whole form should be reviewed and although the computer software may require information to be entered in a certain order on the system it should still be possible for a more usable form with a different and clearer ordering to be produced for sending to taxpayers.
22. Still on the issue of the design of tax forms other than the tax return itself, the tax calculation working sheet caused some confusion to taxpayers being once again a computer driven form. Furthermore it was started from total income, which was not a figure shown on the tax return form. This made it difficult for some taxpayers to check the form and to determine the amount of tax they had to pay. Again some improvements have already been made to the tax calculation working sheet.

Full enquiries

23. We are very concerned that the Inland Revenue is not prepared to say when it is launching an enquiry into a tax return under self assessment whether or not it is a randomly selected enquiry. Its argument is that an 'enquiry' under self assessment does not imply that anything is wrong.
24. The reality for taxpayers is that when they receive requests from the Inland Revenue for further information they do think something is wrong and they begin to worry. It is therefore particularly unfair to subject them to this worry without explanation if their return is one of those which has been chosen for a random

enquiry. In practice it is well known that the vast majority of enquiries are not randomly selected, so the refusal to differentiate initially forces the taxpayer to assume that the Revenue are suspicious of something.

25. A further problem with enquiries is that the Inland Revenue are showing a tendency not just to ask for the information necessary to ascertain if a tax return is incorrect but to instead ask for a wide-range of other information (such as bank statements), without always giving reasons. This is contrary to a large number of statements in the Inland Revenue Manuals and is outside of its statutory powers. The impression is being given that enquiries are being used as a 'fishing expedition' rather than simply to check the accuracy of the return.

Faster Working

26. Faster Working was an Inland Revenue initiative designed to help speed up the process of enquiries. We initially were opposed to the idea but came round to accept that it offered a good method of ensuring both protection for the taxpayer whilst allowing the Revenue to obtain the information required in a sensible and structured manner. It allows a timetable to be drawn up to help bring the enquiry to a quick conclusion. We believe Faster Working offers a good solution to many enquiries and by speeding up the process brings a considerable cost saving to all concerned.
27. We were led to believe that Faster Working would be offered to most taxpayers but the reality to date is that it appears to be offered to very few. There are rumours that many staff in the Inland Revenue do not like the method as it afford too much protection to the taxpayer. We are extremely concerned if this rumour is correct.
28. Despite Inland Revenue internal research which suggests Faster Working is always offered, we have seen a letter from one of the Revenue Regional Offices stating that it does not offer this option because it does not believe it offers any benefit to the Revenue! This conflicts with the assurances given by the Inland Revenue's Head Office. We believe your committee ought to try to resolve whether Faster Working is in fact offered as a matter of routine and if not why the Revenue's Head Office believe that it is.

Partnerships

29. The issue of partnerships has caused considerable ill-will between the Inland Revenue and taxpayers. Many taxpayers were unaware that husband and wife partnerships were due to pay tax one month earlier than sole traders due to the later change to the rules affecting partnerships. There was inadequate publicity for the differing dead-lines for tax due and many husband and wife partnerships were left with demands for interest on the late payment of tax. It would have been better in the circumstances if such demands for interest had been waived.
30. Another problem has been the finalising of partnership accounts. Initially the Inland Revenue informed taxpayers that it would endeavour to agree 1996/97 partnership assessments before the end of January 1997. This would enable the parties to place their final figures in their tax returns. This did not happen.

31. It also appears that the personal tax returns of many partners were not processed because local districts were still working on agreeing the 1996/97 partnership assessments first. The system is specifically designed so that a partner's return does not need to wait for the partnership return to be agreed. However, local Revenue offices seem either to have been unaware of this fact or felt that their own convenience in dealing with the partnership and the partner's tax affairs together was paramount. This took away from the individual partners the control over their tax affairs which self assessment had promised.
32. Software relating to the tax treatment of partnerships also appeared to be causing problems within the Inland Revenue and we received several reports from our members that the program was not ready on time.

Penalties

33. We believe it was a serious error on behalf of the Inland Revenue to issue penalty notices in February 1998 before a large number of tax returns had been processed in circumstances where a penalty would only have been payable if the person had owed tax at the end of January 1998. It was not possible to ascertain if the penalty was due until the returns had been processed. Therefore it would have been better to have delayed the penalty notices until the back-log had been cleared.
34. We believe a large number of penalty notices were found to be void although we can obtain no details from the Inland Revenue on this matter.
35. In the past when any similar major change has occurred in the law, the first year has seen penalties imposed with a 'light touch'. For examples penalties relating to the late payment of PAYE were phased in over 3 years. A similar light touch would have been in order for self assessment too.

Lack of consultation on operational matters

36. The Inland Revenue did consult on the policy and legislation relating to self assessment and on the main tax return form. But on operational matters there was little or no consultation and consequently a large number of irritating and silly problems arose. For example, the computer program could not cope with negative figures on the Standard Accounts Information page. Even worse, our members were advised by the Inland Revenue to put in incorrect returns to show figures that could be coped with!
37. We strongly believe it is for the Inland Revenue to make any adjustments needed to overcome faults in its computer program when the tax returns are processed and not to expect taxpayers to submit incorrect information to resolve the issue instead.
38. Another example of operational problems that could have been resolved with proper consultation was the advice given by the Inland Revenue in relation to rounding which was misleading and caused considerable confusion.

General points

39. The introduction of self assessment has seriously damaged the relationship between the Inland Revenue and tax advisors. The tax system is dependent on voluntary compliance and the relationship between government departments and professional advisors is key to the system.
40. The main damage was caused by the above problem areas and by the fact that tax advisors found it both costly and time consuming to put right errors that often were generated by the Inland Revenue.
41. Fewer problems appeared to result in the smaller tax districts but the larger offices had the additional factor that no one person appeared to be responsible for a case or willing to 'own' or manage any particular taxpayer problem.
42. Most depressing of all was the absence of a 'human touch' in dealing with issuing arising from self assessment. This would have resolved such matters as the demands for the collection of nominal amounts of tax (such as the well publicised demand for 1p of tax due). Once again the computer driven nature of many of the self assessment processed took the place of common sense.

SELF ASSESSMENT FOR COMPANIES

43. Corporation tax self assessment (CTSA) is not yet fully advanced enough for all the main issues to have become apparent. However we are concerned that the tax return form is not yet publicly available. There was considerable and valuable consultation on the individual self assessment tax return form at an early stage but consultation on the draft CTSA form took place only when it was at a fairly advanced stage and there was little opportunity for significant changes to be made.
44. We are also concerned that the administrative rules on CTSA do not mirror those implemented for individuals. This is likely to lead to confusion. We believe it is important that a major advertising campaign should be launched to highlight the differences.

JOINT WORKING INITIATIVES

45. For the smaller business, joint working initiatives between the Inland Revenue and other government departments has not been helpful. In particular it has slowed down registration with the Inland Revenue. There is not much logic for a new business in a joint approach from the Inland Revenue and Customs and Excise as many businesses have insufficient income to be registered for VAT purposes.
46. Joint working between the Inland Revenue and the Contributions Agency is meant to operate so that who ever visits a taxpayer first looks at both income tax and National Insurance matters. This does not appear to be taking place. The proposed merger between the Inland Revenue and the Contributions Agency should overcome this problem.
47. Joint working between the Inland Revenue and Customs and Excise on investigations is happening at the local level. We also understand that they are exchanging investigation techniques. As Customs is very enamoured of using mark-up exercises and we believe these are fatally flawed, we strongly hope this method

will not be adapted by the Inland Revenue.

48. We can not really comment on whether the joint working initiatives are encouraging compliance but think that last year's increased tax receipts larger stem from the change to a current year basis rather than an across the board increase in compliance.

TRANSFER OF CA

49. We can not comment on the impact on resources of the forthcoming merger between the Inland Revenue and Contributions Agency. However, we are pleased that this is occurring over a realistic time period, rather than all on one date.
50. The 'contributory principle' makes close integration of the Inland Revenue and the Contributions Agency virtually impossible as it is not possible to bring in concessionary treatment for National Insurance purposes. Until this is addressed there will be no significant saving in resources. We believe it should be possible to maintain a form of contributory principle, perhaps by banding, that would still enable savings to be made.

CONCLUSION

51. We are of course happy to provide any further information on any of the issues we have raised above. We would also be happy to give oral evidence before the Committee if you believe that would be helpful.

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