

TAXREP 57/08

HMRC Online Filing Problems, Strategy and Priorities

A joint survey by the Working Together professional bodies

The professional bodies (AAT, ACCA, ATT, CIOT, ICAEW, ICAI and ICAS) represented on the Working Together E-Group (WTE) have carried out their third pan-profession survey. Through WTE the profession and HMRC work together on the implementation of the Carter proposals. These representations were submitted to HMRC on 28 July 2008.

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ICAEW Tax Faculty, Chartered Accountants' Hall,
PO Box 433, Moorgate Place, London EC2P 2BJ
www.icaew.com/taxfac

T	+44 (0)20 7920 8646
F	+44 (0)20 7920 8780
E	tdtf@icaew.com

The Working Together E-Group

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Executive summary

Introduction

1. The professional bodies (AAT, ACCA, ATT, CIOT, ICAEW, ICAI and ICAS) represented on the Working Together E-Group (WTE) have carried out their third pan-profession survey. Through WTE the profession and HMRC work together on the implementation of the Carter proposals.
2. The survey sought members' views to provide input into HMRC's current review of their strategy for the provision of 'free' tax return online filing software and its priorities. It focused in particular on free HMRC software for self assessment by individuals and for payroll.
3. The agents who responded to our survey were almost all professionally qualified and had considerable experience of online filing. We estimate that these agents were responsible for filing at least 250,000 self assessment returns for individuals online last year.

Conclusion

4. Our conclusion is that there is overwhelming support amongst respondents to our survey for the Government to fund and provide via HMRC a fully functioning efficient online filing system for tax returns. Any consideration of a move away from this should include a wide public consultation with tax agents, pro bono organisations, users and potential users (those filing on paper) of the online filing system, and by extensive research.

Key findings

5. 82% of our respondents thought that all unrepresented taxpayers should qualify for free online filing software. Our members clearly believe that all members of the public should be able to meet their tax responsibilities, filing online if they chose, without having to purchase software.
6. 87% were in favour of the provision by HMRC this year of the free comprehensive PAYE CD-ROM including online filing software to any business with up to 9 employees.
7. The overwhelming view was that where there is an obligation to file online, free software should be made available.
8. 74% thought that software for all returns ranging from partnership returns, both short and full, and corporation tax returns, short and full, to the VAT return, should be free.
9. 83% thought that all businesses should have access to free software should they wish to use it.

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10. Although 81% of our respondents use third party commercial software, a similar number said that free HMRC software should also be available to agents, with 63% thinking it should be available to all agents irrespective of size.
11. 72% of respondents thought that the exchequer, and so all taxpayers, should 'fund' the provision of free software and that this should be provided and hosted by HMRC. This should include telephone support to users.
12. 87% of respondents considered that HMRC's main priority for improving online tax services should be to fix existing faults which are causing more e-filing problems this year than last.
13. The survey results indicated that the main reason for not e-filing a tax return is that agents are put off by submission problems. In spite of the publicity around security breaches in recent months, less than 1% of our respondents gave this as a reason not to e-file a return.
14. Our respondents are e-literate and willing agents who want to be able to e-file efficiently, with as much functionality as possible to be added to the SA system. And they want that system to be fit for purpose.

Introduction

15. In July 2008, the professional bodies (AAT, ACCA, ATT, CIOT, ICAEW, ICAI and ICAS) represented on the WT E-Group (WTE), carried out their third pan-profession survey. Through WTE the profession and HMRC work together on the implementation of the Carter proposals.
16. WTE had been asked to provide input into HMRC's current review of their strategy for the provision of 'free' online filing software. We also took the opportunity to ask for suggestions for the improvement of online filing software and were keen to gauge whether members would prefer scarce resources to be spent on making the current system work better or adding new functionality.
17. The survey was live between 10 July and 21 July and was accessed via links from various news sources and websites. In overview we asked whether agents:
 - Were experiencing problems with online filing of tax returns
 - Had a view on HMRC's future online filing strategy for tax returns and related additional information
 - Could suggest priorities for the future development of online filing.
18. The survey focused mainly on e-filing self assessment tax returns for individuals and employer returns although other areas were touched on briefly.

About our respondents

19. The agents who responded to our survey were almost all professionally qualified and were using some form of online filing.
20. There were 479 respondents, with 469 completing most questions. 10 respondents only answered a few questions so their 'spoilt entries' were disregarded so as not to skew any results. Although some of the results may not be 100% 'statistically confident', we consider that they are a reliable reflection of this group's views.
21. Whilst the respondents were self-selecting, in that they were people who volunteered to respond, rather than a randomly selected sample of members of the professional bodies, we have no reason to think that the responses were not indicative of widespread views within the profession. The results are backed up by anecdotal evidence from the professional bodies.
22. Respondents were asked a number of questions about themselves, for example, to indicate their qualifications and how many returns they were responsible for submitting to HMRC. This provided a good indication that the respondents came from a wide variety of size of firms and backgrounds.
23. Of our sample, 81% use third party software and nearly 48% use HMRC software indicating that a large number use both. The majority of these agents are filing online and 88% have been doing so for more than one year.

The breadth and depth of the additional comments which were submitted indicate that they have a good understanding of the process.

24. 67% of our respondents filed more than three quarters of all their self assessment returns for individuals (SA) last year online. We estimate that between them these agents were responsible for filing at least 250,000 of these returns online last year.
25. They indicated that they are also using free HMRC software both for SA (46%) and for payroll (39%).
26. It seems likely that most are using HMRC software as an additional resource, rather than their main resource, since they will have had to buy their third party product. We speculate further on this later in this report.

Who should have access to free online software?

27. It was made clear by 82% of our respondents that they thought that all unrepresented taxpayers should qualify for free software. It was interesting to observe that on the whole, these agents did not want access to free online software restricted to the low income sub-set.
28. Each of the professional bodies which together comprise WTE has a public interest role in relation to the tax system. Our members clearly believe that all members of the public should be able to meet their tax responsibilities, filing online if they choose, without having to purchase software.
29. 63% of our respondents also thought that free software should be available to agents. Again this was all agents and not just those with very small practices. Many advisers and accountants do pro bono work for those in need. For a variety of reasons, it may not be appropriate to use their usual commercial software for this work and they feel that they should be able to use free HMRC software in these circumstances.
30. We specifically asked whether free employer software should be available to persons who employ domestic help, such as nannies and carers for the elderly. Only 51% thought that it should although two further facts emerged relating to this:
 - (1) A similar number thought that free software should also be available to all employers.
 - (2) 87% were in favour of the provision by HMRC this year of the free comprehensive PAYE CD-ROM including online filing software to any business with up to 9 employees.

What should free online software include?

SA software

31. The survey asked specifically which SA supplementary pages should be available to file with free software. Predictably, employment income (98%) and property (88%) were seen as essential, with capital gains (77%) foreign income (61%) pages being seen as important. This should be seen in the context that this is a group of e-filing literate agents who will be using

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supplementary pages for many of their clients. It may be that fewer unrepresented taxpayers actually need to complete these pages.

Employer software

- 32. An overwhelming 87% were in favour of the provision by HMRC this year of the free comprehensive PAYE CD-ROM including online filing software to any business with up to 9 employees.
- 33. Of these, around 51% of respondents stated that free software should only be available to smaller employers whereas the remainder thought it should be available for all employers.

Free software for other taxes

- 34. The overwhelming view was that where there is an obligation to file online, free software should be made available. 74% thought that software for all returns ranging from partnership returns, both short and full, and corporation tax returns, short and full, to the VAT return, should be free.
- 35. 83% thought that all businesses should have access to free software should they wish to use it.

Use of free HMRC software by agents

- 36. Most professional firms of accountants and tax advisers purchase commercial software which has sufficient additional functionality to provide the added value services which they provide for their clients. This was supported by our survey response which showed that 81% of respondents use commercial software. However, 83% think free HMRC software should be available to agents, with 63% thinking it should be available to all agents irrespective of size.
- 37. In addition to occasions on which HMRC software is used for pro bono work, it appears that many agents also use free software for other clients where it is better suited to their circumstances. The main instance relates to payroll.
- 38. It is common for a practice to provide payroll bureau services using commercial software, but also to use free HMRC software, for example where individuals are being paid only up to the lower national insurance threshold. There are other cases where a client runs a simple payroll using the free CD-ROM but then passes the data at the year end to his agent for checking and online submission to HMRC. It is more efficient for the agent to continue to use the CD-ROM software than to re-key the figures into a commercial product.

Who should pay for free software and what should it fund?

- 39. 72% of respondents thought that the exchequer, and so all taxpayers, should 'fund' the provision of free software. Only 6% thought that it should be funded by the software industry and the remaining 22% had no view.

40. A similar proportion said that the free software should be provided and hosted by HMRC, although 15% said the software industry. 14% had no view.
41. In addition to the provision of free software, 83% saw this as including telephone support to users on operating the software.

The future

42. We asked what respondents saw as the main priority for improvement in online tax services. There was an overwhelming vote for fixing existing faults (87%) before adding new functionality.
43. This was unsurprising in that 48% reported that they are experiencing more problems e-filing this year than last. Only 15% reported an improvement. This result is very worrying, especially when compared to a CIOT survey of members' perceptions of HMRC in September 2007 which indicated that the key improvement noticed by CIOT members in HMRC services had been in online filing. In fact, of CIOT members responding this time only 12 % have seen an improvement – 88% consider that the system has worsened or is about the same.
44. We think that these new findings are most significant in the drive to encourage e-filing by agents since 25% said that their main reason for not e-filing a tax return was that they were put off by submission problems.
45. There has been much publicity around security breaches in recent months, yet less than 1% of our respondents gave this as a reason not to e-file a return.

Priorities for future investment

46. We asked respondents to rank in order of preference additional functionality. To assist analysis, we suggested three forms which WTE have been asking for in recent months:
- Form R40, Tax repayment form.
 - Form P810, Tax review form.
 - Online claims under ITEPA 2003 section 336, claim for deductions for expenses.
47. 86% of respondents called for the Form R40 to be available online – and of those over 70% put this as their first choice. All other options for additional functionality achieved similar rankings overall. This indicates either that different people see different priorities, or that these are e-literate and willing agents who want as much functionality as possible to be added to the SA system. The latter seems more likely.

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