

## **TAXREP 18/06**

### **RESPONSE TO LORD CARTER'S REPORT – REVIEW OF HMRC ONLINE SERVICES AND THE PARTIAL REGULATORY IMPACT ASSESSMENT ISSUED BY HMRC ON 22 MARCH 2006**

#### **INCREASING THE USE OF ONLINE SERVICES**

*Representations submitted on 20 July 2006 to Government by the Tax Faculty of the  
Institute of Chartered Accountants in England and Wales*

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# Tax Representation

## **RESPONSE TO LORD CARTER'S REPORT – REVIEW OF HMRC ONLINE SERVICES AND THE PARTIAL REGULATORY IMPACT ASSESSMENT ISSUED BY HMRC ON 22 MARCH 2006**

### **INCREASING THE USE OF ONLINE SERVICES**

#### **INTRODUCTION**

1. The Institute of Chartered Accountants in England & Wales is fully supportive of the Government's drive towards electronic filing and services. Our own evidence has shown that our members have embraced new technology with enthusiasm and their working practices have been modernised and benefited as a result.
2. In July 2005, the Government asked Lord Carter of Coles to undertake a review of HMRC Online Services and in particular to consider how the take up of these services could be increased, maximising benefits for taxpayers whilst ensuring the continued delivery of a sustainable and efficient service by HMRC.
3. There then followed a period of consultation to which we responded in September 2005. Our response was published as TAXREP 39/05. In March 2006, Lord Carter published his "Review of HMRC Online Services", including his proposals on how to increase their take up, alongside the 2006 Budget Statement, together with a Partial Regulatory Impact Assessment (RIA).
4. The Review included the recommendation that the filing dates for personal Self Assessment Tax Returns should be brought forward from 31<sup>st</sup> January to 30<sup>th</sup> September for paper filing and 30<sup>th</sup> November for online filing. A joint response concerning this issue has already been submitted by the professional bodies, the Institute of Chartered Accountants in England & Wales, the Association of Accounting Technicians, the Association of Chartered Certified Accountants, the Association of Taxation Technicians, the Chartered Institute of Taxation, the Institute of Chartered Accountants in Ireland, the Institute of Chartered Accountants of Scotland and the Society of Trust and Estate Practitioners. This response does not include any comments in relation to this matter.
5. We should also like to emphasise that we have a duty not only in relation to members of our profession, but also a duty (reflected in our Royal Charter) to represent the best interests of the public. This response reflects those twin obligations.
6. We have not commented on the recommendations for software developers made in the report since these are outside the scope of our expertise.
7. Details about the Institute of Chartered Accountants in England and Wales and the Tax Faculty are set out in Appendix 1.

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## KEY POINT SUMMARY

8. We are pleased to note that many of the recommendations made in Lord Carter's report were also suggested by us last year in our consultation response, TAXREP 39/05.
9. We continue to believe that there remains considerable potential for e-services in the UK tax system. However we believe that this can only happen if the barriers and drivers to take up are properly understood by Her Majesty's Revenue & Customs (HMRC).
10. The Faculty continues to caution 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. For this reason we are in total agreement with paragraph 23 of the Review of Online Services (the 'Carter Principle'):

*The building blocks (ROS)*

*23. We recommend that as part of their work to deliver robust, high-capacity services HMRC should build in more rigorous testing. Each of the services should be capacity tested at least a year before our recommendations are implemented, and if any tests are not successful the measures relating to that service should be deferred.*

11. We support the move towards companies filing in XBRL format, but remain concerned that some of the functionality has yet to be properly thought through. We are also against recent moves to align the filing date for accounts at Companies House with that for tax returns. Our reasons are explained in our response ICAEW REP 13/06 submitted in March 2006.

## Detailed comments

*The paragraph references and statements in italic refer to the Review of HMRC Online Services (ROS) and to the Budget 2006 Regulatory Impact Assessments (RIA) publications available at*

*<http://www.hmrc.gov.uk/budget2006/carter-review.pdf>*

*and*

*[http://www.hm-treasury.gov.uk/media/1E6/1B/bud06\\_rias\\_896.pdf](http://www.hm-treasury.gov.uk/media/1E6/1B/bud06_rias_896.pdf)*

## Recommendations which we agree with

12. We are pleased to note that many of the recommendations made in Lord Carter's report were also suggested by us last year in our consultation response, TAXREP 39/05.

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13. These recommendations are welcome, and as we have previously commented, there remains considerable potential for e-services in the UK tax system. However we believe that the barriers and drivers to take up have still not been fully understood by Her Majesty's Revenue & Customs (HMRC). We believe that if – and only if – these are properly addressed, will significant progress be made towards the Government's goal of further increasing the use of HMRC's online services.

Barriers to take up:

- 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 concern 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). We are surprised that as one driver for the e-strategy is cost/staff reduction, this obvious big win has not been picked up. We first suggested this in our previous representation, TAXREP 39/05.
14. 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. We fully support the 'Carter Principle' as we have come to refer to it, set out in paragraph 23 of the Review of online services.
15. HMRC have still not themselves caught up with commercial organisations in a number of basic areas:
- Delivering external email
  - E-service elements, designed in isolation, which are not joined up
  - Launch of new services which have not been thoroughly tested or which have insufficient capacity

*Business and employers (ROS)*

*1 4. For businesses and employers we recommend:*

*VAT*

*1 Large, medium-sized (those with turnover above £5.6 million a year) and newly registering traders should be required to file their VAT returns online, and make payments electronically, for accounting periods starting after 31 March 2008.*

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*2 Traders with an annual turnover in excess of £100,000 should be required to file their VAT returns online, and make payments electronically, for accounting periods starting after 31 March 2010.*

*3 Paper filing will remain an option for traders with turnover below £100,000 but the Government should review the need for this exception in the run-up to 2012.*

16. We broadly support these recommendations. However, RIA 22.72 makes reference to electronic payment. At present, payment of VAT by cheque via bank giro credit, is regarded as ‘electronic’ for the purposes of the seven days’ grace. The RIA mentions Billpay, CHAPS, and direct debit. Even with all the safeguards it incorporates, we think it unlikely that business will welcome the prospect of HMRC having the ability to take funds from a bank account at any time, in any amount, at their whim. There are of course safeguards built into the direct debit system, but experience has left many taxpayers unwilling to trust HMRC with such a broad remit. It has been suggested to us that a system such as the Paypal payment system used by E-bay might be an option.
17. Para 22.20 of the RIA proposes that businesses newly registering for VAT after 31 March 2008 should have to file VAT returns online and make electronic payment of VAT. This is not reflected in the Review of HMRC Online Service document. If the former is the intention, we consider that this treats new businesses differently from existing small businesses, which is inequitable.

## *CT*

*1 All companies should be required to file their company tax returns online, using XBRL, and make payments electronically, for returns due after 31 March 2010.*

18. The key issue is the move to filing in XBRL format. Implications include:
- Disclosure: a ‘style sheet’ is needed to render readable the XBRL code. If HMRC as recipient applies a different style sheet to that used by the sender, supporting text may be missed out or associated incorrectly with data.
  - Will the UK CT taxonomy be sufficiently comprehensive to cope with the free format nature of UK corporation tax computations?
19. We would like to know the extent to which it will be possible to file additional documents not available in XBRL format, such as non-UK parent accounts or large volumes of data, currently appended in spreadsheet format to support summary level entries in the computation software?

## *Data quality*

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*1 5. We recommend that HMRC should establish a Taxpayer Data Standards Forum, with membership drawn from a cross-section of employers and chaired by an independent external person. The forum should be tasked, over a 1-2 year period, with identifying and disseminating best practice for cleaning data and maintaining quality.*

20. We would urge regular consultation with intermediaries via their representative bodies. Regular consultation was recommended by the Public Accounts Committee in 2002.
21. As recommended in TAXREP 39/05, we further suggest 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 (ETAAC) in the USA, which reports directly to Congress on an annual basis. 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.
22. 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'.

## *Filing periods (ROS)*

*1 9. We recommend that the period that HMRC have to query SA tax returns and most company tax returns (the 'enquiry window') should be linked to the date that the return is submitted. This will promote earlier filing and give taxpayers certainty sooner.*

23. We fully support this recommendation and believe that this will do much to encourage earlier filing of tax returns.

## *Working with agents, software developers and other intermediaries (ROS)*

*1 13. We recommend that HMRC should offer agents workshops on online services, possibly in partnership with software developers, in the run up to the implementation of our recommendations.*

24. We support this recommendation.

*2 15. We recommend that HMRC should consider offering agents a regular email newsletter, which could update them on developments relating to online services and respond to common queries.*

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- 3     16. *We also recommend that HMRC should provide a list of consultation forums on their website, details of the matters which are considered by each group and how to contact members of those groups.*

25. We support these recommendations.

- 4     18. *We also recommend that HMRC should share more of the risk rules used to select cases for enquiry with software developers.*

26. We support this recommendation, but consider that these risk rules should also be disclosed to taxpayers and their agents. This would help to eliminate unnecessary enquiries as additional disclosure could be submitted with the tax return to explain potential problems.

## *The building blocks (ROS)*

- 1     23. *We recommend that as part of their work to deliver robust, high-capacity services HMRC should build in more rigorous testing. Each of the services should be capacity tested at least a year before our recommendations are implemented, and if any tests are not successful the measures relating to that service should be deferred.*

- 1     24. *We recommend that HMRC should streamline the processes by which taxpayers authorise HMRC to disclose confidential information to their agents.*

- 2     25. *We also recommend that agents should be able to file returns for clients who have not yet given HMRC authorisation to disclose.*

- 3     26. *We recommend that HMRC should streamline and align the requirements for client approval of a return so that it may be done electronically in all cases.*

- 4     27. *We recommend that HMRC, working with the Government Gateway, should improve the facilities for managing the secure credentials required to access and use online services.*

- 5     28. *We recommend that HMRC should continue to support digital certificates, but not compel customers to use one.*

- 6     29. *We also recommend that HMRC and the Government Gateway should, working with agents, consider how the processes for delegating authority to file and access client data within large agent organisations could be improved - for example, by enabling bulk uploading and downloading of data.*

27. We support these recommendations.

28. We should like to emphasise that Review point 23 of the building blocks is critical if the future is to be different to the past and the rollout of online filing is



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to be successful. The Construction Industry Scheme deferral decision gives us some confidence that the lesson has been learned but it is crucial for this to be the case.

## Recommendations with which we have concerns

### *Electronic strategy (ROS)*

- 1     3. *We also recommend that HMRC should work with other public and voluntary organisations to ensure that access to the internet, and appropriate assistance with using IT, are available locally, for example at libraries and UK Online centres, for taxpayers who wish to file their returns online but do not own a computer.*
29. We do not think that it is reasonable to expect that unrepresented taxpayers who are not connected to the internet will be able to simply visit HMRC offices, libraries, etc. to enter their tax return details.
30. Firstly, those who have not used computers before will have to overcome their unfamiliarity with how computers (and particularly Windows) work. Those who use computers regularly probably find it difficult to remember just how many conventions they actually follow, albeit unwittingly. For example, the three little boxes at the top right corner of the screen, the concept of how to move forward and back between different pages, using hyperlinks, etc.
31. When they get to the HMRC office, library, etc. such people will find they have to register, only to be told they will have to wait for access codes to be posted to them. This will entail an almost wasted journey first time round and having to make another journey when the access code has been received, assuming the dog has not chewed it as it came through their letter box.
32. When this hurdle has been overcome, we do not think it is right that they have to enter all their personal and financial details in a public place. It is also likely that the librarian on duty will be the only person present who might be able to assist the taxpayer with completing the on-line form, hardly an appropriate source of tax advice.
33. The costs of internet connection for those who feel they must take the plunge because of these proposals, are underestimated. Firstly, there is the physical cost of the computer, screen, printer, etc. This will be several hundred pounds. Then there is the cost of the internet software and the monthly subscriptions, at least £10 per month for broadband, assuming that online filing will not be possible with dial up internet. There is then the time to learn how to use it all, the computer, internet access, HMRC website access, etc.
34. For these reasons, we believe that the estimated costs to unrepresented taxpayers in Table 22.4 of the RIA are considerably understated.



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35. The claimed environmental benefits (RIA 22.52), from reducing the Post Office's business, take no account of the additional costs/CO2 emissions of those without internet access travelling to HMRC offices, libraries, etc. in order to enter their data.
36. Many sole practitioner accountants may complete only a few returns. The need to use IT will represent an extra hardware, software and training cost and the alternative will be handwritten entries.

## *PAYE (ROS)*

- 1 Large and medium-sized employers (those with 50 or more employees) should be required to file in-year forms (P45 and P46) online from 1 April 2008.*
- 2 Small employers (those with fewer than 50 employees) should be required to file in-year forms (P45 and P46) online from 1 April 2010.*
37. As we have said previously, 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.
38. 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.
39. It is essential that if the system is extended to in-year submissions, that it is properly tested.
40. If an agent files all returns electronically using third party software and the filing date will remain at 31st January. However, past experience has shown that the Revenue computer may not be sufficiently robust to accept all such Returns particularly those that are more complicated. In such cases, it may be that the agent has to unexpectedly revert to submitting those Returns manually. Is the client to be penalised because a paper Return is submitted in January solely because it could not be filed electronically? We need to know what will happen if HMRC IT fails at deadline. It may be that HMRC technology does not have the functionality to accept a particular return. The deadline and penalty positions need to be thought through and discussed in advance.
41. Agents will also need to be sure what will be acceptable for the client to sign.

## *Paper substitute return forms (ROS)*

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- 1     10. *We recommend that HMRC should stop accepting computer generated SA 'substitute' returns on paper, from April 2008 for 2007-08 and subsequent returns.*
42. Whilst the principle seems reasonable, it is essential that if HMRC are to stop accepting computer generated SA returns that provision is first made for those tax returns which cannot be submitted electronically, such as politician's returns. We are sceptical that this system can be put in place, and be thoroughly tested, in the time scale suggested.

## *Payment (ROS)*

- 1     11. *We recommend that HMRC should review the payment rules for the different methods of payment and different types of taxes and consider what changes should be made to harmonise the rules.*
43. We would be interested in participating in further discussions in connection with any future proposals affecting payment of tax.
- 2     12. *We also recommend that HMRC should provide an electronic payment facility on its website which would allow taxpayers to set up a future electronic payment. This would enable taxpayers to complete the filing and payment tasks in a single session.*
44. We support this recommendation.

## *Working with agents, software developers and other intermediaries (ROS)*

- 5     13. *We recommend that HMRC should offer agents workshops on online services, possibly in partnership with software developers, in the run up to the implementation of our recommendations.*
45. We support this recommendation.
- 6     14. *We also recommend that HMRC should offer an agent registration scheme. This could enable potential clients to identify agents that are registered for and using HMRC online services. Agents that apply for the scheme could be required to abide by a Code of Practice.*
46. We do not think that this response is the correct forum for discussing this highly controversial proposal. Indeed, it cannot be discussed without also considering the possibility of HMRC staff being required to abide by a similar set of standards.

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## *Working with other government departments (ROS)*

*1 22. We endorse the recent joint consultation by HMRC and Companies House about alignment of filing dates and recommend that HMRC should continue to work with Companies House to provide a joint filing facility by 2010.*

47. We submitted our response to this consultation in March 2006 as ICAEW REP 13/06 Aligning filing dates for companies, in which we expressed our reservations about this proposal. We do not support the proposal to bring forward either the tax or accounts filing deadlines. We believe that both Option 1 and Option 2 proposed in the paper will impose considerable burdens on all companies, their advisers and employees.

## **Further comments**

48. It is not currently possible to update personal information on clients in SA online. It would be helpful if we could be allowed to send some information such as change of address online which would save our time in hanging on at call centres and the time of the revenue officers at the other end of the phone.

49. There is no automatic symmetry between what is on the Gateway and what is on the HMRC portal. The Gateway lists are, as such, utterly useless as they do not give client names, just a list of UTRs in no discernible order. We raised this in our representation last year, but have since had many complaints about it from members so think it important to reiterate the comment.

AM  
20.7.06

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## APPENDIX 1

### ICAEW AND THE TAX FACULTY: WHO WE ARE

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.

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, including taxation.

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 of the ICAEW who pay an additional subscription.

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## APPENDIX 2

### THE 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**