

# A HAPPY E-YEAR TO ALL

HMRC's increasing reliance on technology promises to make 2012 'interesting'

New years traditionally bring change, with many of us making new year's resolutions to mend our ways (even if these are abandoned before the bottles from the party have reached the recycling bank). In tax, often the only constant is change, which is a challenge for HMRC staff and professional advisers alike. HMRC's 2012 plans are set to keep us all on our toes.

The tax system is being modernised, at least as far as its administration is concerned, and a painful process it is proving to be. Moving as much work as possible onto IT systems and reducing reliance on experienced (and therefore expensive) staff sounds like a recipe for efficiency (well, OK, cost-cutting), but the latest (as I write) HMRC IT story highlights the problems of launching new systems.

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Lord Carter's 2006 *Review of HMRC Online Services* advised HMRC to go 'e' but with the important caveat that any new online systems must be fully tested and shown to be robust for a year before being made mandatory. It now seems even that is not enough. The self assessment (SA) system has been with us for a good number of years, and what do we have now? Recent reports suggest that penalty notices have been sent to some SA taxpayers for failure to file their 2010/11 returns on time, issued two months **before** the submission deadline for online returns: some will almost certainly be for paper returns arriving after 31 October, but others are not, presumably due to a computer programming or management problem (the Tax Faculty is looking into this and at present we can only speculate). The 'computer' may have 'assumed' that the unlucky taxpayers concerned were paper filers and had missed the 31 October cut-off, whereas it is of course open to (almost) anyone to e-file an SA return up to 31 January, and there is still time to apply for a secure login to do so.

Where is this leading? The future is surely 'e' (as it should be – subject to the odd caveat), but HMRC is seemingly in an inordinate rush to get there (as it should not be). Some outside HMRC expect the taxpaying population to be in for an interesting time this year as a result, and the pace may not let up for several years yet.

The Treasury has consulted on a policy of 'Digital by Default', and in a modern, e-enabled, developed country, that must be a reasonable goal. It does, however, need a long transition period, which HMRC is not intending to give in certain areas, and (as the Faculty has said in its responses to HMRC) mandation should not be part of the strategy. In a society where kids dare not be seen in the playground without their smartphone, and there is even an app for answering the door and making toast (I think I made that up, although I haven't checked the app store to be absolutely sure), it is reasonable to hope, if you are a policy-maker aiming to keep your staff numbers down and automate your services, that in 20 years' time, 99% of the population will be IT-literate and IT-enabled. Sadly, we're not there yet. My 82-year-old mother just about copes with digital TV, when she can remember where she put the remote, but the chances of her being able to complete a tax return are nil, and the chances of her e-filing it are even smaller.

It's a good job her carers are employed by a local charity, or she would be panicking over the forthcoming requirement under Real Time Information (RTI) to e-file their pay and deductions details every time she pays them (if she knew about RTI). Still, she would have until October 2013 to learn how to use a PC and how to sign up with an ISP, or how to fill in the paper returns that are planned as a backstop (if her eyes were good enough and her handwriting legible).

Don't get me wrong: I think RTI is a great idea, and Stephen Banyard's briefing this month sets out its advantages very nicely, but it must not be rushed. My gripes are really about the premises on which HMRC bases its plan to include every employer from October 2013. An early worry was that every employer was going to be forced down the BACS channel, at extra cost, but that worry has been dispelled. Large employers with EDI capability can continue to use it until April 2014 at the earliest, and smaller ones can continue to pay in whatever way they like while filing their employer returns using the internet and free HMRC software. HMRC takes the arguably complacent (or convenient) view that payroll software does all the work anyway, or will by the time RTI becomes mandatory.



But that assumes everyone has access to, and the ability to use, the software. The September 2011 summary of consultation responses on RTI includes a 'let them eat cake' paragraph which is slightly worrying. In response to a question raised by a number of respondents about how employers without broadband would cope with monthly online filing, the gist of HMRC's answer is, 'We're going to provide free software and a dial-up capability'. This misses the point about those micro-businesses that don't need and don't use a computer.

It is entirely unclear how the software will run on the non-existent PC that (by definition) is not connected to the internet. To be fair, there will be a paper return option for non-business employers of 'care and support' employers and those with religious objections to computer use, but real micro-employers in the small business sector will not have that luxury. Paper returns for non-business micro-employers are going to be a real burden every month (there are over 100 fields in the reporting specification for RTI-enabled payroll software, but we can only speculate about what will be required on paper), and a trip to the public library (if it's still open) or internet cafe every payday for non-e micro-businesses is hardly making life simpler for them nor helping keep their payroll data secure. There are over 750,000 SMEs with no more than four employees, but no published statistics about what proportion use payroll software. It seems unlikely to be all of them.

They can, of course, avoid the security concerns, time and travel costs of using a public computer by using an agent. Indeed, HMRC quite validly makes the point that all employers are already obliged to e-file their year-end forms P14 and P35, and many use agents if they cannot do it themselves – but then claims that RTI is no different in principle. This disregards the fact that an annual chore has become a weekly or monthly one for the small employer: a real chore, or an expensive one for those who have to pay an agent.

It's a difficult circle to square. RTI is intended to give HMRC the live data to enable timely collection of PAYE, NIC and student loan deductions (it presumably considers the new late payment penalty as only half an answer to employers not playing by the PAYE rules), and to feed live earnings data to the Department for Work and Pensions to support the introduction of Universal Credit (UC) from 2013. If RTI did not include the micro-business employees, it might not matter greatly to Exchequer cashflow (the penalties for late payment should see to that anyway) but it could be very significant to the UC system.

Fraud and error have been major concerns since the inception of the tax credit system. It is intended that RTI should enable fraud and error in the replacement UC system to be limited by more than enough to pay for the RTI project, so it is easy to see why it is being pushed through as a universal obligation. Large employers will cope easily, but it will be interesting to see how the micros cope, and how HMRC and the DWP react if they cannot.

RTI is progress: if it works as planned (which may not happen to the timetable currently envisaged, but extra resources and effort will get us there in the end), it will use modern technology to help ensure that most PAYE remittances are collected on time, reducing the so-called tax gap. Furthermore, UC payments should be more accurate than old tax credits. HMRC must, however, reconsider how small employers are to be supported and included.

The biggest problem may yet turn out to be not the micro-employer but the employee with a 'dodgy' (in the dual sense of incorrect, intentionally or not) National Insurance Number (NINO). HMRC and DWP need to be able to allocate the RTI data they get to individuals, and if the DWP is truly to benefit, this must happen promptly, if not actually in real time. This is where the NINO comes in as the unique identifier, but it is well known that £millions in NICs sit in suspense because they cannot be credited to an identifiable contributor's account on the National Insurance and PAYE Service (NPS) system due to incorrect or missing NINOs on payroll returns.

HMRC's performance in this area was improved massively by compulsory e-filing, and for next year HMRC is forecasting over 98% accuracy in posting. We are told that a huge data clean-up is in progress and December saw the start of another push to encourage employers to collect accurate identity data (our 19 December news item explained what is required, see [www.ion.icaew.com/TaxFaculty/23674](http://www.ion.icaew.com/TaxFaculty/23674)). 98% is an impressive statistic in a large business with 60m 'customers', of whom about half are working in employment, but 2% could still mean some 600,000 misallocated or unallocated records.

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It is worth remembering, too, that under the current system the non-matching items come in only once per year, so weekly and monthly RTI is likely to see the number of these ramped up quickly: 600,000 or so per month initially, perhaps? One key problem is new arrivals from overseas, who can never obtain a NINO quickly (the plan for RTI is to collect passport details for these individuals, so presumably there will be corresponding changes to the NPS and DWP benefit claim records to accommodate the use of this alternative unique identifier).

2012 promises to be an interesting year for us all as HMRC finds its way into the future with RTI, the new transparency project, the germination of the agent view database, the bedding down of iXBRL (or an extension of a couple of years to the 'soft landing' period if that does not happen), and more developed ideas on merging PAYE and NIC operation.

RTI should mean progress, and the pilot projects should help iron out problems, but there is scope for an escalating mismatch problem to tarnish the success of reducing the tax gap. Maybe HMRC could hire some of the IT people from the most successful online gambling companies (offshore, of course) to write new software for Longbenton to forecast the new NINOs before they are needed ...



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