



# DISCUSSION DOCUMENT: SIMPLIFYING AND MODERNISING HMRC'S INCOME TAX SERVICES THROUGH THE TAX ADMINISTRATION FRAMEWORK

Issued 7 June 2023

ICAEW welcomes the opportunity to comment on the discussion document Simplifying and modernising HMRC's income tax services through the tax administration framework published by HMRC on 15 March 2023, a copy of which is available from this [link](#).

For questions on this response, please contact the ICAEW Tax Faculty at [taxfac@icaew.com](mailto:taxfac@icaew.com) quoting REP 53/23.

This discussion document covers a number of disparate topics around the simplification of income tax administration. It is, in places, somewhat lacking in detail. In some cases, the better answer would be to simplify the underlying tax rules to support simpler administration and design of digital services.

Chapter 2 covers the development and promotion of HMRC's digital services. Some of these services need to be improved before they become digital by default. The needs of agents must be considered before changes are made.

Chapter 3 covers PAYE codes where there are opportunities to reform current processes, many of which ICAEW has suggested in previous representations. While seeking to ensure that PAYE deductions match the final liability in so far as that is possible, HMRC should consider how it educates PAYE taxpayers to take more responsibility for their tax affairs.

Chapter 4 covers registration and filing for income tax self assessment. In general, ICAEW agrees that HMRC should move to registration and filing being digital by default but the amount of work involved in achieving this should not be underestimated. The criteria for filing a self assessment tax return need to be reviewed and clarified. ICAEW considers that legislation should be framed around a requirement to file a self assessment tax return rather than a requirement to notify. There are some broader issues around the different ways in which income tax liabilities are finalised and the need for HMRC's back end systems to be properly interlinked. The current system of using PAYE code adjustments to deal with untaxed income and claims is often not satisfactory.

This response of 7 June 2023 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

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## KEY POINTS

- The discussion document does not sufficiently consider agent access to digital forms and services.
- Digital services need to be improved before P2 and P800 forms are made digital by default.
- There are opportunities to improve the operation of tax codes.
- This review should consider tax policy and legislative changes that would smooth the provision of income tax services, as well as process and administrative improvements.
- In general, we would support a requirement for new ITSA registrations to be made online and a digital by default approach to subsequent filing obligations. However, the amount of work involved in making such a change would be considerable and should not be underestimated.
- We agree that the issues with the criteria for filing an income tax self assessment return - guidance, thresholds, IT systems and legislation – are the main ones to be considered.
- However, there are some broader issues including the poor experience of taxpayers arising from the different ways in which income tax liabilities are finalised: PAYE reconciliation in NPS, simple assessment, self assessment and, in future, making tax digital ITSA and the back-end systems not being properly interlinked.
- We consider that legislation should be framed around a requirement to file a self assessment tax return rather than a requirement to notify.
- The criteria for requiring a self assessment tax return need to be reviewed and clarified. They should be based on genuine reasons why a return is required. The right to file a voluntary return should be retained.

## ANSWERS TO SPECIFIC QUESTIONS

### Chapter 2: Developing and promoting the use of HMRC's digital services

#### Reduction in paper communications from HMRC

***Question 1: What barriers do you experience when accessing digital versions of the forms above that drive you to a paper option? Are there any particular forms/processes that cause major issues?***

1. The changes proposed in this chapter appear to all be intended to help HMRC rather than taxpayers who value choice over paper/digital interaction. It is notable that additional electronic communications options for taxpayers and agents to contact HMRC (such as email or a secure area for messages) are not mentioned.
2. This chapter does not consider the needs of agents and their clients and this needs to be factored in. Agents would generally much prefer to receive and submit information digitally. The problem is that agents have not been given the necessary access to many of the online services available to taxpayers. These include (but are not limited to):
  - Appeals against self assessment penalties;
  - View and change tax codes (other than an old KANA ShortForm which largely seems to be ignored and a limited view in income record viewer);
  - Registering a partnership for self assessment;
  - Applications for marriage allowance.
3. When moving to digital by default the issues associated with submissions to HMRC (eg, SA100/200) are very different from HMRC communications to taxpayers (the HMRC outputs that make up the remainder of the list). We suggest that HMRC separates consultation and discussions on its paper outputs from consultations and discussions on paper forms used to submit data to HMRC as the considerations are different.
4. Looking at each form in turn:

5. **SA100 and SA200:** It is unclear why HMRC is consulting on this change when it has already been implemented. The communication of the change was disappointing and generated as many questions as it answered. This highlights the fact that removing the option of a paper form is not straightforward and needs to be carefully thought through and communicated.
6. The issues identified and/or not well communicated include:
  - The HMRC online self assessment return is not comprehensive. It does not include functionality for the following schedules and taxpayers completing these sections need to use commercial software or a paper form:
    - SA102M: Ministers of Religion, SA102MP: Parliament
    - SA102MLA: Northern Ireland Legislative Assembly
    - SA102MSP: Scottish Parliament
    - SA102WAM: The National Assembly for Wales
    - SA103L: Lloyd's underwriters
    - SA107: Trusts etc
    - SA109: Residence, remittance basis etc;

This was not addressed in the communications.

- Online returns cannot be filed by those on HMRC's online filing exclusions list. They are required to file paper forms. This was not addressed in the communications;
  - Asking taxpayers to phone HMRC to request a paper form will put additional pressure on HMRC helplines that are already struggling to cope with demand. HMRC should consider alternative ways for taxpayers to request paper forms (an online form might be made available to those who are digitally capable but cannot file online because of an exclusion). The communications did not make clear that requests for paper forms can be made to the self assessment forms orderline;
  - HMRC must appreciate that the paper forms are an integral part of the self assessment guidance and view only access needs to be retained for many reasons including to enable taxpayers to work out which additional pages they need to request. We welcome the fact that HMRC has subsequently agreed to continue publishing the forms on gov.uk. However, HMRC has not publicly communicated whether it will in fact accept returns completed on forms downloaded from gov.uk. (The guidance states that the forms should not be downloaded and used in this way, but it is inevitable that some users will do so.);
  - HMRC communications did not address whether paper returns printed from commercial software would be accepted;
  - We are unclear whether this change requires legislation that defines what constitutes making a return;
  - There are often significant delays in processing self assessment registration applications and issuing unique taxpayer references (UTR). Taxpayers may wish to submit a paper form while waiting for their UTR to avoid missing a deadline.
7. The rest of the forms on the list are HMRC outputs:
  8. We assume that HMRC would issue notification by email that a new document is available in the taxpayer's digital tax account. It is not clear what the legal position would be if that email is not received for one of many possible reasons such as death or incapacity of the taxpayer, change of email address, email landing in a junk/spam folder or confusion with spam. We assume that this change will not affect taxpayers who have not signed up for a digital tax account.
  9. HMRC will need to consider whether the digital versions of the forms meet the requirements of the Welsh Language Act 1993.
  10. **SA316 Notice to file:** Agents are able to see in HMRC agent online services whether a notice to file has been issued to their client. Therefore, they do not need to receive a copy of the SA316 (and don't currently do so). Agents cannot see online whether a notice to file an SA900 Trust and Estate Return has been issued – this needs to be rectified.

11. As regards taxpayers, HMRC needs to check whether a change to the regulations is needed to ensure that the notice to file is validly served and that an opportunity to challenge late submission penalties is not inadvertently opened up. As discussed later in the document, consideration should be given to abolishing the requirement to notify chargeability and the requirement for HMRC to issue a notice to file; this would render the statutory relevance of the notice to file obsolete.
12. **SA300 Statement of Account:** Agents have online access to self assessment account information. They do not currently receive the paper SA300. We suggest that the paper statements and online self assessment account information be improved to make it clearer.
13. Many taxpayers use the SA300 as a prompt to make payment. There is a risk that more taxpayers will miss the payment deadline without this prompt. Taxpayers also use the payment slip which is part of the SA300 to make payment by post and at banks.
14. **SA250 SA welcome letter:** Agents do not currently receive (and do not need) a copy of the SA250. They do receive notification of the UTR (if authorisation is in place) and that should continue although it could be provided online.
15. The SA250 includes important information for taxpayers that they may miss if they only receive a prompt to view it online.
16. **SA251 SA exit letter:** Agents sometimes receive copies of the SA251 but this seems to be inconsistent. Agents do need to be notified if their client is removed from SA (as this often happens when it shouldn't) although this could be done online.
17. Many taxpayers do not understand the current SA251, particularly the warning that they need to contact HMRC if they do meet the criteria for filing a self assessment return or need to notify a new source of income. In circumstances where they are no longer in self assessment they are probably less likely to access their digital tax account to view the letter. HMRC may receive more voluntary returns if the SA251 is digital by default.
18. **R002 repayment notification:** This form is copied to agents although if the payment is made by bank transfer it is usually received by both the agent and taxpayer after the repayment has been received. The online service for claiming and tracking repayments could be improved which would reduce calls to HMRC and render the R002 unnecessary except for the digitally excluded.
19. **CT603 notice to file:** This form was incorrectly described in the initial version of the discussion document. Agents receive consolidated lists of clients to which CT603 notices to file have been issued (CT603A). If they are the registered office for the company they may also receive the client copy. Most agents would be content to rely on the information in HMRC agent online services that tells them whether a notice to file has been issued to their corporation tax clients.
20. Some companies do rely on the CT603, particularly overseas companies that are unable to set up a business tax account.
21. **P2 employee coding notice:** The online P2 services need to be improved significantly if the paper form is to be withdrawn. There is a significant risk that even fewer taxpayers will check their coding notice and that this will generate more contact at a later stage, either when their pay changes unexpectedly or they over or underpay tax which is not identified until their PAYE record is reconciled.
22. It would make it more likely that coding adjustments for untaxed income, employment expenses, marriage allowance, higher/additional rate relief on pension contributions and charitable donations are incorrect, especially where they are carried forward from an earlier tax year.
23. Agents need access to an online service to view and request changes to clients' PAYE codes. The current ShortForm and income record viewer services are not adequate.
24. We suggest that further work on the impact is needed before paper copies of P2 coding notices are made digital by default.

25. **P800 PAYE tax calculation:** Agents currently receive paper copies of P800 PAYE tax calculations and do not have access to an online service. If the paper form is to be withdrawn agents need to be provided with a digital copy. The P800 form is not currently well designed and there is an opportunity to provide a much-improved digital service with proper account type information which shows payments made (the current P800 and PA302 forms do not take account of any payments that have been made against the amount due). Taxpayers and agents should also be able to query the calculations online.
26. We suggest that the long-term ambition should be to allow taxpayers to see their final income tax position for each tax year, whether the liability is finalised in PAYE, simple assessment, self assessment or, in due course, making tax digital income tax self assessment.
27. The discussion document does not refer to PA302 simple assessments which we understand are now, following a change in the regulations, issued in digital form to those that have opted for paperless communications. This was poorly implemented and resulted in HMRC having to issue duplicate PA302s to those who had received them digitally before the regulations were changed, causing confusion.
28. We think it is essential that HMRC continue to give taxpayers the option of settling each tax year independently rather than carrying underpayments forward in coding notices.
29. We suggest that HMRC should consult (at least informally) on each and every form that it intends to move to digital by default, well in advance of doing so. HMRC should learn from the recent change to forms P11D and P11D(b) which have increased taxpayers' administrative burdens and the forms for PAYE settlement agreement applications which are not suitable for agents. Originally, they could only be used by one member of staff, and they do not allow quality to be monitored by the firm because staff can use any email address.

***Question 2: How would you like HMRC to provide support and guidance to assist digitally able taxpayers with accessing digital versions of the forms above?***

30. The priority is to make it easier to obtain sign in credentials. Too many taxpayers fail at the first hurdle because they do not have the necessary identity documents or digital footprint to enable them to access their digital tax account. We are unclear whether one government login will help solve this problem. There are significant numbers of taxpayers, particularly at both ends of the age spectrum, who are excluded because the identity verification options are too limited and there is no alternative way of proving identity to access the account.
31. In some cases, as noted above, the online services should be improved before the paper form is withdrawn. This particularly applies to the P2 and P800.
32. Many PAYE taxpayers simply haven't ever had a need to engage with HMRC about their tax affairs. They see it as something that is handled by their employer and HMRC and perceive no need to interact with the system. The main barrier that HMRC needs to overcome is to persuade taxpayers of the need to have a digital tax account in the first place.
33. One group that is currently not well served by HMRC is non-residents. When they first have a UK tax liability, they do not have any UK references. HMRC frequently cannot trace their correspondence. HMRC should implement a system where they can easily obtain a reference which can be used on correspondence and tracking (as a safeguard, not for claiming refunds until HMRC issues the appropriate reference such as UTRs etc.).
34. Non-English language taxpayers struggle and don't know an interpreter might be available on the phone. Might it be possible for HMRC to send emails and make online services available in other languages?

***Question 3: What would be your preferred options for the digitally excluded to access non-digital services for the forms above?***

35. If a taxpayer is digitally excluded for one service they should be digitally excluded for all services and not have to make separate applications. It may be that we have reached the stage that HMRC needs to start holding a formal register of digitally excluded income tax

customers to allow it to provide the necessary support. We suggest that HMRC continues with a paper-based service for the digitally excluded.

### Reduction in payable orders

#### **Question 4: How can HMRC encourage more PAYE taxpayers to open digital tax accounts to help automate the repayment process?**

36. The proposal in 2.23 to contact taxpayers who do not request repayment by BACS within 21 days to offer a choice of a BACS payment or a payable order is likely to help to automate the repayment process. 21 days is quite a short time given the current length of postal delays.
37. P800 PAYE tax calculations showing a repayment due could have a much more prominent call to action to provide bank details.
38. Many HMRC forms that give rise to repayments do not allow taxpayers to provide bank details for repayment by BACS. This includes forms R40, P87, P85. Enabling taxpayers to provide bank details at this stage of the process would help significantly with automating repayments. We understand that the limitation is the functionality available in the National insurance and PAYE system (NPS) but there is a significant opportunity for HMRC if this can be overcome.
39. The impact on HMRC's helplines needs to be considered. It is not clear to us whether this change would increase or decrease demand on contact centres. Given the pressure on HMRC's resources, HMRC should think very carefully about the impact on its own resources before implementing changes which increase contact.
40. More innovative solutions should be explored but with caution. We suggest that HMRC starts with the options discussed above.

#### **Question 5: What safeguards should be in place for any new data HMRC collects?**

41. We do not recommend that HMRC holds standing bank account information for repayments of income tax. Repayments are generally sporadic, and the risk of a repayment being made to an account which is no longer appropriate is too high.
42. In order to make repayments to an individual's salary account HMRC would need to collect that data from employers along with the employee's agreement that the bank details be used for this purpose. This would be very burdensome.
43. The most important safeguard is that repayments are made to bank accounts only where HMRC holds specific confirmation that the taxpayer wants that particular repayment to be paid to a specific bank account.

### Chapter 3: PAYE

#### **Question 6: What specific processes or data points could be simplified to speed up information flow between employers, employees and HMRC when employees have a change of circumstance, while maintaining quality of data and keeping information secure?**

44. Ideally PAYE should operate as far as possible without manual intervention once data has been input into payroll. However, complexities added to the tax system since PAYE was introduced mean that the PAYE system cannot accurately calculate in-year the final tax liability for many taxpayers without manual intervention.
45. The complexities include:
  - entitlement to personal allowance where income exceeds £100,000;
  - higher/additional rate reliefs on gift aid and pension contributions;
  - liability to income tax on untaxed investment and property income which is being collected through PAYE;
  - liability to the high income child benefit charge;
  - claims for marriage allowance

46. Many of these cannot be ascertained for certain until after the end of the tax year, even where there is no other change of circumstances such as a new or ceased PAYE income source.
47. The most satisfactory option would be simplification of the underlying tax rules including the rates and bands. In the absence of simplification (or alongside it) HMRC could encourage PAYE taxpayers to take an interest in their tax affairs and to provide updates on changes in circumstances by providing a simple and straightforward digital service for reporting changes that affect their tax code. The services currently available in the personal tax account to update tax codes are not comprehensive or easy to use.
48. HMRC needs to make it easy for taxpayers to change their PAYE codes. As well as IT/system changes, this would probably necessitate simplifying codes so people can understand them. Rather than have the code as it is now with adjustments stated in tax allowance terms (which means that a coding adjustment to collect a prior year liability appears to bear no reference to the prior year liability until you delve into the accompanying notes), why not highlight the elements that taxpayers need to check, including estimated income.
49. It is not only at change of circumstances pinch points that process improvements are needed. HMRC's processes underlying the PAYE and benefits-in-kind (BIK) system need to run efficiently and NPS needs to interlink seamlessly with HMRC's other databases such as self assessment and HMRC's employer liabilities and payments records (as well as the tax credits system and DWP's state pension and universal credit systems).
50. We have, over many years, made suggestions about how PAYE and BIK processes could be improved to achieve efficiency savings for employers, HMRC, agents and employees. For example see our evidence to the OTS in [How to improve PAYE & BIK processes](#) reproduced in [ICAEW REP 35/22](#).
51. Improving digital interaction and HMRC's systems will only work if HMRC changes how it deals with PAYE post. Until HMRC replies to post in line with payroll cycles, improving the IT will only speed up errors being made. For example, HMRC's target, which is rarely met, for issuing a S690 determination is four months. This needs to be less than one month to enable PAYE to be operated efficiently. Additionally, the law allows an employer to apply for a S690 in advance of the employee being placed on payroll, but HMRC delays do not allow such an approach. We have suggested improvements to the system such as allowing employers to apply a S690 if one has been applied for. This should be reviewed again.

### *Starting and leaving*

52. We agree with the comment in paragraphs 3.5-3.7 that starting and/or leaving jobs creates pinch points. We believe that the main cause is timing but there are other defects in HMRC's systems and processes which stop PAYE working efficiently. These include what data is and when collected from employers, the triggers for reviewing tax codes and HMRC's rules governing tax code calculations.
53. Payday patterns and/or leavers moving to a new job without a break can mean that a leaver's employer is unable to submit a real time information (RTI) full payment submission (FPS) and issue a form P45 until after the new employer's payroll cut-off date. Even if RTI were a two-way process, as was the originally-understood intention, which would include seamless transfer of data between jobs, and HMRC updated its records in real time on receipt of employers' RTI returns and the updated data were available to an individual's new employer (eg, on receipt by HMRC of a starter form submitted by the new employer that linked to the previous employment), the aforementioned timing delays would render the data incomplete.
54. Electronic solutions might involve:
  - bringing forward the date of submission of the leaver's final FPS, or

- allowing employers to notify HMRC of an employees' starting date before any payment is made and leaving dates as early as possible, or
  - employees providing relevant data to HMRC when leaving and starting jobs, or
  - allowing employers to provide information via RTI ahead of the first payday.
55. Without a start date or pay data for the new job it would still not be possible for HMRC to calculate and issue a tax code or year to date figures to be provided to a new employer. Many of these options would need to be voluntary because mandating employers to register new employees with HMRC before their start dates would be extremely burdensome for employers in sectors where many new employees turn out to be 'no shows' whose records would need to be reversed. During the development of RTI, workshops were held on how to ease the change of job pinch point and perhaps these need to be revived but this time around with a greater sense of purpose.

#### *Other pinch points*

56. We consider that the PAYE system is sound in principle, but several processes do not meet current needs. This is partly because of poor system design, partly because it is still to a great extent based on the old paper system from before calculators/computers and partly due to processing delays. Certain tax rules are incompatible with PAYE operating without manual intervention. Leaving aside eliminating delays arising from the need for manual intervention, we believe the priorities for improvement should be to:
- update tax code conventions and triggers and certain payrolling and reporting of benefits-in-kind processes, and
  - change the rate structures of income tax and high income child benefit charge (HICBC).
57. These changes would help to enable PAYE to achieve its original objective, which is to collect, as closely as possible and in-year, the right amounts of tax and other levies without employees having to interact with HMRC. They would help to reduce the number of end-of-year P800 PAYE tax calculations and PA302 simple assessments that need to be issued. They would also reduce the number of individuals who need to complete a self assessment tax return only because they are liable to income tax and/or HICBC calculated at rates which are incompatible with PAYE operating without manual intervention. These changes would reduce the need for employers and employees to contact HMRC.
58. PAYE cannot deal with the phase out of the personal allowance above £100,000. We do not understand why HMRC have recently raised the self assessment threshold in guidance when most taxpayers with taxable income in the phaseout band will either under or overpay tax.

#### *Tax code conventions and payrolling/BIK process pinch points*

59. With regard to tax code conventions and running payroll including BIK we recommend the following to alleviate the change of circumstances and other pinch points. We have made most of these recommendations to HMRC and some to ministers and the Office of Tax Simplification previously:
- a) Use code 0T instead of BR for starters within Statement C on the starter checklist. This would reduce tax underpayments, especially given the increasing number of higher-rate taxpayers. No one who is a PAYE taxpayer welcomes a tax bill after the year end.
  - b) For employees paid weekly, fortnightly or four-weekly divide code numbers by the number of pay periods in the tax year. This would eliminate underpayments created by allowances being divided by 52 (rather than 53, 54 or 56 respectively).
  - c) Reduce the number of Week 1/Month 1 codes issued in-year.
  - d) Reduce instances of annual bonuses and other one-off payments being treated as monthly payments when HMRC calculates tax codes. A solution might be to add a field in the RTI full payment submission to identify one-off payments and payrolled BIK.

- e) We understand that the number of situations that trigger a review of an individual's tax codes is limited. The most commonly used triggers are, we understand, an individual starting or leaving a job, filing a form P87 and HMRC processing a self assessment tax return or a form P11D. A way to ensure more accurate tax deductions might be to deploy more triggers. The ultimate goal might be for the annual PAYE reconciliation process (or a simplified form of it with only tax code changes being made and no calculations being issued) to become more real time or at least monthly.
- f) Improve form P11D (whether online or paper). For example, add boxes to enable one-off (eg, relocation allowance) or ceasing BIK to be flagged as such. This would avoid the BIKs being automatically treated as recurring or continuing when calculating tax codes. (See [Revamp form P11D and surrounding processes, says ICAEW](#) and our letter to HMRC dated 19.12.22 [ICAEW REP 1/23](#)). Similar considerations apply to higher and additional rate relief for personal pension contributions and gift aid and other claims such as employment expenses claimed on self assessment tax returns. It should also be possible to flag these as not recurring.
- g) Make it easier for, and thereby encourage, employers to payroll benefits-in-kind by:
  - i. allowing employers, particularly new employers, to register to start payrolling in-year,
  - ii. allowing agents to register on behalf of employer clients to payroll BIK (we welcome HMRC's proposals to enable this), and
  - iii. enabling employer-provided accommodation to be payrolled and redesigning the rules for beneficial loans to make payrolling practicable.
- h) The starter checklist would benefit from improvement, for example by making it mandatory for employers to ask the data requested and clarifying some of the questions. (See Appendix 2 of [ICAEW REP 35/22](#) which has been supplemented by our subsequent unpublished representations.)
- i) A substantial pinch point arises when employees are moved from one payroll to another. This arises, for example, when an employer or agent moves employees from one payroll software product to another, there is a change of payroll agent, or a merger/acquisition/TUPE. If an employee's RTI payroll identifier field is not exactly the same on the new payroll software as on the old, HMRC's systems will not link the employment on the two payrolls and will create what is termed a duplicate record. The only way to get around this is to make the change in month 1, but this is not always possible and is not widely known about.
- j) We should welcome HMRC guidance on how employers can, at any time in the tax year, move employees from one payroll software to another, change their payroll agent/or undertake a merger/ acquisition/ TUPE without adverse impacts on their employees' tax records in HMRC's systems. The guidance should cover how any HMRC/employer agreements can be transferred to apply to the new payrolls.
- k) Allowing non-resident directors to be included within Appendix 8 payrolls.
- l) Applications to set up a new PAYE scheme cannot be made earlier than two months before the first payday, and if a new employer does not submit a report (a nil EPS does not count as a report) or pay HMRC with 120 days HMRC will close the scheme. Allowing applications to set up a PAYE scheme earlier and a longer period between setting up and the first payday would eliminate two other pinch points.

*Tax rules that necessitate manual intervention for PAYE to operate*

60. To reduce the need for codes to be calculated using estimates of income of the individual and other members of their household (and to remove disincentives to work) we recommend the following:
- a) Replace the withdrawal of personal allowance at income of £100,000 with a normal and transparent tax rate.

- b) Abolish high income child benefit charge and/or find an alternative way to achieve the policy objective.
- c) Reconsider marriage allowance.

We appreciate that these would be significant policy decisions with revenue implications.

#### *Other changes in circumstances*

- 61. There are other changes in circumstances which create pinch points, such as employees taking parental leave or falling sick, for which statutory payments should be accounted for in payroll, but we have not commented further on them here, but we would be happy to discuss further.
- 62. We would also highlight the rules for operating PAYE on flexible withdrawals from pension schemes. In most cases too much tax is deducted, creating an administrative burden for HMRC and the taxpayer who is also out of pocket pending a repayment from HMRC. We suggest that HMRC explores possible solutions to this problem.

#### ***Question 7: In what ways could advances in Information Technology allow for an alternative to the tax code or more real time interaction between employer, employee and HMRC to ensure that tax and employee NICs deductions keep pace with changes as efficiently as possible?***

- 63. Advances in IT do not necessarily simplify compliance. In particular, care should be taken not to increase the number of interactions that employers need to have with HMRC as this would impose additional burdens on employers and on HMRC.
- 64. HMRC's existing systems and processes need to be made to work properly before HMRC makes any major changes to its PAYE IT. For example, going right back to the introduction of RTI, in too many cases HMRC's employer liabilities and payments accounts have not agreed with those of employers. Cases referred to HMRC's charges resolution team are still not resolved quickly; they routinely take 12-18 months and involve 45-minute waits on the phone. (See [Resolving HMRC employer liabilities and payment accounts errors](#) and our letter to HMRC dated 19.12.22 [ICAEW REP 21/23](#).) A member was recently talking to a large employer client whose reconciliation query had been running for seven years and was still ongoing.
- 65. Many of the PAYE pinch points discussed in our answer to Q6 may have digital solutions. As noted above, HMRC could encourage PAYE taxpayers to take an interest in their tax affairs and to provide updates on changes in circumstances by providing a simple and straightforward digital service for reporting changes that affect their tax code. The services currently available in the personal tax account (and to agents) to update tax codes are not comprehensive or easy to use.
- 66. However, changes must be implemented properly to establish the trust of users and ensure that they remain in the digital service. Simply converting paper processes to online processes is seldom the optimal approach to digitalisation. Too often HMRC's digital services are launched without being adequately tested.
- 67. Process changes need to be announced well in advance and IT changes considered alongside development of policy so that employers, agents and other stakeholders have time to prepare. In particular, software developers need time to design, build and test the necessary software. (See our Autumn Budget 2021 representations [ICAEW REP 95/21](#)).
- 68. As an example of how not to introduce changes: HMRC announced in Agent Update in March 2023 that form P11D and P11D(b) submissions and amendments must be submitted online from 6 April 2023, having mentioned it briefly in the February 2023 Employer Bulletin. Further details were not published until April 2023. See [P11Ds and P11D\(b\)s must be submitted only online from 6 April 2023](#). Issues such as submissions by an agent who submit P11Ds but not the regular RTI submissions were not communicated.

69. The system of tax codes enables numerous factors to be taken into account when computing PAYE. Any replacement to the tax code system would need to do the same job. Without a wholesale change to how tax and other levies are collected from employees any replacement would in effect be a tax code with a different name. Considering an alternative to the tax code might be a project for the long term but should have been considered before implementing RTI. However, given where we are, creating an alternative now would take far too long and probably be impractical to implement.
70. Improvements could be made to the data feed of taxable state benefits (including state retirement pension) from DWP to HMRC so that it provides (to HMRC and taxpayers) the equivalent of P60 information for each tax year by 31 May following the end of the tax year.
71. In many European countries responsibility for the application of appropriate tax and social security withholding is passed to the employee. At the start of every tax year employees are required to approve a pre-populated 'Tax Card' (which generates the equivalent of our PAYE code). It is the employee's responsibility to approve the tax card and to inform of any in-year changes to entitlements. If an employee fails to do so, a standard code is applied which can be corrected within certain time limits through the submission of the appropriate form.
72. This approach seems to ensure employee engagement with a coding process that in the UK is often not understood. Could such a process not be implemented in the UK as part of the employee's single customer account? Given that PAYE taxpayers have traditionally not had to interact with HMRC this would require initial investment in education, but in the light of the longer-term benefits of enabling PAYE to collect the right amount of tax in the year to which it relates, we recommend that taxpayers assuming responsibility for their own tax deductions would be worth considering.
73. Equally, HMRC should consider issuing annual PAYE tax calculations to all PAYE taxpayers, not just those with over or underpayments.

## Chapter 4: ITSA

### New ITSA taxpayers: digital from registration onwards

#### ***Question 8: Would you support a change to require new ITSA registrations to be made online, with a digital by default approach to subsequent notices to file, and a requirement for annual returns to be delivered digitally?***

74. In general, we would support a requirement for new ITSA registrations to be made online and a digital by default approach to subsequent filing obligations.
75. However, the amount of work involved in making such a change would be considerable and should not be underestimated. It would be a significant project and HMRC would need to invest considerable resource in its systems in order to make this possible.
76. We assume that there would be an alternative registration and filing process for the digitally excluded. Due consideration also needs to be given to those who are digitally capable but are unable to interact digitally with HMRC for the following reasons:
  - they do not have the necessary references (such as national insurance number); or
  - they do not have the necessary identity documents or digital footprint to set up sign in credentials; or
  - the underlying systems do not have all the necessary functionality.
77. Those without the necessary tax references include non-residents who start to have a UK tax liability and residents with no prior UK tax liabilities and no entitlement to a national insurance number.
78. Issues with underlying systems that would need to be addressed include the fact that HMRC's online self assessment tax return does not include all sections of the self assessment return (SA102MLA: Northern Ireland Legislative Assembly, SA102MSP: Scottish Parliament, SA102WAM: The National Assembly for Wales, SA103L: Lloyd's underwriters,

SA107: Trusts etc, SA109: Residence, remittance basis etc). HMRC would also need to consider the list of online filing exemptions.

79. A new online self assessment registration service would need to be developed to cover all the self assessment criteria and possible reasons for registration. HMRC would need to be able to accept registrations from those taxpayers who are required to register but who cannot interact digitally for the reasons outlined above.
80. Any registration process should allow taxpayer to be included in self assessment if they wish to. For example, it is often easier to be within self assessment rather than have to deal with managing coding adjustments and P800 PAYE tax calculations.
81. The new registration process would need to allow a new self-employment to be added in a way that is effective for national insurance and avoids a data mismatch with NPS. The registration service would need to effectively block income tax finalisation by way of PAYE reconciliation in NPS for those in self assessment.
82. Agents need to be able to submit registration applications before authorisation is in place. This is the case for some heads of duty but not others. (The security issue is addressed by issuing the tax reference to the client). HMRC currently receives a lot of paper SA1 registration forms accompanied by paper 64-8 forms from agents because that is the quickest way to get the UTR issued and authorisation in place. This causes problems for HMRC as the forms are processed by different teams within HMRC. Currently HMRC sometimes issues the unique taxpayer reference (UTR) but does not inform the agent because they have not processed the 64-8 that was submitted at the same time.
83. We strongly recommend that there is a combined process for registering for self assessment and authorising an agent. Designing a digital service would be a challenge but it would have significant benefits. In the meantime, we suggest a consolidated paper form that combines self assessment registration and the 64-8 alongside a change to HMRC processes so they are dealt with together.
84. Consideration also needs to be given to the registration of partnerships. Agents need to be able to register partnerships and individual partners online but do not currently have access to the online versions of the SA400, 401 and 402. We highlighted in March 2023 that these forms have not been updated for several years and contain out of date information; the necessary changes have not yet been made.
85. HMRC expects to replace the self assessment system CESA and re-platform all ITSA records onto ETMP. Although the timetable has not been established any changes to registration and filing need to take this into account, along with other future changes. We consider that there are significant short-term benefits to be obtained from building a new registration process. Any associated legislative changes are likely to be relatively minor.
86. HMRC is inconsistent in how it deals with requests to reopen self assessment records that have been incorrectly closed or need to be reactivated. Sometimes this can be done over the phone; on other occasions it is necessary to complete a new registration form. This should be factored into the design of the registration process.
87. An online process to deregister for self assessment or request withdrawal of a return that has been issued would also be helpful.

**Question 9: How much notice would taxpayers and agents need for this change, and how could HMRC best communicate it?**

88. The limiting factor is likely to be the time required for HMRC to develop its systems. Software developers also need to be considered. If HMRC has to make changes and improvements to its systems, software developers will have to ensure that their products are compatible. There may be implications for commercial self assessment products and consideration will need to be given to developing and releasing any necessary APIs. The generally accepted lead-in time for software developers to make changes is 12-18 months ahead of go-live.
89. Time will need to be allowed for guidance and communication to agents and taxpayers. The time required will depend on how extensive the systems changes prove to be.

90. Security needs to be a primary consideration for HMRC. We are aware that the self assessment system has come under attack by fraudsters making false registrations or obtaining the details of genuine taxpayers and filing returns making claims that generate repayments that are not due. The VAT system has also come under attack by those seeking to make fraudulent registrations and claim repayments. It gets increasingly more difficult for taxpayers to identify genuine email, text messages and phone calls from HMRC and to distinguish them from scams.
91. Any new registration system for income tax must learn from the problems with introducing the new VAT registration system. It must enable registrations to be processed quickly and to be tracked online.

### The ITSA criteria

**Question 10: Do you agree these are the main issues? Where possible please rank in order of magnitude/impact.**

92. The issues set out in 4.24 - guidance, thresholds, IT systems and legislation – are the main ones.

#### *Guidance*

93. One of the main sources of confusion, and the biggest gap is guidance, is around how HMRC deals with investment and other untaxed income on which there is a tax liability, but the self assessment criteria are not met. This is set out in paragraph 4.2 of the document.
94. The criteria are not always clear. Despite having formally changed its position some years ago, HMRC still sometimes insists that directors should file a tax return even when the criteria are not met.
95. The interaction of trading allowance, rent a room relief and property allowances and the self assessment criteria are not always well understood.

#### *Thresholds*

96. There is no apparent rationale behind many of the thresholds such as the £2,500 threshold for claims for employment expenses. Indeed, it is not clear why claims for relief on their own should bring a taxpayer within self assessment.
97. We understand that the £100,000 income threshold for high income employees derives from it being the starting point for withdrawal of the personal allowance. However, HMRC has now announced that this threshold will be increased to £150,000. It is surprising that this change was announced separately and not as part of any changes resulting from this more fundamental review of the criteria. There doesn't appear to be any logic to this change. Piecemeal changes to the criteria are likely to cause confusion.
98. An individual who is liable to the high income child benefit charge is also required to complete a self assessment return. The reason why this cannot be dealt with outside self assessment is not obvious.
99. As noted in our reply to Q6, the better answer would be to simplify the underlying tax rules and devise alternatives to withdrawing the personal allowance at income of £100,000 and the high income child benefit charge that are simpler to administer.
100. An individual who has no income other than that subject to PAYE should not have to complete a self assessment return.
101. The thresholds for capital gains tax reporting through self assessment are a significant simplification. However, they can lead to many taxpayers failing to meet the time limit for establishing capital losses and therefore losing the ability to claim them against future gains.

#### *IT systems*

102. We would rank IT systems as being the issue with the greatest impact. Our understanding is that the ITSA criteria administrative parameters are, in many cases, set because of limitations in the underlying systems.
103. If more taxpayers were to be removed from self assessment HMRC would need to look at making significant improvements to the processes for those not in self assessment. There may need to be an alternative system for reporting income and claim reliefs by those not in self assessment.
104. HMRC could make the facility for real time reporting of capital gains available to agents and promote it better to taxpayers.

#### *Legislation*

105. In general, we consider that the legislation should be framed around a requirement to file a return rather than a requirement to notify. We recognise that the requirement to file a return needs to be wider than having a tax liability.

#### ***Question 11: What other difficulties do taxpayers face in understanding and navigating the ITSA criteria?***

106. There are some broader issues including the poor experience of taxpayers arising from the different ways that income tax liabilities are finalised: PAYE reconciliation in NPS, simple assessment, self assessment and, in future, making tax digital ITSA. The back-end systems are not properly interlinked and this causes issues such as P800 PAYE tax calculations and PA302 simple assessments being issued to taxpayers who are in self assessment. This is partly due to timing as most of the PAYE tax calculations are issued before the 5 October deadline to notify chargeability.
107. The personal tax account does not provide taxpayers with an overview of their income tax position for each tax year, bringing together information however their income tax liability is finalised. P800s and PA302s do not take into account any payments already made and the personal tax account does not display any account type information for liabilities finalised in NPS.
108. The document says that HMRC would like to understand why some taxpayers choose to remain in self-assessment even where they could come out. Often this is because it is simpler to have your income tax liability finalised in one system, especially when the experience of finalising liabilities in NPS can be a poorer one for the taxpayer. Being in self assessment gives the taxpayer more control. It is often much cleaner and simpler to deal with each tax year discretely rather than have liabilities coded out or adjusted in a later tax year (even though coding out does provide automatic time to pay and no interest is charged which can be a benefit). Agents in particular often prefer to complete a return. Keeping track of tax codes and adjustments made to tax codes for eg, employment expenses, marriage allowance, higher rate relief on pension contributions and charitable donations, prepopulated bank interest and other coded out untaxed income, along with P800 and PA302s calculations, can be much more time consuming and involve much more contact with HMRC than completing an annual tax return with accurate figures. The right to file a voluntary return should be retained.
109. The ability to get a tax return withdrawn is important. An online service to request withdrawal should be made available to both agents and taxpayers.

#### ***Question 12: What additional complexity exists for taxpayers who are navigating multiple criteria or for those whose circumstances change frequently? Where possible please give examples, including how you think HMRC can resolve the issues.***

110. Navigating multiple criteria is not generally a problem. A taxpayer only needs to satisfy one of the criteria in order to register. The difficulty is understanding the criteria. Once in self assessment new types of income or claims can be readily added when completing the return. The one problem area is adding a trade when already in self assessment. Many taxpayers

and agents simply add the trade to the return without notifying it separately. This results in the trade not being registered for national insurance purposes, a data mismatch between the self assessment CESA system and NPS and Class 2 national insurance contributions not being charged.

111. The issues for those whose circumstances change frequently are as described in our responses to the previous questions. In particular the fact that the different income tax systems are not interlinked and the personal tax account does not provide taxpayers with an overview of their income tax position for each tax year, bringing together information however their liability was finalised. The objective should be a seamless experience for income taxpayers however their liability is finalised.

## Opportunities for reform

### **Question 13: Are these the right changes and opportunities to be considering? Are there others?**

112. Subject to our comments below, these changes and opportunities are the right ones to consider.
113. We do not agree that for PAYE taxpayers the current system of using PAYE code adjustments to deal with untaxed income and claims is simple and efficient. We have referred to this in our responses to earlier questions. At a minimum there needs to be significant improvement to the online services for PAYE taxpayers and the personal tax account to improve the experience of such taxpayers. Agents need to be given full access to allow them to act on behalf of their client.
114. With regard to legislation, we consider that the legislation should be framed around a requirement to file rather than to notify. The criteria need to be codified into legislation, if necessary secondary legislation to allow more flexibility. We suggest that HMRC explores further the boldest option of attaching the requirement to file to the codified criteria. There would need to be appropriate taxpayer safeguards including appropriate reminders and other communications.
115. A digital income tax service for those not in self assessment would need legal underpinning.
116. HMRC systems do not generally deal efficiently with taxpayers with no national insurance number and/or no right to obtain one. HMRC needs to consider the introduction of a unique taxpayer identifier. This reference is likely to be needed with increased data reporting by third parties and to allow HMRC to match data accurately.
117. A lot of contact with HMRC is chasing issues. Due to their experience with on-line retailing taxpayers now expect to be able track correspondence. HMRC should introduce a system whereby correspondence is given a reference that can be quoted by the taxpayer. Too often HMRC cannot find correspondence and ask for it to be resubmitted.
118. When documents are submitted by email it should be standard that an acknowledgement email is issued. HMRC has said that a reason for not doing so is that it may be taken as accepting the contents of the document. We do not think this is valid; the acknowledgement could surely be worded to make clear that it is only acknowledging receipt.

### **Question 14: In what way will each simplify things for taxpayers?**

119. All of the changes have, if well designed and implemented, the potential to simplify things for taxpayers by enabling them to be much clearer about their tax obligations and how to comply with them, particularly when their circumstances change. There is significant scope for the taxpayer experience of HMRC's online services for income tax to improve. Some of this is already being considered by HMRC in its work to develop the single customer record and account.

### **Question 15: Which are better? Could you rank in order of preference or greatest improvement?**

120. The changes would probably need to be introduced as a package. For example, changes to IT systems may require changes to legislation and vice versa. Changes to either IT systems or legislation will require changes to guidance. Changes to thresholds or guidance alone, while helpful, are unlikely to lead to significant improvements.

121.

# 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 <https://goo.gl/x6UjJ5>).