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Corporate report

Building a trusted, modern tax administration system

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Foreword

In the March 2020 Budget (<https://www.gov.uk/government/topical-events/budget-2020>), the Chancellor highlighted the government's intention to create 'a tax system fit for the challenges and opportunities of the 21st century'. The world has changed immeasurably over the last two decades, and the rapid growth of information and communications technologies and rising public expectations of world-class customer service mean that the UK both can and must have a fully digital tax system able to support taxpayers across the full range of their needs.

The strategic importance of this goal has been highlighted by the COVID-19 pandemic. The whole of government, its programmes, policies and procurement, its infrastructure and operations, needs to become far more resilient and adaptable, and nowhere is this clearer than in the area of tax administration. HMRC have risen magnificently to the challenge of delivering internationally renowned employment support schemes, in record time and with huge efficiency. But to do so they have had to deal with the constraints imposed by a tax administration system that is badly in need of renewal.

The 21st century is certain to throw up further challenges, and it is vital that the UK is prepared for them. We need to learn the lessons of COVID-19, so that future governments can support people, families, businesses and jobs as quickly and effectively as possible in the face of any future human or natural disaster. But there is also a huge potential opportunity: to use improvements to the tax system to drive up levels of innovation and productivity, in the first place among software and other tax-related service providers, and secondly within businesses and organisations themselves across the country.

At the same time, HMRC are likely to evolve as an organisation central to our UK national resilience and crisis response, as well as discharging their traditional role as a tax authority. For this they need to maintain the trust and consent both of taxpayers and of the wider public. There is much evidence from around the world that modernisation can help to build that trust and consent.

This document sets out a vision for the future of tax administration in the United Kingdom, designed to improve its resilience, effectiveness and support for taxpayers. A long-term strategy of focused, collaborative and transparent improvement of the tax administration system has the potential to yield huge benefits, both for individual taxpayers and businesses and for the collective strength and resilience of the country as a whole.

The Rt Hon Jesse Norman MP (<https://www.gov.uk/government/people/jesse-norman>), Financial Secretary to the Treasury

1. A vision of resilience and effectiveness

At the core of an effective and modern tax system is real-time information. This allows the government to assess changes to the real economy of businesses and individuals, at small or large scale, as those changes are happening. Timely payment of tax is also important, as it allows businesses and individuals to pay tax due easily and promptly. An effective and modern tax system will help the government support businesses and individuals in times of emergency, and is vital to our economic and social resilience as a nation. The government wants people and businesses to be able to pay the right tax as they live their lives and go about their business. It should be easy for people to pay any tax due, and for the vast majority of people the calculation and payment of tax should be effortless. For the majority of businesses, tax should be straightforward and hard to get wrong. Taxpayers should be able to view their tax position and tell HMRC anything it needs to know through a single online account. Where an individual runs into a problem, HMRC should be able to provide highly effective customer support, quickly and through a variety of channels. A modern digital infrastructure should enable ease of use, transparency and adaptability.

But this is only the first stage. A well-designed tax administration system will allow third party software suppliers to align their systems more closely with those of HMRC, so that taxpayers are proactively offered new and innovative services. Businesses in particular stand to benefit hugely from this process, which will allow better data analysis of company performance and, over time, greater opportunities for them to improve productivity and profitability. There are opportunities to help close the gap that has arisen between the UK and the most productive economies. The Confederation of British Industry estimates (<https://www.cbi.org.uk/media/1165/cbi-from-ostrich-to-magpie.pdf>) that boosting the productivity of UK small and medium-sized enterprises (SMEs) to match that of Germany could add as much as £100 billion to the economy. This is supported by evidence (https://www.lloydsbank.com/assets/media/pdfs/banking_with_us/whats-happening/lb-consumer-digital-index-2019-report.pdf) showing that the most digitally engaged businesses can save as much as a day per week in administration by going digital. The adoption of these key technologies could help to bridge the significant gaps that exist between the most and least productive businesses in the UK, gaps which are exacerbating existing regional inequalities.

One effect of systems focused on helping people to get their tax right first time is that rule bending and breaking will become harder. Supported by the capacity for real-time risk assessment, HMRC will be able to make interventions to prevent revenue loss much earlier in the process than at present, and in some cases before such losses occur. Overall, it will become much harder for people to avoid paying the tax they owe. This in turn will reduce the tax gap – the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid. At present, the tax gap amounts to £31 billion of revenue which cannot be deployed to support vital public services.

This vision is important, worthwhile and achievable in the next 10 years. It has 3 elements:

- for policy, it means a progressive extension of HMRC's Making Tax Digital work
- for systems, it means exploring appropriate timing and frequency for the payment of different taxes, and the technology infrastructure needed to support that
- for law and practice, it means a reform of the tax administration framework itself

It can and will be delivered incrementally and consultatively. HMRC will involve taxpayers, agents, software providers in taking forward this vision, and work closely with representative bodies, including the Office of Tax Simplification (<https://www.gov.uk/government/organisations/office-of-tax-simplification>), in developing the elements. This open and consultative approach will also recognise public concerns for the need for proper constraints and safeguards over HMRC powers. It supports and extends HMRC's vision to be a trusted, modern tax and customs department, and ultimately, it has the potential to yield huge benefits for us all, both individually and collectively.

2. The core of a modern tax system

The UK has one of the best tax authorities in the world, but HMRC cannot be complacent. HMRC is already making good progress in introducing a new, digital VAT service through the Making Tax Digital programme, while supporting as many businesses as possible to benefit from the productivity gains of using digital accounting systems. The government wants to go further by extending modern services to more taxpayers and agents. In line with international best practice, these services will work closer to real-time. This will enable taxpayers to have a more up-to-date understanding of, and certainty over their tax position and remove opportunities for error; ensuring the right tax is paid.

A single digital account for all taxpayers that is easily accessible and secure is a key component of the government's vision. This will bring together data across different taxes and different data sources in order to provide personalised services for taxpayers, and at the same time improve parallel services for their agents or representatives working towards HMRC's vision for agents to be able to see and do what their clients can, and designing in agent access from the outset. It will help HMRC to learn more about what taxpayers need and want from their services, in turn helping them

build better services and more targeted guidance for taxpayers in a wider range of different circumstances. Better and more real-time information would also enable the government to design more targeted taxes and reliefs.

Alongside this, the government will secure the software and hardware technologies underpinning the tax administration system. While HMRC have succeeded in introducing new systems at great pace in response to the COVID-19 pandemic, many important tax processes continue to run on information technology and communications systems that cannot fully support modern, digital services fit for the 21st century. This means that agents, who operate across a number of different HMRC systems, currently experience a fragmented service with different requirements for different taxes. Addressing this will require a substantial amount of complex systems integration work.

The laws governing tax administration need to change to allow HMRC to deliver these digital services. The legislative framework needs to support effective tax administration in today's world. It needs to recognise fully the development of new digital systems and the importance of how taxpayers experience the system.

Taxpayers also want to rely on the wider community involved in tax administration, beyond HMRC. Appropriate measures need to be in place to assure, and where necessary, raise the standards of the agents and intermediaries who interact with taxpayers, so that taxpayers can be confident they can access competent and honest advice.

3. The benefits: greater ease of use, productivity and resilience

3.1 A better experience for taxpayers and businesses

These reforms of the tax administration system will mean HMRC will be better able to help taxpayers navigate through the tax system and resolve issues at first contact, using digital channels such as webchat alongside traditional channels such as the telephone.

For the vast majority of taxpayers, the calculation and payment of tax will be effortless, as they will rely on an employer or another third party. As is currently the case for many individuals in Pay-As-You-Earn (PAYE), taxpayers with straightforward tax affairs will need to take no action to pay the right tax at the right time. Taxpayers will be able to view their tax position whenever they want using their online account.

For those with complex financial affairs and more extensive use of tax planning, such as wealthy individuals and large businesses, a modern, digital tax system should enable HMRC to assess the impact of tax planning choices in order to ensure the correct tax is paid. A modernised tax system will offer businesses and taxpayers greater certainty over their tax position by bringing all their records together into one place.

For the majority of businesses, tax will be made more straightforward and harder to get wrong. HMRC will introduce increasingly integrated processes, drawing on information from business systems and validated third parties. This approach minimises opportunities for error and avoids the problems faced by both taxpayers and HMRC in seeking to assemble tax records long after the original business transactions. But it also enables the private sector to come forward with new software tools to help companies improve their sales, profitability and productivity.

Tax will be paid more easily and long-running disputes more readily resolved, since tools enabling real-time risk assessment will support targeted interventions to prevent unintentional errors much earlier in the process. Businesses and taxpayers should be better protected from those who choose to cheat the system, as HMRC will be better equipped to tackle deliberate non-compliance and criminal behaviour.

3.2 Reducing the tax gap and wider benefits for businesses

A modern and digital approach will also help to maintain trust in the tax system more widely. The overall UK tax gap is at its lowest ever at 4.7% (<https://www.gov.uk/government/news/tax-gap-falls-to-lowest-recorded-rate>) but within this total there are significant differences; for example, the PAYE gap stands at 1% versus 13% for Self Assessment. It should be possible to reduce both the total tax gap and some of its larger constituent gaps, while lowering the cost of running the system as a whole, making savings for taxpayers.

Modern, digital systems are also important for business productivity as well as efficient tax administration. The Enterprise Research Centre, in their State of Small Business Britain Report 2018 (<https://www.enterpriseresearch.ac.uk/publications/state-small-business-britain-report-2018/>), found that for micro-businesses, web-based accounting software delivered productivity increases of 11.8%. HMRC's implementation of Making Tax Digital to date has resulted in an extremely competitive market for software products. This is driving up innovation, with many products carefully tailored for different business sectors, and offering advantages for wider business administration well beyond meeting tax obligations.

The government expects to see further development, innovation and diversification of these software products, including apps, with a wide range of services to support small businesses and their productivity. Depending on business need, there will be a range of choices from simple, free solutions to sophisticated integrated accounting packages, with strong competition to ensure competitive pricing. The information collected for tax administration also has the potential to support business development and benchmarking through enabling businesses to have a much more up to date understanding of their tax position.

A notable benefit of increasing modernisation of the system will be the elimination of paper-based communications. This is expected to contribute at least a 3% reduction in carbon emissions for HMRC due to the reduction in paper and printing, supporting their ambitious Net Zero and waste reduction ambitions, as well as those of businesses up and down the country. There are additional benefits for businesses from adopting digital record keeping. They will be able to reduce their own use of paper, with an associated reduction in storage space requirements. In addition, those businesses who choose a fully cloud based solution will benefit from being able to access records remotely and work away from the office, allowing more staff to work from home and avoid the emissions related to commuting to work. Tied to this is the additional resilience that comes from not having your records stored in one single location which may be vulnerable to flooding or similar issues.

3.3 Greater resilience and responsiveness in times of crisis

The impact of COVID-19 has emphasised the value of the tax authority having access to real-time data and a more up to date overview of taxpayers' financial position. Real-time data would have provided government with a more accurate picture of the trading and profit levels of the self-employed enabling support to be better targeted. Quarterly reports submitted before the introduction of the Self-Employment Income Support Scheme (<https://www.gov.uk/guidance/claim-a-grant-through-the-coronavirus-covid-19-self-employment-income-support-scheme>) on 26 March would have provided almost a further full year's data after the cut-off date of 5 April 2019. This would have enabled us to pay Self-Employment Income Support Scheme grants based on self-employed people's most recent trading levels, and increased the support some would have received, reflecting year-on-year growth in trading profits.

Furthermore, if, as part of wider reform of tax administration, people were required to register their self-employment and submit trading data earlier, this would have opened up further possibilities. It would have enabled government to provide support to many more self-employed individuals who had

recently set up in business without further exposing the scheme to fraud and organised criminal attack, as the data to support their claims would have been already available and accessible.

A tax administration system which is more resilient and adaptable will offer greater flexibility and scope to provide targeted support to people and businesses in the face of a future national crisis. HMRC's core function, as set out in statute, is as a tax authority: to collect tax due in order to pay for vital public services. This in itself makes HMRC an important part of the UK's national resilience capability. Nevertheless, as the pandemic has demonstrated, HMRC's ability to deliver payments to businesses and to the self-employed rapidly has been crucial to the government's response. An effective modernisation programme for tax administration provides the opportunity significantly to broaden, deepen and reinforce that emergency capability, preserving value and building trust, to huge long-term national benefit.

4. The need for reform

While great strides have been made in opening up digital tax services, many of these are built on old technology and manual, paper-based processes that are no longer fit for the 21st century.

The current paper based, time lagged system is out-dated and at odds with the world in which we live, where smart devices, streaming services and social media platforms shape the way people communicate, earn money and pay for things. Changes in how people work, hold their assets and the speed of the changing world have put pressure on the tax administration system. The more complex working patterns and businesses become, the harder it becomes to get tax right using the same old systems and approaches. This results in time consuming and costly approaches for the taxpayer, their agents and representatives, and government as well as making it more difficult for HMRC to collect the tax that is due.

Without action it is likely that collecting tax due will get harder, with costs increasing for many taxpayers, businesses and for the government. The UK is not alone; these challenges face tax authorities around the world. International evidence shows that a trusted, modern tax system that makes it easy for taxpayers to pay the tax they owe is the most cost-effective way of securing and sustaining future revenues.

While the UK's current tax gap is at its lowest ever at 4.7% this still represents a £31 billion shortfall between the tax that is due and that which is paid. Without reform of our tax administration system over time it will become increasingly difficult to collect tax and the costs of meeting tax obligations will increase for taxpayers, businesses and government.

HMRC have been widely praised for the speed and effectiveness of delivery of the Chancellor's Coronavirus Job Retention Scheme (<https://www.gov.uk/guidance/claim-for-wages-through-the-coronavirus-job-retention-scheme>) and the Self-Employment Income Support Scheme. However, as the Chancellor has recognised, there have been some hard edges to the support schemes as a result of the limitations of the tax administration system. With more timely data HMRC would have had greater flexibility in designing the support schemes, enabling a more flexible, inclusive and if needed, a more precise targeting of policy responses to a future crisis. More broadly, COVID-19 has highlighted the need for a more flexible, resilient and responsive tax system. The Self-Employment Income Support Scheme could have been delivered more quickly, without the need for 8 weeks' intensive work extracting, cleansing and reconfiguring the relevant data.

The case for modernising tax administration has been made for many years by taxpayers, their agents, stakeholders and outside experts. However, the COVID-19 pandemic has highlighted the need to accelerate the reforms, maintain revenue collection, improve national resilience and disaster response, and enable the development of new tools to boost productivity growth in companies.

5. Our 10-year strategy

This is a 10-year strategy. The government's ambition over the next few years is to make substantive progress, but also to lay the foundations for further reforms in the period to 2030. The following areas are fundamental to this approach.

5.1 Making Tax Digital

Making Tax Digital is in the initial phase of roll-out for VAT. For those VAT-registered businesses with taxable turnover above the threshold mandated to operate Making Tax Digital since April 2019, it has been shown to work. The vast majority of those businesses are doing so successfully and the service is working smoothly. For many businesses, Making Tax Digital is a natural extension of the way they already operate. Businesses operating Making Tax Digital are already reporting wider productivity gains and reductions in input errors.

Making Tax Digital is the first phase of a modern, digital tax service. It allows businesses more time to maximise business opportunities and helps to foster good financial planning. This integrated approach to business administration and tax means that many of the existing paper-based or manual processes are eliminated, and time spent on administration is reduced. HMRC case studies published in the Making Tax Digital review (<https://www.gov.uk/government/publications/making-tax-digital-review>) at the March 2020 Budget, confirm this, from a teashop in Orkney who moved from manual accounts to Making Tax Digital reporting that "Going digital has made an immense difference to the amount of time that [they] have free" to a farm secretary in Basingstoke that updated their software for Making Tax Digital saying "Making Tax Digital for VAT has been nothing but straightforward [...] the whole process could not have been easier".

Since 2019 over 1.4 million businesses have started using Making Tax Digital for their VAT, submitting over 6 million returns. Over 30% of smaller VAT-registered businesses, who are not yet required to use Making Tax Digital, have chosen to do so voluntarily. But there have also been lessons learned, which will be used to inform and shape introduction of the next phases of digital implementation.

5.2 Digitisation: the global norm for modern tax administration

Across the globe, digitisation of tax administration similar to what the UK is embarking on is increasingly the norm, with some countries already taking more decisive, faster steps.

Going digital in Denmark

Denmark introduced a digital system back in 2014 and digital reporting is already well-established. This has reduced complexity for SMEs and led to a fall in the number of unnecessary customer inquiries.

Digital tax reporting in Finland

Reductions in customer contact have been seen with the introduction of digital tax reporting in Finland, which has also given businesses the opportunity to choose a range of different services from the Finnish Tax Authority's system or third-party software providers.

New Zealand's Making Tax Simpler programme

New Zealand is on track to digitise their tax system through its Making Tax Simpler programme, with 85% of SMEs likely to be using digital record-keeping.

Australia's Smarter Data initiative

In Australia, the Smarter Data initiative which commenced in 2015 allows sole traders and individuals to manage most of their tax affairs online, including updating their personal details, report and pay tax, and manage their pensions and pension contributions for their employees.

The UK is not alone in wanting to reap the benefits of digitisation and modernisation; if we want to remain an effective tax authority, we need a tax administration system that can keep pace with a changing world.

5.3 Making Tax Digital: next steps

The government therefore believes that now is the right time to plan the extension of Making Tax Digital, as follows:

- from April 2022 Making Tax Digital will apply to all VAT-registered business for their VAT obligations
- from April 2023, businesses and landlords with business income over £10,000 per annum which are liable for Income Tax will need to keep digital records and use software to update HMRC quarterly through Making Tax Digital
- to ensure that the Making Tax Digital approach also evolves for those businesses that have incorporated to become companies, the government has published a consultation on the design of what the system should look like for Corporation Tax

(<https://www.gov.uk/government/consultations/making-tax-digital-for-corporation-tax>)

With Making Tax Digital for Income Tax in place, HMRC will have access to up-to-date business information no more than 4 months old for up to 4 million small businesses and landlords. This allows for better targeted policy responses and makes the tax administration system more resilient and effective in responding to future crises.

The extension of Making Tax Digital does not create any additional tax liabilities for businesses, nor will it change when tax is paid for any businesses or landlords in scope of the extension. However, the government recognises that these are important steps forward and in taking these next steps of Making Tax Digital, HMRC will engage widely with the businesses affected, and ensure that implementation plans are well designed to support the transition. This work will draw on everything that has been learned from implementation of the VAT service to date, and responses to the evaluation document published earlier this year (<https://www.gov.uk/government/publications/making-tax-digital-review>).

There are a wide range of Making Tax Digital software products available already, including free products; businesses can choose a product that suits both their budget and their needs, from basic products that ensure Making Tax Digital compliance to highly sophisticated accounting systems. The

roll-out of Making Tax Digital for VAT, has shown that some businesses have utilised 'bridging' software as an initial cost effective option to provide a secure link between spreadsheets or legacy software, allowing them to comply with Making Tax Digital requirements without the need to modify well-established business processes which feedback suggests can sometimes cause concern for a small minority. As businesses using bridging software start to experience some of the benefits digital record-keeping has to offer, HMRC anticipate more will make the transition to fuller web-based accounting software to tap into the wider productivity benefits available to the most digitally engaged.

Initial estimates are that the average transitional cost will be about £175 for each affected business, with an additional annual cost of about £20 each; this includes the efficiency gains in tax administration, but does not take account of the productivity benefits of going digital. These are the representative additional costs of basic compliance with Making Tax Digital requirements. Costs will vary according to business size and circumstances, and some businesses will choose to go further than the minimum requirements for the benefit of their business. As with Making Tax Digital for VAT, HMRC will work with the software industry to ensure that businesses needing to update their accounting systems have access to affordable software products and transitional costs are kept to a minimum. HMRC will do further work over the summer, engaging with stakeholders to refine these estimates in consultation with businesses and their representatives.

By design, Making Tax Digital provides a digital platform for the capability and expertise of third-party software providers to offer software solutions to meet a wide and continuously evolving range of business needs. Tax agents and accountants also play an important role for many taxpayers, so it is crucial that they can continue to act effectively for their clients as the tax system itself becomes more digital. Both software and human agents support business customers and help to ensure they pay the right tax, thereby securing tax that is due to the Exchequer. HMRC services will be built increasingly with these third-party interactions and compliance in mind.

5.4 Timely tax payment

Alongside more frequent reporting through Making Tax Digital, the government is seeking to encourage public debate on exploring appropriate timings and frequency for the payment of different taxes. Real-time information can be introduced without the automatic need to change the frequency of tax payments, but the government wishes to explore whether, over the longer term, tax payment should be brought more in to line with the increasingly real-time nature of tax reporting and other customer services. As announced at Budget 2018 (<https://www.gov.uk/government/topical-events/budget-2018>), HMRC are already looking at payment of tax at the point of sale, facilitated by an intermediary, for the payment of VAT.

The Income Tax Self Assessment system is the most significant example of a delay between the point of taxable income and the point of tax payment. At present, the 30 million or so UK employees within the PAYE regime already pay their tax monthly or weekly, with tax deducted at source from each pay cheque by their employer. In contrast, the self-employed are generally required to pay their tax bill in 2 or 3 payments, with the first due 10 months into the tax year in question, and others falling later.

The delays in the UK system create numerous challenges both for taxpayers and HMRC. They can make it harder to manage cashflow, particularly for the newly self-employed, whose first tax bill could be up to 22 months after they have started trading and cover the whole of the first year plus half towards the second. These issues can in turn lead to taxpayers getting into debt, causing stress and difficulty.

External and internal HMRC work has found that some taxpayers struggle with the current time lag. A report published by the Office of Tax Simplification (OTS) (<https://www.gov.uk/government/publications/ots-tax-reporting-and-payment-arrangements-review>) found that many of the self-employed, particularly those with lower incomes, would welcome paying tax more

regularly, in order to help them budget and to prevent surprise bills. Customer research by Ipsos Mori (<https://www.gov.uk/government/publications/supporting-customers-to-pay-their-tax-on-time>) for HMRC found that those who had been in debt had a strong preference for paying tax in instalments in order to help budgeting and to give them a greater sense of control over their tax affairs.

The government is interested in engaging with stakeholders to explore the opportunities and challenges of, in the future, enabling taxpayers to pay their tax as they live their daily lives and conduct their businesses. Paying tax more promptly will make it easier for many to manage their cash flow as tax will become due when they have access to the funds to pay it. This could be particularly helpful for those with seasonal or irregular incomes who may currently find that their tax bill arrives during periods of lower income.

However, it is also important to bear in mind the resilience benefits. In normal times, more regular payment allows tax overpayments to be more swiftly repaid. In time of crisis, the flow can work in the opposite direction, with targeted government support paid directly and in real-time to businesses and self-employed individuals.

The government is interested in exploring the role of the intermediaries who support taxpayers to meet their tax obligations. International evidence, such as from the United States' Internal Revenue Service (IRS) compliance research (<https://www.irs.gov/pub/irs-soi/p1415.pdf>), shows that more timely, accurate information and the ability to have a trusted intermediary handle taxpayers' reporting and payment can lead to better compliance. Expanding the role of intermediaries, whether in the reporting or payment of tax, would give the government more policy flexibility and make it easier to deliver better targeted support to taxpayers. During the response to COVID-19, the flow of real-time data from employers via the PAYE system enabled the government to draw on data from March 2020 to support employees through the Coronavirus Job Retention Scheme and help those employers to deliver the payments to individuals quickly and easily.

However, changing the timing and frequency of tax payment would be a major change. While businesses in some sectors would be relatively unaffected, the change could potentially have adverse implications for businesses in other sectors. Any change in payment could affect liquidity, particularly affecting businesses which experience a time lag between investing in their business and making a profit (such as those that purchase stock to resell) or incur one-off large costs (for example purchasing vehicles or large equipment). Any transition would need to be carefully managed to avoid significant adverse effects on business cash flow during the first year. These impacts need to be carefully assessed and understood and any changes would need to be introduced gradually over the longer term and in close collaboration with industry, advisers, representative bodies, and civil society.

In order to open up a wider conversation on the appropriate timings and frequency for the payment of different taxes, the government intends to publish a call for evidence including ideas on how to make it easier for those who wish to pay their tax bill more regularly to do so on a voluntary basis.

5.5 Reform of the tax administration framework

The UK's tax administration framework consists of a patchwork of rules and obligations, parts of which are over 50 years old and not designed to facilitate a 21st century tax system. It clearly needs reform. The tax administration framework refers to the set of laws, regulations, processes and guidance that allow HMRC to administer the tax system. The framework establishes some of the core interactions that take place between HMRC and taxpayers and sets out the obligations on both.

The age and complexity of the legislation can make it difficult to navigate. This also contributes to the number of cases being tested in the courts, when it is not clear whether taxpayers or HMRC have acted in accordance with the framework legislation. This in turn adds a burden to the courts system, increases uncertainty and costs for taxpayers and hampers efforts to tackle tax avoidance.

The new framework needs to be flexible to adapt to changing circumstances and responsive enough to enable targeted support for taxpayers across the different tax regimes, while providing appropriate safeguards for taxpayers. There is an opportunity to create a simpler, more transparent framework that helps build greater trust and provides greater certainty for taxpayers. The government recognises that any changes will have a very wide impact, and so reform needs to be careful, open and undertaken collaboratively with the many different users, including taxpayers, intermediaries, agents and the judiciary.

Opportunities to modernise tax administration could include:

- simplified registration processes, so that businesses need only register once with HMRC for all taxes, rather than navigating different rules, processes and deadlines for different taxes
- smarter use of data on taxpayers and their activities – pre-population of tax returns, including with data from third-parties – would reduce the need for taxpayers and agents to submit additional information that HMRC either already holds or could verify itself

Other countries have also demonstrated the benefits of moving towards more real-time systems: for example, in New Zealand, small businesses that take up a pay-as-you-go option are able to benefit from in-year tax refunds. And as described above, earlier registration of self-employment, together with more up-to-date trading data, would have enabled the government to support more people, in a more targeted way through its COVID-19 support schemes.

The government will explore the options for a revised framework that:

- provides certainty and appropriate safeguards for taxpayers
- is flexible enough to adapt to changing circumstances and enable targeted support for taxpayers
- supports HMRC's aim to make it easy to get tax right and harder to get wrong
- helps build trust in a tax system that is seen as fair and even-handed
- is simpler and more transparent
- helps reduce the cost for taxpayers of meeting their obligations and drives down the costs to the Exchequer

The government intends to publish a Call for Evidence later in the year to help identify the range of reforms that could be required. This is likely to cover:

- how taxpayers are identified and registered by HMRC
- how tax liabilities are identified, amended and assessed
- the obligations on HMRC and taxpayers
- penalties and sanctions for failing to comply with obligations
- taxpayers' rights and safeguards, including appeals and dispute-handling

6. Careful and incremental reform

Modernisation of the UK's tax system cannot and should not happen overnight. The government recognises that any change of this potential scale will raise important questions and public concerns, and that reform must proceed steadily, incrementally, and wherever possible with the support and engagement of stakeholders. HMRC will need to work with stakeholders to understand the costs and benefits to different groups of taxpayers and to the government, and the impact and potential role of third parties such as software providers, tax agents and other intermediaries. HMRC will have to ensure that reform of their systems can be delivered within defined frames of time, cost, and that the reforms realise the benefits they promise.

6.1 Challenges of transition

In particular, it will be important to ensure that the pace and sequencing of these reforms reflect the needs of taxpayers, as well as the requirement to upgrade and improve HMRC's own technical and communications infrastructure. Getting the foundations right first is an important step, and that is why the government has set out the roadmap for Making Tax Digital and is prioritising work to reform the underlying tax administration framework. Longer term reforms such as exploring the appropriate timings and frequency for the payment of different taxes will not be delivered quickly but will benefit from a genuinely open debate with stakeholders on how best to get there. This is in line with the government's tax policy-making framework.

Changes to the way businesses interact with the tax system can incur costs. But external stakeholders and taxpayers regularly highlight how much they value greater ease of doing business with HMRC. One-off costs are sometimes an acceptable trade-off in return for longer-term benefits. Early engagement with stakeholders will ensure that HMRC have a better understanding of those costs and can design the reforms in a way that minimises them.

The evaluation of the Making Tax Digital VAT service (<https://www.gov.uk/government/publications/making-tax-digital-review>) published at Budget 2020 indicates that businesses are already reaping longer-term benefits. For many businesses, this has been achieved at minimal cost. There is a competitive software market with more than 500 products available including many free and low-cost products. For example, a business using fully integrated software told HMRC: 'I feel confident in the software that we're using... it's been a plus, as a company... because of the time we're saving.'

Large scale IT and business transformation projects are challenging and need to be clearly communicated (and closely designed with) customers. Over the last decade, however, HMRC has demonstrated a capability to deliver large scale IT reforms through real-time information and Making Tax Digital. More recently, HMRC has been widely praised for their speed of delivering the COVID-19 support schemes and the ease with which customers have been able to access these services. But it is well understood within HMRC and government more widely that it is easier to implement new systems than to upgrade and integrate legacy systems and data platforms. Future plans for tax administration will require careful management and delivery.

In considering wider digital-led reforms, high-quality customer service remains a priority. HMRC will continue to provide support and those that need help will receive a multi-layered customer support approach stretching across agents, third party software support, through to telephony support, webchat, and HMRC's Extra Support Service. Businesses and individuals that do not have reliable access to the internet will not incur any additional burden as the government has been clear that if a business cannot go digital, it will not be required to do so.

In delivering all of these reforms, the government will work closely with the voluntary and community sector to support those customers who need extra support. It will also continue to ensure that our services can be accessed by those who are digitally excluded.

6.2 Checks and balances

The government expects HMRC to maintain and build public trust in the tax administration system. Taxpayers must be reassured that the powers HMRC has will be used fairly, carefully and consistently to ensure that everyone pays the correct tax. HMRC's operational checks and balances will need to continue to complement the statutory safeguards, so that powers are exercised in a way that promotes the public interest.

HMRC continues to take action to build public trust in the tax administration system including engaging with taxpayers, tax agents and their representatives. This includes evaluating HMRC's implementation of powers introduced since 2012 against the powers and safeguards principles,

through to specific support such as the expansion of HMRC's Extra Support Service to ensuring customers in vulnerable circumstances receive the extra help they need during enquiries.

In addition, HMRC's new Customer Experience Committee

(<https://www.gov.uk/government/organisations/hm-revenue-customs/about/our-governance#customer-experience-committee>), which is attended by private sector experts, has an important role in supporting HMRC, as it reviews HMRC's Charter (<https://www.gov.uk/government/publications/your-charter>) to set out the relationship customers should expect with HMRC. A draft updated Charter has been published for consultation (<https://www.gov.uk/government/consultations/hmrc-charter>).

The government also recognises that there are an increasing number of third parties playing a critical role in tax administration. These too can have a significant impact on trust in the tax system, and they can be a very important source of feedback and information. Some of them have been involved for many years, such as employers and paid agents; some have been involved more recently, such as software developers. But all can play a critical role in securing successful outcomes. The government wants to work with these third parties to ensure high standards, including through the March 2020 consultation on raising standards in the tax advice market

(<https://www.gov.uk/government/consultations/call-for-evidence-raising-standards-in-the-tax-advice-market>) and HMRC's strategy to tackle promoters of mass-market avoidance schemes

(<https://www.gov.uk/government/publications/tackling-promoters-of-mass-marketed-tax-avoidance-schemes>); both of which aim to ensure that taxpayers have assurance that the advice and services they receive are competent, professional and trustworthy. The government also wants to ensure, where needed, that these third parties can interact with HMRC digitally and this includes making it easier for agents to transact digitally on behalf of taxpayers.

7. Next steps

To protect tax revenue, build individual and collective resilience and boost productivity, the UK needs a modern, digital tax administration system. HMRC will hold discussions about these plans and proposals over the summer. They are keen to hear views from everyone with an interest and will ensure that key stakeholder forums have the opportunity to debate and shape the way this vision is developed. The government will be working collaboratively and transparently in the period ahead so that proposals can be developed which are effective, imaginative and ambitious. There will also be dedicated consultation on some elements of these reforms, with more detail set out at future fiscal events.

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