

Office of Tax Simplification: Third Party Data Reporting Review

Management of taxes

07 May 2021

The CIOT, ATT and LITRG has fed into the Office of Tax Simplification's call for evidence in relation to third-party personal tax data about individual taxpayers and whether it would be helpful for this to be submitted to HMRC on their behalf. While thinking that in some circumstances this could be helpful, there should be safeguards and clarity around responsibilities.

The CIOT, ATT and LITRG recently met the Office of Tax Simplification (OTS) to discuss their call for evidence (tinyurl.com/2tfzrv2y) looking at whether and in what ways it would be helpful for different sources of third-party data to submit information about individual taxpayers to HMRC on their behalf.

The review's focus was on personal tax data relating to individuals, such as data held by other government departments; and data held by third parties, such as banks, building societies and investment managers. It considered whether there are alternative ways in which HMRC could receive and use this information. For example, taxpayers have to provide HMRC directly with details of their taxable income. Could this information instead be uploaded by the financial institution or wealth management company and reflected in the taxpayer's online tax account or pre-populated into their self-assessment tax return? Similarly, could information about reliefs, such as gift aid on charitable donations and pension contributions, be reported to HMRC by charities/online fundraising platforms and pension providers and then be pre-populated into returns or claimed through the individual's personal tax account?

The CIOT said that in general we support the principle of third-party data reporting and agree that it should be looked into. If it works well, it could be very beneficial for both taxpayers and HMRC. As with any automated process, however, things could go

wrong, mistakes could be made and items could be misclassified, etc. It must be clear who is responsible for checking the accuracy of the data and correcting errors. We discussed what sort of data would be most useful and agreed that it would be very helpful if data held by other government departments, such as the state pension, could be reflected in online tax accounts or pre-populated onto returns. We also highlighted the role of agents in the process and that it is essential that agents are able to see the same information that their clients can see.

ATT's discussion with the OTS identified how the usefulness of the automated provision of data could vary considerably between taxpayers and also in relation to different data sources. This pointed to the need for taxpayers being able to choose both whether or not to allow any automated provision of data and from which particular sources.

ATT favoured data being transmitted to a virtual holding pen within the personal tax account, rather than pre-populating any return. This was seen as a way to reinforce the taxpayer's responsibility for the reporting of the data, providing the taxpayer with the opportunity to correct the data and, importantly, to record the reason for overwriting the automated data. We said that it would be essential for the taxpayer to be able to make those reasons accessible to HMRC – rather like the white space on a return – in order to reduce the likelihood of HMRC subsequently needing to check why detail provided in a return did not align with the automated data.

We also noted that consideration would need to be given to the relevance of a claim of reasonable excuse where a taxpayer had placed reliance on third party data which was incorrect or incomplete – a point developed below by LITRG.

LITRG also met with the OTS and followed this up with a written submission focusing on some of the themes relevant to unrepresented taxpayers. In particular, LITRG echoed the CIOT's concerns about where the balance of responsibility lies between the taxpayer, the third party and HMRC as regards the accuracy of the data. If data is relayed to the taxpayer via an official government department, it is likely to give the impression that the information is accurate – regardless of the source. Yet, it is the taxpayer who faces the consequences if that information is accepted as accurate but later turns out to be incorrect.

LITRG's submission also discusses the use of estimated data and the problems faced by unrepresented taxpayers in trying to reconcile HMRC's figures without a clear breakdown of how a certain figure is made up. If the use of third party data is to be

increased, then HMRC need to be more transparent about what is used when calculating an individual's tax liability.

Finally, LITRG points out several examples of where it feels HMRC could use existing data they hold to better advantage. These include highlighting to PAYE taxpayers that they might be liable to the high income child benefit charge (or, as a minimum, issuing assessments for such unpaid liabilities much sooner), and helping construction industry scheme workers to report their income accurately. In the latter case, LITRG has seen a number of examples of where such workers have misreported their self-employment income as employment income - which, among other issues, has led to non-payment of Class 2 and 4 National Insurance contributions and ineligibility for the Self-Employment Income Support Scheme. LITRG feels that HMRC could and should have identified these issues sooner by joining up the data held on separate systems.

LITRG's submission can be found here: www.litr.org.uk/ref2437. The potential use of third-party data is also being considered in HMRC's call for evidence 'The tax administration framework: Supporting a 21 st century tax system' (tinyurl.com/kpvnicye8), and in the discussion document 'Helping taxpayers get offshore tax right' (tinyurl.com/2tpj83sr), both of which were published on 23 March 2021.