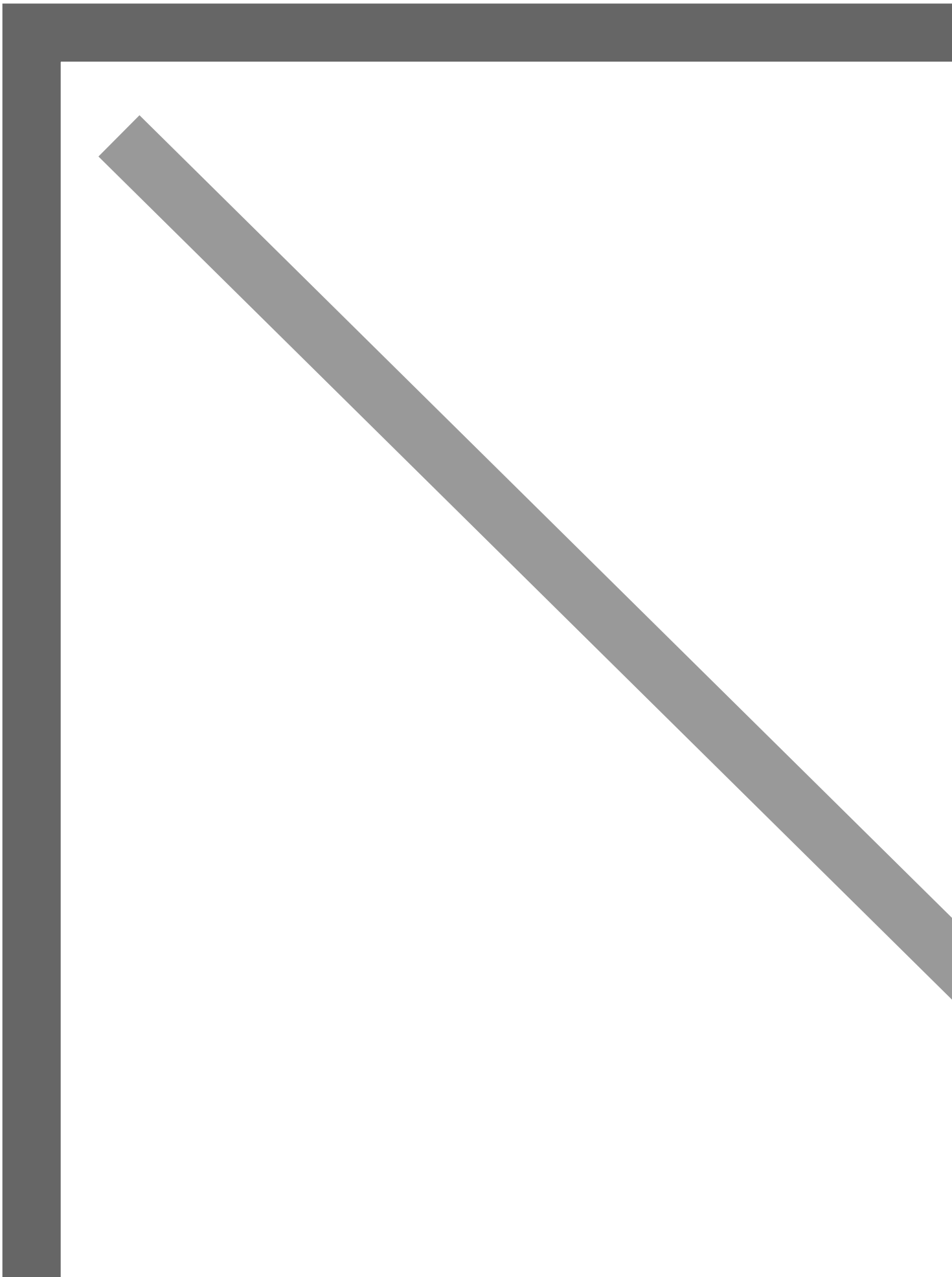


Digital tax concerns

Management of taxes



01 April 2016

James Abbott wonders whether new tax digitalisation reporting is a step in the right direction or a mistake waiting to happen

Key Points

What is the issue?

The chancellor's proposal for digital tax accounts has a short and an underpublicised consultation period and an overly ambitious timeline

What does it mean for me?

Digitalisation is planned to start this year and changes will require taxpayers to submit digital accounts on a quarterly basis by 2018. It is not clear what information is needed, and whether the intention is for advisers or for taxpayers themselves to compile these accounts

What can I take away?

It appears that the plans have not been thought through carefully, there is a long way to go regarding details, and past attempts at digitalising on such a scale has ended in failure

When George Osborne announced the introduction of digital tax accounts in his 2015 Budget statement, the impact of his comments were not instantly obvious to the average taxpayers, or for many accountants.

This idea is something that has been around before and on the surface looks to be a useful measure. What taxpayer or business would not like instant access to their affairs and the ability to make easy payments online? It even seems like it might improve communication with HMRC, a task which can be difficult at the best of times.

However, since then the government has released more details of the proposed digitisation of tax and it would seem that its impact is going to be far greater than previously thought. In its consultation document, *Making Tax Digital*, David Gauke, financial secretary to the Treasury, says the new system will eradicate 'bureaucratic form filling' and eliminate 'unnecessary time delays'.

This all sounds fine until you really look into the policy and realise the implications of the digitisation of tax. The new system will be one of the biggest changes to the UK tax system in years and will ultimately affect the way information is received by HMRC and the way in which tax is subsequently collected.

Timescale

The initial stages of the government's digital tax campaign are set to start this year, with every individual and all of the UK's five million small businesses getting access to their digital tax account before June.

Before this can happen HMRC must conduct a statutory consultation, a process which is currently underway up and down the country. The department has already conducted meetings with accountants and their clients in several cities. These informal meetings will lead to a more formal public consultation this spring.

However, once these are out of the way the timeline for the implementation of the system speeds up rapidly and within four years HMRC expects the full range of services to be available to taxpayers through their digital accounts.

When you consider the scale of this task, this seems extremely fast and it is also concerning that something that will have such an influential effect on taxpayer's livelihood has such a short underpublicised consultation period.

Reporting

Under the proposals, by December 2018 businesses, landlords and those who are self-employed will need to report their income tax and National Insurance obligations to HMRC on a quarterly basis. This will be followed in the two subsequent years by the requirement to report VAT obligations and corporation tax.

This is information that would usually be included in a person or business's self-assessment tax return, which of course is submitted annually. It is clear to see the move to quarterly reporting will place a heavy burden on businesses and the self-employed, both in time and in the cost incurred through employing an accountant four times a year rather than once.

HMRC will say, 'you do not need an accountant to fill out the information on our new system'. This may be the case, but how many businesses are going to want to spend time on a quarterly basis preparing their details and submitting it online? What happens when they are uncertain of an expense claim or something which requires in-depth interpretation? Do they make an educated guess and hope for the best?

So what will HMRC require businesses to report on every three months? Reports from some of the early consultations suggest that HMRC has not fully considered this issue yet and it remains unclear exactly what details they will require. George Osborne in his Budget speech last year said that the system would be the 'death of the tax return', but it may be safe to assume that it will include many of the things that taxpayers are currently required to submit annually.

Many might think that as the partner of an accountancy firm I would be wholeheartedly welcoming the additional income that quarterly reporting will generate. However, I am concerned that the system will place too much of a burden on businesses and individuals, which will in turn have a larger impact on the wider economy.

Access

HMRC has not addressed the issue of authorised agent access. In its consultation document's timeline HMRC says that at some point between July and December 2016 authorised agents will be able to access and manage their clients' digital accounts, but why not have dual-access from day one?

It seems perverse that as agents my peers and I have been trusted with clients' information for years, but we are not allowed to help them from the start. In order to be effective we must have the same level of access as our clients or else we will not be able to act in an efficient and effective manner on their behalf.

Track record

Assuming that the consultation period goes well and they launch the system later this year, would it be ready? So far HMRC has been very quiet about the infrastructure behind digital tax accounts, but you only have to look at some other famous examples of government trying to implement information technology (IT) to see the dangers that might lie ahead.

The prime example of this is the NHS National Programme for IT, an initiative by the Department of Health in England to move the NHS in England towards a central electronic care record for patients, so that England's 30,000 general practitioners and 300 hospitals could have easy access to the information when it was required. Established in October 2002 and launched several years later, it was beset with issues and by 2009 some of the system had been implemented, at a huge cost of more than £20bn, £17m more than initially intended.

Unfortunately, the government has a long history of promising effective and cost-efficient IT schemes that ultimately end up being extremely costly and riddled with problems. With the potential number of taxpayers as high, if not higher than registered patient numbers, the difficulties seem obvious, especially considering the short timescale. More importantly, if they are ready, will they work as intended? A small technical error in the system could have big implications for a taxpayer, especially as the system will inevitably lead to a quicker payment of tax – a goal which I would suggest is at the heart of this system.

The spirit of entrepreneurialism

What seems most intriguing though, from a business's perspective, is the effect that this move may have on entrepreneurialism in England and Wales. In the last few years the country has seen a boom in the number of small start-ups, with many setting up their own business. However, the introduction of digital tax accounts may place too much pressure on an individual trying to establish their business, with many opting instead for employment where their tax affairs are dealt with through PAYE by their employer. This is contrary to the government's own drive to help entrepreneurs and those seeking self-employment.

Conclusion

The digitisation of tax should be viewed with some concern. There are definitely elements of the new policy which will help taxpayers manage their affairs and these should be commended, but the government's views on how effective this will be are marred by fears that the system will create additional work and costs for businesses and will be beset with issues that could unfairly increase an individual's or business's tax liability.

The project's timescale is also an issue and the government needs to be more open and honest about the system, while encouraging greater interaction from taxpayers, many of whom remain in the dark about the realities of digital tax accounts.

Those that I have spoken to in the whole welcome the digitisation of tax in principle, they just want more of a say before it is forced upon them over the next few years.