

Making Tax Digital

Foreword

A brief introduction from

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Effective, efficient, easier. These are the three keywords the Government is using for their latest change to the way the tax system works.

We do our banking online, we do our food shopping and book cinema tickets online, advertising and bill paying is also now easier with the online, digital services that businesses provide. As people embrace this digital world, HMRC is planning fundamental changes to the way the tax system works.

By 2020, the aim is to have moved to a fully digital tax system whereby:

- bureaucratic form filling will be eradicated – taxpayers should never have to tell HMRC information that it already knows;
- unnecessary time delays are eliminated – the tax system operates much more closely to ‘real time’, keeping everyone up to date and removing the risk of missed deadlines, unnecessary penalties, debts arising and errors in the system being carried forward from one year to the next; and
- taxpayers have access to digital accounts – with the information HMRC needs automatically uploaded, bringing an end to the tax return.

More detail about how these reforms will be implemented and some aspects of their design, will be the subject of further consultation.

Transforming Tax by 2020

The vision set out here is about much more than simply adding digital tools to the current system: it is about transforming the UK tax system into something that feels completely different.

The government says it's committed to reducing the burdens for taxpayers and building a transparent, accessible tax system fit for the digital age. The government set out the vision for this transformation and the ending of the tax return in their March 2015 budget.

Digital accounts for individual taxpayers have been introduced. In 2016, every individual and small business will have access to their own secure digital tax account that enables them to interact with HMRC digitally, similar to an online bank account. These will be tailored to the needs of the individual.

By 2020, businesses and individual taxpayers will be able to register, file, pay and update their information at any time of the day or night and at any point of the year, to suit your own needs. The vast majority will no longer need to fill in an annual tax return.

This vision is about transforming the UK tax system into something that feels completely different rather than just adding digital tools to the system as is. This way, HMRC will be able to collect information relating to taxes throughout the year instead of at the end of the tax period. This will stop taxes that are due or repayments that are owed building up. This will also help by avoiding any surprises at the end of the tax year as you will be presented with a complete financial picture of your tax affairs in your digital account.

1. Tax Simplified

All taxpayers will receive the data and services relevant to them, and those requiring extra help will receive personalised support to suit their needs.

Information that is currently received by HMRC comes from a range of different sources which is held on separate and stand-alone systems. This usually results in the taxpayer being asked to report this same information on a self-assessment tax return. Thus, doubling up on the information HMRC receives. Not only is this an unnecessary burden on the taxpayer but is an inefficient use of HMRC resources. Operating like this can lead to mistakes, information can be wrong or submitted too late. This means that the correct tax is not collected and HMRC has to take action to recover this, which also leads to penalties and charges which could be avoided.

HMRC is joining up its internal systems from which they will populate digital tax accounts with the information it already holds. Work on this is already underway. For example, taxpayers completing a tax return had to include details of their earnings paid from employment, even though HMRC already receives this information through the payroll provider. The same principle applies to information from other government departments such as state retirement pensions.

HMRC receives from other third parties, such as banks and building societies already report interest they pay on their customer's savings. From 2016, information on such interest will start to be included in individual's tax codes, removing the need for many to report this particular income separately in a tax return.

HMRC will also be looking at how further information, such as investment income could make it easier for people to update HMRC and help end the tax return.

HMRC are to make paying easier too. A new system of online billing will mean that anyone who owes tax will be able to see a calculation and pay what they owe, without the need to complete a tax return as they do currently.

Every taxpayer has a different level of understanding and will also need a different level of support. HMRC understand this and they will receive the data and services relevant to them. For those who have difficulty going online or who need extra support, help will be made available through other channels. HMRC are training their teams on its helplines to spot those in need of extra help. These taxpayers will be offered alternative means of support – over the phone, face-to-face or through partners in the voluntary and community sector.

HMRC will also analyse the information it holds to identify those looking to bend or break the rules. These will be spotted earlier and tackled earlier. This should avoid non-compliance and reduce the need for expensive compliance interventions later on. Through better use of data and presenting the data it holds digitally, HMRC are hoping to make life easier for taxpayers and make the collection of taxes more efficient.

2. Making Tax Digital for Business

By 2020, most businesses, self-employed people and landlords will be required to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax account.

98% of Corporation Tax and 99% of VAT returns are already submitted online so millions of businesses already manage their tax digitally. By April 2016, all of the UK's five million small businesses will have access to their own digital account.

By 2020, most businesses, self-employed people and landlords will be required to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax account. These changes will be introduced for some businesses from April 2018 and will be phased in by 2020, giving the business time to adapt.

All these businesses will require digital tools such as software or apps to keep records of their income and expenditure. HMRC will ensure that free apps and software products are available, but many businesses and their advisers will choose to use commercially available tax software packages. Businesses will use software that compiles their tax data as part of their ordinary day-to-day activity, highlighting any possible errors (e.g. Arithmetical mistakes or figures which look out of place) and offering prompts for information that might otherwise be overlooked. Once the software has compiled the relevant data, businesses or their agents will feed it directly into HMRC systems via their computers or smartphones. Updating HMRC directly in this way will be secure, light-touch and far less burdensome than the tax returns of today.

Currently, businesses report their information via tax returns and pay their liabilities long after the year end. The government is changing this system so that it operates much more in 'real time'. Businesses will be able to see a real-time view of their tax and a calculation of the tax due through their digital accounts. By reporting information closer to real time, businesses should have an easier way of understanding of how much tax they owe, giving them far more certainty over their tax position and helping them budget accordingly.

It has been announced that these measures will not apply to individuals in employment or pensioners, unless they have secondary incomes of more than £10,000 per year from self-employment or property.

There is also consultation on options to simplify the payment of taxes, including whether to align payment date and bring them closer to the point when profits arise. This may enable businesses to make single regular payments that cover all of the taxes owed.

3. Making Tax Digital for Individual Taxpayers

By April 2016, every individual taxpayer will have access to their own digital account – simple, personalised and secure, offering an increasing range of services.

Millions of individuals already manage some of their tax affairs digitally through online submission and payment of self-assessment tax returns. 86% of these tax returns are made online. The future tax system for individual taxpayers will be built on the same core principles as those for business.

By 2020, HMRC aims to be interacting digitally with all taxpayers. By that time, the full range of tax and child benefit services will be available for all taxpayers to use, accessible from a wide range of devices and protected by the very latest technology to encrypt data and keep it safe.

Prompts and advice will be automatically targeted through secure messaging in the accounts. These will be tailored to taxpayers' specific needs and circumstances – such as when someone has a baby or reaches retirement. Digital support will be there for those who need it whilst HMRC will build upon the successful online services it already operates through Twitter, YouTube, webinars and webchats.

As with businesses, individual taxpayers currently give information on tax returns and pay any liabilities up to ten months after the tax year to which the information relates. Even with the vast majority of employers now operating PAYE in real time, the final tax position for the employee is typically only reconciled after the end of the tax year. Millions find they have paid too much or too little tax which is both time-consuming and frustrating to resolve.

HMRC already uses data from real-time PAYE to reduce end-of-year under and overpayments, by changing tax codes within the year. From 2017 this will be further developed – checking income, benefits-in-kind and personal allowances each month to make tax code adjustments that will help avoid under and overpayments altogether. This will be of a particular benefit to those with more than one job or those with low or fluctuating income. In the future, they will be able to see these adjustments clearly through their digital tax account and choose how their personal allowances are allocated.

This information together with other real-time information from third parties will be used to ensure that any tax due from other sources of income does not build up. Smaller amounts of tax that arise from this situation will be collected through in-year adjustments to tax codes, whilst larger amounts will show and be payable online. Capital Gains Tax will be brought into line with income tax – paid within 30 days of completion of any disposal of residential property. This requirement will be introduced from April 2019.

4. Tax in One Place

In the five years, all taxpayers will be able to use their digital tax account to see a single, up-to-date and easy-to-follow overview of their tax affairs.

At the moment, many taxpayers have to contact different parts of HMRC to find out their financial position relating to different taxes. A business may pay income tax, VAT, National Insurance or Corporation Tax; an individual may pay income tax, National Insurance contributions or student loan repayments and receive Child Benefit; some people run a business as well as being an employee or having a pension. The modern, digital tax system will give all of these taxpayers a single, personalised view of their overall tax position across all of their liabilities.

This overview will make it much easier for taxpayers and their tax agent, if they have one, to see the payments they have made to HMRC. Those who need to pay HMRC will be able to do so through their digital tax account. Where the need to pay more than one liability, they will be able to make a single payment – off-setting any tax owed on one liability against an overpayment on another. It will feel like paying just one tax.

There will be rules governing when money can be reallocated between different liabilities, an HMRC will be working with stakeholders to establish how these rules work.

Those with more than one source of income collected through PAYE will see an up-to-date picture of their tax affairs, showing all of the information received by HMRC from their employer, and how each income source affects their tax calculation. For example, someone with two part-time jobs will be able to take control of how their personal allowance is split between each of them, in order to pay the right tax in-year.

The End of the Tax Return

Digital accounts will make paying tax much easier, quicker and simpler

Over the next four years, the changes outlined in this paper will bring about the end of the tax return for millions of taxpayers:

- ❖ Most businesses will keep their records using digital tools and send that information at least quarterly to HMRC
- ❖ In spring 2016, HMRC consulted on where it might obtain information directly from third parties, removing the need for taxpayers to report it
- ❖ Taxpayers with changes to report or other information to submit will do so through their digital tax account
- ❖ A new system of online billing will collect outstanding tax which can't be collected through PAYE (for example, small pensions) with no need for Self-Assessment tax returns.
- ❖ Those who currently choose to complete tax returns simply to check their tax is in order will find all the information they need in their digital tax account

Taxpayers will still be responsible for ensuring that their tax bills are correct and telling HMRC about information that is not reported through other means. Digital tax accounts will make this much easier, quicker and simpler.