

10 July 2024

James Murray MP  
Exchequer Secretary to the Treasury  
HM Treasury  
By email: [XST@hmtreasury.gov.uk](mailto:XST@hmtreasury.gov.uk)

Dear Minister,

## **TAX ISSUES FOR THE NEW GOVERNMENT**

On behalf of the Chartered Institute of Taxation (CIOT) may I congratulate you on your re-election as Member of Parliament for Ealing North, on your party's election win and on your appointment as minister for taxation.

As you will be aware, the CIOT is the leading professional body in the UK for advisers dealing with all aspects of taxation. We draw on the experience of our 20,000 members, and extensive volunteer network, in undertaking our work. We have worked constructively with your predecessors, and with you and your colleagues in opposition, and we continue to offer you and your officials our support and assistance in improving the UK tax system.

We would welcome the opportunity of an early meeting with you to discuss a number of significant issues currently relating to the tax system, some of which we have previously raised with you. In particular we would highlight:

### **Challenges with tax administration**

There are a number of pressing issues around the administration of the tax system which deserve to be treated as a priority. We believe that these are hindering the ability to do business and to contribute to growth and increased productivity for the UK and that, unless these are addressed, the tax system will continue to become less efficient, harder to comply with and less effective at both raising revenue and supporting taxpayers.

Specifically we are referring to the need to:

- Resource HMRC to provide the level of service taxpayers need, so it is as straightforward as possible for all taxpayers who wish to be compliant to be so
- Commit to meaningful tax simplification – a simpler tax system, with clear rules and easy to navigate guidance would lead to fewer mistakes by both taxpayers and tax authorities
- Continue to invest in digitalising the tax system but reviewing the process to focus it more on the needs of taxpayers
- Develop an approach to research and development tax credit compliance which accurately distinguishes between valid and invalid claims

We set out these problems in more detail in our letter to you of 27 May (copy appended).

Additionally we are embarking on an ambitious project with ICAEW with the aim of producing data-driven recommendations for investing in a pro-growth HMRC. We would be delighted to speak with you about this exciting work.

### **Raising Standards/Regulation of the Tax Profession and Anti-Money Laundering (AML) Supervision**

We strongly support the agenda to raise standards of the tax profession and are pleased to be one of the authors of Professional Conduct in Relation to Taxation (PCRT) where we, together with six other professional bodies, have worked closely with HMRC in developing high standards which must be adhered to by our members when dealing with clients and the tax authorities.

We responded to the HMRC consultation on Raising Standards in the Tax Advice Market in May 2024 and to HM Treasury's consultation on the reform of the AML supervision regime in September 2023. In our view the consultations need considering together to ensure a coherent outcome – there are currently options in each which could result in building on, or the dilution/removal of, existing professional body led models of supervision and upholding of standards.

We await the outcomes to both of these consultations and look forward to hearing if, and how, you will be taking forward this work.

### **Tax policy-making process**

In January 2017 the CIOT, in conjunction with the Institute for Fiscal Studies and the Institute for Government, published our 'Better Budgets' report, outlining ten steps toward making better tax policy-making.

These ten steps (recommendations) included:

- Stick to the commitment to a single principal annual fiscal event and cut down Budget measure proliferation
- Establish clear guiding principles and priorities for tax policy
- Extend the road-map approach, to set out the direction of travel and future reform for areas or themes of the tax system
- Start consultation at an earlier stage, and stick to the tax consultation principles
- More systematic post-implementation review of whether tax measures are achieving their objectives

We welcome your commitment to a single principal annual fiscal event and to producing a corporate taxes roadmap. However we believe there is more that could be done in other areas to improve tax policy-making.

One area where we believe there could be improvement is greater transparency and accountability over policy costings, again as set out in our letter of 27 May.

We are keen to work with you to bring about improvements in the UK tax system, focusing initially on the priority areas we have identified above, and would welcome the opportunity to meet with you to discuss the issues we have raised in this letter.

Yours sincerely



Charlotte Barbour  
CIOT President

Monday 27 May 2024

Dear Mr Murray,

### **Priorities for tax administration in the next Parliament**

The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 20,000 members, and extensive volunteer network, in undertaking our work.

We have worked constructively with you, your predecessors and members of your team through the current Parliament and previously, and we continue to offer our support and assistance to all with an interest in improving the UK tax system. Our Low Incomes Tax Reform Group is especially active in trying to make the tax system more responsive to the needs of those who are unable to afford to pay for professional advice.

Following the calling of a General Election, we expect that tax will be a central part of the political debate between now and 4 July. Policies regarding rates, thresholds and the design of the tax system are rightly among the highest profile areas during election campaigns. The CIOT, as a non-partisan body, does not take sides in these arguments beyond commenting on the impacts of such decisions (for example, whether they add complexity) and whether proposed changes meet the objectives set out.

However, in addition to these matters, there are pressing issues around the administration of the tax system which also deserve to be treated as a priority. We believe that unless these are addressed the tax system will continue to become less efficient, harder to comply with and less effective at both raising revenue and supporting taxpayers.

Specifically the aspects of tax administration which we believe should be priorities for the next government are:

1. Resourcing HMRC to provide the level of service taxpayers need
2. Review tax digitalisation to focus it on the needs of taxpayers
3. Commit to meaningful simplification of the tax system
4. Get research and development tax credits working properly
5. Effective but proportionate action to tackle rogue tax agents
6. Greater transparency and accountability over policy costings
7. Adherence to sound tax policy making principles

Many of these areas cut across HMRC's Charter commitments but it is not clear what the recourse is or who is accountable where the standards of the Charter are not met.

## **(1) Resourcing HMRC to provide the level of service taxpayers need**

A properly funded and efficient HMRC is vital to the success of the UK economy. Businesses and individual taxpayers trying to comply with complex tax laws need to be able to get support and answers to queries, as well as prompt processing of registrations and refunds, to operate successfully and play their part in the drive to improve growth, productivity and trade.

However, current HMRC service levels are far from where they should be. The Public Accounts Committee concluded in February that they had reached an all time low.<sup>1</sup> A National Audit Office report<sup>2</sup> published this month noted that customers spent a staggering 7 million hours (the equivalent of 798 years) in 2022-23 waiting to speak to an adviser, more than double the 3.2 million hours (365 years) in 2019-20. Figures for 2023-24 are likely to be even higher.

In a survey of our members conducted last summer, 95% of respondents said that poor service levels have a significant or moderate negative impact on the ability of businesses and other taxpayers to do business, with similar responses regarding the costs of doing business, impact on finances, and attitudes to tax compliance.<sup>3</sup>

HMRC's approach of driving taxpayers to digital services by closing or restricting telephone helplines<sup>4</sup> was misguided. We are pleased that it was almost immediately halted.<sup>5</sup> While we welcome the recent announcement of an additional £51 million of funding for HMRC customer services, this is being provided in a context where HMRC is being expected to deliver efficiency savings within this budget (customer services) of at least £116 million in 2024-25. The £51 million injection will merely slow the pace of cuts in HMRC's services, rather than providing a basis for improvements. As a one-off payment it adds further to the uncertainty around HMRC's funding beyond the current year and whether any improvements – or even retention of current services – can be maintained in future years.

We support the use of digital technologies to enable taxpayers who can use them to better self-serve and generate efficiencies for all parties. However, this shift in behaviour should be a natural one, driven by the desire to use digital services because they are better than their analogue alternatives, rather than being forced into a digital system that, currently, does not provide the services, support and reassurance that people need. In the meantime, HMRC must be provided with the resources to provide all year round, well-publicised help and support to taxpayers from a human adviser over phone and webchat.

We are also concerned about the apparent lack of accountability regarding HMRC's performance. Taxpayers are penalised, and face chastening rates of interest, if they fail to meet their obligations. Yet there are no equivalent sanctions on HMRC themselves.

## **(2) Review tax digitalisation to focus it on the needs of taxpayers**

Done well, digitalising the tax system can bring benefits to all parties in the tax ecosystem: individuals, businesses, agents and HMRC. This can be evidenced through the almost universal voluntary online filing of Self-Assessment returns, adopted enthusiastically by individuals and agents because the system is easy to use and there is a strong desire to interact online.

However, to be effective, the drive towards a digitalised tax system must adhere to certain principles. For example, digitalisation should reduce the overall administrative burdens on those involved, not simply outsource work from HMRC to taxpayers and agents. It should accommodate agents from the start, letting them do everything taxpayers can, recognising the centrality of good agents to a well-running tax system. It should be simple, thoroughly tested and co-created with users and developers. It must offer a viable alternative to those who cannot interact digitally.

These are among the principles set out in our 'principles of tax digitalisation'<sup>6</sup>, published in conjunction with our sister charity the ATT. We believe these should act as the benchmark against which tax digitalisation is measured.

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<sup>1</sup> <https://committees.parliament.uk/publications/43549/documents/216398/default/>

<sup>2</sup> <https://www.nao.org.uk/wp-content/uploads/2024/05/hmrc-customer-service.pdf>

<sup>3</sup> <https://www.tax.org.uk/ciot-survey-into-hmrc-s-service-levels>

<sup>4</sup> <https://www.gov.uk/government/news/hmrc-encourages-customers-to-interact-online-with-changes-to-its-self-assessment-pay-and-vat-services>

<sup>5</sup> <https://www.gov.uk/government/news/hmrc-helpline-changes-halted>

<sup>6</sup> <https://www.tax.org.uk/ciot-and-att-principles-of-tax-digitalisation>

Compliance with these principles will ensure that the benefits of digitalisation will be realised, whereas failure to adhere to them is likely to result in increased costs, poor implementation, unachieved policy goals, and a loss of trust in the tax system.

It is against these principles that we remain concerned about Making Tax Digital (MTD). It is seeking to mandate decisions made almost a decade ago, which were ill-informed given there was no prior consultation amongst those affected at the time, and the project has suffered significant delays, growing costs and reductions in scope and ambition, as the enormity and complexity of the task has emerged.

The private beta testing for MTD for Income Tax Self-Assessment (ITSA) recommenced on 22 April. It is vital that close attention is paid to the success of this testing; not simply whether the system is 'working', but the administration time and costs of compliance, and the accuracy of digital records and submissions, which were the original drivers of MTD. We remain of the view that HMRC should provide free software to allow those on the lowest incomes to meet their MTD obligations.

### **(3) Commit to meaningful simplification of the tax system**

The UK tax system has become far too complicated for taxpayers to understand and comply with.

As recent experience with MTD has taught us, a complicated tax system is harder to digitalise, as well as making it more challenging for HMRC to administer it effectively.

The CIOT was disappointed by the decision to abolish the Office of Tax Simplification, although we welcomed the current government's commitment to 'embed tax simplification into the heart of government'. We are pleased to see some positive recent moves on the simplification front, including easements to MTD and the cash basis, the call for evidence on enquiry and assessment powers, and greater simplification-focused engagement.

Notwithstanding this, to truly embed simplification at the heart of tax policy, we think changes to the policy process itself are needed. In April 2023, CIOT, along with several other professional bodies, wrote to the then Financial Secretary to the Treasury<sup>7</sup> setting out nine changes which we think could be introduced to help achieve this. Those changes are:

1. Identify the characteristics of tax simplification
2. Ensure someone is accountable for delivery of tax simplification
3. Include simplification declarations in tax information and impact notes
4. Gaining external input to policy design and implementation
5. Seek feedback from a broad range of stakeholders
6. Ensure HMRC and Treasury engagement groups include tax simplification as a standing objective
7. Increase awareness and improve guidance
8. Allow time for development and integration of systems
9. Adopt a consistent approach across tax regimes

We have welcomed engagement on these issues but there is still much that needs to be done to see a genuine step change in the simplification of the tax system. In the meantime, and in the absence of addressing several of our recommendations, it will continue to grow in complexity, making it harder to comply with and increasing administrative costs for all parties.

We welcome the introduction of an annual report to the House of Commons Treasury Committee on progress towards tax simplification. We encourage all parties to reaffirm this commitment for the next Parliament and to commit to including in the report not just steps towards simplicity but also steps away from it.

### **(4) Get research and development tax credits working properly**

Increasing the amount of research and development (R&D) carried out by companies is a key part of the present government's aim to increase productivity and promote growth.

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<sup>7</sup> <https://www.tax.org.uk/ref1098>

However, we continue to be concerned that HMRC's handling of R&D tax relief compliance is resulting in valid claims being rejected. The increased risk of enquiry by inadequately trained caseworkers is resulting in costs and uncertainty which outweigh the investment incentive, undermining the policy objectives of the regime.

We strongly agree that action is needed to tackle high levels of error and fraud in R&D credit claims. However, as well as catching invalid claims, it appears that a large number of legitimate claims are being rejected or withdrawn due to the 'volume compliance' approach being taken. This is undermining confidence in R&D tax relief, with businesses lacking trust that HMRC will accept or properly consider legitimate claims, leading to reports of businesses exploring moving overseas or scrapping plans to create jobs or invest.

While we welcome the creation of an 'expert advisory panel' to assist the administration of R&D tax reliefs and the ongoing engagement we are having with HMRC on this subject, more needs to be done to ensure that the relief achieves its purpose of supporting innovation.

#### **(5) Effective but proportionate action to tackle rogue tax agents**

We are keen to see the raising of standards across the tax services industry. We have been working with HMRC and other professional bodies on this matter for some time and we will continue this engagement, including responding formally in the next few days to the consultation on strengthening the regulatory framework and improving registration.<sup>8</sup> LITRG has been particularly concerned around the practices of some High Volume Repayment Agents. We welcome the recent steps taken to tackle these issues though more work is needed especially around the use of digital and electronic signatures.

In considering the question of regulation, it is vital that the true nature of the problem is clearly defined and understood, to ensure that the proposed solutions – including whether to regulate the profession – adequately address those problems.

Moving forward with the consultation process, there are a number of areas requiring further, detailed consideration to determine how effectively the proposals would address the issues and how the approaches would operate. For example, what are the criteria for a professional body to become a regulator and what would the role of regulator involve in practice; the scope of regulation (we believe it must apply to all those providing tax advice, even if they are regulated in a different capacity); and the need to ensure that regulation remains proportionate, with administrative burdens for both advisers and regulatory bodies kept under review.

In addition, this is an area of policy which shows the importance of joined up policy making: we are still awaiting the outcome of HM Treasury's 2023 consultation on reforming supervision for anti-money laundering and counter-terrorism financing, which is pivotal for decisions on any model of wider regulation.

#### **(6) Greater transparency and accountability over policy costings**

The government publish tax information and impact notes (TIINs) for tax policy changes when the policy is final or near final. They should give a clear explanation of the policy objective, together with details of the tax impact on the Exchequer, the economy, individuals, businesses, civil society organisations, and any equality or other specific area of impact.

The decision to implement a policy change might be finely balanced, and will involve consideration of the expected compliance and implementation costs and comparing them to the ongoing revenue or wider benefits in order to identify a 'net' financial, social or economic benefit. However, some of the cost estimates included within TIINs are quite simply incredible, and we are concerned that policy decisions are being taken on the basis of flawed information.

For example, HMRC recently closed a consultation on draft regulations requiring employers to provide more detailed information on employees' hours paid via Real Time Information PAYE reporting.<sup>9</sup> The latest TIIN for these (and related) changes estimates the one-off impact on transitional businesses costs as £58m and the continuing impact on

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<sup>8</sup> <https://www.gov.uk/government/consultations/raising-standards-in-the-tax-advice-market-strengthening-the-regulatory-framework-and-improving-registration>

<sup>9</sup> <https://www.gov.uk/government/consultations/draft-legislation-improving-the-data-hmrc-collects-from-its-customers>

administrative burdens as £10m. This translates into an average transitional cost to employers of just £29 on average, and annual ongoing costs of £5 on average<sup>10</sup>.

While we recognise that these are average figures, to conclude that such costs are so low is simply not credible, yet they form part of a policy change that provides no additional Exchequer benefits, and indeed any other benefits are themselves questionable.

HMRC or HM Treasury (as appropriate) should be required to publish the calculations and assumptions used for their policy costings, so they can be subject to appropriate critique and reassessment. We believe that several tax policies might not have proceeded if this more transparent approach to costings had been adopted.

These same principles also apply to, among other things, the publication of evidence used to justify decisions such as the closure of HMRC telephone helplines.

## **(7) Adherence to sound tax policy making principles**

In January 2017 the CIOT, in conjunction with the Institute for Fiscal Studies and the Institute for Government, published our 'Better Budgets' report,<sup>11</sup> outlining ten steps toward making better tax policy and giving us better Budgets.

These ten steps (recommendations) include:

- Stick to the commitment to a single principal annual fiscal event and cut down Budget measure proliferation.
- Establish clear guiding principles and priorities for tax policy.
- Extend the road-map approach, to set out the direction of travel and future reform for areas or themes of the tax system
- Start consultation at an earlier stage, and stick to the tax consultation principles.
- More systematic post-implementation review of whether tax measures are achieving their objectives.

Seven years on, and with the particular circumstances of COVID largely behind us, those recommendations still hold good.

We hope you will give these matters your careful consideration as you draw up your election manifesto and policy programme.

We would of course be happy to discuss these matters with you and/or your advisers at your convenience.

Yours sincerely



Charlotte Barbour  
Incoming President  
The Chartered Institute of Taxation

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<sup>10</sup> £58m one-off impact and £10m ongoing impact, across 2 million PAYE-registered businesses including civil society organisations.

<sup>11</sup> [https://www.instituteforgovernment.org.uk/sites/default/files/publications/Better\\_Budgets\\_report\\_WEB.pdf](https://www.instituteforgovernment.org.uk/sites/default/files/publications/Better_Budgets_report_WEB.pdf)

## **The Chartered Institute of Taxation**

The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

Our stated objectives for the tax system include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.