

## Simplifying and modernising HMRC's Income Tax services through the tax administration framework

### Response by the Chartered Institute of Taxation

#### 1 Executive Summary

- 1.1 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 19,000 members, and extensive volunteer network, in providing our response.
- 1.2 Whilst we are supportive of HMRC's efforts to move from paper to digital, it is crucial that greater taxpayer and agent trust is placed in IT – including HMRC's present IT systems - before digital interaction will become universally accepted (with the unrepresented in particular).
- 1.3 HMRC's traditional support channels, telephone and post will need to be properly maintained with prompt response times, both to assist people to learn and adapt to these new digital systems and apply them to their own circumstances, and to support those who cannot go digital. However, even those who can access digital services may occasionally require assistance, so until greater reliance and faith can be placed in the IT infrastructure, we would urge HMRC not to pare back on those traditional channels. Once that relevant infrastructure and the non-digital support is in place, it is likely that the advantages of digital working will naturally attract taxpayers toward it, but taxpayers will still need to contact HMRC via other channels to resolve glitches and get questions answered. The onset of the Single Customer Account (SCA) will no doubt facilitate this, as will the use of digital forms once awareness and convenience are restored.
- 1.4 While we support encouraging Pay As You Earn (PAYE) taxpayers to open digital tax accounts, it must be recognised that the majority of PAYE-only taxpayers have very little interaction with HMRC – often once every few years if there is a change of circumstance necessitating a revised tax code. As such there is little incentive for them to open a digital tax account. We do, however, support a digital by default approach to notifications to employers and would recommend research into why some employers continue to prefer paper communications.

- 1.5 We think that providing employers with a method to report a change of employee's circumstance outside of the normal PAYE Real Time Information (RTI) financial reporting channel, would speed up information flow between employers, employees and HMRC. We would also encourage HMRC to engage more with PAYE taxpayers, providing them with more information around what changes they need to notify to HMRC and the different ways to do this (whether by digital tax accounts, digital forms, letter or phone call), improving the repayment of overpaid tax, and publicising the benefits of a digital tax account as a secure method of communication to and from HMRC.
- 1.6 We support a change to require new Income Tax Self-Assessment (ITSA) registrations to be made online, with a digital by default approach to subsequent notices to file and a requirement for annual SA tax returns to be submitted digitally. However, this should only become mandatory when the digital service is operating smoothly, without 'glitches', with widespread accessibility and high customer satisfaction. Non-digital alternatives must continue to be provided for those groups for whom HMRC do not provide an online service, those people who cannot access HMRC's digital services and those digitally enabled who simply require further assistance.
- 1.7 When considering the ITSA registration criteria, we agree that the main issues concern guidance, thresholds, HMRC's IT systems and the underlying legislation. Ultimately, the rules around who needs to register for ITSA should be as simple as possible so that they are easy to understand for the ordinary taxpayer and can be easily explained in HMRC's guidance. Rationalising and aligning the registration criteria with the legislation should be considered.
- 1.8 More could be done via the SCA if its functionality is good enough to engage people from the start. But until HMRC's IT systems can successfully handle the reporting of untaxed income, claims and reliefs (for example via the SCA, Simple Assessment or through PAYE), there will continue to be a need for people to register for ITSA and file tax returns.

## **2 About us**

- 2.1 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.
- 2.2 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.
- 2.3 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.
- 2.4 Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

### 3 Introduction

3.1 This consultation is seeking comments on the Government's plans to modernise Income Tax services. It focuses on the PAYE and ITSA tax regimes. The Government is particularly interested in encouraging taxpayers to transact with HMRC digitally, and in reducing paper communications.

3.2 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.

All of these objectives are relevant to this consultation.

### 4 Question 1: What barriers do you experience when accessing digital versions of the forms above that drive you to a paper option? Are there any particular forms/processes that cause major issues?

4.1 The main barriers are:

- lack of awareness combined with fear of the unknown,
- lack of knowledge about using the software and often not possessing the hardware and/or reliable internet connection,
- the lack of utility for some hardware such as smartphones (and even just accessing the forms themselves), and
- a general unwillingness to change.

4.2 As with anything new, there is some wariness about the security and utility of submitting data digitally as well as receiving things digitally. For many years people have been used to receiving paper forms, so a change from that will carry some natural reticence to place one's trust in electronic forms and communications instead.

4.3 Agents will generally welcome the move toward digital, where it makes their interactions with HMRC and clients easier. Indeed, most agents are comfortable with digital interaction and have used digital formats for a long time.

4.4 However, we are concerned about unrepresented taxpayers. Many, particularly elderly taxpayers, will not be computer literate and so even if they are keen to access digital versions of forms, they may not know how to access them. Those living in very rural and isolated communities may have poor internet connections. Some individuals have health issues which make using a computer or smartphone difficult or impossible. Whilst many people now possess smartphones and tablets, these may not be the best devices from which to access

digital forms, or to complete them – HMRC's app, for example, is useful for checking dates and figures, but actually completing any forms on a smartphone, or downloading one, is not so easy. Whilst HMRC's app has a message function, they can easily be missed as there are no alerts, so a document's arrival could go unnoticed. Even if one has access to a functional desktop computer or laptop, emails can also be missed and so documents may not be read at all. Further, some people may not like reading from a screen, or they may be unable to see the form entirely on one screen, and there may be difficulties in downloading them.

- 4.5 If accessing digital forms were as simple, easy and hassle-free as receiving a paper form, it is likely that the barriers will simply disappear – utility will overcome the obstacles by itself, and taxpayers will naturally gravitate toward it – the various sticks and carrots in the move towards digital wouldn't be necessary. This is already apparent as more than 95% of ITSA returns are submitted online; not because taxpayers or their agents are required to do so, but because it is more efficient.
- 4.6 Increased digitalisation brings with it increased risks of scams, as fraudsters are more likely to undertake criminal activity online than using traditional forms of communication. Throughout HMRC's digital transformation, consideration needs to be given to achieving the right balance between time and cost efficiencies, and the potential fraud risks brought by increased digital interaction. Greater use of two-factor authentication from HMRC might help to alleviate those concerns.
- 4.7 SA316 – Notice to file
- 4.8 We are in favour of ultimately digitalising the notice to file by default, but only when the digital service is operating to a satisfactory degree (see answer to question 8). The notice to file is an important document, cementing and affirming that legal obligation onto the taxpayer to complete their return – it is too important to be missed by not reading emails, or over-enthusiastic spam filters; taxpayers need to be able to have that tangible reminder of their obligations. However, even after this form is digitised, taxpayers who still file on paper (eg due to vulnerabilities or digital exclusion) should still be sent the form in the post and electronic notifications should contain sufficient detail so taxpayers know for which year to file and the deadlines.
- 4.9 SA100/SA200 – Self-Assessment (SA) tax returns
- 4.10 We are agreeable to the tax return being digital by default, given the extent of online filing, however we would prefer that the paper option remain available for those taxpayers who want it; both in order to file in hard copy, and as an aid to completing online. A paper form not only serves as a useful tangible reminder to complete their return, but for some it is like a paper map to help them navigate the various pages on the digital tax return – they can see all the boxes and the detail they need to provide, they can fill in the boxes as a form of draft to then transpose onto the online tax return. Until full confidence is placed in a digital format, this is likely to remain the case for many.
- 4.11 Sometimes it is simply not possible to complete and file a tax return online – eg if it is for the current year for a deceased person, or the circumstances of an online filing exclusion apply. Until it is possible for all taxpayers to file online, paper returns must be available regardless of digital exclusion and a proforma return which can be printed must also be available online. The latter would reduce pressure on HMRC's telephone helpline.
- 4.12 This year for the first time HMRC did not automatically send a paper SA tax return to some taxpayers who had previously filed on paper, indicating that this change has already partially been implemented by HMRC without consultation. Instead, HMRC are encouraging them to file online, and only providing a paper copy on request by telephone. We understand that when these taxpayers telephone HMRC to request a return they are faced with an automated message initially saying that returns must be filed online, the line then goes

silent and it is only those who tenaciously hang on the line regardless (through more than 30 seconds of silence) who are transferred to an HMRC officer and can then request a paper return. Also the number to request a paper return is only on letters issued in March 2023 and not on the notice to file. We are concerned that some vulnerable customers may not realise they can stay on the line and speak to a person – they might simply give up or become anxious (perhaps exacerbating existing health conditions) with the (incorrect) automated message that filing can be done only online. We have concerns about this approach and have sought reassurances from HMRC about which taxpayers have been targeted (since some taxpayers cannot file online due to extra support issues or because HMRC's systems do not support online filing for their particular circumstances). We will be interested to see if HMRC's approach increases the number of taxpayers filing online this year, what issues some of these taxpayers might encounter, and how they are resolved.

4.13 SA250 - Welcome letter

4.14 We are not convinced that the SA250 Welcome Letter is suitable for digitalisation by default. This is an important letter that advises the taxpayer of their Unique Taxpayer Reference (UTR) and that their SA record has been set up. It provides them with reassurance that their registration has been accepted and that they have been registered for SA by HMRC. Also, this paper letter would be a good opportunity for HMRC to outline the benefits of taxpayers' moving over to digital from paper and explain clearly how to do so.

4.15 SA300 - Statement of account

4.16 Similarly, the SA300 Statement of Account is an important document since it acts as a reminder of the taxpayer's tax liability and when it is due for payment. Taxpayers can often overlook online communications from HMRC such as a statement of account, which is less likely to happen with paper notifications. If HMRC want to move the SA300 to digital by default, they should consider modifying their system so that automatic reminders can be sent to taxpayers who do not log in and view the form (say within 5 working days).

4.17 CT603 - Postal notice to deliver a company tax return

4.18 In our view, the vast majority of company representatives tend to be more digitally competent (or likely to have engaged the services of an agent) and thus more familiar with engaging with HMRC digitally than individual taxpayers, so they are likely to be comfortable with HMRC moving the CT603 'Notice to deliver a Company Tax Return' to digital by default (particularly since Company Tax Returns must be filed online). However, the notices should be copied to agents (digitally when technology permits) and HMRC should make efforts to ensure that such communications do not 'bounce' off spam filters.

4.19 P2 - Employee coding notice

4.20 With regard to the P2 Employee coding notice, taxpayers that have set up a Personal Tax Account (PTA) often opt for these to be received digitally, and this should be encouraged. However, the general message from government to taxpayers within the PAYE tax system over many years has been that if you are in PAYE you do not need to do anything unless HMRC contacts you. There is a need to firstly combat this inertia, by raising awareness of the PTA and what it can / should be used for through greater publicity. At present, most PAYE taxpayers are comfortable receiving paper P2s. Since taxpayers within the PAYE system (and not also within the Self-Assessment system) tend to have relatively stable tax affairs, they are unlikely to need to access their PTA very often, which can also cause reluctance to register for a PTA given the need to remember login details for a service infrequently used. We think some taxpayers are concerned that they may forget to view a coding change if notified digitally, whereas a 'brown envelope' containing a P2 is hard to miss.

4.21 Another concern we have noticed around coding changes is that coding change requests made electronically tend to take a longer time to process, whereas when a taxpayer phones HMRC about their tax code that change is done immediately. If HMRC wants taxpayers to engage digitally then the digital service needs to be

at least as quick as a phone call. We would add that the P2 also needs to contain more information as to what the adjustments to a tax code mean and how they have been calculated; the lack of information regarding how a figure has been calculated often leads to queries to agents, employers' payroll departments and HMRC.

4.22 In our view, employers are more digitally enabled and HMRC's focus should be on encouraging more employers to receive P6 and P9 coding notices digitally. This should include research as to why employers continue to request paper notices when they use payroll software and file their PAYE Real Time Information (RTI) returns electronically. HMRC should also consider whether the P9X annual coding increase notice could be used in more instances. For example, where a taxpayer has adjustments to their tax code (such as for benefits-in-kind) it is usual to issue a P2 and P9 even when the only change from one tax year to another is an increase in the personal allowance.

#### 4.23 P800 - Tax calculation

4.24 With regard to the P800 Tax calculation, we think it is extremely important that taxpayers are aware that they have received this 'assessment' and that they know what to do if they disagree with an under- or over-payment assessed. As noted above, taxpayers can overlook digital notifications, and in the case of a P800 assessing a liability this could lead to interest and penalties arising. Unless a taxpayer has positively elected for digital communications we do not think that the P800 should be 'digital by default', and where a taxpayer has elected for digital communications HMRC should have processes in place to check that the taxpayer has, at least, viewed the digital form and, if not, issue some reminders/follow up on paper and electronically. Where a repayment is due, having a secure way for taxpayers to provide HMRC with their bank details would also help reduce the issue (and often, non-banking) of cheques.

### 5 **Question 2: How would you like HMRC to provide support and guidance to assist digitally able taxpayers with accessing digital versions of the forms above?**

5.1 Digitally able taxpayers would not need as much support as the digitally excluded or digitally challenged, and we would urge HMRC's efforts and resources to be focussed on the latter two categories. However, even those willing and able to access digital forms will need help from time-to-time.

5.2 HMRC must ensure that anyone can contact HMRC and speak to a member of their staff regardless of the move to digital, as digital options do have glitches from time to time and sometimes the user is unsure what to do next. Paragraph 2.4 of the consultation document indicates that to shift to digital channels, HMRC will reduce the non-digital channels it offers to taxpayers (such as telephony and post). This shift will only be successful if taxpayers can get issues resolved easily and quickly via digital channels. If it is too difficult and time consuming then there is a danger that (a) users just give up without getting their issue resolved (which might lead to inadvertent non-compliance with their tax obligations); (b) HMRC become less aware of issues with their digital offering, so do not prioritise a fix and the perception of the service deteriorates; (c) trust in HMRC and the tax system reduces.

5.3 A real-time chat bot, with a human being on the other end, could resolve many issues – specific questions can be asked, and hopefully a pertinent response would be given then and there. Having such a feature of HMRC's app and through the SCA would likely prove a popular tool and one likely to be well-used, thus taking pressure off the telephones. However, we would re-enforce our call for telephone calls to HMRC to be answered within a reasonable time so a taxpayer or agent can speak to a real person and be guided through their query. For

those queries which are not so urgent, an email address, to which queries can be sent and responded to within 24-48 hours, would likely suffice for many digitally enabled taxpayers and their agents.

- 5.4 Forms not only need to be accessible, they also need to be user-friendly too, so people feel they can engage with them. Consideration should be given to ensuring they are laid out in an easy-to-follow way and explained in terms that an ordinary member of the public can understand. We have also attached in the appendix what we consider to be the minimum requirements of HMRC's digital forms (see Appendix 1).
- 5.5 All online notifications, whatever they are, should clearly show in the title what they refer to and by when they need to be actioned, eg to help minimise the risk of a taxpayer missing a filing, payment or an appeal deadline. These notifications should be sufficiently prominent to minimise that risk, with the use of push notifications and email alerts.
- 5.6 HMRC should provide a 'safety net' of a paper communication in the event of a taxpayer failing to respond at all over a period of time to online notifications, with reminders also being sent digitally and by paper if deadlines are imminent.
- 5.7 HMRC must ensure that forms moved to digital by default can also be accessed by a taxpayer's authorised agent via their Agent Services Account or their HMRC online account. We note that some of the forms mentioned are already accessible in this way (such as the SA300).
- 5.8 Current online services sometimes lack functionality. Attached to this response, we set out the CIOT's Minimum Standards for the Introduction of new HMRC systems and Minimum Functionality needed for HMRC digital forms (see Appendix 2).

## **6 Question 3: What would be your preferred options for the digitally excluded to access non-digital services for the forms above?**

- 6.1 For the digitally excluded, our preferred options are telephone, post and in person (where available). In terms of telephone contact, it is vital that HMRC answers telephone calls within a reasonable time and that these taxpayers are able to speak to a real person to discuss their issues. Callers who need extra support should continue to be identified and referred to staff in HMRC's Extra Support Team who can provide appropriately targeted support depending on the individual's specific circumstances. The digitally excluded will, by definition, struggle to access HMRC's services and support through digital channels.
- 6.2 We would also highlight that it is not usually going to be practical for HMRC to suggest that a person accesses HMRC's digital services by using a computer in a public space, such as a library, since it is generally not recommended that sensitive or financial transactions are carried out in a non-secure setting. We mention this because we are aware of advice from HMRC that a taxpayer, without a computer or internet connection, use a public computer to transact with HMRC. We do not think this is appropriate.
- 6.3 Assistance for the digitally enabled via the HMRC app and website is almost non-existent, so the digitally excluded certainly cannot gain help through any other medium than the telephone and speaking to someone who can talk them through their questions and offer guidance and peace of mind. The CIOT, along with other professional bodies, recently raised concerns with the standard of HMRC's service levels when replying to taxpayer queries<sup>1</sup>. We would like to take this opportunity once again to urge HMRC to ensure that taxpayers – particularly the digitally-excluded – are able to telephone HMRC and speak to a real person within a

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<sup>1</sup> <https://www.tax.org.uk/professional-bodies-urge-chancellor-to-improve-hmrc-service-levels>

reasonable time about their tax affairs, not an answering machine or recorded messages or being diverted online because they are calling from a mobile phone. This is their only way of effectively communicating with HMRC, so it must be properly resourced and remain as such.

- 6.4 It is essential that taxpayers who are unable to use digital services face no worse a service than the rest of HMRC's customers if HMRC are to meet their obligations under the Public Sector Equality Duty, Equalities Act, and its own Charter. HMRC must ensure that they have sufficient, well-trained staff to provide this help and support in their Extra Support Team.

## **7 Question 4: How can HMRC encourage more PAYE taxpayers to open digital tax accounts to help automate the repayment process?**

- 7.1 Even where a taxpayer only has PAYE income, the PTA already includes useful information, such as their National Insurance record, details of their pay and employment history, and how their tax code is calculated. HMRC should increase the promotion of the PTA in documents sent to PAYE taxpayers, such as notices of coding and P800 tax calculations.
- 7.2 Once the utility of the PTA is realised, taxpayers will naturally gravitate towards it, so efforts required to encourage taxpayers to open such accounts would be reduced. But in the meantime, a public advertising campaign could reach those PAYE taxpayers who are not necessarily actively engaged in the tax system to the same extent as Self-Assessment taxpayers. This campaign should be on-going, not just a one-off; as the functionality of the PTA expands then it is all the more important to keep the public informed. However, these days taxpayers are used to apps and online services being easy to use and having multiple functionalities. If they try the PTA and do not consider it has much functionality/utility or feel that it is not intuitive and easy to navigate then they may give up and be even more reluctant to try to interact with HMRC in this way in the future.
- 7.3 The historic message to taxpayers solely within PAYE is that the PAYE system will deduct the right amount of tax and you do not need to do anything. This message needs to change, so that taxpayers are more aware that they need to proactively engage with HMRC about a change of circumstances (and that the 'best' method of doing this is through their PTA).
- 7.4 It should also be recognised that for many PAYE taxpayers there can be little change to their circumstances – even a change of employment may not need any engagement with HMRC if the final pay and a P45 from the old employer is received before the first pay run from the new employer – so the need to engage with HMRC might be once in every few years. Consequently, these taxpayers are unlikely to see the benefits of signing up for a PTA until the PTA can be shown to be useful to them. Also, the long gaps in needing to access the PTA can result in login details being forgotten, which is not only a barrier to encouraging PTA take-up but also risks important notifications from HMRC not being actioned.
- 7.5 Whilst we would encourage the progression towards a simple and user-friendly PTA to encourage a natural gravitation towards digitalisation, it might even be worth looking into the possibility of further incentives – possibly a monetary reward.
- 7.6 We would suggest encouraging those new to the workforce (and usually digitally savvy) to sign up for a PTA – for example, taxpayers leaving education for their first employment, or those working and studying. And,

where a taxpayer has a student loan, being able to access their student loan account from the PTA (or the PTA via their Student Loan Company account) would encourage greater engagement over time.

- 7.7 For those taxpayers with multiple employments, it would be very useful for HMRC to be able to issue a national insurance equivalent of a P800 through the PTA, giving an overall assessment of that employee's earnings. Many taxpayers with multiple employments probably aren't aware of the potential ability to claim for a deferment to avoid overpayment of national insurance. If HMRC were able to assess total incomes for national insurance through the PTA, this may allow more taxpayers to make such a claim more readily.

## **8 Question 5: What safeguards should be in place for any new data HMRC collects?**

- 8.1 It would be useful to know what sort of data is being referred to here, but assuming it means bank accounts and PAYE details, one would hope that existing GDPR legislation and data regulation would be sufficient. Such data must be held securely. Multi-factor authentication should be considered to ensure this information can be provided by the taxpayer in a secure environment. A regular check as to whether the data held is up to-date (by checking with taxpayers and agents through prompts, or even active questioning) would ensure that obsolete data is removed.
- 8.2 We think that some taxpayers do have concerns around providing HMRC with bank account details. Where this is being requested as part of a P800 repayment process HMRC could help allay fears over HMRC access to accounts by clearly stating that the details provided will be used solely for the purpose of making the repayment and will not be used/retained for any other purpose. Fear of fraud, as well as HMRC data misuse, is very real, so safeguards such as those mentioned above should greatly facilitate the operation of a digital environment.
- 8.3 In a recent survey we undertook about the HMRC Charter, taxpayers and agents scored HMRC 6.5 out of 10 in relation to the Charter standard 'keeping your data secure', with agents scoring 6.7 on average, and taxpayers 5.6. These scores were higher than for other parts of the Charter, so HMRC can take comfort that there is some confidence in HMRC's existing safeguards, but it is clear there is still room for improvement.

## **9 Question 6: What specific processes or data points could be simplified to speed up information flow between employers, employees and HMRC when employees have a change of circumstance, while maintaining quality of data and keeping information secure?**

- 9.1 HMRC should be aware that the historic message that if you are an employee subject to PAYE deductions then the tax system automatically deducts the 'correct' amount of tax has meant that for many employees there is a disconnect between them and HMRC. There is an assumption by many employees that they do not need to inform HMRC about a change of circumstance because their employer does this for them. This is, of course, simply not the case. For example, when an employee moves many assume that when they inform their employer of the change of address the employer automatically informs HMRC. Similarly, most employees assume that when they change jobs or take on a second job or receive/cease to receive a benefit-in-kind their new/old/existing employer informs HMRC of the change in circumstance in real time. HMRC should communicate more clearly with individual taxpayers that they have a responsibility to notify HMRC of changes of circumstance.

- 9.2 We suggest encouraging employees to notify a change of circumstance to HMRC via their PTA. Since the individual has to verify themselves to access their PTA this should provide a safe and secure channel for notifications to and from HMRC. Where an individual does not have a PTA, but is not digitally excluded, they should (i) be encouraged to sign-up for a PTA and (ii) be provided with an online 'form' to notify HMRC of the change (this naturally will need to ask for more information than a notification via the PTA since HMRC will need to collect enough personal information to verify that the person notifying them of the change is indeed the taxpayer).
- 9.3 We think it is important that HMRC is aware of a change in employment, or a new employment, when this happens rather than when the last paycheque/first paycheque is notified to HMRC via the Real Time Information (RTI) process by the old/new employer, which might potentially be a month or so after the change in employment. Ideally the individual taxpayer should have this obligation. Equally, if there was an easy way for the new employer to immediately notify HMRC that a new employee has started to work for them ahead of the usual PAYE RTI submission, this could help HMRC to notify the new employer of the 'correct' tax code to use ahead of the first payday, which would minimise under / over deductions under PAYE.
- 9.4 The ability of an employee to inform HMRC of their estimated income on the app and PTA for that tax year is a useful tool. Often it is not until an incorrect PAYE code is identified that it transpires an under / over-estimation of that year's income has led HMRC to produce an incorrect PAYE code. Whilst it is a useful tool, it is likely that not many employees will be aware of it. Making PAYE codes clearer to understand with better explanations would certainly assist in the identification of incorrect codes and their rectification.

**10 Question 7: In what ways could advances in Information Technology allow for an alternative to the tax code or more real time interaction between employer, employee and HMRC to ensure that tax and employee NICs deductions keep pace with changes as efficiently as possible?**

- 10.1 We believe that the use of tax codes is probably the simplest approach. A notice of coding issued by HMRC means that HMRC, taxpayers and employers are all aware of what tax deductions are expected. It provides certainty as regards what deductions from pay an employee can expect each time they are paid.
- 10.2 It would, we believe, be possible to use advances in IT to enable payroll software to communicate directly with HMRC's PAYE IT infrastructure, send HMRC details of pay and circumstances, and then for HMRC's IT to use that information to work out what tax deductions should be made and communicate information back to the payroll software as regards what tax to deduct. In some ways this is not so different from HMRC using the information it has and issuing a tax code to the employer for the payroll software to calculate the tax deduction. However, the problem that arises with this approach is how does the taxpayer know what their tax deductions are going to be? Without some separate communication (like the notice of coding) with the taxpayer they are potentially out of the loop and will have uncertainty as to what net pay they will receive.
- 10.3 We would suggest that this question should be *'In what ways could advances in Information Technology allow for more real time interaction between employer, employee and HMRC to ensure that tax and employee NICs deductions keep pace with changes as efficiently as possible'*.
- 10.4 We think that it would be better for HMRC to focus on receiving and processing changes in circumstances in real time, to ensure that tax codes are as up-to-date and accurate as reasonably possible. What is needed are better and quicker ways to notify HMRC of a change in circumstances that may affect a taxpayer's tax code.

This could, for example, include permitting employers to send non-financial data to HMRC via the RTI system, such as date of joining (see above).

- 10.5 Also, while the Starter Checklist has been improved and the interactive electronic version has been positively received, it only conveys information from the employee to the employer. Could the form be further developed to provide three-way communication between employee, employer and HMRC of a new employment and appropriate tax code etc, including information on any non-payrolled benefits-in-kind to be received in the new employment? And, in the case of employees seconded to work in the UK by an overseas employer,<sup>2</sup> since the UK employer probably has more information about the employee's UK work circumstances there is a case for permitting the employer to complete the form on the employee's behalf.
- 10.6 While you can amend a salary estimate for the current tax year via a PTA, the PTA does not provide many options to notify other changes in circumstances that affect a taxpayer's tax code. More generally, taxpayer engagement is key to ensuring that tax codes are as accurate as the tax system allows. This requires publicity, communications, guidance and help from HMRC so that taxpayers are more aware of when they should be notifying HMRC of a change of circumstances. Taxpayers also need to be confident that they can easily contact HMRC. Simple messages, such as via payslips, to check tax codes (and where to seek help if you think the code is wrong) can help in this respect. And, as noted above in 9.4, easier to understand notices of coding, with better explanations of adjustments to the code would help as well.
- 10.7 Since many payroll departments spend quite a lot of time helping employees with tax code queries and explaining what the employee needs to do to change an incorrect tax code, allowing employers to have a form of 'trusted helper' status to inform HMRC of a change of circumstances would lessen burdens on employers, employees and HMRC. An option here would be to permit the employer to complete a digital form notifying HMRC of a change that affects the employee's tax code in that employment.
- 10.8 We also suggest encouraging more employers to opt for the payrolling of benefits-in-kind, as any change in employment benefits received is then dealt with by the employer rather than requiring a tax code change and the issue of a new coding notice (and often the change in benefits is not picked up until a P11D is filed and processed after the end of the tax year). We are aware that there can be some hurdles for employers when registering for payrolling and we would encourage HMRC to consult with representative bodies as to how it can be made easier for employers to payroll benefits-in-kind.
- 10.9 We are aware that sometimes payroll software does not directly receive digital notices issued by HMRC (such as code changes and student loan start/stop notices). This may arise where payroll is outsourced but the employer has not authorised the payroll provider as an 'agent'. Also, that some employers continue to choose to receive paper P6/P9 notices when they are filing RTI returns digitally. We suggest HMRC conducts research with employers as to why they are (a) not opting for digital communications and (b) why digital communications are not automatically flowing through to payroll software. It should be possible, and encouraged, that payroll software automatically downloads and processes digital notices issued by HMRC.
- 10.10 We suggest that HMRC undertakes some research into what typically goes wrong with an employee's tax code leading to an under- or over-payment, then speaks to taxpayers where their tax code has gone wrong, to ascertain what is causing the issues. For example, is it particular sectors of employment (where, for example, it is more common for an employee to have multiple employments) or is it particular events (such

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1106537/Expat\\_Starter\\_Checklist.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1106537/Expat_Starter_Checklist.pdf)

as retirement, the first time the taxpayer receives a benefit-in-kind or bonuses paid late in the year), the multitude of deductions made through codes such as: personal allowance tapering and prior year arrears, or is it simply that the tax system is too complex for taxpayers to understand? Once some specific issues are identified the customer journey can be considered in more detail with a view to improving that journey such that it leads to more accurate PAYE deductions.

**11 Question 8: Would you support a change to require new ITSA registrations to be made online, with a digital by default approach to subsequent notices to file, and a requirement for annual returns to be delivered digitally?**

11.1 Yes, we would support this but only when the digital service was operating smoothly, without 'glitches', with widespread accessibility and with high customer satisfaction. We are reassured by HMRC's comment at paragraph 4.5 of the consultation document that changes would not be implemented until then. Alternatives must obviously continue to be provided for:

1. the digitally excluded
2. those groups for whom HMRC do not currently provide an online service, and
3. those people who cannot currently access HMRC's digital services for other reasons, such as because they lack the correct form of identification or are based overseas.

However, we would hope that in time the second and third groups can also be catered for digitally, as it would be odd for this not to be part of HMRC's longer term digital strategy.

11.2 As noted above, all online notifications, whatever they are, should clearly show in the title what they refer to, their legal status and by when they need to be actioned, eg to help minimise the risk of a taxpayer missing a filing, payment or an appeal deadline.

11.3 It would be helpful if HMRC's systems can accommodate more regular reminder emails to prompt people that they need to (for example) file their SA tax return or pay their tax by x date.

11.4 Registration requirements and processes should be as consistent and simple as possible. We have identified that, whilst the current ITSA registration process works well for most taxpayers, there are some difficulties with the current system of ITSA registration which lie mainly with how HMRC process applications, how their system supports applications and how taxpayers interact with HMRC's system. It can often take a long time, for example, to obtain a Unique Taxpayer Reference (UTR) and in the meantime a taxpayer cannot file returns or pay the tax they owe. Also, many represented taxpayers will want to leave the matter of registration in the hands their agents, or at least want their agents to be able to assist. These issues need to be addressed before a digital by default approach is adopted.

11.5 A digital by default system will need to cater better for registration for ITSA and Class 2 NIC at the same time to avoid the situation that can often occur now with data mismatches between the SA system and the NPS system. It should also be possible for HMRC to deal with agent authorisations at the same time as the ITSA registration. As HMRC move towards replacing their legacy IT platforms, this would be an ideal opportunity to rationalise and improve the registration process and deal with the persistent and recurring logistical issues that blight the current process.

11.6 In our view there should be a single system for taxpayers to use to register (and deregister) for ITSA, to track the progress of applications and appoint one or more agents. HMRC should investigate how the proposed

SCA could be utilised to help streamline and monitor an individual's registration (and deregistration) application with HMRC.

**12 Question 9: How much notice would taxpayers and agents need for this change, and how could HMRC best communicate it?**

- 12.1 HMRC should publicise it widely in the national press, on GOV.UK and via social media for several months in advance, so that people know what to expect. Unrepresented taxpayers need to hear messages directly from HMRC and those who cannot interact digitally should be reassured that they will still be able to interact with HMRC in other formats. Awareness for tax agents can be raised through webinars, Agent Update and the professional tax and accountancy bodies.
- 12.2 It may be worth considering notifying those people who are already within ITSA, but who have not previously engaged digitally with HMRC, in writing. HMRC have recently done this for those people they are no longer automatically sending paper SA tax returns. Sufficient information will have to be provided so that someone who is digitally excluded knows how to let HMRC know that they will need to continue to engage via non-digital channels. Also, if they are asked to telephone HMRC then they should not experience the issues described above ie they should be put straight through to a person who can help and not played inappropriate or confusing automated messages.
- 12.3 In addition, a project should be commissioned to investigate how to raise awareness of the requirement to register for ITSA generally amongst the general public, including how intermediaries can be more involved in alerting their clients to their responsibilities at an early stage. This project could include improving education of basic tax and digital obligations, for example as part of the national curriculum. HMRC could also consider publishing a 'Top 10 tips to register successfully for ITSA'.

**13 Question 10: Do you agree these are the main issues? Where possible please rank in order of magnitude/impact.**

- 13.1 The issues listed in paragraph 4.24 are guidance, thresholds, HMRC's IT systems and legislation, which we agree cover the main areas of difficulty. Ultimately, the rules around who needs to register for ITSA should be as simple as possible so that they are easy to understand for the ordinary taxpayer and can be easily explained in HMRC's guidance.
- 13.2 The consultation document does not explain why HMRC's registration criteria are what they are and it seems that in some cases this is because HMRC do not know. It is an opportune moment to review and potentially revise, reduce and simplify the criteria and assess whether they still make sense and are still fit for purpose.
- 13.3 Currently, the criteria are not set out in legislation; they are different from the s7 Taxes Management Act (TMA) 1970 notice to file criteria. HMRC's online interactive tool 'Check if you need to send a Self-Assessment tax return'<sup>3</sup> does not always produce the correct answer because it is trying to deal with criteria that do not match the statutory requirement to notify. Although we have received feedback that this can be problematic, it is difficult to know how widespread a problem it is. HMRC can only impose failure to notify penalties (Sch

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<sup>3</sup> <https://www.gov.uk/check-if-you-need-tax-return>

41 Finance Act 2008) if the statutory criteria in s7 TMA 1970 are met – the HMRC criteria on gov.uk do not feed into penalty considerations.

- 13.4 In our view, rationalising and aligning the registration criteria with the legislation should be considered. This would resolve the issue at the fourth bullet point of paragraph 4.24. At the same time consideration could be given to changing and / or improving the legislation. There should be consultation about whether the 'requirement to notify' is still fit for purpose.
- 13.5 In paragraph 4.22 HMRC say they are keen to understand why many taxpayers who do not meet the criteria exercise the right to send a tax return even though they do not have a tax liability. In our experience this is because the taxpayer will want certainty that, for the tax year in question, they are reporting the correct amount of income and reliefs and paying the correct amount of tax, which filing a tax return brings. It is also considered to be a simple way of obtaining a refund if other deductions and relief (such as Gift Aid) can be claimed, and the ongoing issues with R40/R43 repayment claims may lead many to register for self-assessment needlessly. There is a lack of confidence in the PAYE system being able to collect the right amount of tax by way of adjustments to tax codes. PAYE codes are often wrong. Some claims and elections can only be made in returns (eg due to s42(2) TMA 1970) and some losses, however small, must be notified otherwise they cannot later be used against profits/gains such as capital losses. Agents will want clients to remain in SA for these reasons.
- 13.6 We do not think that HMRC should be too concerned about the absolute number of people submitting tax returns. Since most already do so online, the IT systems should process them in the background so human intervention is minimised on HMRC's side. On the other hand HMRC could look at whether more people could efficiently be moved from filing onto simple assessments using more of the information that HMRC receive from third parties, banks etc. As paragraph 4.25 says, more could be done via the SCA if its functionality is good enough to engage people from the start. But until HMRC's IT systems can successfully handle the reporting of untaxed income, claims and reliefs (for example via the SCA, Simple Assessment or through PAYE), there will continue to be a need for people to register for ITSA and file tax returns.

#### **14 Question 11: What other difficulties do taxpayers face in understanding and navigating the ITSA criteria?**

- 14.1 Some taxpayers are very used to doing nothing and expect HMRC to 'just do their tax' for them. When they get an additional source of income (eg they start selling on or providing services through online platforms) they do not realise they need to tell HMRC. Some do not even realise that they are self-employed and still regard themselves as employees. Consequently many do not realise they need to file according to the ITSA criteria and many will be unaware of the criteria's existence.
- 14.2 Taxpayers can be unaware that they no longer meet the registration criteria so do not need to file a tax return. They can also be unaware that they need to tell HMRC to remove them from SA if they no longer meet the criteria. In some cases, this can lead to significant penalties for late or non-filing of tax returns (which may not have been needed to be issued in the first place).
- 14.3 A straightforward deregistration process is necessary to help reduce the number of people who stay in SA needlessly. The guidance on GOV.UK<sup>4</sup> is helpful in explaining what they need to do and when, although we are aware that there is sometimes confusion about exactly what is required, for example the need to file a

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<sup>4</sup> <https://www.gov.uk/stop-being-self-employed>

final tax return noting the date of cessation as well as deregistering via the Government Gateway (or by telephone). There can also be confusion about deregistering for NIC as this appears to be a slightly different process. In addition, we note that the interaction with the £1,000 trading allowance can create confusion and misunderstandings about when to register and / or deregister.

- 14.4 De-registration can cause problems if HMRC unilaterally take people out of SA based on incomplete data. We are aware that sometimes HMRC will make the decision to take a person out of SA incorrectly because they may not know, for example, that they have a new source of untaxed income that will need to be reported on their tax return. This is not a problem with the process per se, but an issue with HMRC's rationale to remove them. If that person recognises this themselves, or if they have an agent advising them, they should ask HMRC to put them back into the SA system. However, it is likely that many people will not appreciate that they should do this and will remain outside of the SA system even though they should be in it, leading to non-compliance and lost tax.
- 14.5 Further, HMRC often remove taxpayers from SA (the SA251 exit letter) when the taxpayer would prefer to remain in SA (for the reasons set out above). If the taxpayer subsequently submits a return, it is unsolicited, and is given a higher risk priority within HMRC, especially if it claims a repayment of tax. There is merit in exploring whether taxpayers can opt into SA for the coming year, even if they do not meet the criteria, to prevent HMRC from removing them.

**15 Question 12: What additional complexity exists for taxpayers who are navigating multiple criteria or for those whose circumstances change frequently? Where possible please give examples, including how you think HMRC can resolve the issues.**

- 15.1 No comments.

**16 Question 13: Are these the right changes and opportunities to be considering? Are there others?**

- 16.1 Yes, these are the right questions to be asking.

**17 Question 14: In what way will each simplify things for taxpayers?**

- 17.1 **Guidance** - HMRC's guidance on the registration process is generally clear in explaining the different means of registering depending on a person's circumstances (such as if they need to register because they are self-employed or because of some other reason). It also explains that the process is different depending on whether you have filed a tax return before (and so already have a 10-digit Unique Taxpayer Reference (UTR) number), or whether you have not filed a return before. Overall the guidance does a reasonable job at explaining what are quite complex rules. As noted above, if the registration criteria and process were simpler, then the guidance would be simpler too. Awareness of the guidance need to be improved.
- 17.2 **Thresholds** – it is unclear why the current registration thresholds are at the level they are, so we agree that they should be reviewed. HMRC's guidance should explain the rationale for the thresholds so taxpayers (and agents) can understand them better and make more informed decisions as a result. The suggestion of mirroring the VAT model of setting a threshold beyond which filing is mandatory would simplify things –

perhaps it could be set at the level where the personal allowance starts being removed. But other criteria will be required, such as ensuring all those renting property and being self-employed file too, so a threshold approach would not work in isolation.

- 17.3 **IT systems** – using new digital initiatives like the SCA to allow taxpayers to include savings income, gift aid donations and claim reliefs via their PAYE code and the SCA could also take a proportion of people out of ITSA altogether. Many could be removed from filing under this option. A challenge will be to educate taxpayers, who may otherwise struggle to understand even basic concepts, about how to use this option. There would need to be some mechanism for taxpayers to amend pre-populated entries and for HMRC to correct basic errors and carry out checks into the data entered. Agents will require access so they can act on their clients' behalf.
- 17.4 **Legislation (1)** – we agree that the criteria should be codified into legislation. The current position where the criteria are not set out in legislation (and there is a mismatch between the two) is unsatisfactory. Legislation should adopt a digital-first approach, rather than new digital processes being added onto fifty-three year old legislation. Whilst we would not wish to see the 6 month notification deadline changed<sup>5</sup> (assuming an obligation to notify (or register) is retained), we also think there is merit in reviewing the statutory rules and considering if they can be replaced with a 'registration' alternative focussed more on whether a person has a tax liability that cannot be collected in any other way other than by filing a tax return or simply by just allowing taxpayers to file a return (without needing to pre-notify) whenever they need to do so.
- 17.5 In the final sentence of the penultimate bullet point in paragraph 4.25, HMRC pose a valid question about whether the s7 TMA 1970 notification process should simply be scrapped and a person legally required to file if they have tax to pay for a tax year and making formal notices to file unnecessary. This could be a real simplification, both directly and indirectly. The indirect simplification is that the change would then enable the failure to notify (Sch 41 FA 2008) penalties to be removed from statute for income tax and capital gains tax, leaving the late filing penalty regime (which already accommodates tax-geared penalties where a taxpayer is very late filing). HMRC would still need a simple process to ensure taxpayers can request and quickly receive UTRs when needed (which are currently required in order to file a return and pay the tax that is owed). Consideration would need to be given to the interaction with MTD for ITSA a too. We would recommend that no decision should be taken on this without further consultation.
- 17.6 **Legislation (2)** – the suggestions here are the minimum that will be needed, and as noted by HMRC, will require more functionality to be introduced into the SCA to work effectively. We are concerned that a list of criteria would quickly become rather long and un-user-friendly given the sheer number of reliefs, allowances and claims which people may need to use. Encouraging more standalone claims could also become unwieldy for HMRC to process. Much work would be needed to raise awareness of available claims, elections and reliefs too.

## 18 Question 15: Which are better? Could you rank in order of preference or greatest improvement?

- 18.1 There will no doubt be some crossover between all the opportunities for reform identified in the consultation document, but our first preference would be to upgrade HMRC's systems to enable PAYE taxpayers to report

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<sup>5</sup> See the CIOT's response to HMRC's 2022 Call for Evidence 'Income Tax Self Assessment registration for the self employed and landlords' – <https://assets-eu-01.kc-usercontent.com/220a4c02-94bf-019b-9bac-51cdc7bf0d99/08792807-b50e-4dcb-8478-e52fe30c3e77/2203018%20ITSA%20registration%20for%20SE%20and%20landlords%20-%20CIOT%20response.pdf>

untaxed income, claim reliefs, get a tax refund and amend their tax code. This would benefit a large number of taxpayers, so is attractive from that point of view as well as being a simplification compared to the current system.

18.2 Our second preference would be the legislation (1) option, following appropriate consultation.

## **19 Acknowledgement of submission**

19.1 We would be grateful if you could acknowledge safe receipt of this submission and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation

7 June 2023

## Appendix 1

### Minimum requirements for HMRC digital forms

We set out below what we believe are the minimum standards which should be applied by HMRC when developing new digital forms to be used by taxpayers and agents. In this regard we mean forms that have to be completed and submitted online, rather than forms which are available online, but are printed off and submitted by post.

#### Development of the form

1. Consultation and testing with a range of potential users of the form.

*New digital forms, and changes to existing ones, should be the subject of consultation and testing prior to their launch, to ensure they work as envisaged, meet the requirements set out below, and fulfil the policy objective. This should be carried out with represented and unrepresented taxpayers, and agents of different sizes. A post-implementation review should be undertaken to assess whether it has met its policy objectives and identify any deficiencies or improvements that can be made.*

2. Government Gateway status

*There should be a clear policy, based on sensible rationale, as to whether a form is in front of or behind the Government Gateway. That policy should be applied consistently.*

3. Allow time for familiarisation.

*Sufficient time should be given to allow taxpayers and their agents to adapt to any new processes, particularly for forms which require regular completion, or for users who complete similar forms regularly.*

#### Completion of the form

4. A list of information required to complete the form.

*This will enable the user to easily identify all the information needed to complete the form, assemble it in advance, and prepare to complete it themselves or take advice. This is particularly important if it's not possible to progress through the form without fully completing the previous page. This will ensure that the form can be completed in an efficient manner, in one go.*

5. Clear instructions for completing the form.

*There should be clear instructions on how to complete all the boxes on the form, particularly if it is necessary to complete fields with special characters, or enter 'nil' or '0' rather than leave blank, and how to digitally 'sign' the form. Links to relevant guidance should be provided throughout the form.*

6. The ability to save and return to a part-completed form.

*This is necessary in case information requirements or other work prevents completion of the form in one go, or the form 'times out' after a period of inactivity, or the form needs to be checked by another party during the process of completion.*

7. The ability to amend an entry.

*An easy process for amending an entry that is, prior to submitting, found to be inaccurate, will reduce the scope for error and improve the taxpayer experience.*

8. The ability to upload attachments or provide additional explanations.

*Some processes require the provision of supporting documentation or explanations. It should be possible to do this as part of the process of completing the digital form, through the inclusion of attachments or 'white space' explanations. This will enable the complete package to be submitted to HMRC in one go, speeding up the process and reducing the risk of documentation going astray.*

9. Sufficient character spaces to meet the requirements of the form.

*The form should provide sufficient space to provide all necessary information and explanations. Fields which require explanations – eg of behaviours or the interpretation of technical points – should be large enough to accommodate them in full.*

10. The ability for an authorised agent to complete the form on behalf of the taxpayer.

*Not only is this a requirement of the HMRC Charter ('Recognising that someone can represent you'), but it will also facilitate more accurate and timely completion of forms for represented taxpayers. This should include the ability for the form to be accessed by more than one individual within a business or an agent's firm, to allow for access to be delegated. HMRC's systems should be able to efficiently and securely identify agent-taxpayer relationships, without them having to be resubmitted.*

11. The ability to save a completed form.

*This will enable the form to be reviewed, to ensure it is correct and complete, prior to its submission, such as a client reviewing and authorising what their agent has input, or to allow for a manager etc to review the work of a more junior member of staff.*

12. The ability to print a completed form.

*If it is not possible for a represented taxpayer to view the completed form online prior to submission, the ability to print it in full will ensure that the agent can obtain approval for its submission from the client. This is necessary because agents cannot normally submit information to HMRC without the client's prior approval. For unrepresented taxpayers, being able to print a form means the taxpayer can check the form off-screen, which is often easier and can help spot mistakes.*

13. The ability for the digital form to correctly compute the tax due.

*Tax Returns and other forms which lead to a tax calculation must be able to cope with all tax computations. It should not be the 'norm' for there to be a list of exceptions where computers cannot do the calculations accurately, causing taxpayers/agents to have to print and post the form to HMRC.*

Submission of the form

14. Clear messaging to explain what submission of the form means.

*Therefore, the person submitting the form is aware of the consequences of what they are certifying, what the next steps will be, and the consequences of incorrect / false declarations.*

15. The ability to capture a copy of the submitted form.

*This ensures that the taxpayer (and, where appropriate, their agent) has a record of what was finally submitted – either by printing it or downloading and saving it. This might be important, for example, if the client requests a copy of the submitted form for their records, or in case of a subsequent dispute with HMRC.*

16. A digital receipt or equivalent proof of submission.

*This evidences that the form has been submitted to, and received by, HMRC, and should record the date and time of submission, along with a submission reference number.*

Necessary alternatives

17. Non-digital versions of forms for those who cannot interact digitally or find it difficult to do so.

*All digital forms should have a non-digital equivalent, to ensure those who cannot go online, or have difficulty doing so, are not disadvantaged when interacting with HMRC. These should be easy to obtain and include appropriate guidance to aid their completion. This will fulfil HMRC's Charter promises of 'being aware of your personal situation' and 'treating you fairly'.*

18. Accessible versions of digital forms for those with particular needs.

*Digital forms should be accessible for those who can go online, but who have particular needs eg those who use screen readers. Again, this will fulfil HMRC's Charter promises of 'being aware of your personal situation' and 'treating you fairly', as well as complying with the Equality Act and meeting Web Content Accessibility Guidelines.*

## Appendix 2

### Minimum standards for the introduction of new HMRC digital systems

We set out below what we believe are the minimum standards which should be applied by HMRC when developing new digital systems to be used by taxpayers and agents. In this regard we mean digital systems and processes by which taxpayers and agents interact with HMRC to fulfil their tax obligations (examples include the VAT registration service, the Trust Registration Service, RTI reporting, the property reporting service, Making Tax Digital etc).

1. Policy development should consider the extent of digitalisation required to deliver it.

*Changes to the tax system invariably require the introduction of new, or changes to existing, digital systems. When developing tax policy, the consultation process should include consideration of how the policy will be delivered, a realistic evaluation of how long new systems will take to put in place, and the costs of development and ongoing compliance.*

2. Consultation and testing of the digital system before its use becomes mandatory.

*New digital systems should be the subject of consultation and full end-to-end pilot testing process prior to their use becoming mandatory. Participation in testing should be voluntary, and encompass a variety of circumstances, including represented and unrepresented taxpayers, and both large and smaller agents. Systems should only become mandatory once this has taken place and any glitches rectified, so as to ensure they work as envisaged, meet the requirements set out below, and fulfil the policy objective.*

3. The new digital system has at least the same level of functionality as the system it replaces.

*HMRC's ambition is to be 'the most digitally advanced tax authority in the world'. New systems should deliver against that ambition and introduce additional, improved functionality without removing that which exists already. Where the new system requires the completion of digital forms, we have separately set out the minimum requirements for such forms.*

4. Interaction with existing HMRC systems is maximised.

*New digital systems should complement HMRC's existing IT infrastructure, pulling through information from existing systems, and seamlessly interacting with those systems. This will improve the overall 'customer experience', as well as improving accuracy and reducing costs all round.*

5. Guidance is available on how to use the new digital system before it goes live.

*This will enable its users to make the necessary preparatory steps to their procedures and in-house IT capabilities so they can use the new system effectively and it can deliver the intended benefits and functionality. This should include step-by-step guidance and up-to-date screenshots or YouTube videos to aid understanding. Those testing the system should be able to access the draft guidance to ensure it supports them through the process.*

6. The digital system should keep pace with legislative and policy changes.

*The digital system should be regularly reviewed and updated so that it reflects changes to legislative and policy requirements, so that its users remain compliant.*

7. The new digital system should respect existing agent authorisations, and that a taxpayer may use different agents for different taxes / obligations.

*HMRC's Charter promises to 'respect your wish to have someone else deal with us on your behalf', which might include multiple agents for various taxes / obligations. Where that wish has already been granted for a particular area of tax, it should not be necessary to repeat that authorisation as a result of the introduction of a new digital system.*

8. Agent access should keep pace with that for taxpayers themselves.

*One of the HMRC Charter promises is: 'Recognising that someone can represent you', and HMRC's vision is that agents should have access from the outset of new systems. This will ensure that taxpayers who have instructed an agent to deal with their affairs (a significant majority in some areas) do not miss out on the benefits of digitalisation, or are prevented from complying with their obligations.*

9. Agent functionality to mirror that for taxpayers themselves.

*In addition to the Charter promise of 'Recognising that someone can represent you', HMRC's vision is for agents to be able to see and do what their clients can. Adherence to these undertakings will ensure that taxpayers who have instructed an agent to deal with their affairs (again, a significant majority in some areas) can do so effectively, thus promoting compliance and reducing costs.*

10. HMRC staff are adequately trained and available to provide on-the-spot assistance.

*Even if all the above criteria are met, taxpayers and agents will need support from HMRC, whether to use the particular service (in which case a dedicated helpline should be considered), resolve glitches in the system, or those who simply need help to 'go digital'. HMRC must provide easily accessible and prompt support and recognise that non-digital channels (such as telephone helplines through to real, knowledgeable staff) will still have a role to play even as more and more services are moved onto digital channels, thus enabling compliance and reducing costs.*

11. HMRC, taxpayers and agents should see the same information.

*While in some circumstances third party software will present information differently, where HMRC's systems are being used it should be possible for HMRC to see the same information in the same format as that seen by the taxpayer or their agent. This will enable HMRC to better support its customers and minimise the confusion which currently exists in many areas.*

12. New digital systems should work for all affected taxpayers.

*All taxpayers faced with a particular obligation should be able to use the new digital system to comply. Groups of taxpayers (eg such as those based overseas, or without a National Insurance number etc) should not be left behind, or prejudiced, because HMRC's systems cannot accommodate their characteristics. Where there is a staged roll-out of obligations, the timescales and who is in / out of scope should be clear.*

13. Non-digital processes for those who cannot interact digitally or find it difficult to do so.

*All digital processes should have a credible, non-digital equivalent, to ensure those who cannot go online (because of their inability to do so, or because HMRC's systems do not accommodate them), or have difficulty doing so, are*

*not disadvantaged when interacting with HMRC. This will fulfil HMRC's Charter promises of 'being aware of your personal situation' and 'treating you fairly', so those users do not receive a 'second class' service.*

14. Accessible versions or characteristics of digital systems for those with particular needs.

*Digital systems should be accessible for those who can go online, but who have particular needs eg those who use screen readers. Again, this will fulfil HMRC's Charter promises of 'being aware of your personal situation' and 'treating you fairly', as well as complying with the Equality Act and meeting Web Content Accessibility Guidelines.*