

# **A changing Tax Service Landscape**

## **OECD-FTA-SME programme Tax Intermediaries project**

Survey for Tax Service Providers

August 2015

## Introduction

The world in which SMEs operate is changing. This changing environment<sup>1</sup> has a huge impact on the SME-population and on how they operate. This will also impact the design of their tax services.

The traditional tax service landscape is changing. A few observations:

- new tax products and services are emerging related to online accounting and cloud solutions;
- API's (automated programme interfaces) enable tax services to be embedded in third party software, which leads to process integration in the chain from business transaction to filing and payment;
- the rise of mobile payment systems and other mobile solutions further contribute to these new services.

As a result traditional tax intermediaries may change their business model and services and new tax service providers (such as software providers or financial institutions) will play an increasingly important role in the system.

These new technological developments provide new challenges and opportunities for both tax administrations and tax service providers in servicing SMEs and assuring compliance. This will help SMEs to comply with complex tax regulations and help drive down compliance costs for both SMEs and tax administrations. Tax administrations may cooperate with tax service providers and potentially SMEs to design and implement these tax services for the SME-population. This work wants to encompass these three different perspectives: the SMEs, the tax service providers and the tax administration.

Reflecting the changing landscape we use the term 'tax service providers' instead of 'tax intermediaries' to indicate we mean both the 'traditional intermediaries' as well as new players. More so we believe that the term tax service providers better explains the role these organisations play in servicing the SMEs rather than providing an intermediary function for SME's and tax administrations.

This questionnaire seeks your input on how these new developments may affect tax services for SMEs. It also seeks your views on the cooperation with the tax administration in this respect and the role they can play. At the end you are given the opportunity to provide additional information on aspects which weren't covered in the questions and could contribute to this explorative research.

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<sup>1</sup> The appendix gives examples of various technological and business developments.

## Information on Respondent\*

(\*Information will be treated confidentially)

Please provide the following information:

|   |  |
|---|--|
| Name of country   | United Kingdom   |
| Name of Tax Service Provider                                  | Association of Accounting Technicians (AAT)                              |
| Name of contact person who answered this survey               | Brian Palmer   |
| Email or phone number of contact person                       | <a href="mailto:aat@palmerco.co.uk">aat@palmerco.co.uk</a> 07971 640 931 |
| Name of Tax Administration                                    | n/a  |
| Contact person at Tax Administration                          | n/a  |
| Email or phone number of contact person at Tax Administration | n/a  |

## Questions

New technological developments are expected to introduce and design new tax products and services. In this section we ask you to identify the key trends and developments in the domain of the tax service landscape.

1. What (technological and business) developments do you consider to be the key developments for tax services for SMEs? *You can use the background information in the appendix.*

| <b>Technological/ business Developments</b> | <b>Rank 1-5 (1= not applicable; 5 = highly relevant)</b> | <b>Comment</b>  |
|---|--|---|
| Higher customer expectations                | 3  | While inevitably higher customer expectation will act as a driver to future development arguably customers are supply led.<br>That is to say that there is a tranche of IT savvy and enabled taxpayers who enthusiastically download and exploit tax-related apps as and when they become available or alternatively upgrade their third party software in order to fully utilise additional tax-related functionality. |
| Mobility                                    | 5  | The exponential growth of use of smart phones.  |
| Big Data; advanced analytics                | 5  | While inevitably the exploitation of Big Data coupled with advanced analytics is going to be of great use to UK Plc and the organs of Government, such as HM Revenue and Customs (HMRC),  |

|                                 |   |   |
|---------------------------------|---|---|
|                                 |   | <p>AAT remains to be convinced that it will be a real driver for change in the provision of tax services.</p> <p>AAT considers that one of the greatest potential benefits that could be derived from the collation and analysis of Big Data for HMRC is in harnessing it to work on closing the UK tax gap.</p>  |
| Internet of things              | 5 | AAT is of the view that the “internet of things”, “internet of everything” and “cloud/client computing” are fundamental to developments in the domain of the tax service landscape.   |
| Internet of everything          | 5 | See AAT comment to “internet of things”   |
| Cloud/ client computing         | 5 | See AAT comment to “internet of things”   |
| Business networks               | 4 | <p>While inevitably future growth of Business networks is going to affect the domain of the tax service landscape at this stage “how” is not so clear to AAT.</p> <p>Relatively in time terms the most immediate benefit to the UK tax system would be the development of a robust sign-up or identity management system.</p> <p>From AAT’s involvement with HMRC we have seen that the absence of robust identify assurance has acted as a break slowing their delivery of a much needed Agent Online Self-serve Platform.</p> |
| One-stop shopping model         | 5 | AAT is of the view that the “internet of things”, “internet of everything” and “cloud/client computing” are fundamental to developments in the domain of the tax service landscape.   |
| Transparency and accountability | 3 | While transparency and accountability is all important, AAT does not see either as fundamental to developments in the domain of the tax service landscape.  |
| Other..                         |   | AAT does not have any other observations / comments to make in respect of question 1.   |

2. Which other trends and/or products and services have you identified that may impact tax service design or are expected to impact tax service design for SMEs.

The key trend that AAT has identified that is already impacting on tax service design has already been touched upon in the response to question 1.

Without doubt from its current modest start we expect the fledging work, between HMRC and third party software providers to embed enhanced tax services, to gather pace.

From a modest start, in which taxpayers and or their agents have been able to file a range of tax related returns and capture certain data issued by HMRC, AAT expects HMRC to enable taxpayers and, or, trusted third parties to be able to access much of their non-sensitive data in order to make amendments to it without written or phone contact with the government authority.

Similarly AAT anticipates an exponential growth in apps that taxpayers can download on their smart phones or tablet (smart device) to transact with HMRC directly on a machine-to-machine basis without contact with a human interface.

AAT also expects the current exponential growth in the use of apps by small and micro businesses to be the primary source of data collection. Particularly whereby data is inserted into a smart device to record a transaction, issue the necessary documentation to a third party and input the data without manual intervention into the taxpayer's accountancy software.

3. What other developments in your country (legal, broader government policies, social, economic) do you consider could impact the tax service landscape? Please explain.

AAT's response to question 3 is from an operational perspective.

As referenced in our response to question 1.

AAT considers that one of the greatest benefits of the collation and analysis of Big Data for HMRC is in closing the UK tax gap:

For example the recent move to require Merchant Acquirers to supply the transaction data that they hold to HMRC will result in many taxpayers who have previously operated in the "hidden economy" (now being visible to HMRC) through transactions online or via Electronic Point of Sale (EPOS) and yet have failed to disclose all or some of their income, will now become visible leading to an expansion in demand or, even a fundamental shift in the nature and provision of taxation services.

Removal of 5 million taxpayers from the tax return filing process.

The biggest development to impact on the tax service landscape in the short to medium term will be the move announced by the Chancellor as part of his UK's March 2015 Budget Speech; in which he promised to relieve 5 million taxpayers from the current requirement to file UK-income tax returns.

This laudable aim can only be achieved if HMRC is enabled to capture more taxpayer related data in real-time.

While on first consideration this move could result in a contraction of the tax service landscape, AAT believes that it will merely serve to be an opportunity to those involved to focus on the provision of greater add-value services to their tax paying clients.

4. Please describe to which extent the following statements are relevant to your business?

| <b>Statement</b>  | <b>Rank 1-5 (1= not applicable; 5 = highly relevant)</b> | <b>Comment</b>   |
|---|--|--|
| <p>New mobile payment options are likely to impact SME tax compliance and service-design (for instance more opportunities to detect compliance issues or promote compliance).</p> | <p>5</p>   | <p>It should be noted that AAT’s response to question 4 is from a representative body perspective.</p> <p>Instances where mobile payments form part of a transaction will greatly enhance the opportunity to detect non-compliance.</p> <p>As previously observed in the first part of our response to question 3 AAT considers the recent move to require Merchant Acquirers, for example credit card companies, to supply the transaction data that they hold to HMRC will result in many taxpayers who have previously operated in the “hidden economy being detected.”</p> |
| <p>Online bookkeeping and cloud computing</p>   | <p>3</p>   | <p>In AAT’s opinion the growth in online bookkeeping and similar is likely to impact SME tax compliance and service design.</p> <p>AAT is aware from its practicing members that they have or are in the processing of changing the way that they interact with their clients to accommodate the new way of working.</p> <p>Furthermore, AAT is seeing some of its new entrants into the tax compliance market actually establishing a web-only business model.</p>  |
| <p>The business models of traditional tax service providers (such as tax return preparers) are changing.</p>  | <p>5</p>   | <p>As observed in the final paragraph of the response to “online bookkeeping and cloud computing” (immediately above): <i>AAT is seeing some of its new entrants into the tax compliance market actually establishing a web-only business model.</i></p> <p>Furthermore in the second part of the response to question 3 under the heading “Removal of 5 million taxpayers from the tax return filing process” AAT stated:</p>   |

|   |   |  |
|---|---|--|
|   |   | <p><i>While on first consideration this move could result in a contraction of the tax service landscape AAT believes that it will merely serve to be an opportunity to those involved to focus on the provision of greater add-value services to their tax paying clients.</i></p>   |
| <p>New players (such as software providers, financial institutions or industry organizations) play an increasingly important role in tax compliance and the design of tax services.</p> | 5 | <p>From AAT's own high-level engagement with HMRC we are fully aware of the increasing level of involvement of the "new players."</p> <p>Their involvement is very relevant from our members' perspective and should be seen as a very positive step whereby at an early stage new HMRC online services are being embedded into third party software and apps to enable taxpayers, or their agents, to transact with HMRC on a machine-to-machine basis from within their own system.</p> <p>The benefit to the business / agent is an increase in efficiency through the removal of processing errors arising where manual intervention has previously been required.</p> |
| <p>Outsourcing of 'low-value' tax services to other parties (and/or countries).</p>   | 5 | <p>In responding to this final point AAT wishes it to be noted that it seems to be incomplete or at the very least slightly unclear as to what it is driving at. As a consequence AAT has interpreted it in accordance with the general thrust of the other statements under question 4, as follows:</p> <p>While there exists a mixed view of outsourcing, the key benefits are that it presents a low-cost solution to businesses / their agents which will enable them to concentrate their focus on added value aspects of their work while the day-to-day low value compliance work is taken care of elsewhere.</p>   |

5. Has your organisation done any analysis to understand the current or potential impacts of any of the items mentioned above on your business/service offering? Please elaborate on these and/or attach any relevant documents where possible.

AAT has not currently undertaken any analysis to understand the current or potential impact of any of the items mentioned in question 4. While AAT is not for the context of this questionnaire a business we do have over 4,000 licensed and regulated members in practice who could be surveyed using tailored questions that could be used as an evidence gathering base to assist OECD in respect of any ongoing work that they might be considering in this area.

6. What opportunities and risks has your organisation identified regarding the changes 1-4 above?

There appears to be a thread of interrelated recurring themes regarding the changes:

1. The move to greater connectivity for businesses and or their agents to make greater use of real-time information which can be processed on a machine-to-machine basis with minimal human intervention. Thus reducing processing time and driving up data quality.
2. The increase in machine-to-machine processing or routine compliance data will mean that existing resources can be reassigned to added value work related activity. Allowing business owners or their agents to concentrate on what they are good at and that will be of greatest benefit.
3. The exploitation of big data will inevitably be of benefit to HMRC in its work on closing the UK tax gap.
4. The same benefit outlined in 3 (immediately above) can also be linked to a benefit arising from monetary transactions via mobile devices.
5. As stated in our response to question 1 AAT is of the view that the “internet of things”, “internet of everything” and “one stop shop” are fundamental to developments in the domain of the tax service landscape.

The comprehensive alignment of “things, people and processes” as set out in the appendix to the survey brings to mind that the harnessing, at a smart device level, the all pervasiveness of the internet will have many benefits most of which will have been covered in AAT’s other answers in respect of question 6.

6. AAT can see there to be the potential for significant benefits to accrue to HMRC, third party software providers, agents and taxpayers through the embedding of enhanced tax services into third party software and apps, for example:
  - For trusted third parties to be able to access much of HMRC’s non-sensitive data in order to make amendments to it without written or phone contact with the government authority.



- Faster more accurate processing of data through machine-to-machine connectivity without the need for a human interface.
7. The proposal to relieve a large number of taxpayers of their need to file tax returns offers the potential to make a significant impact on the administration burden imposed on UK-taxpayers and also on the UK revenue authority through a reduction in the volume of business that it will be required to transact.
  8. The entrance of New Players into the Tax Service Landscape will release agents and taxpaying businesses from some of the more mundane low value transaction processing that they have historically been expected to work upon to enable them to concentrate on added value work of much greater value to the taxpayer and of greater interest for, and stimulation to, the agent.
  9. The same (as 8, above) can be reported as the benefits to derive from outsourcing.

7. How would you see the tax administration working with you in this changing environment to facilitate SME compliance?

AAT has extensive experience of working with HMRC on similar matters in the past and from a low-point in the middle of the last decade immediately prior to the publication of the Lord Carter of Coles Review of HM Revenue & Customs Online services where HMRC designed and delivered agent-related services without reference to the end user there has been marked improvement in their design and implementation of new online agent services.

AAT considers the recent move by HMRC to “agile testing” where new software is iteratively developed and end users are invited to test-and-learn sessions at key stages in the development of new agent / taxpayer software packages to enable HMRC to adapt their emerging product for the benefit of all. At a stage when it is relatively easy to make adjustments and at a lower cost.

While HMRC could always do more to improve engagement and due to the size of the department the nature and quality of engagement varies taken as a whole the level of engagement now is considerably better than 10 years ago.

Please note:

AAT’s response to question 7 has been given in the context of “the Changing Tax Service Landscape” and as a result has focused on the delivery of new agent / taxpayer software and not the wider compliance landscape.

AAT is confident that the recent and future IT-based developments that HMRC has started, or intend, to offer will aid future taxpayer compliance.

## 8. Which services do you want your tax administration to provide?

Starting at the current point in time and ignoring AAT's extensive knowledge of HMRC and out of recognition that the department has decreased in size by somewhere in the region of 45% in the last decade, AAT would like to see a speedy roll-out of a plethora of agent and taxpayer online solutions which enable both to transact machine-to-machine with HMRC.

The benefit to all parties of the opening up of non sensitive back-end function would:

- enable taxpayers to cleanse HMRC's database,
- enable taxpayers to interact with the UK tax authority at a time convenient to them,
- speed up the process of making changes,
- reduce demand on HMRC's post and call centres,
- enable HMRC to continue to maintain a higher level of service than would otherwise be possible in the face of their continuing year-on-year manpower cuts.

Taking into account AAT's extensive knowledge of developments with HMRC we are encouraged that a project to roll out Agent Online Self-serve (AOSS) is well advanced.

While recognising that plans are well advanced for the delivery of AOSS AAT considers that it cannot come too soon.

## 9. Please mention any other comments or suggestions you consider important for this project.

AAT does not have any other comments or suggestion to make.

The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the consultation survey on *A changing Tax Service landscape*, circulated by email on 11 August 2015.

AAT is submitting this response on behalf of our membership and from the wider public benefit of achieving sound and effective administration of taxes.

AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities in implementing the measures outlined.

Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by our operationally skilled members in practice.

### **About AAT**

AAT is a professional accountancy body with over 49,300 full and fellow members (figures correct as at 30 June 2015) and 76,400 student and affiliate members worldwide. Of the full and fellow members, there are over 4,100 members in practice who provide accountancy and taxation services to individuals, not-for-profit

organisations and the full range of business types.

AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

**Thank you for your contribution!**

## Appendix: Technological and business developments

There are various technological and business developments that (can) affect SME's, tax service providers and tax administrations. The following trends have been collected from various studies.

- 1. Higher customer expectations.** More than ever, consumers demand greater involvement, customization, personalization, and mobility from services -- with immediate results. When they see service innovations in one industry, they expect to find them in others as well.
- 2. Mobility:** The global adoption of mobile computing outpaced the adoption of any other technology in history. About 1.5 billion smartphones are currently in use worldwide and more than 100 billion apps were downloaded in 2013, up from 64 billion in 2012. Business users will handle more and more tasks with mobile devices. This will lead to the availability of business applications in multiple forms on multiple devices. New kinds of applications and services will emerge, consisting of small and lightweight applications that are developed fast and directly address the need of the end users. In combination with machine-to-machine communication, sensors, and smart items, completely new services will be offered, for example, location-based services. Gartner (2014) predicts an increased emphasis on serving the needs of the mobile user in diverse contexts and environments, as opposed to focusing on devices alone.
- 3. Big Data and advanced analytics:** Big data analytics evolved into a promising topic for enterprise computing. More and more data is being produced, and more of it is relevant for organizations. New sources of data emerged complementing data coming from within a company or from networks of a few businesses. Organizations are seeing the value in all kinds of new data sources, from logs and machine-generated data to unstructured data such as e-mail and tweets. Continued advances in analytic capabilities allow companies to draw insights from massive, previously untapped sources, leading to new service possibilities. Across all industries, in-memory computing is simultaneously enabling new use cases, including forward-looking analytics and simulations that provide businesses with the right data and analytics to react in real time.
- 4. The Internet of Things.** Pervasive machine-to-machine (M2M) connectivity is already facilitating real-time service delivery in a number of B2B applications. The prevalence of connected devices opens up possibilities for proactive, even "touchless" service, as well as new commercial models quite unlike the traditional fee-for-service one.
- 5. The internet of Everything.** This refers to the comprehensive alignment of things, people and processes. Driven by the ubiquity of mobile phones, smart phones and their integration into our daily lives, the development processes for business applications will be speeded up drastically, and will primarily target end users. This 'economy of apps' will support the trend that both internet and the real world will become one entity. The internet will be characterized by collaboration and interconnectedness of services and things. Seen from the end user perspective, the internet of services will be at the horizon when the internet will be an omnipresent fact of life that permeates virtually every human activity.
- 6. Cloud/client computing:** cloud computing and virtualization have become established concepts used for operating data centers and building new kinds of business software. The main advantage is that cloud offerings can be consumed almost instantly. The cloud computing concept can serve as a blueprint for providing

any other technical services – be it global connectivity to smart phones and machines, integration services, brokering between service providers, and many more. The convergence of cloud and mobile computing will continue to promote the growth of centrally coordinated applications that can be delivered to any device. "Cloud is the new style of elastically scalable, self-service computing, and both internal applications and external applications will be built on this new style. Over time, applications will evolve to support simultaneous use of multiple devices.

7. **Business networks:** business networks are becoming an additional focus of enterprise systems. Future business network technology, based on a common foundation of core services (for example, sign-up or identity management), will enable business to discover their existing business relationships easily, and to self-organize into multiple short-term and long-term collaborations. Many-to-many connections between enterprises and multiparty collaborations will lead to new applications and value-added services provided by a network of companies.
8. **One-Stop Shopping Model:** In general, the Business Web could eventually become a 'go to enterprise cloud' for developers, partners, and service providers to rapidly build and deliver solutions, and especially get mobile connectivity everywhere as part of applications and services. There are two main characteristics the Business web aims to bring forward: one-stop shop model and trusted network. One goal is to integrate services from different players including cloud providers. In addition, the Business Web is envisioned as a trusted network of device, machine and service providers, creating a business network and a trusted platform for the development of M2M applications for a large developer ecosystem.
9. **Transparency and accountability:** In a networked society transparency on quality of services and standards that are applied are becoming more important. This also applies to defining the specific role and accountability of each party in the system.