

# Association of Accounting Technicians response to the HMRC consultation document “Making Tax Digital: Transforming the tax system through the better use of information”

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## 1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the HMRC consultation document “Making Tax Digital: Transforming the tax system through the better use of information”, published on 15 August 2016.
- 1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of achieving sound and effective administration of taxes.
- 1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further.
- 1.4. AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities of implementing the measures outlined.
- 1.5. 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 4,250 licensed accountants.
- 1.6. AAT is happy to participate in future Making Tax Digital (MTD) consultations and its members are willing and able to participate in any MTD pilots in order to assist with the smooth implementation of this important programme.

## 2. Executive summary

- 2.1. **AAT wholeheartedly supports the ambition to make our tax system the most digitally advanced tax system in the world.** However, AAT is concerned about the timetable for implementation.
- 2.2. **AAT is concerned about the costs MTD will place on businesses and taxpayers.** A recent survey of AAT licensed accountants found that well over three quarters were concerned about software costs and time spent familiarising themselves with the new processes. Almost half are concerned about hardware costs and other, as yet unknown, costs.
- 2.3. **It has been difficult to fully respond to each of the six MTD consultation documents given so much technical uncertainty remains.** HMRC must delay implementation if significant technical difficulties arise rather than proceeding regardless. Proceeding under such circumstances risks both reputational damage and reduced compliance. Universal Credit (UC) serves as a recent reminder of a less than successful government IT programme where pressing ahead despite the consequences has caused difficulties for recipients, financial losses for the taxpayer, reputational damage for all involved parties and a legacy of mistrust for future large scale government projects. The National Audit Office described the UC programme as beset by “weak management, ineffective control and poor governance” with £34m written off on failed IT programmes and at least one hundred million more on the programme as a whole. It is vital that HMRC learns the lessons from examples such as this.
- 2.4. **AAT favours a phased implementation programme for MTD.** The threshold should be set at £83,000 (the current VAT threshold) falling to £11,000 (the personal allowance) over a three year period. This will help the business community whilst simultaneously helping HMRC achieve the best possible outcomes. This proposal is explained in full at 3.83-3.84 of AAT’s response to “Making Tax Digital: Bringing business tax into the digital age.”

- 2.5. **AAT supports the use of third party information** because, as stated in paragraph 1.6 of the consultation document, “customers will never have to tell HMRC information it already has”.
- 2.6. **AAT strongly disagrees with the proposal taxpayers should have to go back to third party information providers in order to get them to rectify errors** (3.12-3.13, below).
- 2.7. **AAT recommends that contractors should be brought within the scope of third party information providers** for the purpose of the operation of the Construction Industry Scheme (CIS) (3.20, below).
- 2.8. AAT has consulted its membership on the MTD proposals by canvassing feedback through:
- carrying out an online survey of its 4,250 licensed accountants
  - holding two focus group meetings where the participants received an overview presentation of MTD from an HMRC representative
  - holding a roundtable event with AAT licensed accountants and HMRC
  - a meeting with a representative from the Low Income Tax Reform Group (LITRG)
  - being contacted on the telephone or via email by AAT licensed members
- 2.9. **AAT and its members can and will play a vital role in helping make a success of MTD.** AAT members are already educating and raising awareness of MTD amongst their client base (and adopting a phased implementation will give them much needed time to do so). In addition AAT is utilising various channels to provide information, advice and guidance to members on successful MTD implementation.

**3. AAT response to the HMRC consultation document “Making Tax Digital: Transforming the tax system through the better use of information”**

**Question 1: Where events during the year result in a change to a customer’s tax projection, what is the appropriate format and regularity of notification that HMRC should send to employers and customers?**

- 3.1. Where there is a change during the year that results in a change in the customer’s tax projection then this should be reflected in real time in the taxpayers’ personal digital tax account. Where there is a change to the taxpayer’s tax code then HMRC should advise taxpayers in whichever format that they elect to receive that notification and the default position should be in paper format.

**Question 2: Have you any suggestions for how we present third party information in your digital tax account in a way that will make it easier for you to understand your tax?**

- 3.2. There are various options here, for example by making third party information appear in a different typeface or different colour so as to distinguish that it is third party information. However, those best placed to give advice on this issue are organisations such as RNIB, RNID, Scope, Radar and so on. AAT therefore strongly suggests that HMRC builds on its current work with the Assisted Digital Working Group (ADWG) and works with these organisations on this and other relevant matters relating to MTD.
- 3.3. The third party information should also clarify the source of the information and the date when it was provided.
- 3.4. The personal digital tax account must allow for taxpayers to either overwrite and/or challenge the accuracy of the third party information.

**Question 3: If you are concerned over privacy impacts of HMRC's plans for improving how we use third party information we already receive, do you have any suggestions for how these concerns could be resolved?**

- 3.5. AAT is aware that HMRC takes security, data protection and wrongful disclosure<sup>1</sup> very seriously and therefore has no significant concerns over privacy in relation to HMRC's proposed use of third party data. However, please note AAT's more general comments on data security when enrolling made at 3.21-3.27 of AAT's response to "Making Tax Digital: Bringing business tax into the digital age."

**Question 4: If a third party information provider is aware of how the ownership of a joint asset is split, do you think the third party provider should inform HMRC?**

- 3.6. It would be appropriate for a third party provider to report to HMRC on its knowledge of how the ownership of an asset might be split and for HMRC to then use the information supplied for the allocation of taxable income. However, HMRC should not solely rely on such information as being the definitive position. This is because there are many occasions when the real (beneficial) ownership of an asset might be at variance with the information held by a third party.
- 3.7. As part of MTD, HMRC should give consideration to how the current Form 17 notification process, which covers the beneficial ownership of property for spouses or civil partners, can be brought up to date.

**Question 5: Information providers will want to keep their customers fully informed about the information they provide to HMRC (and have a responsibility to do so under the Data Protection Act 1998). Do you think there should be a standard approach, or should information providers design the best approach to meet the needs of their particular business and customers?**

- 3.8. It would be useful to have a standard approach but rather than making it a legal requirement it may be better if HMRC provides guidance to third party information providers in order to ensure there is consistency in approach whilst also providing for flexibility for the information providers to meet the needs of their particular business and customers.

**Question 6: Do you have any preferences for how you would like to be kept informed by third party information providers?**

- 3.9. No.

**Question 7: Do you think there are any additional safeguards we should consider in relation to the protection and use of third party information by HMRC?**

- 3.10. If HMRC inadvertently disclosed a piece of information relating to Mr Smith to Mr Jones' personal tax account, it is likely that all Mr Jones could say was that this information did not relate to him. It would be virtually impossible to attribute that information to Mr Smith.
- 3.11. There has to be some combination of information that will uniquely identify the taxpayer e.g. name, DOB, UTR and postcode.

**Question 8: Do you agree with the principles we have set out for how information queries should be resolved? What are your expectations for how this would work in practice?**

- 3.12. AAT disagrees with the example in 3.3 (page 21) that the taxpayer "Dave" has to go back to the bank and get the bank to rectify the figures.
- 3.13. The taxpayer should be able to overwrite the figures there and then, and it should be for HMRC to investigate the discrepancy.

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<sup>1</sup> S.19 Commissioners for Revenue and Customs Act 2005

**Question 9: How can we best align HMRC's third party information requirements with information provider's circumstances? For example, with other standards information providers need to meet; other regulatory change; internal business processes and requirements.**

3.14. No comment.

**Question 10: If you currently provide information to HMRC at year-end what would be the impact of moving to a more frequent in-year process, assuming that HMRC is able to align to your circumstances as described above?**

3.15. No comment.

**Question 11: We have given you a high level introduction to the standards necessary to make the exchange of data efficient and dependable. Do third party providers foresee any specific challenges in adopting standards along these lines?**

3.16. No comment.

**Question 12: What opportunities do current and potential information providers and software providers see for a stronger partnership with HMRC to enhance our customer experience?**

3.17. AAT is not a third party information provider and therefore has insufficient information with which to provide a full response. Nevertheless, HMRC and third party information providers need to have clear channels of communication in order to deal with discrepancies with the information (see 3.12 - 3.13, above).

**Question 13: What new sources of third party information would most enhance the customer experience and best contribute to the aim of ending the tax return for all?**

3.18. In the first instance, AAT would strongly recommend stronger links between HMRC and DWP in respect of Universal Credit (UC) to enhance the customer experience for those taxpayers in receipt of UC.

3.19. New sources of third party information could include:

- DWP (e.g. in respect of the bereavement allowance)
- State pensions
- Land Registry (for capital gains etc.)

**Question 14: How can we best open up discussions and begin to work with new potential information providers who are not currently providing information to HMRC on a regular basis?**

3.20. Where the discussions are between different departments (or quangos) then the discussions would be best opened at a Ministerial level to avoid misunderstandings and blockages.

#### **4. About AAT**

4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and 80,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

4.2. 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.

## **5. Further information**

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islam, AAT Technical Consultation Manager, at:

E-mail: [consultation@aat.org.uk](mailto:consultation@aat.org.uk) Telephone: 020 7397 3088

Association of Accounting Technicians  
140 Aldersgate Street  
London  
EC1A 4HY