HM Revenue & Customs

Making Tax Digital: Transforming the tax system through the better use of information

Consultation document
Publication date: 15 August 2016
Closing date for comments: 7 November 2016

Subject of this consultation:	This consultation focuses on how more effective use of third party information can contribute to the transformation of the tax system, as set out in the Making Tax Digital Roadmap.
Scope of this consultation:	There are two parts to this consultation: we are looking for views on both our plans for the next two years and our future ambition for the use of third party information. Responses will guide further design work related to our immediate plans for the next two years as well as directing further consultation on our future ambition.
Who should read this:	This consultation is relevant to: all customers; agents who currently complete tax returns for their customers; software developers, employers and all other organisations that provide customer information to HMRC.
Duration:	The consultation will run for 12 weeks from 15 August 2016 to 7 November 2016.
Lead official:	Gemma Bridge, HMRC
How to respond or enquire about this consultation:	Responses or enquires should be sent by email to – processtransformation.mtd@hmrc.gsi.gov.uk Or by post to: HM Revenue and Customs, Third Party Information Team, Process Transformation Room 1E/13, 100 Parliament Street London SW1A 2BQ
Additional ways to be involved:	HMRC will consider requests for meetings as part of this consultation. Any such requests should be made to the email or postal address above.
After the consultation:	HMRC will publish a response to this consultation at Autumn Statement 2016, setting out how the responses will be influencing future design work and future consultations.
Getting to this stage:	The government published the Making Tax Digital Roadmap in December 2015, outlining its wider plans to end the tax return and deliver a fully digital tax service.
Previous engagement:	This issue has not been the subject of any recent formal consultation.

Contents

On request this document can be produced in Welsh and alternate formats including large print, audio and Braille format

1. Introduction

1.1 The Making Tax Digital Roadmap, published in December 2015, set out the government's plans to deliver a fully digital tax service by 2020, where bureaucratic form-filling is eradicated and unnecessary time delays are eliminated. All individuals and small businesses will have access to digital tax accounts, with the information HMRC needs already automatically uploaded, bringing an end to the tax return.

1.2 There is still a lot to design and develop before 2020 and it is important for us to do this hand in hand with our customers and those impacted by these changes, to hear their views and concerns and to work with them to understand how we can make these changes work for everyone. We want to design tax administration around the people it affects and we welcome your input about how we can best achieve that. To this end we have launched a package of six consultations, of which this is one. To see the others, please go to MTD consultations.

1.3 This consultation focuses on how **more effective use of third party information** can contribute to this transformation of the tax system.

1.4 Third party information, in this context, means information provided by an organisation, which customers would otherwise need to report to HMRC. Employers, banks, building societies, pension providers and other government departments are all examples of current third party information providers.

1.5 Tax administration is information driven – currently, under Self Assessment (SA), over 10 million individual customers fill in a tax return to tell HMRC about all their circumstances and income. More effective use of third party information will radically reduce the reporting burden on customers and enable us to bring about an end to the tax return.

1.6 The main changes will be that:

- customers will never have to tell HMRC information it already has;
- HMRC will use third party information it already collects more effectively to reduce under- and over-payments that can be a source of frustration and confusion for customers;
- HMRC will enable customers to report more information about their income digitally through their digital tax account, in closer to real time, rather than through an annual tax return;
- HMRC will use third party information, information provided by customers through software, and information provided by customers directly into their digital tax accounts, to calculate tax due;
- digital tax accounts will give all customers a single, personalised view of their tax position across all of their liabilities and entitlements, making it much easier for customers, and their tax agent if they have one, to see and understand their overall tax position - showing a complete and up-

to-date picture of what will be due when, and what action, if any, customers need to take;
- customers will be offered a range of modern payment options, including the option to ‘pay as you go’, through their digital tax accounts;
- over time, HMRC will look to extend the range of third party information providers where this reduces the reporting burden on customers.

1.7 We know that not everyone is ready or able to use digital services. People have a range of needs and we will continue to provide extra support for those who need help. HMRC's Needs Extra Support Service (NES) provides extra help to customers with additional needs by providing both telephony and face to face specialist contact. NES supports customers through digital tax account registration and queries and for face to face customers, access to digital accounts will be facilitated, via tablets for example. This, along with other existing mechanisms (such as tele-filing and home visits), which support digitally excluded customers in providing their tax information to HMRC, will continue.

1.8 There are two parts to this consultation: we are looking for views on both our plans for the next two years and our future ambition for the use of third party information. These elements are explored in detail in the following four chapters.

- <u>Chapter 2: Using current third party information better</u>. This chapter sets out the information currently held by HMRC and our strategy for making better use of this information over the next two years to provide a more transparent service for customers that reduces end of year under- and over-payments. We are inviting views on how best we can keep individual customers informed about, and help them understand, their up-to-date tax position throughout the year.

- <u>Chapter 3: Information standards and security</u>. This chapter explains how we will use information that we currently hold to achieve the aims set out in Chapter 2, describing the safeguards on the use of this information and the principles for resolving customer queries about the information we hold. We are inviting views on those safeguards and on proposed processes for dealing with customer queries.

- <u>Chapter 4: Current information providers</u>. This chapter describes what changes current information providers will need to make by April 2018 and outlines the HMRC data standards. We are inviting views from information providers about how we can best align our requirements with their own business needs and practices.

- <u>Chapter 5: Our future ambition</u>. This chapter explores our future ambition for the use of third party information from 2018 onwards, which will enable us to deliver the end of the tax return by 2020. We are inviting views on additional information that it would be most useful for us to collect direct from third parties.

1.9 Specific questions on which we would welcome views are set out throughout the document and listed in Chapter 7.

1.10 Additional consultation exercises will be undertaken before HMRC collects any new classes of third party information.

1.11 This consultation is relevant to:

- all customers;
- agents who currently complete tax returns for their customers;
- software developers;
- employers;
- and organisations that provide customer information to HMRC.

1.12 We welcome feedback during this consultation exercise from all stakeholders and their representative bodies.

2. Using current third party information better

The picture now

2.1 Self Assessment (SA) provides the structure and legal framework within which HMRC can determine Income Tax, Class 4 National Insurance and Capital Gains Tax liabilities and enforce payment when due. Currently, over 10 million individual customers fill in an annual tax return. The use of third party information as proposed in this consultation will contribute to ending the tax return for millions of customers by 2020, whilst ensuring that tax liabilities are still met.

2.2 HMRC has already begun the journey towards digital interaction with customers, starting with HMRC's online services and more recently with the launch of the Personal Tax Account. Millions of customers have already accessed their digital tax account, enabling them to:

- check their Income Tax estimate and Pay As You Earn (PAYE) tax code
- tell HMRC about a change of address
- check or update their company car details
- check and manage medical benefits that affect their tax
- apply for Marriage Allowance
- register to help friends or family with their tax, or appoint friends or family to help them
- track tax forms they have submitted online

2.3 If customers are required to complete a SA tax return they can fill in, send and view their tax return using HMRC's online services. We already insert the following information into the online SA tax return:

- State Pension
- Under-payments
- Class 2 National Insurance Contributions (NICs)

2.4 By the end of March 2017 we aim to have seven million customers using their Personal Tax Account. We are forecasting that this will result in a reduction in contact via traditional contact methods of 1.7 million.

2.5 At the moment, HMRC receives information from a range of sources, including employers, banks, building societies, and other government departments. However, we still ask many customers to complete a tax return to provide the same information again, sometimes a considerable period after we have received the information from third parties.

2.6 Even though the vast majority of employers now submit PAYE information to HMRC monthly or weekly through Real Time Information, the employee will only know their final tax position after the end of the tax year. Each year millions of customers find that they have paid too much or too little tax, which they find both frustrating and often time-consuming to resolve. Previous attempts by HMRC to correct these discrepancies by changing tax codes in-year rely on our reactive responses to changes of circumstance, such as a new job, rather than proactive amendments. We recognised this and have started using Real Time Information on a more frequent basis to reduce end of year under- and over-payments but many customers still find they have paid too much or too little tax at the end of the year.

2.7 PAYE works best for customers who have one employment at a time. But increasingly we find that our customers hold more than one job and may have fluctuating and unpredictable incomes. This means that many customers have to contact us through the year to reallocate their personal allowances.

2.8 This consultation document includes examples of what the proposals may look like in practice for a range of customers.

Fig 2.1 Introducing the case studies

'Helen' is retired and lives alone. She has always been in paid employment and has had very little contact with HMRC throughout her working life. She now receives a state pension plus a small occupational pension from her previous employer. Helen has substantial building society savings after investing a lump sum. She completes an annual Self Assessment (SA) tax return because the tax due on her state pension is too large to be collected through her occupational pension, but she cannot understand why she has to tell HMRC about income they already know about. Whenever Helen receives a letter from HMRC she phones HMRC for an explanation and to seek reassurance that she's paying the right amount of tax.

'Vijay' is a busy salesperson for a large corporation. He has been putting aside modest savings each month into a bank account which he hopes to use as a deposit for a house. Vijay has heard about Making Tax Digital and is concerned about the level of information HMRC now hold about his personal finances. All his income is taxed through Pay As You Earn (PAYE) and he assumes that his employer and HMRC are calculating his tax correctly. Vijay's employer provides HMRC with Real Time Information on Vijay's earnings every time they pay him. HMRC estimate, calculate and reconcile tax annually and send Vijay a refund for over-payments or add under-payments to his tax code. Vijay is unlikely to contact HMRC and speaks to his employer should he have a problem with his pay.

‘Dave’ is a manager in a large charity. He works full time and pays Income Tax at the higher rate. He has a visual impairment which causes difficulty reading correspondence and online information. He has requested to receive any HMRC correspondence in large print and uses a screen reader when accessing online services. He is married to ‘Sandra’ who also works full time. They have a joint bank account where they are saving money they inherited. Dave is required to tell HMRC how much savings interest he has received by completing a SA tax return. His employer deducts the tax on his salary through PAYE. Dave always reviews changes to his tax code, contacting HMRC only if he requires clarification.

‘Geeta’ is a full time teacher who has tax deducted from her wages by her employer. In addition, she receives income of over £10,000 a year from private tuition and from a flat she rents out with her partner. Geeta is required to tell HMRC how much income she has received by completing a SA tax return. Her income fluctuates year by year which means she often is asked to pay either too much or too little on her payments on account. Geeta struggles to find time to keep records of her income and expenses and there are some gaps. She worries about how much she will owe and is unsure how much to set aside to pay her tax in full. She wants to make sure she is doing things right.

‘Peter’ works full time for a large logistics business and his employer deducts his tax and National Insurance contributions at source. Peter has additional income from working at his brother’s pub, mainly during the holidays. Changes in the amount of work he does in his second job can push him over or under the higher rate Income Tax band. Peter regularly receives multiple tax code changes which he checks carefully, often needing to make contact with HMRC by phone for an explanation. Peter wants to pay the right amount of tax but often finds himself with an under- or over-payment at the end of the year. Peter doesn’t fully understand his tax position which frustrates him and can put him off engaging with HMRC. At the end of 2017 he invested money he inherited from a relative in a bank savings account.

Over the next two years

In October 2016

2.9 Since 6 April 2016, tax on savings interest are no longer collected by banks and building societies, with an anticipated 95% of customers no longer subject to tax on savings interest through the Personal Savings Allowance. To assist those who are subject to tax on savings interest, we will begin our journey of improvement by starting to use previous tax year bank and building society interest information to amend PAYE tax codes for all customers, where the bank or building society account is solely held by one customer. This is already done for higher and additional rate customers to collect the tax due above 20%, when we are informed of the interest via self-declaration or a SA return.

From April 2017

2.10 Moving to 2017, we will start to use PAYE information during the tax year to calculate whether the right tax is being paid and to notify customers where that is not the case via the digital tax account, providing a clear explanation of the steps we have taken to make sure that no under- or over-payments accrue. This will make sure that the customer is on track to pay the right amount of tax and National Insurance contributions for the tax year. By working smarter – using PAYE information to allocate allowances during the year – customers will only pay what they owe with no need to contact HMRC.

2.11 By including information that we have already received in the digital tax accounts – for example information from pension providers – we will make it easier for customers, who will be able to check that the information included is correct.

2.12 Where information suggests that someone is not getting the full benefit of their tax allowances and reliefs, HMRC will automatically instruct their employers' payrolls to make a re-allocation that will prevent an under- or over-payment accruing at the end of the tax year. The adjustments made will be explained clearly in the digital tax account. This will be of particular benefit for customers who have seasonal work or with multiple PAYE income sources, especially if they continually move between the basic, higher or additional rates of Income Tax. We estimate that over 6 million customers will benefit from the reduction in under- and over-payments from April 2017 onwards. However, these changes have the potential to benefit any of the 40 million customers who currently pay some or all of their tax liabilities via PAYE, whenever they experience a change in their income or tax allowances.

Fig 2.2 How will under- and over-payments be avoided from 2017?

Prior to 2017 Peter regularly receives multiple tax code changes because of his seasonal working pattern. He checks these carefully, often needing to make contact with HMRC by phone for an explanation. Peter always wants to pay the right amount of tax but he often finds himself with an under- or over-payment at the end of the year. He has been told during one of his phone calls that this happens because his income fluctuates regularly and he can be liable to both the basic and higher rates of Income Tax during the year. As a result, Peter believes his affairs are complex and he doesn't fully understand his tax position until the end of the year which he finds confusing and frustrating.

During 2017 Peter receives a notification by post that the amount of tax he has to pay has changed. The notification advises him to log into his digital tax account. GOV.UK provides Peter with guidance and a link detailing how to register. He answers some security questions, sets up a password and receives a text message with a secure access code. Peter is impressed with how easy it is to register.

Once in his account, Peter can see the taxable income provided by his employers. He can see that because his income from his brother's pub has increased significantly over the Christmas period he is once again liable to Income Tax at the higher rate. He can see that updates have already been made to his tax projection and his employer has already been informed. He is confident that these changes mean he is on track to pay the right amount of tax and National Insurance contributions for the tax year.

Peter receives a text message to alert him that there has been a further change which he should check in his digital tax account. Because his part-time income has reduced considerably he is no longer liable to pay Income Tax at the higher rate. His tax projection has been automatically updated based on a forecast of all his income, anticipating what he will earn in the tax year. Peter is pleased to see an explanation of the adjustments made in his digital tax account and is reassured that his employer has already been informed.

Prompts in his digital tax account link him to clear and relevant guidance and he attended webinars and accessed other useful links. Peter makes use of web chat and the HMRC virtual assistant, instead of contacting HMRC by phone for future queries. He can provide updates to change of circumstances as they happen.

Being able to log into his account at a convenient time to see changes whenever he wants, and when prompted to do so, helps Peter to gain confidence that he is paying the right amount of tax on time, meaning he won't have an under-payment at the end of the year.

2.13 Tax codes that are sent to employers will flow automatically into their computer systems, so any increase in the volume of notices (known as P6) issued to employers should not cause added administrative tasks for them. HMRC recognises that more frequent updates to PAYE could impact employers due to an increase in employee queries, however we are designing the digital tax accounts to mitigate this effect. Customers will be presented with a clear, meaningful picture in their digital tax account of how their tax is calculated and how it is being collected, rather than the current mix of letters and numbers that make up a tax code that customers often do not understand.

April 2018

2.14 The next step towards using third party information is to include common income types in the in-year calculations of tax on a more frequent basis, starting with bank and building society interest from April 2018. The objective here is to prevent tax owed on other modest income sources from accumulating during the year by collecting the tax due through PAYE, whilst also providing an up-to-date and more complete picture for our customers. By starting with bank and building society interest, these changes will initially only affect the 5% of customers with savings whose interest exceeds the Personal Savings Allowance.

2.15 We envisage that the default position will be to collect any additional tax owed via PAYE where that is affordable. But customers will be able to opt out and pay this tax separately if they wish.

2.16 We are currently in the process of designing what information that HMRC already holds will be incorporated next, after bank and building society interest, but one example is information on state pensions.

2.17 For customers where tax is collected via PAYE, current PAYE cumulative rules would still apply. For example, if a customer moves from a higher paid job where they are experiencing 'higher rate' PAYE deductions to a lower paid job where their employer makes PAYE deductions at the 'basic rate', we would see this on the first Real Time Information submission from their new employer. We would then identify that excess tax was deducted previously, when the customer was on course to be higher rate, and make the necessary adjustments to get the over-deducted tax back to them.

Fig 2.3 How will tax due on bank and building society interest be collected via PAYE?

During 2018 Peter receives a bank statement showing the interest received on the monies he has invested.

He receives a text alert advising him to log into his digital tax account. Once logged into his account Peter can see that his interest has been recorded and because his interest is over the Personal Savings Allowance he is liable to pay tax on this interest. He is advised that the tax due will be collected through PAYE and he does not need to take any further action.

Peter can also see guidance that informs him he can make an alternative arrangement to pay should he wish to do so. Peter decides that he will pay this tax via PAYE because it means that he does not have to remember to make the payment himself, risking late payment penalties if he forgets.

2.18 With information from employers and bank and building society interest, we will be able to undertake in-year calculations, rather than waiting until year-end. We will then be able to notify employers of any in-year changes that need to be made to tax codes and will make customers aware of how this affects their tax projection through their digital tax account. There may be a number of events in any tax year which impact upon an individual's tax projection and where HMRC will be able to recalculate in closer to real time. We would welcome views on what is the appropriate level of notification for employers and customers when the tax projection changes.

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?

2.19 Where it is not possible to collect tax via PAYE, for example if the tax owed exceeds the affordability limit for PAYE, the customer will be advised through their digital tax account how much tax will become due after the end of the tax year and this projection will be continually updated throughout the year as more bank and building society information is received, again to prevent under- or over-payments accruing. They will be told why PAYE cannot be used to collect the tax due and will be given options on how and when to pay what is owed. This will include a range of modern payment options, including the option to 'pay-as-you-go', rather than wait to make a lump sum payment at the end of the year.

Fig 2.4 How will bank and building society information be used for customers where it is not possible to collect tax via PAYE?

Following the introduction of Making Tax Digital, Helen is very happy that she no longer fills in a tax return, or provides information about her income. This is because the information is already supplied to HMRC through regular updates from her pension providers and building society (third parties) and matched to her digital tax account. Helen is relieved that she no longer has to wait until the end of the tax year to have an indication of how much tax she will need to pay. She is prompted to log on to her digital tax account and simply checks the figures. She sees all the information about her, how her tax is calculated and the amount she will need to pay.

Helen receives a building society statement soon after April 2018 showing details of the interest she has earned on her savings. She also receives a prompt to check her digital tax account as updates have been made. Once in her digital tax account Helen can see that the interest shown on her statement has been provided to HMRC. Guidance contained within her account reassures Helen that she has no additional tax to pay as the interest is below the Personal Savings Allowance.

Helen decides to sell her car and deposits the money from this sale into her building society account. Later in the year Helen receives a building society statement showing that her accruing interest is now above the Personal Savings Allowance. Once again she is prompted to check her digital tax account and can see that tax has been calculated on the interest amount. She is informed how much tax will become due after the end of the tax year. Helen can see that this projection will be continually updated throughout the year as building society information is received and entered on her account.

The tax due on Helen's state pension and now also her building society interest is too large to be collected through PAYE via her occupational pension. She is given options on how and when to pay what is owed. Helen usually pays her tax in one lump sum at the end of the year. Now she decides to use the pay as you go option as this will help her budget more effectively.

2.20 Some customers will have other income sources in addition to bank and building society interest, such as rental income or income from self-employment. Where customers do not need to complete quarterly updates (see paragraph 2.21) as these additional sources of income total less than £10,000 per year, they will be able to continue with the usual SA tax return if they wish. Alternatively, by 2018 they will have the option of reporting this income through their digital tax account. If they choose the digital tax account option they can start to report information about other income at any point in the year and as often as they choose during the year. This will be taken into account in the calculations HMRC makes in-year, so that each month the customer has an up-to-date estimate of the amount of tax that will become due after the end of the tax year.

Changes for businesses

2.21 Starting from April 2018, most businesses, the self-employed and landlords will be required to keep their business records digitally and to update HMRC quarterly using software or apps. These updates will be shown in the digital tax accounts. In some cases, we may require further information from the customer to cover activity taken outside the course of their business (for example foreign earnings) and the digital tax account will provide the functionality to capture that information without the customer needing to fill in a full SA return. No self-employed person or landlord with annual incomes below a threshold (to be determined, but not less than £10,000) will have to meet those requirements. The mandatory start of Making Tax Digital for the next tier of small unincorporated businesses with incomes over £10,000 will also be deferred by one year. We are consulting on what the right income thresholds for these groups should be. Please see the consultation document Making Tax Digital: Bringing business tax into the digital age for more information.

Changes to how you update HMRC

2.22 We will use the information shown in the digital tax account to calculate a monthly projection of a customer's tax. Customers will still have a statutory obligation to make sure that the information is correct and complete and to report any income that has not been included in the calculation on an annual basis. A facility will be provided in the digital tax account to do this.

2.23 HMRC's Needs Extra Support service will continue to support customers who are unable or uncertain about using digital tools and the consultation document Making Tax Digital: Bringing business tax into the digital age sets out how businesses and landlords who cannot engage digitally will be exempted from the requirement to maintain digital records.

2.24 During the transitional period, we will enable customers to provide change of circumstances updates via current communication channels (such as by telephone) in addition to digital channels. We envisage that the majority of customers will have transitioned by 2020 but there will still be systems in place until all customers have transitioned.

2.25 Using third party information in this way will provide customers with a much better service, as although some types of income will still need to be reported directly, it will reduce the reporting burden for many customers.

Fig 2.5 End of the tax return

Geeta received a prompt from HMRC when she submitted her last SA return, encouraging her to register for her digital tax account because she is no longer required to complete an annual SA return. GOV.UK provides Geeta with step-by-step guidance, she finds the process straightforward and receives confirmation that her account has been successfully activated.

When she logs into her digital tax account, Geeta is informed that if she has secondary income (for example her private tuition and letting income) of above £10,000 she is required to keep business records digitally and to update HMRC quarterly using software or apps. Geeta chooses a free smartphone app and uses this software to keep digital records for her private tuition and letting income and related expenses. Geeta used to keep receipts and paperwork from her private tuition and letting agent in a carrier bag, only looking through them once a year when completing her return. With the app on her smartphone she is now able to capture information more frequently. Receiving a notification each quarter prompts Geeta to access her software, check she is happy with the figures she has entered for the last quarter and, after confirming these figures are correct, they are automatically sent to HMRC.

Geeta can see that there is already information about her employment income in her digital tax account. Geeta likes to have confidence about her financial affairs and now whenever she receives a ‘prompt’ that her digital tax account has been updated she can ‘log on’, check the figures from all her income sources have been entered correctly and view an estimate of her tax for the year to date without having to wait until the year end. This helps her to budget. She has the option to pay in full at the end of the year or more frequently. Geeta chooses to set up a regular direct debit payment which adjusts based on the information she provides us. Geeta is no longer required to complete an annual SA return, she just has to finalise her tax on her private tuition and letting income by confirming that her updates are complete and making a declaration that everything is complete and correct to the best of her knowledge at the end of the year.

Geeta finds using the digital tax account much less stressful than completing a SA return. She now has access to online chat when she needs it and the prompts in her digital tax account give her easy to understand and relevant HMRC guidance. Being able to submit information in this way builds her confidence that she is providing the correct information.

2.26 We are currently undertaking extensive customer research and co-design to ensure that the presentation of all information in the digital tax account is clear and easily understandable for customers but we would also welcome views via this consultation.

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. Information standards and security

3.1 Starting with PAYE information in April 2017, we will be using third party information to make sure that the customer is on track to pay the right amount of tax and National Insurance contributions for the tax year and presenting these calculations to customers in their digital tax account. This chapter sets out how we intend to ensure the accuracy and security of that information.

Information standards and accuracy

3.2 We will continually review and improve our capability to match information. We will only use information to calculate tax where we are confident that we have the right information for the right customer. Our data standards (see Chapter 4) will specify the requirements for data entry that must be followed to enable robust matching to the correct customer. We will not keep third party information for longer than is necessary to do so for the purposes of our functions.

3.3 We need to have confidence that the information provided by third parties meets specific standards of quality and accuracy. Our internal information will also meet those standards. HMRC data standards (see Chapter 4) will follow national and international government standards that are already familiar to our customers and to third party information providers.

3.4 We will proactively work with third party information providers to ensure that information is submitted in an agreed format, is complete and to the required quality standard. This will help ensure that the information sent to HMRC successfully links to the right customer accounts, and will help avoid errors and disputes. It will also ensure that we are acting on the latest possible information and avoid the risk of historical information being incorrectly used. We will proactively respond to information that is identified as poor or unreliable.

Transparency

3.5 We will ensure that:

- we are open and transparent about the information we use and where we obtain it from;
- we are only processing the minimum information that we require;
- ‘privacy by design’ principles are used when designing implementation;
- Privacy Impact Assessments are carried out.

3.6 We will show all the information we hold that we know belongs to that customer and has been used to calculate the customer's liability in their digital tax account. A list of income sources will always be provided, for example if a customer has multiple bank and/or building society accounts the interest from each of these will be displayed separately. This will allow customers to check the accuracy of the information held by HMRC against their own records. We will introduce functionality to the digital tax account that will enable customers to check and query the information (see below for “Query resolution process”).

Fig 3.1 Transparency – what information does HMRC receive from banks and building societies?

Vijay checks a statement from his bank that tells him HMRC has been provided with information regarding his savings interest. He is concerned that his bank is providing information about his day to day spending so carries out a web search to find out more and comes across a page on GOV.UK advising that he can check information online. He registers for his digital tax account by following a link.

Once registered, Vijay sees a personalised view of his tax affairs including the income his employers have provided, his tax projection and National Insurance record, which shows him how much state pension he is expected to receive and when. He checks the information his bank provided and is satisfied that his bank is only providing specific information related to his interest. Vijay can clearly see that he is currently under the Personal Savings Allowance and so does not owe HMRC any tax on his savings interest.

Vijay bookmarks the digital tax account on his browser for future reference. Vijay feels that he is only likely to access his digital tax account when he needs to provide HMRC with any relevant changes to his circumstances.

3.7 We will not collect historical information from third parties and therefore historical information will not be used to calculate monthly projections of a customer’s tax. We will only use information to calculate monthly projections of a customer's tax if that information has been received on or after the date that this new service becomes available.

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?

3.8 Some taxable assets are jointly owned. For these assets we will assume that the tax liability is shared equally, but we will provide customers with the digital tools to inform us if this is incorrect. If a customer is required to report income from their joint asset quarterly they will inform us of how the income is split. Please see the consultation document [Making Tax Digital: Bringing business tax into the digital age].

Figure 3.2 Transparency – how is a joint asset dealt with?

Dave and Sandra receive interest on their joint savings and receive a statement from their building society which shows the interest earned and confirmation that the information has been sent to HMRC. Both Dave and Sandra have already set up their digital tax accounts after Dave received a HMRC notification that he no longer needed to complete a SA return.

Dave and Sandra both log on to their own digital tax accounts, Dave's account is fully compatible with his screen reading software. They can see that the interest has been split between them equally and can see clearly how this interest affects their individual tax projections.

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?

3.9 Third party providers will play an active role in building trust in information sharing by advising the customer about the information provided to HMRC. Banks and building societies already tell account holders when they are paid interest and employers are required to inform employees of their PAYE deductions. In future, one option might be that these notices clearly explain that this information has been given to HMRC and will be reflected in their HMRC digital tax account. This will promote transparency so that queries can be resolved quickly and will help ensure the accuracy of information.

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?

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

Safeguards and security

3.10 HMRC have a statutory duty to maintain customer confidentiality and may not disclose information except in the limited and controlled circumstances that are set out in legislation. It is a criminal offence for HMRC staff to unlawfully disclose any information about a customer who is identified in the disclosure or whose identity can be deduced from it. The duty of confidentiality applies to all information the department holds in connection with its functions, and applies equally to information that we obtain from our customers as it does to information that we receive about our customers from third parties.

3.11 HMRC takes its responsibility for data security extremely seriously, and the secure handling of customer data is fundamental to the way in which we operate. The processes and infrastructure used to move and store large data sets are kept under constant review. For example, HMRC previously adopted Secure Electronic Transfer to handle the increasing trend towards electronic data exchanges, significantly reducing the number of times data has to be handled before it is processed, and minimising the risk that shared data becomes corrupted, misused or lost.

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?

Query resolution process

3.12 We will work to improve our ability to manage and use information we receive from third parties, and their ability to provide information of a higher quality, in a format we can use. This will significantly reduce the need for information to be changed in most situations. We do however recognise the need for a process to enable customers to inform us of appropriate changes in certain circumstances, for example a change of address or partner. The preferred route for this would be through the digital tax account but an alternative will be available for those who are unable or uncertain about using digital tools.

3.13 In circumstances in which a customer is not able to change information presented in their digital tax account (for example an amount of interest) but where they have a query about it, they will be able to tell HMRC via their account or an alternative route. This specific piece of information would not be used in calculations until the query is resolved.

3.14 If the customer agrees with the source of the income, for example interest on a particular bank account, but is querying the amount of income, such as the exact amount of interest earned, the customer will be advised to contact the third party provider directly to resolve the query. If the income figure(s) is incorrect, the third party provider will provide revised information to HMRC.

3.15 Customers will be able to approach HMRC through their digital tax account (or an alternative route where necessary) to help resolve queries where they are unable to deal directly with the third party information provider or are unable to resolve the query with them. This may be where:

- the query is not about information supplied but about the source of the income and its relationship to that customer;
- the information provider is no longer available, for example they have ceased trading;
- complex scenarios and complaints occur that require HMRC intervention.

3.16 Where a submission error affects multiple customers, we will resolve these with the third party provider. Where possible these bulk errors will be identified and resolved before the information is assigned to customer accounts.

However, if the error is identified after the information has been matched to customers, the digital tax account will indicate that this piece of information is being queried by HMRC and it would not be used in calculations until the query is resolved.

3.17 If we reach the end of the tax year and a query has not been resolved, we will make an estimated assessment using the information we believe to be correct, on the understanding that this assessment may change upon resolution of the query.

3.18 We will involve customers and third party providers in the detailed design of the query resolution process to ensure that it meets with requirements. A programme of co-design is currently underway.

Figure 3.3 Dealing with a query

Dave reviews his digital tax account and realises the figure his bank has provided is not correct. Dave quickly accesses the HMRC online help guide which assures Dave this figure can be changed and tells Dave to contact his bank. Dave notifies HMRC that he is querying the figure via his digital tax account so that it is not included in calculations until the query is resolved. Dave contacts his bank who after investigation send the adjusted figure to HMRC. Once his bank has provided the updated information and HMRC process this information, Dave logs back into his digital tax account and is happy to see the adjusted figure.

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?

4. Current information providers

Current situation

4.1 At the moment we receive information from a range of sources, including employers, banks, building societies, and other government departments. This information is currently used :

- to determine tax liability via PAYE;
- to target compliance activity;
- for policy and planning purposes.

What will be required in April 2017

4.2 In April 2017, we will start to use PAYE information during the tax year to calculate whether the right tax is being paid by customers and to notify employers where this is not the case. Codes that are sent to employers will be mainly uploaded automatically into payroll, so any increase in the volume of notices (known as P6) issued to employers should not cause added administrative tasks for them. HMRC recognises that more frequent updates to PAYE could impact employers due to an increase in employee queries, however we are designing the digital tax accounts to mitigate this effect. Customers will be presented with a clear, meaningful picture in their digital tax account of how their tax is calculated and how it is being collected, rather than the current mix of letters and numbers that make up a tax code that customers often do not understand. Therefore, we do not anticipate that employers will experience significant impacts.

What will be required in April 2018

4.3 We will make better use of current information gathering powers that enable the collection of information about income and assets. The current powers of PAYE, Real Time Information and the data-gathering powers under Schedule 23 of Finance Act 2011 allow information to be gathered for the purpose of almost all taxes (except excise and customs duties). The existence of these powers will allow HMRC to start to build a single picture of a customer's tax liability, starting with bank and building society interest in April 2018.

4.4 To ensure we can match all third party information required to perform the calculations set out in Chapter 2, we will mandate the supply of administrative information, such as details of all joint account holders, using the current information gathering powers. We will not mandate the collection of information that providers are not already collecting for their own purposes.

4.5 To provide the up-to-date service described in Chapter 2, we will require information from third parties more frequently than we currently obtain it. We will establish a routine with third parties for supplying information that fits with both our requirements for the use of that information – taking into consideration the type of information and its purpose – and the business practices of third party providers. We understand that one size does not fit all.

We will work with third party information providers to help them get it right and to determine a timeline for information submission that delivers an administrative solution that meets our requirements and also works for third parties.

4.6 We recognise that other upcoming regulatory changes may have an impact on the IT systems of current information providers and, subject to timing, this may provide the opportunity for the changes outlined in this consultation to be supported more easily. We are interested to hear how those affected view this.

Fig 4.1 What do these changes mean for banks and building societies?

'Any Bank PLC' were previously required to provide HMRC with information on an annual basis as per Schedule 23 of Finance Act 2011. Any Bank provided this information based on the information requirements set by HMRC at the time.

In 2018 Any Bank are providing HMRC with more regular information and are working to refreshed and updated guidance based on HMRC data standards. HMRC and Any Bank have worked together to resolve concerns and have agreed an amended protocol for transferring this information that is compatible with Any Bank's systems so that an administrative burden is avoided.

Any Bank regularly provide statements of interest paid to customers, these also inform customers that they have notified HMRC of the interest amounts. This statement prompts customers to log into their digital tax account for more information on how this affects them.

Any Bank is contacted by a customer who queries why they have notified HMRC of his bank interest. The bank provides the customer with an explanation of why this information is passed to HMRC and how the process works. The customer logs into his digital tax account and can clearly see an itemised breakdown of interest his bank have been providing and cross references these figures with his bank statements. The customer now understands how the process works and is happy his bank have provided accurate information. The customer follows a link in his digital tax account to guidance which explains how and why his interest amounts are sent to HMRC. The customer feels confident and has no further reason to contact his bank or HMRC about this.

Any Bank expect additional contact from customers about the information passed to HMRC and have taken steps to notify customers of the changes. They are confident that this contact will reduce over time as customers become familiar with new ways of working.

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

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?

4.7 We must be confident with the accuracy of information before using it to calculate tax liability and presenting it to the customer. To ensure third party information is accurate, we propose introducing minimum data standards but we will work with information providers to strike an appropriate balance between the benefits to customers and any potential burdens these standards may create.

4.8 Capturing information in a targeted and uniform way will help to ensure consistency and provide a richer picture for our customers. This will also help us to better understand how customers interact with the tax system and what we can do to improve the experience. One of the ways of achieving a common approach is through the use of data standards.

4.9 Data standards are documented agreements, precise criteria, specifications, and rules for the definition, creation, storage and usage of data. Data standards take disparate information and turn it into structured data capable of processing by computers.

4.10 The HMRC data standards are being developed to make the exchange of data with customers, data suppliers and data consumers both efficient and dependable. This will enable greater interoperability between systems, better quality data and more accurate information.

4.11 The key benefits of the HMRC data standards will be that:

1. standardised data improves the quality of information we hold to provide better service for our customers;
2. standardised third party data enables better use of information and association across HMRC;
3. they provide clarity for third party information providers;
4. data standards will ensure the integrity, consistency and sharing of business data.

4.12 We are developing the first version of the HMRC data standards and subsequent versions could increase the scope of what is covered by them.

4.13 HMRC data standards properties:

1. The first version will include naming conventions, descriptions, data type, length in number of characters, examples and value ranges or taxonomies.
2. Later versions will look to cover business rules, ownership, access rights to data, compliance with legislation and protection of data assets.

4.14 Further, more detailed, explanations of the data standards will be drawn out as part of the technical implementation process and we will work with industry experts and third parties from September 2016, to ensure that they are fit for purpose and also achievable.

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?

4.15 We acknowledge that there will be some initial administrative impacts on third party information providers and we will publish an impact assessment in autumn 2016, informed by the responses from this consultation. We will bring third party providers into the design process to seek their views and to encourage third parties to supply the information.

5. Our future ambition

5.1 Chapters 2 to 4 have set out how information which HMRC already receives from third parties will be used more effectively in the future. Customers will not have to tell us information we already hold. Information will be used more effectively to avoid significant under- and over- payments. Digital tax accounts will show customers a complete and up-to-date picture of all their tax liabilities.

5.2 These chapters have also set out how customers will have the option to tell HMRC additional information about their income through their digital tax account in closer to real time, rather than through a traditional tax return.

5.3 However, though these improvements will deliver significant customer benefits, customers would still be providing significant amounts of information directly to HMRC. Our future ambition is to reduce to a minimum the amount of information that customers must provide to us as a separate exercise to 'do their taxes'.

5.4 We are pursuing two approaches to achieving this future ambition:

- enabling software developers and other service providers to develop software which can link into our systems and provide a 'one stop' service for customers;
- and exploring new sources of third party information which can reduce the reporting burden for our customers.

'One stop' services through the use of software

5.5 The Making Tax Digital Roadmap sets out how most businesses, self-employed people and landlords would be required in the future to use digital tools such as software and apps to keep track of their affairs digitally. The consultation document Making Tax Digital: Bringing business tax into the digital age covers in more detail how the use of digital tools will work for businesses.

5.6 These digital tools will emulate the HMRC digital tax account experience and show customers the same picture that they would see if they used their HMRC digital tax account. Critically, they will also mean that updating HMRC with information on income will be fully integrated with the running of a business, rather than being a separate exercise in filling in a tax return.

5.7 Third party software developers are well positioned to identify other innovative and creative ways to improve the customer experience of dealing with HMRC. They will identify ways to integrate dealing with HMRC with other things that our customers need to do. For example, banks that want to offer their account holders a better service will be able to offer customers the choice to include the HMRC tax picture in that.

5.8 This is possible through application programming interfaces (APIs). APIs manage the relationship between different software applications. They are widely used – particularly to provide secure interactions online for things like paying for purchases made online. APIs will offer a smooth, consistent, real time and secure experience for our customers. More high-quality APIs will encourage new and more sophisticated tax software products.

5.9 We will build APIs as part of the delivery of digital services to our customers so that third party software developers can also build great software for customers to interact with HMRC.

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?

New sources of third party information

5.10 Our ambition is that by 2020, millions of customers will be relieved of the burden to complete a SA tax return. To achieve this goal, we will need to be able to get information from a wider range of third parties that hold information on other sources of taxable income. Securing and using information provided by third parties, including other government departments, will significantly reduce customer burden and improve the customer experience.

5.11 This could include third parties that hold information on other sources of income including:

- other investment income, such as dividends and shares;
- income from peer-to-peer lending;
- and income from property.

5.12 We would use this information in the same way as we intend to use existing information as set out in chapters 2 to 4, displaying it clearly and transparently in a customer’s digital tax account and showing what impact that income has on the tax they will need to pay. This would remove the need for customers to report that income themselves.

5.13 Before seeking to collect additional classes of information, we will perform a detailed assessment of the acquisition under current data protection rules, as set out in the Data Protection Act 1998. The same approach to data standards, safeguards and privacy set out in chapters 3 to 4 would be applied to new sources of third party information. For each potential new class of third party information identified, we will consult on how we will obtain and use this new type of information.

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?

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?

6. Summary of Impacts

We acknowledge that requiring information providers to provide information more frequently could have an impact on their administrative burdens. We will seek to understand the impact on businesses and mitigate as far as possible any adverse costs and impacts.

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2016-17</td><td>2017-18</td><td>2018-19</td><td>2019-20</td><td>2020-21</td></tr>
<tr><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="5">HMRC’s plans for third party information will deliver benefits in relation to the collection of taxes due on bank and building society interest. These have already been factored into the published Exchequer impact figures which are set out in Table 2.2 of Budget 2016 as part of ‘Savings Tax: allowance and ISA flexibility’, and have been certified by the Office for Budget Responsibility.

Overall, HMRC’s vision for third party information is an integral element of the Making Tax Digital transformation without which the benefits from this package would not be delivered in full.</td></tr>
<tr><td>Economic impact</td><td colspan="5">These plans are not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">Information provided to HMRC by third parties will be more transparent to customers who will be able to see their income information, for example bank and building society interest payments, in their digital tax accounts. The improved service will help customers to avoid under- or over-payments.

As HMRC starts to change the way it uses third party information a small proportion of customers may want reassurance about the information visible in their digital tax account. Some customers will need to contact their information provider or raise a query with HMRC when they consider the information in their digital tax account is incorrect. HMRC will design its processes to make the digital tax account easy to understand and query processes as simple as possible for customers, minimising the burden on individual customers.

There may be some financial impacts during transitional years as customers start paying tax liabilities on a pay as you go basis, in the same tax year as they pay any tax liability from the previous year. However, while the default position will be to collect any tax owed on bank and building society interest via PAYE, customers will be able to opt out of this and pay this tax</td></tr>
</table>

	separately if they wish. There is not expected to be an impact on family formation, stability or breakdown.
Equalities impacts	HMRC is developing an equality impact assessment which will be informed by this consultation. HMRC does not have evidence to suggest these plans will have a significant or disproportionate impact on groups with legally protected characteristics, as recognised in the Equality Act 2010. HMRC processes for third party information are being designed with equality considerations in mind. In general designatory data supplied by the customer will be considered the primary source. Where the designatory data includes gender in its dataset, information supplied by the customer will not be over-written, for example. Publicly available statistics indicate that, broadly, 97% of the UK population have access to digital tools. So, we would expect the digitally excluded population to be relatively small. Existing mechanisms (such as tele-filing and home visits) which support digitally excluded customers in providing their tax information to HMRC would continue. There would be no increase to the frequency with which digitally excluded customers are required to interact with HMRC. As a result we do not anticipate a significant or disproportionate impact on digitally excluded customers.
Impact on businesses and Civil Society Organisations	We will require information providers to send information to HMRC more frequently. This consultation will enable us to gather evidence to assess the impact on businesses in more detail. Currently we estimate that between 300 and 400 businesses will be affected by the change over the next two years. This does not include employers, as we anticipate employers would not experience significant impacts. Small and Micro business assessment: The number of small and micro businesses affected and any additional impacts on them will be explored as part of the consultation.
Impact on HMRC or other public sector delivery organisations	HMRC is developing its capability to deliver its plans for third party information. In the long term this will increase HMRC's operational efficiency and reduce costs.
Other impacts	A Privacy Impact Assessment is being developed. Other impacts have been considered and none have been identified.

7. Summary of Consultation Questions

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?

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?

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?

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?

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?

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

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?

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?

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.

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?

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?

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?

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?

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?

8. The consultation process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

Stage 1 Setting out objectives and identifying options.

Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.

Stage 3 Drafting legislation to effect the proposed change.

Stage 4 Implementing and monitoring the change.

Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 2 of the process. The purpose of the consultation is to seek views on the detailed policy design and a framework for implementation of a specific proposal, rather than to seek views on alternative proposals.

How to respond

A summary of the questions in this consultation is included at chapter 7.

Responses should be sent by 7 November 2016, by e-mail to processtransformation.mtd@hmrc.gsi.gov.uk

or by post to:

HM Revenue and Customs
Third Party Information Team, Process Transformation
1E/13 100 Parliament Street
London
SW1A 2BQ

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from HMRC's GOV.UK pages. All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes.

These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentially can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Consultation Principles

This consultation is being run in accordance with the Government's Consultation Principles.

The Consultation Principles are available on the Cabinet Office website: http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance

If you have any comments or complaints about the consultation process please contact:

John Pay, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk

Please do not send responses to the consultation to this address.

Annex A: Relevant (current) Government Legislation

[Finance Act 2011, Schedule 23]