

Simplification of tax reporting and payment arrangements for self-employed people and landlords of private residential property

Summary

In the UK, self-employment has grown in popularity over recent years. For most, dealing with income tax involves submitting a tax return each year. Although this well-established process suits many, the OTS has heard that some, including some of those working freelance or in the gig economy, would welcome the option to report information and pay tax to HMRC periodically or on the completion of work assignments, rather than only through self-assessment.

This note sets out the scope of further work by the OTS to explore existing and potential new developments or approaches, including options concerning information reporting and paying tax in or closer to real time (or through some form of withholding) which could make it simpler for people who are self-employed or receive private residential property income to meet their tax obligations in a practical and streamlined way.

The OTS will be carrying out this work over the Summer of 2019 with a view to publishing an initial paper in the Autumn. It is possible this could then be followed by a more extensive review.

Background

Two previous reports from the Office of Tax Simplification (OTS) are particularly relevant as part of the background to this work.

The first is a report the OTS published in July 2018 on the impacts of the platform economy on the management of tax affairs: The OTS heard from those who work through digital platforms, the digital platforms themselves and others, about the concerns that arise through the management of tax affairs. There was an appetite for a system which would feel more like PAYE for those platform workers who are self-employed (without affecting their employment status). The report also explored the possibility of an app for self-employed people to help them manage their tax affairs.

The second was a Technology discussion paper, published in January 2019, which explored a range of wider questions about the impacts of technology and stated that the government should, in particular, consider:

- the potential for applying new technology in engaging with the public to deliver efficiency and cost savings;
- enhancing HMRC's current personal tax account to deliver better targeted guidance and information.

The paper also said the OTS would consider in more detail the idea of introducing withholding tax regimes, which will be one of the possibilities considered in this work.

Scope of work

This work will explore the merits and drawbacks both of existing approaches to tax reporting and payment for self-employed people, such as the construction industry scheme, and of new potential developments or planned approaches to this, including options for information reporting or payment of tax to take place closer to real time.

The objective of this work will be to consider how such processes could be made simpler, or developed in a way that is straightforward to use, so that people can meet their tax obligations in a practical, convenient and streamlined way.

While what follows is expressed in terms of self-employed people, this work will also consider the position of those receiving rent from letting residential property, whether on a short or a long-term basis.

At this initial stage, the work will be open to considering a relatively wide range of factors and possibilities, but only in limited depth. Considering the likely benefits or drawbacks of these will help identify the most promising or necessary areas for further, more detailed work, in the light of the findings made, and in the context of wider developments and discussions with HMRC.

Self-employed people work in diverse ways and contexts, so it is quite possible there will not be one single approach to making things simpler. Also, any changes aimed at simplifying self-employed people's experience of the tax system will need to reflect broader issues, such as the technology available, minimising the burden of any administrative changes involved and ensuring that the right amount of tax is paid.

More specifically, the work will:

- aim to secure the maximum level of direct input from a wide range of taxpayers, agents, businesses, platforms and others such as software providers, through meetings, an on-line survey and potentially wider media engagement, as well as in-depth discussion with HMRC/HMT
- explore the potential segments or populations of self-employed people where their circumstances or business models may point to different approaches or options, and the likely level of interest or appetite for these
- give initial consideration to the merits or otherwise of having different approaches for different groups or creating one overall system with sub-options, and wider trade-offs (such as those between simplicity and accuracy or comprehensiveness, and the costs, benefits and burdens involved), and take account of the significant number of self-employed people using the cash basis rather than accrual accounts
- consider the issues arising with different potential approaches or opportunities for information about self-employed people's income and expenses to be reported to tax agents and to HMRC, whether by platforms, engagers more generally or self-employed people themselves, recognising that some of the parties handle both information and money while others do not

- consider the scope, including opportunities and risks, for self-employed people's tax affairs to be managed in real time or closer to real time, taking expenses into account,
- consider the issues involved where the self-employed person has other income, whether from employment or other sources, and links with personal or business tax accounts
- look at the extent to which such approaches would be best pursued on an optional, incentivised or potentially on a mandatory basis, either from the perspective of the self-employed person, or any other party involved, such as a platform - for whom a level-playing field with others in the marketplace may be important
- the wider practical, behavioural or competitive factors which would need to be considered, both in relation to self-employed people and others including HMRC

In carrying out this work, the OTS will be mindful of:

- the likely implications of recommendations on the Exchequer, the tax gap and compliance with the tax system generally
- the role and contribution of taxation agents
- the government's response to the Taylor review of Modern Working Practices
- HMRC's existing plans for improving the experience of tax for self-employed people
- relevant international experience