

Making better use of third party data: a vision for the future

Contents

Foreword		2
Executive summary		3
Chapter 1	Third party data reporting	15
Chapter 2	Taxpayers	32
Chapter 3	Third party data sources	46
Chapter 4	Third parties	64
Chapter 5	HMRC	73
Annex A	Scoping document	79
Annex B	Organisations consulted	82
Annex C	Data	84

Foreword

In this report, the Office of Tax Simplification (OTS) considers sources of tax-related data that it could be helpful to individuals for HMRC to receive directly from third parties, and how this might best be embedded into the next stage of HMRC's work on the Single Customer Account and Single Customer Record.

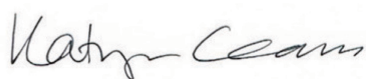
The introduction of the Single Customer Account, powered by data received by HMRC from a range of third parties as well as the taxpayer, represents an exciting opportunity to support taxpayers, increase trust in HMRC and enable easier and better tax compliance.

The report considers the principles and safeguards that should apply, the key considerations, impacts and priorities that HMRC should focus on, the stages in which work might proceed, and what realistic timescales would be.

The report encourages the government to explore further and take forward this agenda, and to:

- ensure that data reported to HMRC by third parties is visible to taxpayers and their agents through the forthcoming Single Customer Account, and used to update tax codes and support the completion of individuals' tax returns
- set out a clear roadmap of the stages through which changes would be consulted on and made
- consider the most effective choice of unique identifier to enable third party data to be readily and accurately matched with HMRC's taxpayer records
- consult widely on the balance of responsibilities as between data providers, software providers, agents, taxpayers and HMRC
- ensure that HMRC have the necessary funding

The OTS would like to thank Bethan Kay, who led the review, supported by Zoe Judd, Nigel Mellor, Julia Neate and Hannah Smith, guided by OTS Head of Office David Halsey. We are also very grateful to our HM Treasury and HM Revenue & Customs colleagues, and to all those who have willingly given time, ideas, challenge and support.



Kathryn Cearns – OTS Chair



Bill Dodwell – OTS Tax Director

Executive summary

Introduction

The Office of Tax Simplification (OTS) is the independent adviser to government on simplifying the tax system. The work of the OTS is rooted in improving the experience of all who interact with the tax system. The OTS aims to improve the administrative processes, which is what people actually encounter in practice, as well as simplifying the rules. These are often of equal importance to taxpayers and HM Revenue & Customs (HMRC).

The OTS published a document setting out the scope of this review on 17 December 2020 (see Annex A). The OTS has since engaged with a variety of stakeholders, including HMRC and HM Treasury, both through meetings and a written call for evidence.¹ A list of those consulted is provided in Annex B.

Background

When it established the PAYE system in 1944, the UK took a major step down the path towards ensuring that most individual taxpayers do not need to file a tax return.

The expansion in the number of Income Tax payers - from about 10% to 30% - during the Second World War led the government of the day to follow that path, with benefits both for compliance and simplification. Later developments to the PAYE system, such as adding in National Insurance in 1975 and introducing real time reporting in 2013, built on this approach.

The OTS's Tax Reporting and Payments report, published in October 2019,² explored the role that a more developed version of HMRC's Personal Tax Account (combined with the Business Tax Account) could play in simplifying the experience of the tax system for self employed people and landlords.

In particular this could make it easier for people to see and keep track of their taxable income, to know what tax may be due, and to make (voluntary) regular contributions towards their tax liability.

¹ <https://www.gov.uk/government/consultations/making-tax-easier-through-smarter-use-of-third-party-data>.

² <https://www.gov.uk/government/publications/ots-tax-reporting-and-payment-arrangements-review>.

The OTS's Claims and Elections report, in October 2020,³ highlighted that there are a wide range of claims and elections that could sit within an online account, potentially removing the need to submit a full tax return.

This fits naturally with the government's 10-year vision to 'build a trusted, modern tax administration system' which involves taxpayers being able 'to view their tax position and tell HMRC anything it needs to know through a single online account'.⁴ The government has since committed £68m to the Single Customer Account and Single Customer Record in Budget 2021.⁵

This report explores another dimension of this agenda, in relation to the scope for third parties or intermediaries to report data relating to taxpayers' personal, as distinct from business-related, activity, to help make the most of this vision of the new Single Customer Account, while maintaining appropriate safeguards for all concerned.

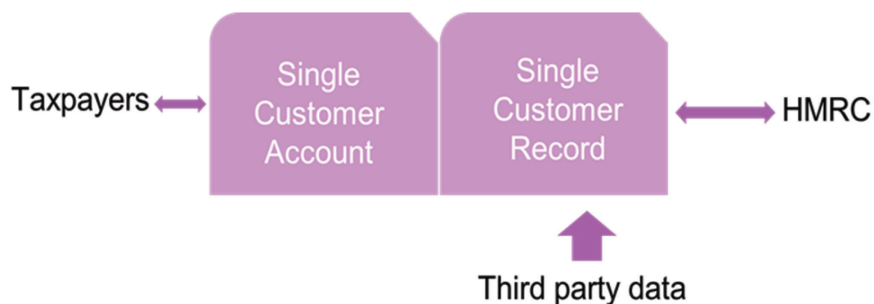
The Single Customer Account

The Single Customer Account, available to view by taxpayers, will replace the current online Personal Tax Account (PTA) and Business Tax Account (BTA), that have limited functionality.

The OTS understands that the new Single Customer Account will include the functionalities currently within the PTA and BTA, as well as those digital services that are currently accessed separately through gov.uk, and the ambition is that further functionality will be added in time.

The taxpayer-facing Single Customer Account will receive its data from HMRC's new Single Customer Record, which will sit behind the Single Customer Account to bring together the data held by HMRC on a taxpayer across the different taxes and data sources associated with a particular taxpayer.

Third party data reported to HMRC would therefore be matched to a taxpayer's Single Customer Record, and then be visible to the taxpayer through their Single Customer Account.



³ <https://www.gov.uk/government/publications/ots-claims-and-elections-review>.

⁴ <https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system#next-steps>.

⁵ FST speech to HMRC virtual stakeholder conference.
<https://www.gov.uk/government/speeches/speech-to-hmrc-virtual-stakeholder-conference>.

The report covers individuals, rather than considering possible data reporting in relation to companies. Systems for individuals could also include trusts and partnerships of individuals, but additional work would be needed to explore particular issues relevant to them.

It focuses on the reporting of data by third parties to help to ease the tax reporting of individuals' savings and investment income, and the way individuals claim tax relief for pensions contributions or gift aided charity donations. It does not focus on employment or self employment income.

Future vision

The planned introduction of a Single Customer Account marks the start of an exciting period, which will transform how taxpayers and HMRC will interact. Instead of millions of taxpayers reporting data from these sources to HMRC, the data could be reported to HMRC directly by the third party that holds the data, and then reflected in an individual's Single Customer Account, used in calculating their tax code and potentially prepopulated into their tax return. This could over time reduce the number of formal Self Assessment tax returns required from individuals.

An individual could then view and have ready access to the information reported by the third party, and potentially be able to pay tax or claim relief more easily through their Single Customer Account. HMRC could alternatively make changes automatically to the individual's PAYE code if there were no other reason for them to complete a return. Some reliefs could be given automatically once HMRC receive the necessary information, subject to legislative changes to enable this.

It is key to this vision that taxpayers (and their agents, where one is appointed) are able to see the data reported by third parties to verify it, and that there are appropriate taxpayer safeguards.

A striking note from OTS engagement with potential data providers, taxpayers and professional bodies is the wide level of support across the board for this transformation.

Recommendation 1

The government should extend the use of third party data to:

- a) improve the accuracy of tax reporting and improve the taxpayer experience
- b) make the data held by HMRC from third parties visible to taxpayers and agents through the forthcoming Single Customer Account
- c) update tax codes and prepopulate individuals' tax returns

Other data sources that are already reported to HMRC

Respondents remarked that there are some data sources that are already reported to HMRC, and so should be available to taxpayers. The OTS considers that HMRC should ensure that these sources of data are visible in the Single Customer Account before, or at the same time as, beginning to expand third party data reporting:

- construction industry scheme data – the OTS understands that it is intended that this will be available for taxpayers under HMRC’s plans for making Tax Digital for Income Tax
- state pension data – the OTS understands that this data is available for some taxpayers, but not for all; it would be useful if this were consistently available for all taxpayers
- various employment information including:
 - details of tax paid when an individual stops working for their employer (P45)
 - tax paid on an individual’s salary for a given tax year (P60)
 - details of benefits in kind (P11D)

These are provided to HMRC by employers, who provide a copy to their employees. It would be helpful if this were consistently available in online tax accounts:

- details of any tax refunds due or tax owed for employed people or those receiving pensions, sent to individuals on a P800 form
- PAYE details of employee share schemes, the OTS has heard this information is not always available to taxpayers and their agents

Roadmap

The OTS has received a consistent message from potential third party data providers that there is a need for an agreed roadmap to be provided, setting out what is expected from whom and when, and enabling issues to be highlighted, discussed and resolved well ahead of changes being made. The roadmap also needs to include an agreed data specification and agreement on the technology to be used to transmit and receive such data.

The OTS agrees and considers that, for the implementation of improved and further third party data reporting to be successful, the government and HMRC should work closely with affected companies and industry bodies to produce such a roadmap. This would help to give certainty to businesses, allowing them to build the necessary requirements into their future business planning.

The roadmap should:

- set out the timescales and requirements for the improvement of the way existing sources of third party data are reported

- set out the timescales for third parties to report data presently reported only by taxpayers
- take into account the time needed for third parties to make changes to their systems
- be clear which third parties would need to report at each stage
- set out the data that would need to be reported at each stage, and the data format required
- explain how the reported data would be used
- highlight how this fits with any wider changes relating to the tax administration review

Recommendation 2

The government should set out a roadmap for the stages in which greater use of third party data will be made, both to improve the way existing sources of data are provided and used, and to add further sources of third party data, and how this will be implemented.

Matching data and a unique identifier

One of the major challenges with data reporting is ensuring that the relevant data is correctly and quickly matched with an individual taxpayer.

The use of a unique identifier will be essential to match the data provided and minimise the risk of the data being matched to the wrong individual or not matched at all. While there is not currently a universal identifier, almost all individuals in the UK are allocated a National Insurance number (NINO) – either on reaching age 16 or when coming to the UK for employment or self employment.

The broad use of the National Insurance number suggests it is currently the best option for a unique identifier to be provided to those third parties that may report data to HMRC, in order to support accurate matching. It is already held by some of the potential third party data providers considered in this report, reducing the need to collect or handle a new piece of information.

Most of the potential third party data providers considered in this report are regulated financial institutions, with existing secure systems to hold customer data. There is currently work ongoing linking other possible data sources to financial providers, which could mean that it would not be necessary to provide the National Insurance number or other identifier to unregulated third parties, such as charities. It is important for work to continue to find innovative ways to link data sources into the financial and tax system in a secure manner.

Further, for the National Insurance number to be a fully effective identifier for this purpose, the eligibility would need to be extended, which would involve consideration by the government, given the implications for the work of both the Department for Work and Pensions (DWP) and HMRC.

Recommendation 3

The government should consider what the most effective choice of unique identifier would be to enable third party data to be readily and accurately matched with taxpayer records. This should include considering using the National Insurance number, which would involve extending the provision of National Insurance numbers to taxpayers who are presently unable to have one.

Responsibilities

The further use of third party data to help individuals complete their returns raises wider questions about the balance of responsibilities within the tax system. Currently taxpayers have full responsibility for reporting their income and expenses to HMRC, with penalties levied for late returns and for careless or deliberate errors. HMRC also have set time frames within which to audit taxpayer returns.

As the tax system becomes more digitised and there is wider use of data and information provided directly by third party organisations rather than the taxpayer, it will be necessary to establish who bears responsibility for the accuracy of the reported data when it is used to determine the individual's tax position. It is inevitable that there will be potential errors in such large volumes of data; a key element of trust in the overall system will be determined by how errors can be identified and corrected.

It will be important for HMRC to establish the consequences of taxpayers relying on any third party data available to them in the Single Customer Account or prepopulated into their returns.

Recommendation 4

The government should initiate a broadly based consultation about the balance of responsibilities as between data providers, software providers, agents, taxpayers and HMRC, and the extent to which it is reasonable for taxpayers to rely on the data provided.

Removal of the need for some Self Assessment tax returns

One particular benefit that could arise from more third party data reporting is that those taxpayers who at present file a return only to report data relating to income, gains or reliefs of the kinds considered in this report might no longer need to file Self Assessment tax returns at all. This would support HMRC's stated long term aim to reduce numbers in the Self Assessment system.⁶

HMRC were unable to provide data on the number of taxpayers who could potentially no longer need to file Self Assessment tax returns if third party data reporting were improved or expanded.

It would be helpful for HMRC to do further work in this area to inform future consideration of the benefits for taxpayers of third party data reporting, and to help to prioritise future work on the areas in which further reporting could be introduced.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/413975/making-tax-easier.pdf.

Recommendation 5

HMRC should work to establish the extent to which further third party data reporting has the potential to remove the need for particular taxpayer populations from the Self Assessment system, to help prioritise improvements to or introduction of the reporting of particular sources of data.

Taxpayer trust and safeguards

While respondents were generally positive about the idea of further third party reporting and the benefits that it would have for taxpayers, they emphasised the importance of appropriate safeguards for the taxpayer, which would help to increase taxpayer trust.

The OTS agrees that taxpayer safeguards should be designed into the system, including ensuring that taxpayers and their agents can view the data reported in a transparent and detailed way within their Single Customer Account, allowing them to check both that the data has been matched to the correct person and that the data provided is accurate.

Taxpayers should additionally be able to validate the data that is matched to them, for example to tell HMRC where it may have been matched incorrectly or where they are acting in another capacity, such as a trustee. Where the data has been matched correctly, but is inaccurate, there should be a straightforward mechanism for the taxpayer to query or amend this, and they should be able to overwrite what has been prepopulated into a return.

Recommendation 6

HMRC should explore the most effective ways to increase taxpayer trust and provide appropriate safeguards by:

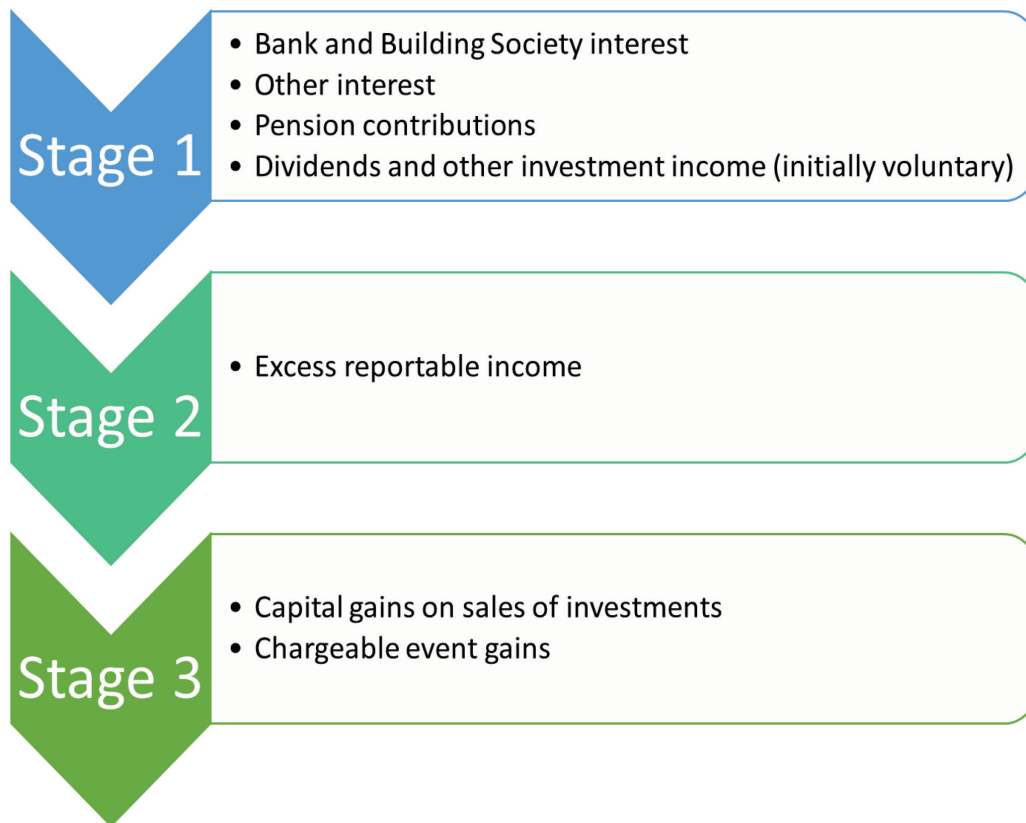
- a) ensuring the data held is presented to taxpayers and agents in a transparent and detailed way
- b) allowing taxpayers to approve or validate data matched to their accounts
- c) ensuring there is an appropriate mechanism for taxpayers to query or amend data

Third party data providers

Mandatory reporting

Financial institutions that responded to the OTS call for evidence all considered that the reporting of third party data to HMRC would have to be mandated by law in order to provide suitable authorisation under UK data protection law and, in practical terms, to enable them to secure the necessary financial and other resources needed to implement such changes.

In the light of the responses to the call for evidence, the OTS considers that reporting could be introduced in the following stages:



There are already some mechanisms in place for reporting bank and building society interest and other interest and pensions, but there is currently no such mechanism for third parties to report dividends and other investment income to HMRC. It is likely this would take longer to implement on a mandatory basis as both third parties and HMRC would have to create new systems.

While the majority of financial institutions considered that third party reporting should be mandated, some suggested that there could, at least initially, be some voluntary reporting in relation to dividends and income from investments.

Voluntary reporting

Some respondents thought that in certain areas, such as wealth management, some providers would be interested in voluntarily reporting data on investment income and gains as part of an enhanced service to their clients. This could, therefore, be introduced ahead of it being mandated for all providers.

The OTS has identified one area, charitable donations, where the best overall approach seems likely to be a voluntary one. While, as explained in Chapter 3, the OTS does not consider this sector well-suited to mandatory reporting, the development of voluntary reporting for charities could nevertheless be rolled out alongside those for mandatory reporting by financial institutions.

Practical considerations

During its work on this review, the OTS has heard some clear and consistent practical messages from organisations in different industry sectors which currently provide third party data to HMRC, or which may do so in the future, about issues involved in a potential expansion in the provision of data to HMRC. It will be important for HMRC to consider these in any future work in this area.

HMRC should also consider the possibility of two way data sharing, using the system to make data available to third parties where this would be helpful for taxpayers, for example in relation to data relevant for pensions annual or lifetime allowances.

Timescales

The majority of the third parties that the OTS engaged with, that already report some data to HMRC suggested that to make appropriate systems changes for reporting on an annual basis they would need 18 to 24 months.

However, for those that do not currently report to HMRC, and for larger scale changes where, for example, reporting would be on a more real time basis, it is likely that this would take significantly longer, and respondents suggested a timescale of around 5 years, dependent on the changes to be implemented.

Recommendation 7

HMRC should work closely with affected industries to establish:

- a) the technical specifications needed to facilitate effective reporting
- b) the data that should be reported and a standard format for it to be reported in
- c) an efficient way for third parties to correct errors or update the information they have provided

Legislative changes

In order to enact the changes discussed in this report, as well as to facilitate a more effective way of requesting third party data, there would need to be legislative changes.

Currently, the legislation⁷ that allows HMRC to request some of the third party data that it already receives, both stipulates the types of data holder that HMRC can request data from and requires HMRC to send a notice to the third party requesting the data each year.

Changes would be needed so that data could be required from other third parties, and (in other cases) to support voluntary provision of data from third parties (with taxpayer consent). The OTS also believes it would be more efficient to legislate for the provision of the data without the need for HMRC to submit an annual request.

Potential data providers will need to be mandated by law to seek and hold necessary identifying data from individuals – and to pass or share such data with HMRC. Legislative changes would also be needed if use of a unique identifier were required, and to support the wider availability of National Insurance numbers.

There may need to be changes to cover the auditing of third party data, and taxpayer and data provider responsibility, including the consequences where inaccurate data is provided.

Finally, legislative changes would be necessary to allow HMRC to use the data reported by a third party to give taxpayers the relief they are entitled to, without the need for a specific claim by the taxpayer.

⁷ Finance Act 2011, Schedule 23.

Recommendation 8

The government should make legislative changes in order to:

- a) be able to require the provision of further third party data
- b) remove the need to submit annual requests for third party data
- c) allow for the voluntary reporting of third party data
- d) allow HMRC to use data held to give relief in the absence of specific taxpayer claims

HMRC resources

If HMRC is to be able to facilitate effective reporting by third parties, and ensure that the data reported is able to be matched and made available in an individual's Single Customer Account and prepopulated into their return, HMRC will need sufficient funding to invest in this and to create the functionality for third party data to be reviewed and used by taxpayers and their agents.

HMRC will need to be in a position to dedicate resource both to develop this functionality initially and then to maintain it and make improvements in future. This will require investment into the future, building on the £68 million committed for the Single Customer Account and Single Customer Record in Budget 2021.⁸

Additionally, HMRC will need funding to ensure their systems are able to facilitate an increase in reporting by third parties, including introducing a secure gateway that will effectively be able to handle large volumes of data at high speed and in a secure way. There are continuing technological developments in the broad area of data sharing and it will be important for HMRC to participate in those developments.

Recommendation 9

The government should ensure that HMRC have the necessary funding to:

- a) develop the Single Customer Account and Single Customer Record to fully facilitate access to, and the use of, third party data
- b) make systems changes to facilitate effective reporting by third parties, including a gateway able to handle large volumes of data securely

⁸ <https://www.gov.uk/government/speeches/speech-to-hmrc-virtual-stakeholder-conference>.

Summary of recommendations

1. The government should extend the use of third party data to:
 - a) improve the accuracy of tax reporting and improve the taxpayer experience
 - b) make the data held by HMRC from third parties visible to taxpayers and agents through the forthcoming Single Customer Account
 - c) update tax codes and prepopulate individuals' tax returns
2. The government should set out a roadmap for the stages in which greater use of third party data will be made, both to improve the way existing sources of data are provided and used, and to add further sources of third party data, and how this will be implemented.
3. The government should consider what the most effective choice of unique identifier would be to enable third party data to be readily and accurately matched with taxpayer records. This should include considering using the National Insurance number, which would involve extending the provision of National Insurance numbers to taxpayers who are presently unable to have one.
4. The government should initiate a broadly based consultation about the balance of responsibilities between data providers, software providers, agents, taxpayers and HMRC, and the extent to which it is reasonable for taxpayers to rely on the data provided.
5. HMRC should work to establish the extent to which further third party data reporting has the potential to remove the need for particular taxpayer populations from the Self Assessment system, to help prioritise improvements to or introduction of the reporting of particular sources of data.
6. HMRC should explore the most effective ways to increase taxpayer trust and provide appropriate safeguards by:
 - a) ensuring the data held is presented to taxpayers and agents in a transparent and detailed way
 - b) allowing taxpayers to approve or validate data matched to their accounts
 - c) ensuring there is an appropriate mechanism for taxpayers to query or amend data
7. HMRC should work closely with affected industries to establish:
 - a) the technical specifications needed to facilitate effective reporting
 - b) the data that should be reported and a standard format for it to be reported in
 - c) an efficient way for third parties to correct errors or update the information they have provided

8. The government should make legislative changes in order to:
 - a) be able to require the provision of further third party data
 - b) remove the need to submit annual requests for third party data
 - c) allow for the voluntary reporting of third party data
 - d) allow HMRC to use data held to give relief in the absence of specific taxpayer claims
9. The government should ensure that HMRC have the necessary funding to:
 - a) develop the Single Customer Account and Single Customer Record to fully facilitate access to, and the use of, third party data
 - b) make systems changes to facilitate effective reporting by third parties, including a gateway able to handle large volumes of data securely

Chapter 1

Third party data reporting

Background

Third party data reporting

- 1.1 This report explores whether, and how, taxpayers' experience of the tax system could be improved by greater use of third party data reporting, for example by banks, pension providers, charities or wealth or investment managers.
- 1.2 The report considers a range of specific sources of tax-related data that it could be helpful to individuals for HMRC to receive in this way, and how improving and expanding third party data reporting might best be embedded into the next stage of HMRC's work on the Single Customer Account and Single Customer Record.
- 1.3 In doing so the report considers the principles and safeguards that should apply and the key considerations, impacts and priorities that HMRC should focus on, stages in which work might proceed, and what realistic timescales would be.

What data is being considered?

- 1.4 This report is focused on a range of personal sources of data that are relevant for determining the tax position of individuals:
 - bank and building society interest (building on the information already available)
 - other interest (also building on information already available)
 - data from investment and wealth managers including information about dividends and equalisation payments, excess reportable income, interest, and chargeable gains
 - pension contributions
 - Gift Aid payments to charities
 - insurance bond chargeable events
- 1.5 These data sources are explored in more detail in Chapter 3.
- 1.6 This report does not consider third party data reporting in relation to companies, trusts or partnerships, information about employment income or business income, or the possibility of data being reported at a transactional level.

- 1.7 The OTS has previously considered the potential for third party data reporting in relation to self employment and rental income in its Tax Reporting and Payments review.¹
- 1.8 In the scoping document and call for evidence, royalties were also listed as a potential data source to be considered. However, the OTS has not been able to consider this area in any detail and so reporting of royalties by third parties is not explored within this report.

Future vision

How it works now

- 1.9 There are currently a number of different ways that the sources of data listed in paragraph 1.4 are reported to HMRC.
- 1.10 Data from some of these sources, such as bank and building society interest and pension contributions are already reported to HMRC by banks, building societies and pension providers. However, this data is not then available to view by taxpayers in a transparent way, if at all, and is generally only used by HMRC for compliance purposes rather than to help the taxpayer pay the right amount of tax initially.
- 1.11 Data from other sources, such as investment income and dividends are not currently reported to HMRC by third parties. Instead, the third parties concerned provide individuals with the information and the individuals or their agents report to HMRC when appropriate.
- 1.12 Similarly, there are different ways that tax may be paid on these sources of income and gains, or in which relief can be claimed. These include the completion of a Self Assessment tax return, changing tax codes for those in PAYE, or calling or writing to HMRC.
- 1.13 More details on the way the different sources of data are reported to HMRC and the tax paid or relief claimed can be found in Chapter 2.

How third party data reporting could improve the taxpayer experience

- 1.14 The introduction of a Single Customer Account marks the start of an exciting time, which will transform how taxpayers and HMRC will interact. Instead of millions of taxpayers reporting data from these sources to HMRC, the data could be reported to HMRC directly by the third party that holds the data, and then reflected in the individuals' online tax accounts and be prepopulated into their returns. An individual could then view and have ready access to information that is prepopulated into their return, or potentially be able to pay tax or claim relief in an easier way through their online account if there were no other reason to complete a return.
- 1.15 It will, of course, remain important for HMRC to continue to support those taxpayers who are digitally excluded, and so will not be able to make use of third party data within the Single Customer Account. Nonetheless, HMRC (and, where relevant, tax agents) could still make effective use of data provided in relation to digitally excluded individuals.

¹ <https://www.gov.uk/government/publications/ots-tax-reporting-and-payment-arrangements-review>.

- 1.16 Throughout its work in the course of this review, the OTS has heard that individuals and their agents would find it easier for third parties to report data to HMRC, that would then be available for them to see and for HMRC to use to prepopulate their tax return or amend their tax codes which will help them get their tax right.
- 1.17 This would avoid issues such as a taxpayer forgetting an account or misplacing documentation sent from the third party, and reduce the administrative work involved as result of information being readily available in a single place.

Case study 1 – Amy

Amy completes a Self Assessment tax return each year in which she reports interest on her savings and several other sources of investment income and claims higher rate relief for pension contributions.

Now

Currently, when it is time to complete her return, Amy has to gather the tax packs sent to her by the three different companies she has investments with. Two of these companies provide this online, but the third sends a hard copy and she often has to request a replacement as she misplaces it. Amy must also log in to the accounts she has with three different banks to find the interest amounts for each account. Finally, she must find or request a statement from her pension company so that she has the details of her pension contributions to make the claim for higher rate relief.

Once Amy has gathered all of this data she can complete her return with details of her savings and investment income and make her claim for higher rate relief for her pension contributions.

Future

When Amy is ready to complete her return, she can log on to her Single Customer Account. Here she will find details of her bank interest, investment income and pension contributions, as the organisations she has savings, investments and a pension with have reported these to HMRC on her behalf. Amy's return has already been prepopulated with this information.

- 1.18 The OTS considers that it is key to the idea of introducing third party reporting more widely that data reported to HMRC is visible to the individual and their agent in a transparent way, with appropriate safeguards. Without this, the OTS does not consider that it would improve the taxpayer experience.
- 1.19 It is possible that greater use of data reported by third parties could help to reduce the number of people who need to file Self Assessment tax returns. If an individual is only in Self Assessment at present because of types of income and gains for which data could be reported by third parties then their tax affairs could potentially be managed directly through the Single Customer Account, or by automatic adjustments to their PAYE code.

- 1.20 Equally, in relation to claiming relief for pension contributions or Gift Aid donations to charities, if HMRC already had the data needed, they could prompt claims or automatically give any appropriate relief, subject to any legislative changes needed to facilitate this. This is considered further in Chapter 2.
- 1.21 Third party data providers would be required to comply with existing security and UK GDPR legislation.

What is UK GDPR?

In the UK, businesses and other organisations which process personal data are covered by the UK Data Protection Regime which is set out in the Data Protection Act 2018 and the UK GDPR.

UK GDPR is a law which came into effect on 1 January 2021.² It is in essence the retained UK version of the EU General Data Protection Regulation ((EU) 2016/679). This body of law applies to most businesses and organisations irrespective of their size. The regulation of data protection in the UK comes within the ambit of an independent body, the Information Commissioner's Office.

Broadly, data protection is concerned with the fair and proper use of information about people, and it incorporates a right to privacy. In relation to UK GDPR, it is important that any data collected and provided must be both necessary and proportionate.

HMRC and all the third parties discussed in this report have to follow the UK data protection regime in regard to any data collected or shared. This means, among other things, a responsibility to ensure the data collected is accurate and secure.

HMRC have a lawful basis to collect and process personal data with respect to their statutory functions as the UK's tax authority.³

Other lawful basis for collecting and processing personal data under UK GDPR include needing to do so in order to comply with a legal obligation or having the explicit consent of the individual to which the data relates.

HMRC's Tax Administration Strategy and the Single Customer Account

The Tax Administration Strategy

- 1.22 In July 2020 the government and HMRC set out their 10 year strategy for building a trusted, modern tax administration system.⁴ This states that one

² <https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/principles/>.

³ <https://www.gov.uk/government/publications/data-protection-act-dpa-information-hm-revenue-and-customs-hold-about-you/data-protection-act-dpa-information-hm-revenue-and-customs-hold-about-you>.

⁴ <https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system>.

of the opportunities that would help to modernise tax administration would be:

‘smarter use of data on taxpayers and their activities – prepopulation of tax returns, including with data from third parties – would reduce the need for taxpayers and agents to submit additional information that HMRC either already holds or could verify itself’

- 1.23 Following this, the government published a consultation on the tax administration framework.⁵ This includes questions exploring opportunities for the reform of the use of data and information to ease tax compliance.
- 1.24 The OTS hopes that the government considers the recommendations included within this report as it continues its work on the tax administration framework and the use of third party data.

The Single Customer Account

- 1.25 As part of the future strategy for building a trusted, modern tax administration system, the concept of a single digital account was introduced:

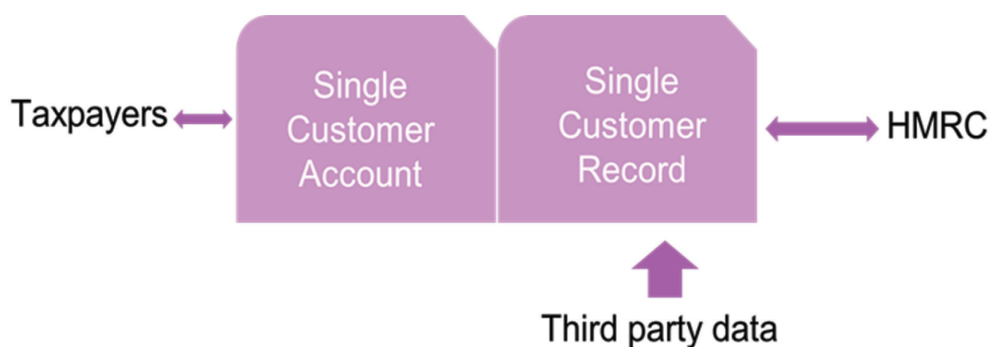
‘A single digital account for all taxpayers that is easily accessible and secure is a key component of the government’s vision. This will bring together data across different taxes and different data sources in order to provide personalised services for taxpayers’⁶

- 1.26 This Single Customer Account (as HMRC now refer to it) will replace the current online Personal Tax Account (PTA) and Business Tax Account (BTA), that have limited functionality. The OTS understands that the new Single Customer Account will include the functionalities currently within the PTA and BTA, as well as those digital services that are currently accessed separately through gov.uk, and the ambition is that further functionality will be added in time.
- 1.27 The OTS understands that the taxpayer-facing Single Customer Account will receive its data from HMRC’s new Single Customer Record. This will be available to HMRC and bring together the data held on a taxpayer across the different taxes. Third party data reported to HMRC would therefore be matched to a taxpayer’s Single Customer Record, and then be visible to the taxpayer through their Single Customer Account.

5

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/972148/The_tax_administration_framework_Supporting_a_21st_century_tax_system_-_call_for_evidence.pdf.

6 <https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system>.



- 1.28 The OTS considers that the Single Customer Account should be the central hub for all taxpayer communications with HMRC. This should include making available to taxpayers the data it holds from third parties in a transparent way, along with an efficient mechanism for taxpayers to be able to query or overwrite any data they believe is inaccurate. Chapter 2 discusses these issues in more detail.
- 1.29 A taxpayer should be able to log on to their Single Customer Account and be able to see the various sources of data that HMRC holds on them relevant to reporting taxable income, expenses and capital gains. This should include their employment and self employment income as well as the types of third party data considered in this review.



Making Tax Digital for Income Tax

- 1.30 From April 2023, self employed businesses and landlords with an annual income above £10,000 will need to keep digital records and provide quarterly updates to HMRC as part of its Making Tax Digital programme.⁷ This report does not consider Making Tax Digital in any detail, as it is not focused on the reporting of business or rental income.
- 1.31 However, the OTS considers that it would be helpful for those who will need to provide Making Tax Digital updates to have access to information in their Single Customer Accounts about the types of potentially taxable income and gains, or deductions, considered in this report, as well as it being available to prepopulate into their final declaration following the end of the tax year.

Changes to underlying tax rules

- 1.32 The OTS considers that as the government introduces further digitisation of the tax system, it should consider whether there should be changes to underlying tax rules in order to support this. There should not be an assumption that the systems should be designed to fit the current tax rules,

⁷ <https://www.gov.uk/guidance/follow-the-rules-for-making-tax-digital-for-income-tax>.

but consideration of where these rules might be outdated in an increasingly digital tax system.

Roadmap

- 1.33 During the course of this review, the OTS has discussed the potential for further third party data reporting with a variety of the potential third parties concerned. Those financial institutions spoken to have supported the idea, believing that this would help their customers to get their tax right, and are keen to work with HMRC in implementing it successfully.
- 1.34 One consistent message that the OTS has received from potential third parties is the need for an agreed roadmap to be provided, setting out what is expected from whom and when, and enabling issues to be highlighted, discussed and resolved well ahead of changes being made.
- 1.35 The OTS agrees and considers that for the implementation of improved and further third party data reporting to be successful, that government and HMRC should work closely with affected industries to produce such a roadmap. This would help to give certainty to businesses as to what is expected from them and when, allowing them to build this into their future business planning.
- 1.36 The roadmap should:
- set out the timescales and requirements for the improvement of the way existing sources of third party data are reported
 - set out the timescales for third parties to report data presently reported only by taxpayers, including voluntarily for some sources
 - take into account the time needed for third parties to make changes to their systems
 - be clear which third parties would need to report at each stage
 - set out the data that would need to be reported at each stage, and the data format required
 - explain how the reported data would be used
 - highlight how this fits with any wider changes relating to the tax administration review
- 1.37 The OTS has given further consideration to the possible ordering of the introduction of third party reporting for the various sources of data in Chapter 3.

Data matching and a 'unique identifier'

A unique identifier

- 1.38 One area of difficulty that HMRC face with the use of third party data, is how HMRC can most accurately match the data submitted to the individual or individuals to whom it relates. It is self-evidently important that the third party data is accurately matched to the correct taxpayer – not least to avoid data protection issues.

- 1.39 This is already an issue with third party data that is presently provided to HMRC, such as bank and building society interest, where HMRC have suggested that they cannot accurately match all of the data provided, and that there is room for improvement. Currently, in order to match the data to the individual, HMRC rely on the combination of identifying details provided, such as the name and address of the individual. In order to improve on the current matching rates, there would need to be better taxpayer identifiers.
- 1.40 In other countries, such as Singapore, there is less of a difficulty in this area as they have a national registration number that is allocated to all residents. A unique number is allocated to each individual and helps to link information relating to them. However, in the UK there is currently no unique taxpayer reference or other such common identifier that exists across all taxpayers that could be provided to help to accurately match the data provided to the taxpayer it refers to.
- 1.41 The use of a unique identifier will be essential to more readily and accurately match the data provided and minimise the risk of data being matched to the wrong individual or not matched at all.
- 1.42 While there is not currently a universal identifier, almost all individuals in the UK are allocated a National Insurance number (NINO).

The National Insurance number

- 1.43 National Insurance contributions allow individuals to qualify for certain benefits and the state pension. The National Insurance number is made up of a mixture of letters and numbers and is used to ensure that an individual's National Insurance contributions and the tax paid on their employment and self employment income is correctly recorded against their own record.
- 1.44 To be eligible for a National Insurance number an individual should live and work in the UK and have a UK National Insurance contribution liability. For those that are UK resident, and known to HMRC through a child benefit or other claim, a National Insurance number is normally sent automatically to an individual just before their 16th birthday. Otherwise, a National Insurance number can be applied for.⁸
- 1.45 The core functions of the National Insurance number are as an internal reference for the administration of the National Insurance contribution system, social security benefits and some personal tax functions including collection of student loans.
- 1.46 However, the National Insurance number is currently used by a range of government departments, agencies and organisations, to both carry out its core functions, and for official administrative purposes, including:⁹
- HM Revenue and Customs
 - an individual's employer

⁸ <https://www.gov.uk/apply-national-insurance-number>.

⁹ <https://www.gov.uk/national-insurance/your-national-insurance-number>.

- the Department for Work and Pensions (which includes Jobcentre Plus and the Pension, Disability and Carers Service), if an individual claims state benefits, or in Northern Ireland the Department for Social Development
- an individual's local council, if claiming Housing Benefit, or the Northern Ireland Housing Executive
- Electoral Registration Officers, to check an individual's identity when registering to vote
- the Student Loan Company, if applying for a student loan
- an individual's pension provider
- Individual Savings Account (ISA) providers
- authorised financial service providers who help buy and sell investments such as shares, bonds and derivatives

Limitations of the National Insurance number

Eligibility

- 1.47 While the overwhelming majority of individuals in the UK will have a National Insurance number, this is not the case for everyone.
- 1.48 During this review, respondents have highlighted both the need for accurate matching of data, and the need for some kind of extra identifier to be used to help with this. The majority of respondents considered that the National Insurance number is a good starting point in this respect.
- 1.49 However, not all of those who may have savings or investment income or gains will have a National Insurance number. For example, people who have moved to the UK from overseas and are not in employment will not have a National Insurance number, but may well still need to pay tax on income or gains from investments or savings. In addition, some people who are under 16 may also need to pay tax on such income or gains but will not yet have been allocated their National Insurance number.
- 1.50 If financial institutions were mandated to collect National Insurance numbers when opening accounts, this could cause difficulties for those not currently eligible for one. It would not be acceptable to restrict the ability to open savings accounts, for example, to those that are currently eligible for a National Insurance number. Equally, allowing the provision of the National Insurance numbers to financial institutions when opening an account to be optional would decrease the effectiveness of using it as a unique identifier, as there would still be problems in matching data provided by third parties to taxpayer records for those who don't provide it.
- 1.51 Accordingly, for the National Insurance number to be an effective identifier, eligibility would have to be extended to those who have arrived in the UK from overseas and are not employed or self employed but may receive savings interest or investment income. Consideration would also need to be given to the possibility of allowing those who are under 16 years old to have a National Insurance number, at least in some cases.

- 1.52 National Insurance number policy is jointly owned by HMRC and the Department for Work and Pensions, who have ownership over the legislation. There would therefore need to be collaboration and approval across government to extend the availability of National Insurance numbers, and consideration would need to be given to weigh up the benefits of using the National Insurance number in this way against other government objectives.

Providing the National Insurance number to other third parties

- 1.53 Some respondents expressed concern about widening the use of National Insurance numbers, as this would involve the number being provided to more third parties. Some third parties will already collect their customers' National Insurance numbers as part of their onboarding and anti-money laundering procedures, or for tax purposes. For example, investment companies, pension providers and some banks and building societies in respect of certain tax advantageous products such as Individual Savings Accounts. Some respondents were concerned about the extending this further, especially in respect of having to provide less tightly regulated organisations such as charities with National Insurance numbers in order to Gift Aid a contribution.
- 1.54 Consideration would also need to be given as to whether the further use of National Insurance numbers would impact its current usage, as if it is shared more widely, and to unregulated or less regulated third parties, it could be seen as a less private identifier than currently.

National Insurance number verification

- 1.55 For those data providers who already, or may in the future, collect National Insurance numbers, a range of respondents suggested it could be important to provide a mechanism for them to verify the number if HMRC were going to use it as a unique identifier for the purposes of data matching.
- 1.56 The OTS has heard that there is currently no easy way for third parties to verify with HMRC that the National Insurance number they hold for a customer is correct. Employers, however, can check National Insurance numbers for new employees by raising a National Insurance number verification request (NVR) through HMRC's Basic PAYE Tools, or commercial software.
- 1.57 It has been suggested that something similar might be extended to trusted third parties who could provide a number of identifying data points from data they already hold to check that individual's National Insurance number is correct. There are however issues with this, due to the nature and purpose of the National Insurance number and UK GDPR concerns.
- 1.58 It is also possible for individuals to share their National Insurance number with third parties using the HMRC app or the Personal Tax Account, so this is another route to consider, although this would place the burden for doing this on the taxpayer.

Alternatives

- 1.59 Most third parties spoken to, even those that collect the National Insurance number, have their own internal identifiers for customers, whether that be through account or policy numbers or a unique customer number. There is insufficient consistency across the sectors or within sectors to suggest an obvious alternative however, as naming and numbering conventions for these differ.
- 1.60 Some respondents suggested that instead of extending the use of the National Insurance number, there should instead be a new tax identification number. Whereas only individuals will have a National Insurance number, a new identifier could work across a range of types of legal identity, potentially including companies, partnerships or trusts.
- 1.61 This would be a huge change, in effect involving starting again from the beginning, so would take considerable time to implement and to explain to taxpayers and others. There would also be an added burden on third parties, who would all need to collect this new piece of information from their customers and amend their systems.
- 1.62 Another alternative would be to use a mixture of the National Insurance number and the Unique Taxpayer Reference (the number given when a taxpayer registers for Self Assessment).
- 1.63 Those who have to pay tax through a Self Assessment return will already have a UTR, which would include those that pay tax but are not currently eligible for a National Insurance number. Third parties have expressed concern that using more than one identifier would be more complex and costly to implement in their systems.
- 1.64 Other suggestions have been that instead of using a unique identifier at all, the matching could be done using a greater number of fields. For example, using a variety of fields including, name, address, date of birth, phone number, which may already be held by a majority of third parties. However, difficulties would likely still arise where individuals do not keep these details up to date, or where they may be provided in different formats which can hinder the process of matching the data to the individuals record in HMRC.
- 1.65 There is currently work continuing on linking other possible data sources to financial providers, which could mean that it would not be necessary to provide the National Insurance number or other identifier to unregulated third parties, such as charities. It is important for work to continue to find innovative ways to link data sources into the financial and tax system in a secure manner.

Conclusion

- 1.66 Effective data matching will require the use of a unique identifier. Current experience with so-called 'fuzzy' matching is that it adds substantially to the time taken to attempt to match data to an individual – and that it fails in a sufficiently large number of cases. These reasons make it ineffective for the purpose envisaged in this report, although it may still be appropriate for wider compliance purposes.

- 1.67 The broad use of the National Insurance number suggests it is currently the best option for a unique identifier to be provided to those third parties that may report data to HMRC, in order to support accurate matching.
- 1.68 Importantly, for the National Insurance number to be a fully effective identifier for this purpose, the eligibility would need to be extended, which would involve consideration by the government, given the implications for the work of both DWP and HMRC.
- 1.69 The National Insurance number is already held by some of the third parties considered in this report, reducing the need to collect or handle a new piece of information.
- 1.70 However, the OTS appreciates the concerns raised about providing the National Insurance number to certain third parties, and that it may be more appropriate to restrict its use to regulated financial institutions, rather than a wider range of third parties.

Technology

- 1.71 One of the biggest areas of change in the world of financial data is a series of reforms referred to as Open Banking. In essence, open banking in the UK means that all UK-regulated banks must let their clients share financial data such as spending habits, regular payments, and companies which they use (such as banks, credit card and savings) with authorised providers who may for example offer budgeting apps or other banks provided the person whose data it is gives their permission.
- 1.72 At present, there are two different types of service being provided both of which require separate authorisations. The first are account information services which allow customers to see all of their account information from different banks in one place and offer features such as product recommendations and budgeting apps.
- 1.73 The second are payment initiation services which allow customers to make payments to companies directly from their bank accounts avoiding the need to use a third party such as Visa or Mastercard.
- 1.74 In the UK, only the UK's nine largest banks and building societies must make clients' data available through Open Banking but smaller banks and building societies are able to take part in Open Banking if they choose to do so (and many have made this choice, as have some investment managers).
- 1.75 In the OTS's discussions with stakeholders, it was apparent that Open Banking provides a regulated way, which at some point in the near future will enable the reporting of third-party data using common industry wide standardised technologies.
- 1.76 In addition, the OTS understands that HMRC specialists are currently undertaking a lot of research into the opportunities presented by Open Banking and similar developments in the financial data sector, which could be used to report or collect data.
- 1.77 The HMRC innovation team is conducting 'proof of concept' pilot schemes across several areas of tax to try and utilise the opportunities of new

technology. One such scheme is underway with the charities sector, with the aim of automating Gift Aid.

The Future of Gift Aid Project

This project is a collaboration between the charities sector, private sector and HMRC with the aim of automating the Gift Aid process, to reduce the £180 million claimed in error and the £564 million that is unclaimed every year.¹⁰

Swiftaid¹¹ is an automated Gift Aid service (set up by Fintech company Streeva)¹² and is acting as a digital intermediary, aggregating digital donations to registered charities, and donors that have signed up with Swiftaid (either directly or through a third party, such as a fundraising site). These are then matched by Swiftaid using a variety of donor identifiers, such as the bank account and sort code, email, phone number and payment card details. Once matched, Swiftaid can then create a Gift Aid declaration on the charities behalf and submit this directly to HMRC.

The project is hoping to extend this to demonstrate the ability, through an API, for HMRC to be able to use an individual's tax status to determine where a declaration isn't valid (because the donor hasn't paid enough tax in the year to be able to cover the Gift Aid claimed). It also hopes to extend to other types of donation, like SMS donations and retail (charity shop) donations, and to greater explore how they utilise opportunities within the banking system.

- 1.78 These technologies have potential to enable data to be collected on a more real time basis rather than being reported on a historic bulk annual basis as it is at present. As this data would be provided from a central ledger by a regulated body it could also be expected to attract a higher level of confidence, reducing the need for specific checking by HMRC.

Responsibilities of each party

- 1.79 The further use of third party data to help individuals complete their Self Assessment tax returns brings up wider questions about the balance of responsibilities within the tax system.
- 1.80 Currently self employed taxpayers have responsibility for reporting their income and expenses to HMRC, with penalties levied for late submissions and for careless or deliberate errors. HMRC also have set time frames to audit taxpayer returns. For employees, employers are responsible for reporting and paying any tax due on their employees' salaries through the PAYE system. Individuals are still responsible for reporting any other income.
- 1.81 As the tax system becomes more digitised and there is further use of data and information provided by third party organisations rather than the taxpayer, it will be necessary to establish who is responsible for the accuracy

¹⁰ HMRC_Report_482__GiftAid_Research_Report.pdf (publishing.service.gov.uk).

¹¹ Automate Gift Aid on donations (swiftaid.co.uk).

¹² <https://streeva.com/>.

of the reported data when it is used to determine the individual's tax position. In the future, it may be that there are several parties involved in providing data to HMRC, including the taxpayer, their agent, software, and various third parties such as their employer, bank and investment manager, which means there may be interactions to be considered too.

- 1.82 It will be important for HMRC to establish the consequences of taxpayers relying on any third party data available to them in the Single Customer Account or prepopulated into their returns. It is inevitable that there will be potential errors in such large volumes of data; a key element of trust in the overall system will be determined by how errors can be identified and corrected.

Case study 2 – Toby

For the 2026 – 27 tax year Toby has investments through Bartlett Ltd, a small investment manager that offers services directly to clients. Bartlett Ltd must report to HMRC any investment income earned by its clients, and this data is shown in Toby's Single Customer Account. Bartlett Ltd also provides him with a tax pack showing the same information that they report to HMRC.

Unfortunately, Bartlett Ltd has an issue with its reporting software and so the data reported to HMRC for 2026 – 27 is inaccurate for all its clients.

When Toby completes his 2026 – 27 Self Assessment return, he logs on to his Single Customer Account in order to find the data submitted from various third parties, including Bartlett Ltd. This data is also prepopulated into his return. Toby is unaware that the data from Bartlett Ltd is inaccurate, and so copies the figure shown in his Single Customer Account into his return. This leads to Toby underpaying tax, as the figures reported by Bartlett Ltd were much lower than the actual amount of his investment income.

- 1.83 For example, in the case study above, should Toby be liable for a penalty as the information including within his return is inaccurate, or should he be able to rely on the information provided to him without fear of a penalty? Should it instead be the third party that is liable if the data they provide is inaccurate? HMRC should ensure that each party is clear as to its responsibilities, and any consequences.
- 1.84 The 2016 HMRC consultation (Making Tax Digital: Transforming the tax system through better use of information)¹³ stated that taxpayers would still have a statutory obligation to ensure that the information is correct and complete – and to report any income not prepopulated on an annual basis. Many respondents agreed that this should still be the case and felt that the accuracy of the tax return should remain the responsibility of the taxpayer.
- 1.85 The OTS considers that it would be helpful if HMRC consulted on the appropriate balance of responsibility between these parties, including what

¹³ <https://www.gov.uk/government/consultations/making-tax-digital-transforming-the-tax-system-through-the-better-use-of-information>.

sanctions could exist if inaccurate data is provided. It would be helpful to all parties to understand what their responsibilities are, and for taxpayers this will help them to know to what extent they can rely on information provided by third parties when establishing their tax liability.

Communication

- 1.86 Once the responsibilities have been established and a roadmap has been drawn up setting out what type of third party data reporting will happen when, it will be important for HMRC to communicate effectively with taxpayers about this. It will be necessary for HMRC to explain simply and clearly to taxpayers their rights and responsibilities with respect to the data submitted. This will help taxpayers to know what is expected of them as well as to help ensure that they are aware of the safeguards.

Need for legal/regulatory changes

- 1.87 At present, HMRC is given the ability to collect bulk data,¹⁴ under Schedule 23 of Finance Act 2011. This allows an officer to issue a notice in writing which requires a data holder to provide relevant data. The schedule includes over twenty different categories of data holder. These categories range from persons by or through whom interest is paid (such as banks) through to Lloyds managing agents and holders of licences granted under the Petroleum Act 1998.
- 1.88 The data currently collected by HMRC under these powers is primarily used as part of its compliance function/activities rather than being prepopulated into a taxpayer's return.
- 1.89 One of the challenges faced by HMRC in relation to the bulk collection of data is that the legislation does not specify that there will be any quality assurance on the data provided by the data holder. However, the legislation does allow HMRC to specify in the notice the means and the form in which data is supplied, and provides for a penalty for the provision of inaccurate data, in certain circumstances.¹⁵ Any future legislative change must include a requirement to use a specific taxpayer identifier(s) or data which can be grouped together.
- 1.90 The OTS understands that HMRC currently receives data in numerous different ways. This ranges from detailed data sent via digital transfer from some large financial institutions, through to password protected spreadsheets and the physical provision of data on USB sticks. In essence, there is no standardised method at present to provide data to HMRC.
- 1.91 The OTS considers that this should not be allowed to continue, and in discussions with stakeholders it is apparent that provided there is legislative change, most institutions would welcome a more standardised approach. However, they unanimously said that any such changes, apart from being mandated, must be subject to discussions with trade and industry bodies.

¹⁴ HMRC Compliance Handbook Data gathering: Details of power: Bulk Information
<https://www.gov.uk/hmrc-internal-manuals/compliance-handbook/ch28160>.

¹⁵ Finance Act, Schedule 23, Paragraphs 3 and 4.

- 1.92 In addition to the powers given to HMRC under Schedule 23 above, HMRC is given information and inspection powers under Schedule 36, Finance Act 2008.
- 1.93 There are five types of information notice for checking a tax position or collecting a tax debt:
- taxpayer notice
 - third party notice
 - identity unknown notice: in respect of a person or persons whose identity is unknown to HMRC
 - identification notice: to obtain information about persons whose identity can be ascertained
 - financial institution notice: to obtain information from financial institutions
- 1.94 The notices issued under this schedule must be given in writing and should require information which is reasonably required by HMRC for the purpose of checking the tax position of a relevant person. The information must be within the recipient's power of possession and may require the recipient to produce documents. The notice must provide the recipient a reasonable period of time in which to reply.
- 1.95 Both the data collected under Schedule 23 and Schedule 36 are currently being collected for compliance purposes, but it would appear to be possible to provide a better outcome for taxpayers if the legislation mandated the supply of specific sets of data from third parties.

International comparisons

- 1.96 The issues considered in this report about taxpayers or others providing data to the tax authorities in the countries in which they live or generate income are a matter of increasing interest and diverse experience around the world.
- 1.97 For example, many stakeholders highlighted the fact that in Denmark, prepopulation of personal tax returns has been in place since 1988. And, more widely, a number of countries are a lot further along this journey than the UK. A good guide to the position in 2018 was provided by a study produced by Deloitte.¹⁶ One country which was advanced in this respect was Spain where individuals tax returns are prepopulated, as the tax authorities complete the entire tax return in advance. However, the list of countries prepopulating return information includes Australia, Canada, Norway, Denmark, France, Germany, Singapore, South Korea, Sweden and Estonia.
- 1.98 While comparisons with other countries are useful, it should be borne in mind that when making such comparisons, it is often difficult to ensure that comparisons are made on a comparable basis as tax systems vary

¹⁶ https://www2.deloitte.com/content/dam/Deloitte/be/Documents/tax/TaxStudiesAndSurveys/Personal-income-tax-return-study_EN_2017.pdf.

considerably. For example, Singapore no longer taxes bank and similar interest.

Recommendations

1. The government should extend the use of third party data to:
 - a) improve the accuracy of tax reporting and improve the taxpayer experience
 - b) make the data held by HMRC from third parties visible to taxpayers and agents through the forthcoming Single Customer Account
 - c) update tax codes and prepopulate individuals' tax returns
2. The government should set out a roadmap for the stages in which greater use of third party data will be made, both to improve the way existing sources of data are provided and used, and to add further sources of third party data, and how this will be implemented.
3. The government should consider what the most effective choice of unique identifier would be to enable third party data to be readily and accurately matched with taxpayer records. This should include considering using the National Insurance number, which would involve extending the provision of National Insurance numbers to taxpayers who are presently unable to have one.
4. The government should initiate a broadly based consultation about the balance of responsibilities between data providers, software providers, agents, taxpayers and HMRC, and the extent to which it is reasonable for taxpayers to rely on the data provided.

Chapter 2

Taxpayers

How do taxpayers currently report this information?

- 2.1 Currently, in respect to the majority of the data sources considered in this report, the taxpayer is responsible for reporting the taxable income or gains to HMRC, or for making a claim for relief.
- 2.2 Such reporting can be time consuming and therefore costly, even for taxpayers who are confident in navigating the tax system. Many taxpayers with complex tax affairs will choose to employ an agent to act on their behalf, adding to the overall cost of tax compliance.
- 2.3 The exception to this is income received through the PAYE system, where employers are responsible for reporting and paying tax to HMRC. Taxpayers whose only income is paid through the PAYE system usually don't have to engage directly with HMRC, and this system works very effectively for the majority of them.
- 2.4 A summary of the types of information taxpayers receive from third parties in relation to the data sources considered in this report and then report to HMRC is as follows. Further details on how the third parties report information to their customers and to HMRC can be found in Chapter 3.

Bank and building society interest

- 2.5 Typically, a taxpayer receives information about bank and building society in the form of bank statements. These can be issued monthly, quarterly or annually, depending upon the type of account and how often the interest is paid.
- 2.6 While they can be issued on paper and posted, it is increasingly common for taxpayer to receive statements in PDF format via a secure messaging service available through an internet banking portal or app. Many banks and building societies in the UK also issue, either automatically or on request, an annual certificate of interest showing the amount of interest credited in the tax year from 6 April to 5 April.
- 2.7 If the taxpayer submits a Self Assessment tax return they have to enter details of the interest on the return, if the total across all their accounts exceeds the savings allowance which is £1,000 per year for taxpayers paying tax at the basic rate of Income Tax.¹ Individuals may also qualify for the starting rate

¹ Higher rate taxpayers have a savings allowance of £500, Additional rate, £0.

for savings where their income is below £17,570, allowing them to receive up to £5,000 of interest without paying tax on it.²

- 2.8 Alternatively, where the taxpayer's income is taxable under PAYE, HMRC reconcile the bank and building society interest data that is reported to them, and if tax is due they will adjust the PAYE code to collect the tax. If the taxpayer is neither within the PAYE or Self Assessment regime, then HMRC will contact the taxpayer to inform them of any tax due and how to pay this.

Investment income and gains

- 2.9 The extent and quality of the information available to taxpayers from investment managers depends on the type of service provided.
- 2.10 For example, a private bank or wealth manager might produce a detailed annual tax pack for its clients, including calculations of excess reportable income and capital gains. On the other hand, a business operating as a platform only with a limited range of customer services might issue transaction details only in the form of dividend vouchers and contract notes for sales and purchases.
- 2.11 There are various thresholds for savings income (£1,000 per year),³ dividend income (£2,000 per year). Where a taxpayer's total income in any of these categories exceed their respective threshold, these must be reported in the Self Assessment tax return, where the taxpayer already submits one. There are separate rules and thresholds for capital gains tax reporting, which can be required even if the total gains are below the annual exempt amount (currently £12,300) or give rise to losses.
- 2.12 Alternatively, for savings and dividend income, taxpayers may contact HMRC directly to arrange to pay the tax due or for their PAYE code to be adjusted to collect the tax. However, taxpayers with savings or dividend income above £10,000 must submit a Self Assessment tax return.
- 2.13 Relatively complex calculations are required in relation to excess reportable income and capital gains, which are described in more detail in Chapter 3.

Claims for higher or additional rate relief for pension contributions

- 2.14 Many taxpayers make pension savings into a personal pension.
- 2.15 For personal pensions, the pension provider will claim basic rate tax relief directly from HMRC in respect of all contributions. Providers will usually supply taxpayers with a statement of their pension contributions which gives taxpayers who qualify for relief on their contributions at the higher or additional rate of tax the information they need to claim this relief. The claim is usually made through their Self Assessment tax return; however, it is also possible to claim via a letter or telephone call to HMRC.

² <https://www.gov.uk/apply-tax-free-interest-on-savings>.

³ Or up to £6,000 per year if the taxpayer is eligible for the starting rate for savings.

- 2.16 Employers have a choice between what are known as 'net pay' or 'relief at source' arrangements when providing pensions for their employees.⁴
- 2.17 Relief at source arrangements work in the same way as personal pensions in relation to claims for relief on the contributions: the scheme provider claims basic rate tax relief from HMRC, and any higher or additional rate relief is claimed by the individual taxpayer.
- 2.18 Under net pay arrangements, all the Income Tax relief is handled as part of the process of calculating any tax to be deducted under PAYE from the employee's income.

Claims for higher or additional rate relief for gift aided contributions

- 2.19 Charities that process Gift Aid claims recoup the basic rate of tax from HMRC, in a similar way to pension providers in relation to pension contributions.
- 2.20 The taxpayer is expected to keep their own records of any payments that qualify for Gift Aid and can claim relief for higher and additional rate tax via the Self Assessment tax return. Alternatively taxpayers can contact HMRC directly via phone or letter to request that their tax code be adjusted.

Chargeable event gains

- 2.21 Insurance companies issue chargeable event gain certificates to UK resident taxpayers as part of the current regime.
- 2.22 The calculation of the tax on chargeable event gains is complex, particularly if the inclusion of the gain in total income moves the taxpayer into a higher tax rate bracket. Often, an agent will be engaged to calculate the tax. This will be reported to HMRC on a Self Assessment tax return.

Benefits to taxpayers of third party reporting

- 2.23 Enabling third parties to directly report data that would be reflected in the Single Customer Account and prepopulated into returns would reduce the time and related costs for taxpayers (and, where relevant, their agents) in collating and reporting third party data.

OTS Survey

Alongside the call for evidence, the OTS ran a survey⁵ aimed at gathering the views of individuals about third party data reporting. The OTS received 201 fully completed responses to the survey. A significant majority (75%) agreed that it would be simpler and easier if third parties could provide information to HMRC on their behalf.

⁴ For further details of these arrangements see Chapter 3 of the OTS Taxation and Life Events report. www.gov.uk/government/publications/ots-life-events-review-simplifying-tax-for-individuals.

⁵ From 201 respondents to the OTS online survey. It is important to highlight that the survey was open to all who wished to take part and, as the respondents were only those who chose to complete the survey, it did not form a representative sample of society.

The main benefit of third party reporting highlighted by individuals, was that it would be less administrative work for them to do (64% of respondents). Over half (57%) of respondents also agreed that it would make the end of year process quicker.

- 2.24 Respondents to the call for evidence were, in general, very positive about the benefits of third party data reporting and suggested that having the data available would help to reduce the number of occasions where a source of income may be forgotten. This would reduce the number of mistakes made, benefitting both taxpayers and HMRC.
- 2.25 Respondents suggested that there is underclaiming of higher and additional rate relief for both pension contributions and gift aided charity contributions. Respondents highlighted that if the information needed to make the claim was quickly and readily available to the taxpayer when completing their return, this could increase the number of people making claims for the relief that they are entitled to.

Removal of the need for some Self Assessment tax returns

- 2.26 One further benefit that could arise from more third party data reporting is that those taxpayers that only file a return in order to report or make a claim for the income, gains and reliefs focused on in this report could be removed from the Self Assessment regime altogether.
- 2.27 If third parties were to report the data required directly to HMRC, this information could be displayed in the Single Customer Account, along with prompts or a mechanism to pay any tax due or grant the relief. For those taxpayers in the PAYE system, the data could be used to automatically amend the taxpayers' PAYE codes.
- 2.28 Chapter 3 contains some data about the populations of those taxpayers who currently report the various sources of third party data explored within this report.
- 2.29 However, HMRC were unable to provide data on those taxpayers that only report one or more of the sources on their Self Assessment tax returns and could potentially be removed from Self Assessment if third party data reporting were improved or expanded for particular types of income such as savings and investment income and gains and relief for pensions and gift aided charity contributions.
- 2.30 It would be helpful for HMRC to do some further work in this area to help inform future consideration of the benefits for taxpayers of third party data reporting, and to help to prioritise future work on the areas in which further reporting could be introduced.

2.31 HMRC have stated that they have a long term aim to reduce numbers in the Self Assessment system, and this work would help to support this objective.⁶

Potential for some reliefs to be given automatically

2.32 The OTS understands that pension companies already report a huge amount of data to HMRC. In relation to higher and additional rate relief for pension contributions, it should already be practicable for HMRC to match the data they receive to taxpayer records.

2.33 However, at present it is not possible for HMRC to give the relief automatically, for example to those within the PAYE system. As well as systems changes, this would require a change to the legislation, which currently states that relief must be claimed by the taxpayer.

2.34 It would be beneficial to a large number of taxpayers if the legislation were changed in this area, subject to taxpayer safeguards and whether any changes to the data reported by pension providers would be needed to support this.

What data would be most helpful for individuals?

2.35 Respondents thought that the most helpful data to be available within the Single Customer Account and prepopulated into returns would be:

- bank and building society interest
- investment income (excluding excess reportable income)
- pension contributions

2.36 This is because these are most commonly reported items and where, especially in the case of bank and building society interest, reporting is more likely to be forgotten. These were also considered to be the simpler sources of data, where there is less likelihood of inaccuracy.

2.37 Concerns were raised by some respondents in respect of more complex sources of data, where the increased complexity could lead to a greater risk of inaccuracy or where further calculations may be needed to work out the tax liability. Examples given here were excess reportable income and capital gains on investments.

Other data sources already held by HMRC

2.38 A number of respondents remarked that it would be useful for HMRC to allow taxpayers to view other sources of data beyond those considered in this report, and also existing PAYE data from employers. These are data sources that are already reported to HMRC, and so should be available to taxpayers. The OTS considers that HMRC should ensure that these sources of data are visible in the Single Customer Account at the same time as, or before, beginning to expand third party data reporting.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/413975/making-tax-easier.pdf.

2.39 The additional sources of data that respondents most commonly suggested that it would be useful to display in the Single Customer Account and, where suitable, prepopulate into returns were:

- construction industry scheme data – the OTS understands that it is intended that this will be available for taxpayers under HMRC’s plans for Making Tax Digital for Income Tax
- state pension data – the OTS understands that this data is available for some taxpayers, but that this is not always the case; it would be useful if this were consistently available for all taxpayers
- various employment information including:
 - details of tax paid when an individual stops working for their employer (P45)
 - tax paid on an individual’s salary for a given tax year (P60)
 - details of benefits in kind (P11D)

These are provided to HMRC by employers, who provide a copy to their employees. It would be helpful if this were consistently available in online tax accounts for taxpayers and their agents

- details of any tax refunds due or tax owed for employed people or those receiving pensions, sent to individuals on a P800 form
- PAYE details of employee share schemes, the OTS has heard this information is not always available to taxpayers and their agents

How should third party data be made available to taxpayers?

2.40 Certain data relating to income and pensions is already shown in a taxpayer’s Personal Tax Account.

2.41 The current Personal Tax Account is limited in its functionality. It does not yet have the capacity to automatically match other third party data supplied to HMRC with a particular taxpayer and show this information within the account and prepopulate it into returns. However, as set out in Chapter 1, the new Single Customer Account is a key component of the government’s vision for the future of the tax administration system, with the expectation of greatly improving the taxpayer experience. Respondents considered that it would be helpful to have third party data that is reported to HMRC available for taxpayers to view within the Single Customer Account.

2.42 Respondents raised some concerns about HMRC using the third party data to prepopulate returns.

2.43 Specifically, if the data was incomplete, inaccurate or incorrectly matched to the taxpayer, the concern was that this would not be noticed, and the taxpayer may just accept what was included in the return. There were further concerns surrounding some of the more complex items of investment income or gains, where it was suggested that they may not be treated correctly for tax purposes, and again this may be missed by taxpayers, or that they may assume it is correct as it was prepopulated by HMRC.

Tax Administration Research Centre research

Research carried out by the Tax Administration Research Centre points to significant benefits of pre-populating, for example in greatly reducing errors in filing.

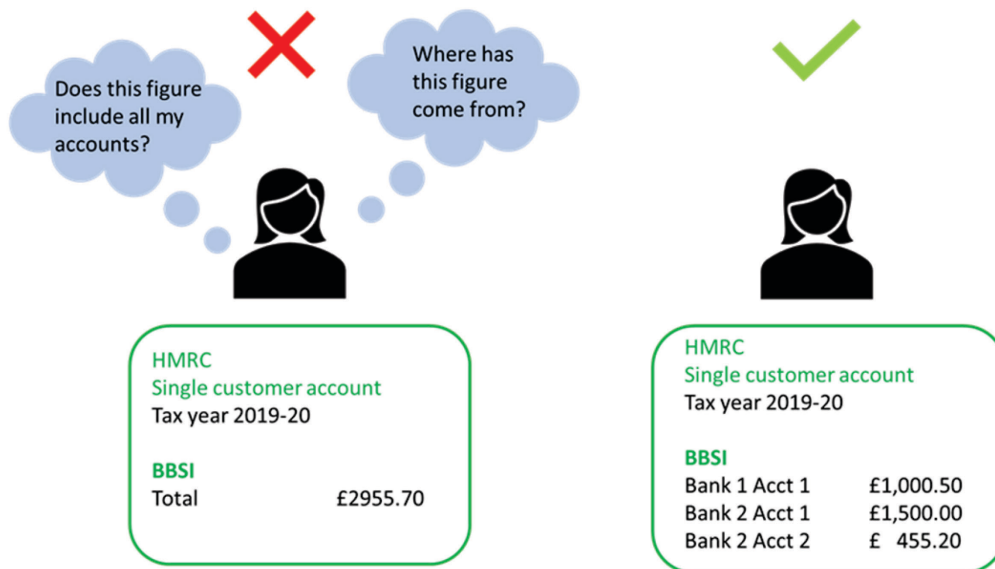
However, the report cautions that taxpayers, upon viewing a pre-populated form, may accept the incorrectly pre-populated values: “because of status quo bias, inattention, or simply because they trust the tax authority’s assessment to be correct”, and the research concludes that pre-population should only be used if the underlying data is highly reliable.⁷

- 2.44 The OTS considers that for the reporting of third party information to be of most benefit in helping the taxpayer to pay the right amount of tax, the data provided should be capable of being prepopulated into taxpayers returns, as well as being visible within the Single Customer Account.
- 2.45 This is subject to there being appropriate safeguards, explored later in this chapter. Having the information prepopulated would help to reduce the administrative burden of completing a return and reduce the risk of errors, while having a more detailed breakdown of the data that has been reported within the Single Customer Account will allow taxpayers to check the accuracy of the data provided. It is clearly important that any information that is prepopulated into returns is accurate, and so HMRC should ensure that steps are taken to ensure the accuracy of both the matching of data to individuals, and the data provided by third parties.

How this data should be presented

- 2.46 Respondents were clear that in order for the data provided within the Single Customer Account to be useful to the taxpayer, this would need to be shown in a clear and easy to follow way. This means that the taxpayer should be able to see the data at an account level, rather than aggregated by type of income or gain.

⁷ Digital Tax Administrations in the 21st Century: Opportunities and Challenges | TARC (exeter.ac.uk).



- 2.47 The OTS agrees that it would be important for HMRC to show taxpayers the data in a clear way, as it would allow them to see the data and check for any errors or missing accounts. The taxpayer needs full details of the account provider, account number, whether it is a joint account and how much interest has been attributed to them for the relevant tax year.
- 2.48 Currently, for taxpayers who do not submit a Self Assessment tax return, and whose income is taxed through the PAYE system, some data on their bank and building society interest is already visible in their Personal Tax Account. However, this is shown only as an overall figure and not broken down account by account. So, it is difficult for those whose PAYE codes are amended in order to pay tax on bank and building society interest, to check the code adjustment. As a result they may have to contact HMRC to find out what makes up the overall figure, to be able to check its accuracy.
- 2.49 Where PAYE codes are amended to reflect third party data submitted to HMRC, it would be helpful for the data to be displayed clearly to the taxpayer to show what income has been taken into account.
- 2.50 Respondents did not believe that it would be helpful if third parties were to share data with HMRC at a transactional level. Respondents raised concerns both over the volumes of data that this would provide, as well as privacy concerns over this level of data being shared about the taxpayer's financial affairs. The OTS agrees that data should not be shared with HMRC at a transactional level.

Timeliness of data availability

- 2.51 In order for third party reporting to be of benefit to taxpayers, the data will need to be available to them in sufficient time for it to be available or prepopulated within their return when they are ready to complete it. The tax year ends on 5th April, and online Self Assessment returns are due for that tax year by the following 31st January. While it might be unreasonable that the data is immediately available following the end of the tax year, as third parties will need to collate and submit the data, then HMRC will need to process it, it would be unhelpful for the data to be available too close to the

submission deadline. Respondents suggested that it would be helpful to have the data available no later than the current PAYE reconciled data is currently available, which is usually in September or October following the end of the tax year.

Safeguards and taxpayer trust

- 2.52 Published evidence shows that concern over data sharing has generally declined over recent years, with the proportion of people in the UK who show little or no concern with the issue of digital privacy or data exchange increasing from 16% of the population in 2012 to 25% in 2017,⁸ as they broadly understand the benefits of doing so.
- 2.53 Respondents to the Call for Evidence linked this decline in concern with rapidly increasing digital engagement across all sectors of life in the UK. For example, last year 76% of adults used internet banking compared with just 30% in 2007.⁹
- 2.54 This is an encouraging backdrop for HMRC's plans for the new Single Customer Account.
- 2.55 Respondents were realistic about the work needed to bring about such changes and the specific hurdles that would need to be overcome, but they also made many suggestions for ways that HMRC could instigate safeguards and build trust to enable third party data sharing to be successfully introduced and implemented in the future.

Taxpayer concerns

- 2.56 Some concerns were raised in the Call for Evidence about the potential for data breaches, but by far the vast majority of issues raised were in respect of data accuracy and errors, and how these could be rectified.

OTS Survey

The respondents to the survey were asked what their main concerns would be if third parties reported to HMRC on their behalf, with the ability to select multiple options in response:

- 83% were concerned that inaccurate data would be provided by third party
- 73% were concerned wrong data would be linked to their account
- 70% were concerned about incomplete data being provided by third party
- 38% were concerned about data protection issues

⁸ https://dma.org.uk/uploads/misc/5a857c4fdf846-data-privacy---what-the-consumer-really-thinks-final_5a857c4fdf799.pdf.

⁹ <https://www.statista.com/statistics/286273/internet-banking-penetration-in-great-britain/>.

Safeguards

Data protection issues

- 2.57 Respondents commented that any breaches of security and resulting problems arising for taxpayers from identity theft, fraud, or inappropriate access to data have the potential to seriously undermine trust in, and acceptance of, any third party data or prepopulation system.
- 2.58 Third party data providers would be required to comply with existing security and UK GDPR legislation, but some respondents queried how effectively this would be enforced. Financial institutions will have regulatory responsibilities and therefore systems and procedures in place irrespective of their size, but small charities may have inadequate resources to deal with additional reporting requirements.
- 2.59 It would accordingly be important to ensure, as with existing data provided to HMRC, that there were robust standards and controls for third party data providers and HMRC so that taxpayers can be assured that their data is secure, both when being provided to HMRC and once held on HMRC's systems.

Errors in matching third party data to correct taxpayers

- 2.60 It is important that third party data is allocated to the correct taxpayers.
- 2.61 One area that could result in errors is where individuals have similar names (including family members in the same household) or in relation to house names or croft addresses.
- 2.62 Another is in relation to taxpayers who have a joint account or are a nominee, trustee or executor. In these cases, the interest from such accounts may be matched to ante individual's Single Customer Account, but that individual may not be liable for the tax on this interest in that capacity.
- 2.63 For joint accounts, HMRC's default position is to tax each account holder on an equal share of the interest, unless they are told otherwise. Where the joint account holders have agreed to split the interest differently, there needs to be an effective mechanism to inform HMRC of this to prevent the incorrect amount of interest being apportioned to each taxpayer.
- 2.64 One possibility would be for taxpayers to be given the opportunity, within their Single Customer Account, to verify data provided by a third party. For example, by clicking 'agree/disagree' to a question about whether an account is correctly matched to them and to be able to submit a suggested correction and evidence. This could also be a way to enable taxpayers to inform HMRC how the interest should be split between joint account owners, or to inform HMRC that an account is held as a nominee, trustee or executor. It should be possible to inform HMRC of this only once, and it be remembered in future years, with the taxpayer able to inform HMRC of any changes.

Case study 3 – Alice

Alice logs on to her Single Customer Account, where she can view and validate all third party data matched to her.

The third party information is shown line by line on an account by account basis, enabling her to validate individual data entries, by clicking 'agree/disagree' for each one.

The third party data shows Alice's joint account has been split 50:50; however, this is incorrect and the actual split is 70:30. Alice clicks: "disagree" for this entry, and is then able to easily overwrite the correct data. She is also able to submit evidence if she wishes to do so. The correct split will then be carried forward for future years.

Errors in third party data submitted

- 2.65 One of the key areas of feedback from respondents was the need for a clear mechanism for taxpayers to challenge inaccurate third party data.
- 2.66 Respondents highlighted current problems which arise in relation to the use of PAYE 'Real Time Information' data from employers. If a taxpayer disagrees with pay and tax data held by HMRC, the employee is told to query any mistakes with their employer. The employee is then placed in the difficult position of having to approach the employer to suggest they may have sent incorrect data to HMRC. The OTS has been told that in some circumstances this does not resolve the problem, particularly where the employee has left the employment, the employer has closed down, or the employee is in dispute with the employer.
- 2.67 In this context, respondents were firmly of the view that where there are errors in third party information, taxpayers (or their agents) should be able to correct or query these errors.
- 2.68 HMRC have previously outlined that their approach to the use of third party data would require taxpayers to contact third parties directly to dispute any figures that they believe to be inaccurate.¹⁰ However, respondents to this review strongly felt that taxpayers should not have to ask the third party to correct the data – if it remains the taxpayer's return, and they retain a statutory obligation to ensure that it is correct and complete, they should also have the right to override data they believe is incorrect.
- 2.69 The mechanism for correcting data should be as simple as possible, and taxpayers should be able to overwrite any information that is prepopulated into their return if they believe it is incorrect.
- 2.70 Individuals with no requirement to file a return should be able to update any errors on their Single Customer Accounts directly.

¹⁰ <https://www.gov.uk/government/consultations/making-tax-digital-transforming-the-tax-system-through-the-better-use-of-information>.

- 2.71 In whatever way the mechanism to query inaccurate data operates, there should be no requirement for taxpayers to notify third parties of errors in the data submitted on their behalf (though they may well choose to).

Taxpayer trust

- 2.72 As highlighted above, trust in data sharing has generally increased in recent years and ensuring robust standards and controls to guard against data breaches will increase this trust still further.
- 2.73 There are also, however, other ways in which HMRC could actively build trust with taxpayers more broadly, which are explored in the following paragraphs.

Transparency

- 2.74 Over time, the amount of data that HMRC can potentially hold about a taxpayer has steadily increased. For example, banks and building societies now routinely submit data to HMRC. However, this data is not also routinely shared with the taxpayers themselves, which for some taxpayers has caused an erosion of trust, as they feel that HMRC have information about them which is being withheld from them.
- 2.75 Many respondents suggested that greater transparency wherever possible over data held by HMRC would go a long way to build taxpayer trust.
- 2.76 To be able to check the data that HMRC hold, taxpayers need a copy of the information submitted by third parties. The OTS considers that third parties should continue to provide taxpayers with a copy of the information they have provided to HMRC, even though this will be available through their Single Customer Account.
- 2.77 Taxpayers would also like to have a clearer understanding about the reasons why government implement particular tax policies and what government and HMRC hope to achieve by introducing new systems. In respect of the move towards further third party data reporting, it would help to build trust if government and HMRC are as transparent as possible about the likely benefits to all those involved.

Assumption that the third party data is correct

- 2.78 Historically, the information HMRC received from a third party was limited to the taxpayer's employer, who has a clear legal obligation to provide accurate information. As a result, taxpayers generally trust their employer to get the payroll right.
- 2.79 However, other third parties may not have the same established statutory framework to ensure that the information provided on a taxpayer's behalf is correct. In the absence of a realistic prospect of a sanction, there may be limited safeguards and checks by third parties to ensure that the information is correct, and in fact many respondents have reported instances of error, for instance where bank accounts are not straightforward, as may be the case with joint accounts (sometimes with more than two people) or trustee or executor accounts.

- 2.80 Respondents felt strongly that where there is a discrepancy between the information on the Self Assessment tax return and the third party data, which could potentially lead to an enquiry, HMRC should not automatically assume that the third party is correct. This is an assumption which taxpayers feel has led to unnecessary and costly enquiries in the past (where for example HMRC has opened an enquiry where information that they hold from a bank does not match the information shown on a return). It may, therefore, be beneficial for taxpayers to be able to submit supporting evidence where they have inputted a different figure to that which was reported by a third party.
- 2.81 Taxpayers would also like more clarity over what HMRC criteria will be when considering whether to make enquiries into taxpayer returns in the future, in situations where complex third party information has been submitted to HMRC in respect of, for example, investment broker income and gains.

Penalties

- 2.82 Respondents suggested also that the penalty regime related to incorrect or inaccurate information provided in a return may also need to be reviewed. For example, where taxpayers have relied on information included in their Single Customer Account which later turns out to be incorrect, it would not seem appropriate to penalise them for these errors, and that taxpayers should be able to argue to HMRC that they had a 'reasonable excuse' for the error.

Actively promoting the benefits of third party data reporting

- 2.83 Several respondents felt that it would be worthwhile for HMRC to look for ways to actively highlight the benefits of third party data reporting to individual taxpayers, and they suggested that many in the agent community (who are highly trusted by taxpayers and will likely recognise the benefits for themselves and their clients) may be keen to be involved in such an initiative.

Agents

- 2.84 Many agents responded very positively to the Call for Evidence, highlighting the many benefits that third party data reporting could bring for them, including reduced time and costs spent chasing taxpayers and third parties for information, reducing the incidences of missing information (where taxpayers forget about for example new bank accounts or cashed-in pensions), reduced likelihood of HMRC aspect enquiries and increased efficiency through obtaining more information from a central location, thereby enabling returns to be completed earlier in the year.
- 2.85 However, agents also pointed out that there are current difficulties in using HMRC systems which need resolving separately. For example, agents have told the OTS that in spite of the commitment to both the old and new versions of the HMRC Charter¹¹ that HMRC will work with properly appointed agents, HMRC has not yet ensured proper agent access to its systems. Agents cannot yet see and do what their clients can see and do and HMRC systems are still being designed without agent access being built in

¹¹ <https://www.gov.uk/government/publications/hmrc-charter/the-hmrc-charter>.

from the beginning (which means that either agents never get access or agent access is not optimal because it is added as an afterthought). HMRC have committed in their recent tax administration strategy¹² that it is 'HMRC's vision for agents to be able to see and do what their clients can, and designing in agent access at the outset'.

- 2.86 Respondents have commented that the cumbersome digital handshake for authorising an agent, introduced for both 30-day Capital Gains Tax reporting and the new Trust Registration Service, has also made it very difficult for some taxpayers to appoint an agent in the first place.
- 2.87 HMRC need to ensure that agents have proper access to their clients' data in the future. Agents accept that they cannot currently see clients' Personal Tax Accounts (on account of the fact that data in the Personal Tax Account cannot currently be segregated so that agents could be authorised only to see data relevant to the services they are providing), but it is essential that this is addressed when the Personal and Business Tax Accounts are replaced by the Single Customer Account.

Recommendations

5. HMRC should work to establish the extent to which further third party data reporting has the potential to remove the need for particular taxpayer populations from the Self Assessment system, to help prioritise improvements to or introduction of the reporting of particular sources of data.
6. HMRC should explore the most effective ways to increase taxpayer trust and provide appropriate safeguards by:
 - a) ensuring the data held is presented to taxpayers and agents in a transparent and detailed way
 - b) allowing taxpayers to approve or validate data matched to their accounts
 - c) ensuring there is an appropriate mechanism for taxpayers to query or amend data

¹² <https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system>.

Chapter 3

Third party data sources

Background

Who are the third parties?

- 3.1 This report examines the taxpayer data that is, or could potentially be, reported to HMRC by third parties. It focuses primarily on financial institutions and also considers charities.

Financial institutions

- 3.2 A financial institution is a business that is authorised and regulated to handle cash and other financial assets - like investments in the stock market - on behalf of its customers. These include banks, building societies, investment managers, life insurance companies and pension providers.
- 3.3 Financial institutions require a licence to operate and their activities are overseen by government regulators such as the Financial Conduct Authority, the Prudential Regulation Authority and the Pensions Regulator. They are required by law to hold a minimum amount of information about their customers ('Know Your Customer' or KYC information).
- 3.4 Other financial institutions include National Savings and Investments (NS&I) (the government savings bank) and share registrars (third parties that hold share certificates and receive and transfer dividends from shares but do not offer investment management or portfolio services).
- 3.5 This chapter does not deal with these institutions specifically. The OTS anticipates that the same reporting described below ought to be capable of being implemented in respect of accounts held by NS&I and share registrars, in respect of the interest and dividends they handle.

Charities

- 3.6 A charity is a non-profit organisation undertaking charitable activities funded by donations. Charities are regulated by the Charity Commission, unless they are exempt charities regulated by some other authority (for example, educational institutions and museums are regulated by the Department for Education and the Department for Digital, Culture, Media and Sport respectively).

Financial institutions

What information do they hold?

- 3.7 Financial institutions hold details of transactions in the financial accounts and investments they administer. Some institutions deal directly with clients, some via an intermediary and some do both:

Case study 4 – Omar and Felicia

Avon Bank plc

Avon Bank plc (Avon) provides retail banking facilities to its customers. Omar opens a deposit account with Avon and they collect KYC information from him to identify him. The account is held in Omar's name. Avon is dealing **directly** with Omar.

Acer Asset Management Ltd

Acer Asset Management Ltd (Acer) is an investment manager that offers services to intermediaries and also to direct clients. Its accounts for intermediaries are held by nominees, meaning they are held in the name of other financial institutions (intermediaries) on behalf of their clients.

Omar transfers some of the money from his deposit account with Avon to an investment portfolio also administered by Avon. Avon invests this on Omar's behalf in stocks and shares managed by Acer. The assets are held in Avon's name as **nominee**. Here, Avon is the **intermediary**. Acer does not hold KYC information for Omar.

Felicia opens an account in her own name with Acer. Here, Acer is dealing **directly** with Felicia and has to collect her KYC information.

Whose information would be reportable by whom?

- 3.8 Broadly speaking, financial institutions and other organisations would be in a position to report details in relation to clients with whom they deal directly.
- 3.9 Any report made would need to identify the beneficial owner of the account to whom any income, gains or deductions were attributable.
- 3.10 In relation to case study 4 above, it would be natural for Avon to report to HMRC in respect of Omar, both in relation to his deposit account and the investments Avon holds in Acer on Omar's behalf. However, Acer would be expected to report to HMRC in respect of Felicia.
- 3.11 Acer would also need to provide sufficient information to Avon to enable it to submit a full report on Omar to HMRC.

What items can they report?

- 3.12 The OTS has examined which items that are currently reported by the taxpayer, might be capable of being reported to HMRC directly by third parties.

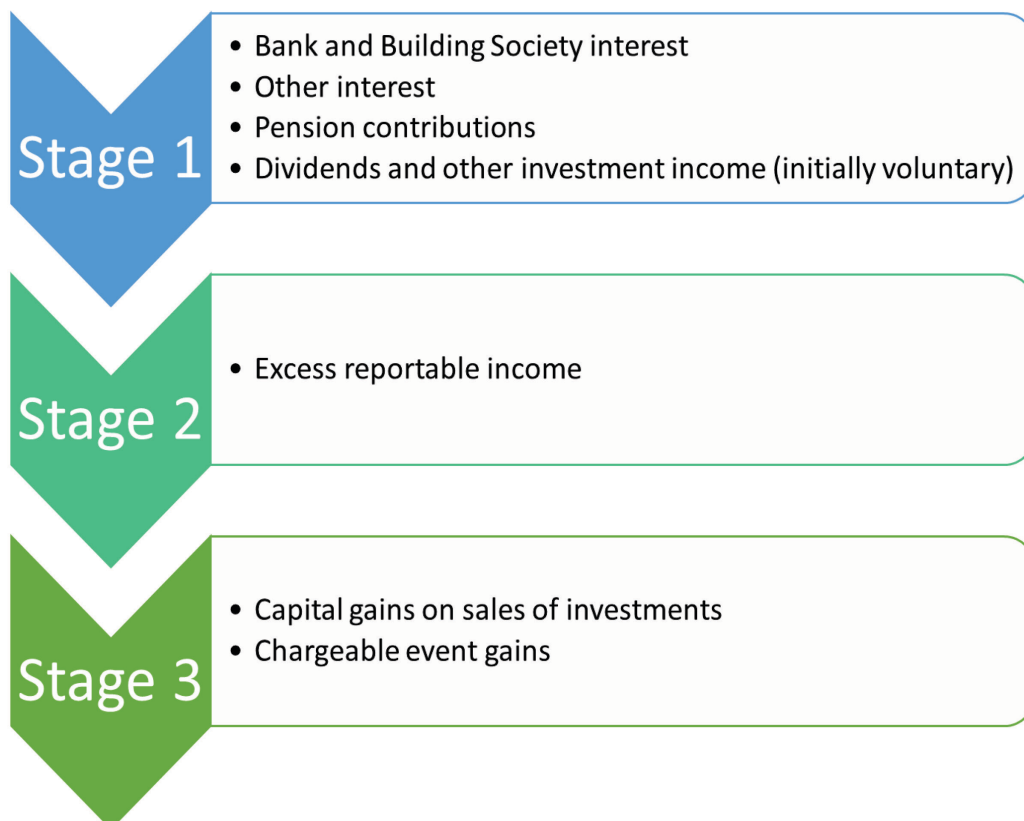
3.13 Details of the obstacles to reporting data in this sort of way are explored in Chapter 4.

Mandatory reporting

3.14 Financial institutions that responded to the OTS's call for evidence considered that the reporting of third party data to HMRC would have to be mandated by law in order to provide suitable authorisation under data protection law and, in practical terms, to enable them to secure the necessary financial and other resources needed to implement such changes.

3.15 Making the reporting mandatory would require new legislation to be drawn up to detail the scope of the changes. Respondents to the call for evidence were keen that changes were reflected in legislation and not just in amended HMRC guidance, as the legislation would help to provide a level of reassurance that any new data required to be collected, stored and reported to HMRC was within the provisions of UK GDPR.

3.16 The data sources are shown below in three stages, reflecting the relative ease or difficulty with which the reporting requirements might be brought in, from easiest to hardest.



3.17 There are already some mechanisms in place for reporting bank and building society interest, other interest and pension contributions, but there is currently no such mechanism for third parties to report dividends and other investment income to HMRC. It is likely this would take longer to implement on a mandatory basis as both third parties and HMRC would have to create new systems.

Stage 1

3.18 In the light of the responses to the call for evidence, the OTS considers that the following items are likely to be the most straightforward:

- bank and building society interest
- other interest
- dividends and other income from investments, and
- pension contributions

These are addressed below.

Bank and building society interest

Introduction

3.19 Broadly speaking, interest is the return on a cash deposit or loan, although there are some other types of interest described later in this chapter. After allowing for both the starting rate for savings and the savings allowance of £1,000 per person,¹ receipts of interest are taxable.

Scope

3.20 Bank and building society interest, for the purposes of this report, is the interest received on cash deposits with banks and building societies. Typically, this is credited to the bank account monthly, quarterly or annually.

Around 1.3 million taxpayers have taxable savings income, which includes bank and building society interest, that might be reported by third parties, out of a total of 50 million who receive savings income.²

Existing reporting

3.21 Banks and building societies (such as Avon Bank plc in the case studies above) already report details of interest payments to HMRC. Under the current system, HMRC issues a notice to banks and building societies towards the end of the tax year and they then have until 30 June following the end of the tax year (which is on 5 April) to file a return.

3.22 The existing process is for a bank or building society to identify UK residents by reference to their address details and report to HMRC the amount of interest credited to their account(s) held with that organisation in the relevant tax year.

3.23 Currently, HMRC uses this information for compliance purposes (to check taxpayers are declaring all of their income) but does not upload it to a customer's Personal Tax Account. It is also used to amend tax codes for employed taxpayers so that the tax on their interest can be collected under

¹ The starting rate for savings allows eligible taxpayers up to £5,000 of savings interest tax free. The savings allowance is reduced to £500 for higher rate taxpayers and £0 for additional rate taxpayers.

² HMRC data. See Annex C.

the PAYE system rather than Self Assessment. Difficulties can arise in matching these reports with customer records.

- 3.24 Banks and building societies are also accustomed to submitting data in relation to foreign owned accounts to HMRC annually under the Common Reporting Standard (CRS).³ Although the information and timing requirements are different, the OTS regards the CRS as a good model for effective and secure data reporting.
- 3.25 Banks and building societies generally also supply details of interest payments to their customers by way of periodic statements. Usually, these are either paper statements that are posted or PDF statements made available via an online banking portal.

Transition to future reporting

- 3.26 Banks and building societies are likely to be well set to implement a new reporting requirement in respect of data they routinely report anyway. Respondents to the OTS call for evidence from within this sector have broadly agreed that they have the capabilities in place to do so. The principal obstacles commonly identified by respondents in this sector are:
- collecting additional data required for reporting (such as the National Insurance number of customers) from customers who are generally unresponsive to requests of this kind
 - the need for a mechanism for correcting errors in submissions that is more effective than the current, cumbersome process, and
 - getting internal funding allocated in preference to other projects
- 3.27 These obstacles are discussed in more detail in Chapter 4. Overall, respondents in this sector indicated that, as long as the reporting was mandated by law, it would be achievable.

Timeframe

- 3.28 The consensus among respondents to the OTS call for evidence in the retail banking sector was that the reporting of bank and building society interest would take 18 to 24 months from enactment to implement a relatively straightforward annual reporting system. More frequent and therefore more onerous reporting would require a longer lead time.

Dividends and other income from investments, including other interest

Introduction

- 3.29 Dividends are a return received on investments in shares. Individuals are taxed on the receipt of dividends, after allowing for a £2,000 dividend allowance. Other types of financial investments, including funds and unit trusts, make distributions of taxable income that are usually either categorised and taxed as if they were dividends or payments of interest, depending on the nature of the underlying investments.

³ <https://www.gov.uk/guidance/automatic-exchange-of-information-introduction>.

Scope

3.30 The scope of dividends and other income from investments, for the purposes of this report, is any investment income other than bank or building society interest that is received on behalf of a taxpayer by a third party that is also a financial institution. The table below illustrates what is and is not in scope here:

In scope	Not in scope
<ul style="list-style-type: none">Dividends received from stocks and shares held within an investment portfolio administered by an investment manager, platform or bank.	<ul style="list-style-type: none">Dividends on private company shares.Dividends on stocks and shares held directly.
<ul style="list-style-type: none">Income from funds and unit trust investments held within an investment portfolio administered by an investment manager, platform or bank, including some fund distributions characterised as interest for UK tax purposes.	<ul style="list-style-type: none">Interest payable on a loan made directly to a third party such as a trading company or relative.Late payment interest paid on trading transactions.Rents.

3.31 One specific item of income from investments, excess reportable income, is treated separately, below, under 'Stage 2', given the particular challenges in ensuring it is reported accurately.

HMRC data suggests at least 800,000 individuals receive taxable dividend income that could potentially be reported directly by third parties, out of over 1.5 million likely to be receiving dividend income via third parties.⁴

Existing reporting

3.32 Financial institutions that hold investments (such as Avon Bank plc and Acer Asset Management Ltd in the case studies above) already report investment income that is categorised as 'other interest' to HMRC in a very similar way to the reporting of bank and building society interest.

3.33 Financial institutions do not report details of dividends to HMRC in respect of accounts held by UK residents. They do, however, include dividends in the information reported in respect of foreign owned accounts under the Common Reporting Standard (CRS).

3.34 Dividend information is provided to clients in the form of dividend vouchers and statements. Many financial institutions prepare a 'tax pack' for their direct clients, detailing income payments and other transactions over the course of the tax year (6 April to 5 April).

Transition to future reporting

3.35 Although most dividends and other income from investments are not currently reported to HMRC, the third parties in this sector do maintain

⁴ HMRC data. See Annex C.

databases of this information and are accustomed to reporting the information to clients, as well as reporting CRS information to HMRC.

- 3.36 The concerns raised by respondents to the OTS call for evidence in this sector were largely the same as those raised by banks and building societies: relating to collection of additional data, correction of errors and allocation of funding. Similarly, they also observed that the reporting would have to be mandatory.
- 3.37 In terms of the difficulty of the reporting, respondents in the sector were of the consensus view that the relatively simple income items in this category would be the easiest for them to report and the most intuitive items to begin with, in a phased implementation. It would clearly be easiest to start with those areas of investment income categorised as 'other income' that are already reported to HMRC.

Timeframe

- 3.38 Respondents from this sector also reported that an 18 to 24 month lead time would be required from enactment to first reporting, for a relatively straightforward, annual report. Again, more frequent reporting would require a longer lead time.

Pension contributions

Introduction

- 3.39 Taxpayers who have a personal pension, or whose employer operates a pension scheme under the relief at source arrangements, will need to make any claim for higher or additional rate relief on their contributions directly to the HMRC, as noted in Chapter 2.
- 3.40 Such pension schemes recover the basic rate relief on contributions directly from HMRC. Pension providers also make a variety of other returns of information to HMRC in relation to the schemes they are responsible for and the taxpayers who are members of them.
- 3.41 Where pensions are being drawn, by way of annuities or withdrawals from a scheme, providers operate PAYE in the same way as employers.
- 3.42 Accordingly, pension providers already collect and hold the National Insurance numbers of scheme members and already regularly submit data about them to HMRC electronically.

Scope

- 3.43 This report focuses on taxpayer claims to higher or additional rate relief for pension contributions (by those earning over £50,000⁵ and £150,000 respectively). These claims can be made by:
- an individual submitting a Self Assessment tax return
 - an employed taxpayer calling or writing to HMRC to arrange an adjustment to their tax code

⁵ £50,270 for the tax year 2021-2022.

- 3.44 It is not mandatory for the taxpayer to make these claims; however, the taxpayer will miss out on any relief to which they are entitled if they do not.

In both the 2016-17 and the 2017-18 tax years, approximately 260,000 taxpayers claimed higher rate relief and 50,000 claimed additional rate relief under Self Assessment. The number claiming relief via a PAYE coding adjustment, or other means is not able to be provided by HMRC.

Analysis by a pension platform suggests that, in total approximately 1.5 million taxpayers may have been eligible for higher or additional rate relief on pension contributions in the same tax years, suggesting that over 1 million did not claim.

Pensionbee estimates that for 2017-18 this represents unclaimed tax relief worth 770m for higher rate taxpayers and £60m for additional rate taxpayers.

However, HMRC considers that these figures are overestimated, with HMRC's own analysis suggesting that the amount of underclaimed tax relief is around half that suggested by Pensionbee.⁶

Existing reporting

- 3.45 Pension providers currently provide a substantial amount of information to HMRC.⁷
- 3.46 In relation to pension schemes claiming basic rate tax relief on contributions, providers submit a claim form to HMRC with details of the contributions made by UK residents. This is an annual form but it is possible to submit interim claims to get tax back more quickly (although these interim claims do not provide HMRC with any individual level details), and many do so monthly.
- 3.47 More generally, pension providers make a variety of other returns to HMRC about the scheme itself:
- pension scheme returns, submitted online, providing various details about the scheme, such as contributions received and membership. When HMRC issue providers with notices requiring them to make a return (filing is not automatic), providers have at least 3 months in which to do so. The return can cover any period that HMRC specifies, including a whole or part of a tax year
 - event reports, are annual filings for a tax year which detail specific reportable movements in the fund (such as unauthorised payments) and changes to the scheme that can have tax consequences
 - accounting for tax returns are made quarterly and provide details of tax charges that the pension scheme is liable for and for which the scheme has to account to HMRC. This includes, for example, situations where a

⁶ See Annex C.

⁷ <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm160000>.

taxpayer has exceeded their annual or lifetime allowance and the pension scheme is jointly liable for the charge

- 3.48 Overall, through these various mechanisms, pension providers already report, or have access to, all of the information required to populate a taxpayer's records with details of their pension contributions, the extent to which the taxpayer has used available annual or lifetime allowances in relation to their participation in that scheme and any related charges on exceeded allowances arising directly from that particular pension scheme.

Transition to future reporting

- 3.49 There is therefore potential for this to be developed further and for it to become possible for HMRC to make this information available to taxpayers.
- 3.50 However, there would then be a need to combine the information appropriately, as for example, the rules about limits on a taxpayer's overall contributions to pensions schemes have to be considered across all the schemes that a particular taxpayer contributes to, and reporting each member's used annual allowance to HMRC would be a significant added burden to pension schemes.
- 3.51 Some third parties were keen to explore the possibility of two way reporting, specifically in respect of helping their customers to understand their position with respect to the annual and lifetime allowances. Clearly such an idea would need further consideration, especially with regards to the confidentiality of taxpayer data.
- 3.52 Bearing in mind the complexity of the taxation of pensions⁸ and the volume of reporting already undertaken by pension providers, HMRC should consider how it can best approach this area, alongside other changes in the pensions sector, including the upcoming provision of the pensions dashboard,⁹ to best streamline and facilitate taxpayer and HMRC access to and use of pension data with minimal disruption for the third parties.
- 3.53 The OTS considers that HMRC should explore ways of enhancing and making best use of the existing reporting mechanism for pension contributions so that these can be populated in taxpayer records. Alongside this consideration should be given to authorising HMRC to give effect to higher and additional rate relief due in relation to such contributions in appropriate cases (for example where there is no other reason for a Self Assessment return to be filed) without the need for a claim by the taxpayer.

Stage 2

- 3.54 The OTS considers, in the light of its work on this review that after those discussed in Stage One, the next stage would be to consider reporting for a type of investment income known as 'excess reportable income', which many of those consulted have said would take longer to address.

⁸ See for example Chapter 3 of the OTS Taxation and Life Events report.

www.gov.uk/government/publications/ots-life-events-review-simplifying-tax-for-individuals.

⁹ <https://www.pensionsdashboardsprogramme.org.uk/>.

Excess reportable income

Introduction

- 3.55 Excess reportable income (ERI) is a UK tax concept, relating to UK residents with investments in offshore funds (a widely defined term embracing various forms of collective investment vehicles). Excess reportable income is not a distribution from the fund: it is an attribution of undistributed income. The income is taxable only because specific tax rules attribute the income to UK resident investors so that income cannot be rolled up untaxed and later converted to a capital gain.
- 3.56 Investors in offshore funds are typically sophisticated investors, but they can also be retail investors. Such investments might be held as part of a managed portfolio or through an investment platform. The respondents to the OTS call for evidence from within the banking and investment management sectors consistently mentioned excess reportable income as a complex feature of their tax reporting to clients and a possible barrier to comprehensive reporting.

Case study 5 – Felicia

Felicia's investment portfolio with Acer Asset Management Ltd contains a variety of investments in stocks and shares and includes an investment of 15,000 shares in the Barksdale Income Accumulation Fund. This is an offshore fund that derives most of its growth in value from income received on its underlying investments but does not distribute the income to its investors.

The Barksdale Income Accumulation Fund prepares accounts to 31 December and for the year to 31 December 2020 its income, adjusted for UK tax purposes, is £3 million. There are 1.5 million shares in the Barksdale Income Accumulation Fund and so each share has £2 of income attributed to it.

This means that the income attributable to Felicia's 15,000 shares is £30,000. As the accounting period ends in the 2020-21 tax year, Felicia must declare the income in her tax return for 2020-21 and pay tax on it.

Existing reporting

- 3.57 Offshore funds do not come under the legal jurisdiction of the UK, so they cannot be compelled to report any information to HMRC or to present their accounting information in a way that is compatible with the UK tax rules. However, offshore funds with substantial numbers of UK resident investors will typically apply to HMRC for 'reporting fund' status because investment returns from reporting funds are taxed more favourably compared to returns from non-reporting funds. Reporting funds must calculate their income in a prescribed way and submit annual information to HMRC and must also make information available to investors detailing their income per share or unit held.
- 3.58 Currently, taxpayers must report excess reportable income to HMRC in their Self Assessment tax returns. They may receive this information in a tax pack

from their investment manager or may have to employ an agent to calculate it, or must otherwise find the information themselves (which may be communicated directly to them, or published).

- 3.59 Many respondents to the OTS call for evidence – both investment managers and tax agents – specifically mentioned certain issues they already face with reporting excess reportable income:
- excess reportable income is easier to miss because there is no cash receipt or other visible transaction
 - reporting relies on information being provided by a foreign fund, which could have a different year end and may take several months to issue their own accounts, leading to delays
 - the calculation of excess reportable income can be complex and mistakes are common
- 3.60 Issues of this kind mean that respondents anticipated they would need more time to put the procedures in place to establish mechanisms for reporting of excess reportable income. The OTS has been made aware that there have been efforts made to try and bring together the relevant information in one place.¹⁰

Stage 3

- 3.61 The third stage of mandatory reporting would encompass reporting of taxable items that require more complex calculations, specifically:
- capital gains on sales of investments, and
 - chargeable event gains

3.62 Each of these has several obstacles to reporting which are described below.

Capital gains on sales of investments

Introduction

- 3.63 The dividends and other investment income described in Stage 1, above, are from investments in financial assets such as listed shares and funds. The investments themselves are capable of being bought and sold quite easily. If an asset is sold for more than it was bought,¹¹ this will result in a capital gain.

Gains on listed shares¹² were reported by 195,000 individuals for tax year 2017-18.¹³

¹⁰ <https://www.kpmgreportingfunds.co.uk>.

¹¹ Assuming that the asset is not traded.

¹² This is expected to make up the majority of gains within the scope detailed at 3.64 below.

¹³ As published in the OTS's second report on Capital Gains Tax: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/987994/Capital_Gains_Tax_stage_2_report_-_May_2021.pdf. See Annex C.

Scope

3.64 This report focuses on financial assets chargeable to Capital Gains Tax that are held by, or via, a third party that is also a financial institution.

In scope	Not in scope
<ul style="list-style-type: none">Stocks and shares held within an investment portfolio administered by an investment manager, platform or bank.	<ul style="list-style-type: none">Private company shares.Any stocks and shares held directly.
<ul style="list-style-type: none">Funds and unit trust investments held within an investment portfolio administered by an investment manager, platform or bank.	<ul style="list-style-type: none">Non-financial assets such as real estate.Assets not chargeable to Capital Gains Tax such as most cash deposits and loans.

Existing reporting

3.65 Subject to certain reporting thresholds, disposals of assets chargeable to Capital Gains Tax are usually reported in the Self Assessment tax return for the year in which the disposal is made. Taxpayers must calculate their gain by taking the net proceeds from the sale and deducting a base cost.

3.66 A variety of respondents to the OTS call for evidence identified the reporting of capital gains on investments as presenting difficulties. This included respondents from the investment management sector, financial reporting software specialists and tax agents. The two main issues raised related to the share pooling rules and to the availability of information about base costs more generally.

Issues – share pooling

3.67 The base cost of an asset is usually the price originally paid for it. However, for the assets in the scope of this review, there is a pooling requirement where only part of an overall holding of an investment is sold.

Case study 6 - Omar

Omar's portfolio acquires shares in Bell plc in various tax years:

Tax year	No. of shares	Price per share (£)	Cost (£)
2013-14	10,000	1.00	10,000
2016-17	5,000	1.40	7,000
2018-19	5,000	1.60	8,000
Total/average	20,000	1.25	25,000

In 2021/22, Omar sells 10,000 shares for £2.00 each, receiving total proceeds of £20,000.

The base cost of these shares is taken to be the average: $10,000 \times \text{£}1.25 = \text{£}12,500$.

Omar's gain is $\text{£}7,500$.

- 3.68 If Omar were to have more than one holding of shares, for example if he held shares in Bell plc in his portfolio with Avon Bank plc and also in another portfolio with another provider, he or his tax agent would have to pool all of his holdings in Bell plc to calculate the base cost, even if the disposal was only made out of one portfolio.
- 3.69 The pooling requirement was one of the issues brought up consistently. Investment managers cannot calculate capital gains correctly as they simply do not (and cannot, on account of UK GDPR rules) know if the taxpayer has another holding in the same shares elsewhere. As such, the base cost cannot be calculated.
- 3.70 In its second report on Capital Gains Tax, the OTS recommended that the pooling requirement should cease to apply across multiple holdings by the same taxpayer via multiple intermediaries.¹⁴

Issues – base costs generally

- 3.71 A number of wider issues were raised in relation to base costs. For example, where holdings have been transferred in from another provider, the original cost of the shares can be missing from the records. There can also be difficulties in correctly handling what are known as corporate actions (such as where a company reconfigures its share classes so that individual investors are issued with additional shares or have their existing shares exchanged for different shares).
- 3.72 Some respondents suggested that it was not feasible for investment managers to report the gains positions of the clients accurately because there are too many variables. For example, the investment manager would not know the extent to which the Annual Exempt Amount or any losses were available to offset the gain. However, the OTS notes that neither of these factors ought to be a bar to reporting the gains on individual disposals for HMRC to feed into the Single Customer Account, which would hold that information.
- 3.73 The OTS considers that capital gains on financial investments ought to be capable of being reported but that this would take more time to implement.
- 3.74 For example, while proceeds are straightforward to calculate, consideration would need to be given to the obstacles to reporting the base cost, which may require legislative change (to the pooling rules) as well as interim measures to allow for a gradual build-up of better quality base cost data in the system. Such measures could include the use of (clearly identifiable) estimates or a substitute value of nil where the base cost is not available.

¹⁴ <https://www.gov.uk/government/publications/ots-capital-gains-tax-review-simplifying-practical-technical-and-administrative-issues>. See recommendation 4.

Either approach would require manual input by the taxpayer but facilitate the beginning of what could become a mostly automated system.

- 3.75 The OTS suggests that, before implementing the automated reporting of these gains, government should consult with the investment management sector and taxpayers on suitable steps to build up manageably to an automated system.

Chargeable event gains

Introduction

- 3.76 Most chargeable event gains occur when a withdrawal or surrender is made from a life insurance bond investment that exceeds a certain threshold. Upon withdrawal, the insurer has to perform a calculation and, if there is a taxable event, prepare and issue a certificate with prescribed information to the policyholder and, if the gain exceeds a certain threshold, to HMRC.

In an average year, HMRC receives around 15,000 chargeable event certificates from insurers, of which around 7,000 are issued by UK insurers and 8,000 by offshore insurers.

Based on figures for tax year 2016-17, around 45,000 individuals reported chargeable event gains, with the average gain being around £25,000.¹⁵

Scope

- 3.77 The scope of this report is limited to UK insurers. Although over half of existing reporting is by offshore insurers, the OTS is concerned for the purposes of this report with domestic UK-based providers of financial services. This is because, in general, these are the organisations over which the UK government has jurisdiction to impose reporting requirements (although in the specific case of life insurance policies HMRC does have powers to require reporting from offshore insurers).

Existing reporting

- 3.78 As explained above, insurers have to produce a certificate when there is a chargeable event on a life insurance bond. This certificate has to be provided to the taxpayer and the same information must also be reported to HMRC.
- 3.79 The gain is taxable as savings income and, unless it falls below the savings allowance of up to £1,000, the taxpayer must report it in their Self Assessment tax return. HMRC uses the information it receives for compliance purposes, for example to check whether a chargeable event gain has been reported.
- 3.80 Insurers can report to HMRC either electronically or via a paper document sent in the post.

¹⁵ HMRC data. See Annex C.

Issues

- 3.81 The OTS has heard from respondents within the life insurance sector that the reporting of chargeable event gains is already an onerous task. Concerns were raised over the possibility of direct, automated reporting to HMRC for the following reasons:
- much of the reporting done currently is by way of a manual process because databases are not equipped to perform the calculation and sometimes the relevant information is held in more than one database, and often is submitted to HMRC in a paper format
 - as a result of consolidation activity in the sector, many life insurers are operating a number of legacy systems and databases that are not all compatible with each other
- 3.82 The OTS notes that a further drawback to the automated reporting of chargeable events gains is the low volume of chargeable event gains, which means the costs of implementation could outweigh the benefits of direct reporting, especially as a significant part of the market is made up of non-UK insurers, who already report accounts held by UK residents to their own governments under the Common Reporting Standard.
- 3.83 The OTS does not think there is a strong case for mandating the reporting of chargeable event gains. Were it to happen, it should be at a later stage of implementation of third party reporting generally, to allow time to consult with and understand those affected and for insurers to work out systems issues.

Voluntary reporting

- 3.84 While the majority of financial institutions considered that third party reporting should be mandated, some suggested that there could, at least initially, be some voluntary reporting.
- 3.85 Some respondents thought that in some areas, such as wealth management, some providers would be interested in voluntarily reporting data on investment income and gains as part of an enhanced service to their clients. This could, therefore, be introduced ahead of it being mandated for all providers.
- 3.86 The OTS has identified one area (charitable donations) where the best overall approach seems likely to be a voluntary one. While, as explained below, the OTS does not consider this sector well-suited to mandatory reporting, the development of voluntary reporting could nevertheless be rolled out alongside those for mandatory reporting by financial institutions.
- 3.87 It would require legislative change to allow third parties to voluntarily report information to HMRC with their customers' consent.

Charitable donations

Introduction

- 3.88 Taxpayers who make charitable donations can, if eligible, make a Gift Aid declaration which allows the charity to claim an extra 25p for each £1 donated.
- 3.89 Taxpayers who pay at the higher or additional rate of Income Tax can make a claim for relief for the difference between the rate they pay and the basic Income Tax rate on their contributions. Such claims are made directly to HMRC by the taxpayer, as noted in Chapter 2.

Taxpayers claimed back £530 million in higher and additional rate tax relief on Gift Aid donations in 2018-19.

In 2018-19, 1.3 million taxpayers declared a charitable donation via their Self Assessment tax return.

A total of 71,000 charities claimed £1.4 billion in basic rate tax relief in 2019-20.

HMRC estimates that, each year, £560 million in Gift Aid goes unclaimed whereas £180m is overclaimed in basic rate relief in respect of taxpayers that are not eligible because they do not have an Income Tax liability.¹⁶

Scope

- 3.90 This report focuses on the taxpayer and therefore, in respect of Gift Aid, will focus on claims for higher and additional rate relief. This is because, as with pension contributions, it is only for higher and additional rate taxpayers that charitable donations must be reported by the taxpayer to claim the full relief.
- 3.91 As with pension contributions, it is not mandatory for the taxpayer to claim higher rate or additional rate relief on their charitable donations. In fact, the OTS has heard that some taxpayers choose not to claim Gift Aid at all; however, higher or additional rate taxpayers miss out on the extra tax relief to the extent they do not report their donations.

Issues – Trust

- 3.92 Charitable donations are administered by charities rather than by financial institutions, unlike the other items considered in this report. Charities vary greatly in size and infrastructure and are subject to different regulatory standards than financial institutions.
- 3.93 Respondents to both the OTS call for evidence and the OTS survey indicated that they would generally feel less comfortable supplying details such as their National Insurance number to a charity rather than a financial institution.

¹⁶ HMRC data. See Annex C.

Issues – Types of interaction

3.94 There are a number of different ways in which taxpayers interact with charities when making a donation. These different types of interaction lend themselves more or less favourably to the automation of Gift Aid reporting.

Online donations

3.95 Some charitable donations are made online via charitable giving websites. These tend to be larger businesses with sophisticated technological capabilities. It would be feasible for Gift Aid declarations to be built into the payment process. That said, if a taxpayer were prompted to enter a National Insurance number, this may result in fewer claims for Gift Aid, because the taxpayer might be deterred by the request for information not at hand or considered sensitive.

Regular payments

3.96 Some charities accept regular payments – for example monthly direct debit payments – by way of donations. This arrangement might lend itself well to the automated reporting of Gift Aid payments, as the initial paperwork could be used to collect details.

3.97 However, there are some potential issues, namely:

- as with online donations, any requirement for a National Insurance number to be entered might be off-putting
- this type of donation is often arranged on the street, where a taxpayer might not have access to information
- there is a higher risk with an ongoing arrangement that a change in tax status might go unrecorded, leading to illegitimate claims

3.98 By contrast, regular payments have the advantage for the taxpayer of being relatively easy to remember, record and report under Self Assessment.

Subscriptions

3.99 Some, often smaller, charities, accept subscriptions and membership fees, which are in some cases eligible for Gift Aid.¹⁷ This may be the case with a local sports club, for example. Here, the issues are similar to those for regular payments; however, the smaller the charity, the less feasible it would seem to be for them to automate reporting, unless they are able to outsource this.

Spontaneous donations

3.100 Spontaneous, one-off donations cut across the whole charities sector and can come in forms as varied as a text message to a fundraising number and the tossing of a few coins into a bucket. These are the donations for which it is most difficult to incorporate a Gift Aid claim into the donation process, as there is very little formality to the process itself. It may be that a solution such as Open Banking is more appropriate for non-cash payments. It appears unlikely that spontaneous cash donations would be capable of

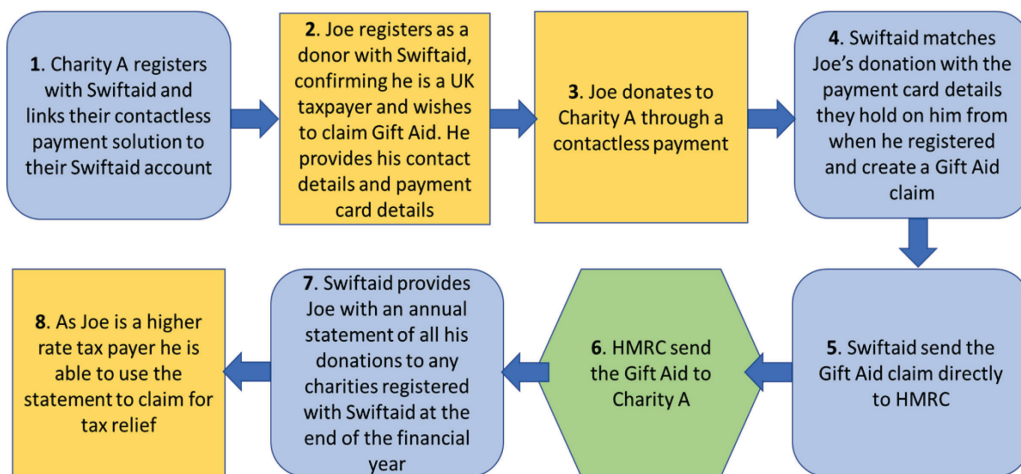
¹⁷ <https://www.gov.uk/government/publications/charities-detailed-guidance-notes/chapter-3-gift-aid#chapter-337-membership-subscriptions>.

being automatically reported, or not without a very laborious and inhibitive manual recording process at the point of donation.

Conclusion

- 3.101 Overall, the variation within the charities sector and in the types of donation that qualify for Gift Aid presents a lot of complexity. This, together with lower taxpayer trust in the sector (compared with financial services) and the fact that Gift Aid claims are themselves optional, makes mandatory automated reporting an impractical solution to the under-reporting of Gift Aid donations.
- 3.102 However, there is still scope to improve the taxpayer experience by facilitating voluntary third party reporting of Gift Aid data (this relies on both taxpayers and charities understanding their legal rights and obligations). It is in the charity sector's best interest to maximise the amount of Gift Aid claimed and there is already work underway privately in this sector and at HMRC.
- 3.103 For example, as outlined in Chapter 1 HMRC is working with the Charity Tax Group to explore how it might interface with private organisations that automate Gift Aid claims for registered charities and donors. An example of one of these private organisations that is working with the Charity Tax Group is Swiftaid.¹⁸

How Swiftaid is automating Gift Aid claims



- 3.104 Given this, the OTS suggests that the automated reporting of Gift Aid donations should not be mandated but that HMRC should continue to work with the charity sector to develop better automated systems operating on a voluntary basis.

¹⁸ <https://www.swiftaid.co.uk/>.

Chapter 4

Third parties

Introduction

4.1 During its work on this review, the OTS has heard some clear and consistent practical messages from organisations in different industry sectors which currently provide third party data to HMRC, or who may do so in the future, about issues involved in a potential expansion in the provision of data to HMRC. It will be important for HMRC to consider these in any future work in this area.

Data provision

Data to be provided

4.2 All those who have engaged with the OTS in the course of its work on this review were keen to see early consultation by HMRC with data providers and representative bodies about what data should be provided and the format in which it should be provided.

4.3 This includes agreeing:

- what data is to be provided
- the feasibility of including any data not currently held by the data providers
- the format of data fields
- the methods of reporting to HMRC and a suitable interface
- frequency of reporting
- timescale for changes to be implemented

4.4 A common desire is that the specific nature of any data to be provided is standardised across any particular sector and that there are standard formats for the way it is to be provided.

4.5 Some respondents were keen for HMRC to consider re-using existing formats when requiring new data to be reported because these were widely understood, and systems were already set up to report data in this way such as those used for reporting bank and building society interest or the common reporting standard (CRS).

4.6 When looking at data formats, it was seen as important that areas such as a default format for any missing data are included in any agreed future changes, to reduce the rejection of submissions where data is not held. An

example of this might be where a National Insurance number is held for some individuals but not for all. If the third party is required to report the National Insurance number to HMRC, then for those individuals for whom the third party does not hold a National Insurance number, there is instead an agreed format of characters to enter into the reporting field, rather than leaving it blank.

- 4.7 This would enable HMRC to distinguish between data that is not held and that which has just been missed off the report. Ensuring that formatting is in line with recognised industry data standards would support this by giving clarity to data quality in terms of accuracy, completeness and validity.

Inclusion of data that is not currently reported

- 4.8 A key concern for all parties is to ensure that HMRC can accurately match the data provided with the taxpayers to whom it relates. If HMRC require specific information to be reported to facilitate this, but which some third party data providers do not currently have a reason to hold, such as National Insurance numbers, then collecting this information will present some challenges.
- 4.9 Often to obtain additional 'new' information on a customer the third parties have to contact individual customers to ask for the information directly. Third parties of a variety of types, some of whom have millions of individual customers, have told the OTS that this approach tends to have a very low success rate, as well as being time consuming.
- 4.10 This low success rate can be for a number of reasons, such as customers simply failing to respond to communications from their banks, or where contact details for long-standing account holders are out of date because customers have not updated their details on marriage, divorce or moving home. This is especially an issue for sectors with a large customer base such as retail banks, whereas smaller boutique wealth managers that have more regular direct contact with their clients may be more successful at gaining extra information.
- 4.11 It has been suggested to the OTS that providers have greater success if there is a consequence for the customer of not providing the information requested.
- 4.12 A simple example shown in Chapter 3 (case study 4) is the 'Know Your Customer' (KYC) process carried out by financial institutions. Anyone wanting to open a bank account has to provide proof of identification, normally a passport, to the bank. If this information is not provided by the individual, then the consequence is that they are unable to open an account. It could therefore be easier to ensure the data is just collected from all new customers going ahead, rather than acquiring extra information from existing ones.
- 4.13 Another issue raised with the OTS in relation to third parties collecting and reporting additional data, is that their existing systems may simply not have the fields built in to collect and store the data. In such cases that would result in additional cost and time constraints, especially in relation to older or less agile systems. Some financial institutions the OTS spoke to indicated that their systems had been in place for between 15 and 20 years and were often

legacy systems acquired during mergers and as a result were more difficult and costly to alter than newer systems of their own, as highlighted in Chapter 3.

- 4.14 As also discussed in Chapter 3, in the charities sector, there is potentially a wider issue, as some smaller charities may not hold data electronically at all, perhaps with volunteers simply keeping paper records. While there may be opportunities to outsource this and improve their efficiency, such charities may face particular challenges in finding the time and resources for changes of this kind.

Methods of reporting

- 4.15 Respondents to the call for evidence spoke about some of the limitations in the current ways in which information is reported to and used by HMRC.
- 4.16 While most reports are submitted electronically through Government Gateway portals and through the use of the Secure Data Exchange Service (SDES) the OTS has been told that certain reports (such as those relating to chargeable event gains) can still be reported to HMRC in paper format.
- 4.17 The amount of data contained in the reports provided by some financial institutions can also cause problems. The OTS has heard that running the reports can sometimes take a number of days and that there have been experiences with reporting Common Reporting Standard (CRS) data using APIs¹ where the time allowed for uploading reports to HMRC can sometimes be too short for large files to be uploaded.

Application Programming Interface (API)

APIs are pieces of code that allow digital services, software and data servers to talk to one another by providing the connection and facilitating the sending and receiving of data and content in a raw data format. An API basically works as a messenger to deliver a request to a provider and then delivering the response back.

APIs sit behind most web applications, they connect devices to the internet and are used to define the information to be passed between applications, systems and devices.

APIs have many uses, some of which include:

1. enforcing and automating rules and policies improving security and governance
2. allowing the integration of internal (HMRC) and external (third party) systems
3. enabling mobile applications to communicate with company systems

¹ API – application programming interface - a set of functions and procedures allowing the creation of applications that access the features or data of an operating system, application, or other service.

A real-life example of an API in use would be using a mobile app to book a flight. The API enables the user to request details of seats available on a specific route, on specific dates from the airline's database. It delivers the users requests to the airline and then deliver the airline's response back to the user, facilitating everything from seat selection to payment.

- 4.18 There is also concern about the timescales within which third parties would need to report the data to HMRC, in order for it to then be available to taxpayers and their agents when completing their returns.
- 4.19 Currently, banks and building societies usually need to report interest by the end of June following the end of the tax year. HMRC then process the data, which means that it can take up to the end of September or October for this information to be made available to PAYE taxpayers. Third parties stress that they use the entire time available to them between 5 April and end of June to prepare and quality assure the data and that reducing the time available could affect the quality of the data reported.
- 4.20 These examples prompt a wider question about how early HMRC would expect to be able to populate data to taxpayers' Single Customer Accounts and returns. This is especially a potential issue for those with PAYE and other income, given the time lag caused by the end of year reconciliation process and the times at which different types of data are provided to HMRC. It also highlights the need for robust testing of any system used to facilitate the exchange of data, by all parties who will need to use it.
- 4.21 If it was planned that a greater quantity of data was to be reported to HMRC, it has been suggested that while using the Secure Data Exchange Service could be an easier way to get the process started, this would require a greater level of ongoing work to maintain, whereas an API solution for data exchange would require more investment upfront, but then should be a more efficient way to transfer the data in the long run. This is due to the reports being more structured and having better in-built validation processes.

Maintaining data and verification

- 4.22 Respondents to the call for evidence were very clear about the amount of time and resource required to maintain and cleanse the data currently being reported to HMRC. For example, respondents suggested that in the case of bank and building society interest reporting, they currently use all the time available between the end of the tax year and the 30 June deadline to prepare and validate their return.
- 4.23 Data reports are often run a couple of months in advance of when they are to be reported to allow for errors to be identified and data to be cleansed.
- 4.24 Some of the issues identified by third parties are:
- HMRC changing the format of data to be reported at short notice
 - missing or out of date customer data

- HMRC holding incorrect data on a taxpayer, resulting in mismatches with reported data
 - HMRC systems not recognising special characters such as accents in taxpayers' names
- 4.25 Most third parties said that they often had to refile multiple times, usually to correct information or update it when events are reported late to the third party.
- 4.26 Where third parties are reliant on information being provided to them from elsewhere it can also add a level of difficulty in getting the data providers, for example a platform, to make changes to their systems to ensure data is in a consistent format for reporting onwards to HMRC.

Case study 7 – Omar

Following on from the example in case study 4, Avon Bank plc prepares statements of income and transactions on his portfolio to Omar. It compiles these from the data provided by Acer Asset Management Ltd.

If Acer Asset Management Ltd subsequently finds it has omitted some information, it must inform Avon Bank plc.

Avon Bank plc must then amend its submission to HMRC and resubmit it before the records relating to Omar are correct.

- 4.27 Another issue raised relates to the validation of the data after it has been submitted to HMRC. Feedback received suggested that in some circumstances HMRC validation was carried out on a line by line basis and so a return could be rejected as soon as a single error is found. In terms of bank and building society interest, HMRC has introduced SAS data quality² reports for returns submitted for 2019 and 2020. These returns now identify all errors in a return on the first submission making it a much more efficient process.

Frequency of reporting

- 4.28 Third parties who already report data to HMRC do so on a variety of frequencies, depending on the different types of data concerned. This can include some data being submitted daily for Real Time Information (RTI) reporting, monthly for PAYE, or quarterly or annually for customer product information.
- 4.29 While payments arising from products such as annuities and pensions can be reported on a daily basis, for other areas there is little to be gained by increasing the frequency of reporting, such as with chargeable event gains which are currently mostly reported annually.
- 4.30 The OTS has heard that those reporting the data often need to gather it from a variety of different operational areas within their business and that

² https://www.sas.com/en_gb/software/data-quality.html.

any increase in reporting frequency would result in increased costs. In some specific areas such as excess reportable income from offshore funds (explained in Chapter 3) where detailed computations are required to arrive at the figures to be reported, any increase in reporting frequency would increase costs significantly. This is because these calculations are currently mainly done manually, and so increasing the frequency of reporting would increase the resource and time spent having to compile the figures to be sent to their customers and HMRC.

- 4.31 Any increased frequency in reporting to more real time would also impact HMRC, in particular the challenge of processing and storing the sheer volumes of data imported as a result of daily reporting. However, it may also be beneficial in that it would allow data to be available to help taxpayers at an earlier stage in the year, not having to wait for an annual filing from the third party some months after the tax year has ended.

Timescales for implementation

- 4.32 There was an almost universal view from all those responding to the call for evidence that a timeframe of at least 18 to 24 months would be needed for any implementation of new or additional reporting requirements, from the point at which it is clear what changes were required. This timescale was suggested in relation to changes or implementation of reporting on an annual basis, and longer timescales would likely be needed if more frequent or real time reporting were implemented.
- 4.33 HMRC recently gave FCA regulated businesses at least 18 months to implement proposed changes to the bank and building society interest return which was in line with the time period given by the Organisation for Economic Cooperation and Development (OECD)³ to implement changes in respect of the Common Reporting Standard.
- 4.34 However, for those that do not currently report to HMRC, and for larger scale changes where, for example, reporting is on a more real time basis, it is likely that this would take significantly longer. Respondents suggested a timescale of around 5 years, depending on the changes to be implemented.
- 4.35 It is also clear to the OTS that there is a strong desire from the third parties concerned to engage with HMRC at the earliest stages of planning, to discuss workable options and practical problems, to ensure that any changes are fully achievable, especially given the variety of data and systems involved. It was also requested that HMRC engage with all levels and types of organisations providing data, as well as with the main representative bodies, in designing and changing any future reporting obligations.
- 4.36 The OTS was also advised of the difficulties there can be when the third party data provider is not the same as the third party data reporter. In these situations, it can be difficult for the ultimate data reporter to manage any changes within a set timescale. An example provided related to a data reporter having particular issues with getting the data provider to alter the

³ Organisation for Economic Co-operation and Development (OECD).

specific format that data is held in following changes introduced by HMRC, as the data reporter has no control over the systems of the data provider.

Costs and burdens

Cost benefit analysis

- 4.37 The financial costs of any potential changes were a significant concern to third parties of all types, not least because making changes to legacy systems is costly and time consuming. In addition, there were concerns about the possible increased resourcing costs of more frequent reporting and additional data cleansing and maintenance, as well as the costs of collecting additional data and handling increased levels of customer contact.
- 4.38 When carrying out an impact assessment of any proposed changes, the OTS considers that HMRC should carry out a cost benefit analysis of the costs to third parties and to HMRC against the intended benefits for taxpayers, HMRC and the third parties. It will be important that such an analysis takes account of the full variety of types and size of third parties involved to help ensure that any measures introduced are proportionate to the benefits sought. One area which may be particularly costly to change is pensions, as a number of the processes are still paper based.

Two-way data sharing

- 4.39 Some third parties were keen to explore the option of a level of two-way data exchange with HMRC, perhaps in the context of data validation processes, to enrich their own data sets. Agents were also keen to have better visibility of data held by HMRC for their clients. Either in these ways, or through taxpayers' Single Customer Accounts, there may be ways to highlight useful information for taxpayers or their agents, such as potential issues with pensions annual or lifetime allowances. HMRC should consider this opportunity further. Any two-way flow of data would have to be secure and comply with UK GDPR regulations.

Investment

- 4.40 In order to make changes to their systems and reporting processes, some organisations responding to the call for evidence suggested that they would need to make substantial financial investment, especially where legacy systems are involved.
- 4.41 Some high-level estimated costs suggested to the OTS ranged from tens of thousands to several million £'s, depending on the type and amount of change required.
- 4.42 As well as systems changes themselves, there would also be additional costs for governance and testing of any changes, and in potentially extensive customer engagement.
- 4.43 There was some concern that established financial institutions might be at a competitive disadvantage as compared with organisations with newer systems, as the larger additional costs to adapt older systems would ultimately impact their customers.

- 4.44 For charities, especially many smaller ones, the costs of implementing a system to facilitate data capture and reporting are likely to be prohibitive. Another option might be that they are pushed towards outsourcing this data collection and reporting function to a platform, but this approach would also incur additional financial costs.

Reputational and legal risk

- 4.45 Some third parties raised concerns about the possible reputational risk should information provided by them and relayed to the taxpayer through their Single Customer Account or prepopulated into returns be incorrect, either due to errors in the data set, or if data were mismatched by HMRC to the wrong taxpayer's account.
- 4.46 This may adversely affect customer confidence in the third party's ability to handle their customers' personal data, and also undermine trust and confidence in HMRC and its systems.
- 4.47 Alongside reputational risk, third parties also highlighted the possibility of legal risk, if a taxpayer relies on information provided by the third party which later turns out to be incorrect. This concern is already commonly seen in the form of disclaimers attached to statements and tax packs provided to taxpayers by third parties. The issue of liability is considered in Chapter 1 in the context of looking at where the ultimate responsibilities lie when any data submitted is relied on, for example, in completing a Self Assessment tax return.

Error amendment

- 4.48 One of the most common concerns raised with the OTS in response to the call for evidence was how to deal with errors and how any changes in data would be reflected in taxpayers' Single Customer Accounts. Alongside the taxpayer safeguard issues discussed in Chapter 2, third parties also raised several of their own concerns.
- 4.49 One concern was that increased reporting of data would inevitably result in the third party receiving an increased level of queries from customers about figures provided to HMRC and reflected in their Single Customer Accounts. This is especially likely if the individual is relying on this data to complete their tax return and either does not understand where the figure has come from (if there is an amalgamation of figures) or thinks the figure presented is incorrect.
- 4.50 While most third parties said that they have systems in place currently for their customers to be able to contact them about inaccuracies through a variety of methods, there were concerns over the resource impact of a likely increase in customer contact, not only for third parties but also for HMRC.
- 4.51 At present, as least in some situations such as for the Common Reporting Standard, corrections take place either through resubmission of the whole file or by HMRC accepting supplementary returns to correct errors. Any returns that are rejected often require further analysis and possible manual intervention by the third party before re-filing which can be time consuming.

4.52 Currently for Common Reporting Standard reporting, a taxpayer's individual record from a prior return can be overwritten if the original data reported was incorrect, simply by the third party filing an amended record. Third parties are however less clear whether the information HMRC's customer facing staff hold in relation to taxpayers is amended in the same way for bank and building society interest when amended returns are submitted.

Materiality

4.53 Some third parties asked whether there might be a threshold level for corrections rather than having to correct every error no matter how small.

4.54 This is especially the case where there is no impact on the taxpayer's tax liability because an amount is below or within a set level of relief or allowance, however this might be difficult to monitor when data might be being reported by a number of different data providers at different times. There is also a UK GDPR consideration, as if the third party is aware that they have provided incorrect data, there may be a legal obligation to correct it, no matter how small or minimal impact the change will have.

4.55 More widely, third parties were also concerned that they may be reporting a huge amount of data to HMRC, where there will not be a tax liability for the majority of taxpayers they are reporting data about. So some third parties suggested there could be a de minimis amount of income or gain below which they do not have to report to HMRC. Others, however, thought that this would make the process of reporting more complex. This issue is considered in more detail in chapter 5.

4.56 There was also some discussion on whether HMRC would apply penalties to third parties for incorrect data being reported or data being reported late. HMRC currently have the power under Schedule 23⁴ to apply penalties of up to £3,000 for an incorrect return.

Recommendation

7. HMRC should work closely with affected industries to establish:
 - a) the technical specifications needed to facilitate effective reporting
 - b) the data that should be reported and a standard format for it to be reported in
 - c) an efficient way for third parties to correct errors or update the information they have provided

⁴ Finance Act 2011, Schedule 23 (Data-gathering Powers).

Chapter 5

HMRC

Benefits to HMRC

- 5.1 As highlighted in Chapter 1 the government and HMRC are committed to looking at ways that data could be used to help improve the tax administration framework and the taxpayer experience. Part of this is looking at the potential for improved use of third party data. There could be a number of benefits for HMRC, as well as for taxpayers, if third party data were used more effectively.
- 5.2 First, there would clearly be a compliance benefit, if more third parties were to report information to HMRC. Having these data sources reflected in the individual's Single Customer Account and prepopulated in returns would in itself help to reduce the number of occasions on which people may forget an account or some investment income or make a mistake while completing their tax returns, and would make it easier for HMRC to ensure that PAYE codes were amended to collect any tax due. And, where necessary, HMRC could use the information to ensure all the income and gains concerned were taxed appropriately. All this would help to reduce the tax gap on savings and investment income and gains.
- 5.3 Secondly, increased transparency of the data held by HMRC on an individual should also help to improve the relationship between taxpayers and HMRC. Additionally, use of the Single Customer Account as a means for all taxpayer communications with HMRC, including where they may want to query any data held there, and being able to do so in a simple way, should improve the taxpayer experience.
- 5.4 These changes, if implemented carefully and without introducing unexpected errors or confusion, could help to improve trust between the taxpayer and HMRC, which is one of HMRC's aims for the future of the tax system.
- 5.5 HMRC having access to more data could also be useful in the face of any future crisis. The government has made clear that some of the constraints in support that could be offered during the Covid-19 pandemic have been because of the limited data held in some areas.
- 5.6 While this mainly related to employment and self employment data held for individuals (which isn't the focus of this report, so the reporting suggested here may not have helped in this instance), this may not be the case in any future crisis. HMRC having better data on taxpayers could help them to respond and provide support in the future.

HMRC Resources

- 5.7 If HMRC is to be able to facilitate effective reporting by third parties, and ensure that the data reported is able to be matched and made available in an individual's Single Customer Account and potentially prepopulated into their return, HMRC will need sufficient funding to invest in this and to ensure it has the functionality for third party data to be reviewed and used by taxpayers and their agents.
- 5.8 HMRC will also need to be in a position to dedicate resource both to develop this functionality initially and to maintain it and make improvements in future. This will require investment into the future, building on the £68 million committed for the Single Customer Account and Single Customer Record in Budget 2021.¹
- 5.9 There are continuing technological developments in the broad area of data sharing and it will be important for HMRC to participate in those developments.

Technological improvements and considerations

- 5.10 As well as investment in the Single Customer Account and the Single Customer Record that sits behind it, there are other technological improvements and considerations that HMRC would need to take into account if introducing further third party data reporting.

A secure gateway

- 5.11 In particular, third party data providers have raised with the OTS the issue of needing a secure gateway that will be able to receive large volumes of data at high speed.
- 5.12 Some third parties who already submit data to HMRC, such as banks and building societies, suggested that a new and improved gateway could help both to improve data security and to reduce the time taken correcting errors in the data. The current HMRC system does not automatically check for errors in the data, which can lead to delays if errors are subsequently found and the data has to be resubmitted several weeks or months later.
- 5.13 Currently data can be submitted to HMRC in a number of ways, including using a USB storage device. Removing the ability to submit data in this way and ensuring it is submitted electronically through a secure gateway would help to improve data security. Respondents suggested that it would be helpful to have a standard format in which data was submitted. Some respondents remarked that the way data is submitted for Common Reporting Standard purposes is a more efficient and secure method.

Systems upgrades

- 5.14 HMRC will also need to invest in their systems that match the data provided by third parties to the appropriate taxpayer to ensure that this can be done quickly and accurately. This is a process that can currently take a huge amount of time, and if HMRC are to receive a larger volumes of third party

¹ <https://www.gov.uk/government/speeches/speech-to-hmrc-virtual-stakeholder-conference>.

data, then HMRC will need to have systems that can match this to taxpayer records efficiently.

- 5.15 Currently, the process of amending tax codes for those claiming relief for pension and gift aided charity contributions is a manual process. Improvements to HMRC systems to allow this to be done automatically would be beneficial, especially if the number of adjustments were to increase due to better or increased use of third party data.

Volume of data

- 5.16 HMRC will need to consider the extent of the data they wish to require from third parties. For example, the OTS understands that HMRC currently receive bank and building society data from 327 third parties in relation to around 36 million taxpayers.² However, the majority of these taxpayers will not pay any tax on the interest reported, due to the savings allowance of £1,000 for a basic rate taxpayer. If HMRC were to expand the number and type of third parties that are reporting data to them, they will have to process and match huge amounts of additional data each year. HMRC will need to consider whether they wish to receive all the data, or whether they may consider some kind of de minimis, for example, so that banks and building societies only reported interest above a certain level.
- 5.17 There are a number of factors that need to be taken into account if HMRC were to consider restricting the data received from third parties, by using a de minimis or any other method. This could, perversely perhaps, actually add to the costs involved, as third parties would need to introduce a way of gathering together the data they report to meet such a criteria, unless applying such a de minimis was optional, especially if such a rule operated on an account by account basis, rather than cumulatively across a particular bank.
- 5.18 Also, an individual may well have a number of different bank accounts with different banks and earn a total amount of interest that exceeds their savings allowance. However, some of their accounts could earn interest below any de minimis that is set, meaning the bank doesn't report this interest.
- 5.19 More widely, such an approach could also lead to changes to the reporting rules in the future if policy changes were made, for example if the government made any changes to the savings allowance amount.

Specific legislative changes

- 5.20 As set out in Chapter 1, HMRC have powers under Schedule 23 of Finance Act 2011, to collect what is often referred to as 'bulk data'. This process is initiated by an officer issuing a notice in writing which requires a data-holder to provide relevant data.
- 5.21 This legislation was put in place on the basis that the data collected would primarily be used to support HMRC's compliance activities rather than there being any question of it being prepopulated into a taxpayer's Single Customer Account or into a return.

² HMRC data from 2020.

- 5.22 As set out in paragraph 1.89 in relation to data matching, one of the challenges faced by HMRC in relation to the bulk collection of data is that the legislation does not make provision about quality assurance on the data by the data-holder or the way in which data should be supplied, although there are some provisions relating to penalties for the provision of inaccurate data.
- 5.23 Any future legislative changes should include a requirement to use a specific taxpayer identifier(s) or data which can be grouped together such as the taxpayer's name, National Insurance number and date of birth or some similar combination of other identifiers. Legislative changes would therefore also be needed if use of a unique identifier were required, including the potential expansion of the use of National Insurance numbers.
- 5.24 The OTS also understands that HMRC currently receive data in numerous different formats. This ranges from detailed data sent via digital transfer from some large financial institutions, through to password protected spreadsheets as well as the physical provision of data on USB sticks. In essence, there is no standardised format at present to provide data to HMRC.
- 5.25 The OTS considers that this should change, and in discussions with stakeholders, it is apparent that provided there is legislative change, most institutions would welcome a more standardised approach. However, they unanimously said that any such changes, apart from being mandated, must be subject to discussions with trade and industry bodies.
- 5.26 As set out in Chapter 1, the data is currently collected under powers given to HMRC for compliance purposes, but it would appear to be possible to provide a better outcome for taxpayers if the legislation mandated the supply of specific sets of data from third parties.
- 5.27 There may need to be legislative changes to cover the auditing of third party data and also taxpayer and data provider responsibility, including the consequences where inaccurate data is provided.
- 5.28 In summary, the OTS suggests that consideration should be given to:
- removing the existing requirement that HMRC must submit annual requests to data holders to submit bulk data, by making the provision of such data by third parties a mandatory requirement of holding a banking or other regulatory licence
 - allowing third parties to provide data directly to HMRC on a voluntary basis, subject to an appropriate legal gateway and consent from the relevant taxpayers
 - enabling HMRC to require the provision of additional data to improve the quality of data provided to it (such as National Insurance numbers)
 - permitting HMRC to use data held by it to give reliefs in situations where taxpayers have not submitted claims, see Chapter 2

- 5.29 If such legislative changes were considered by the government in more detail, then HMRC would in particular need to consult with the Information Commissioner's Office.

Data already held or received by HMRC

- 5.30 While this report focuses on the reporting of savings and investment income and gains, pension contributions, and gift aided charity contributions, there are other data sources that were highlighted by respondents that HMRC already holds or receives.
- 5.31 For example, financial data on individuals is received by HMRC through international Automatic Exchange of Information agreements under the Common Reporting Standard.³ This information is received by HMRC on an annual basis, and is currently used mainly for compliance purposes.
- 5.32 The OTS has heard from a number of respondents who have had to deal with letters from HMRC asking if overseas income or gains have been declared. Respondents have stated that this can take a lot of time and cost to deal with, when often the income or gain has been declared properly.
- 5.33 There are difficulties for HMRC in using overseas data because the data received is usually for a calendar year ending 31 December rather than the tax year end of 5 April. It is also difficult for HMRC to be able to tell from a tax return whether and where the overseas income or gains have been declared, as there are only aggregate figures on the return.
- 5.34 HMRC have recently carried out a consultation 'helping taxpayers get offshore tax right'⁴ which includes consideration of how HMRC can best use overseas data to help taxpayers get their tax right first time. The OTS therefore have not considered the use of such data any further in this report.

Other data sharing initiatives

- 5.35 When considering the data that should be submitted by third parties to HMRC, and the format that this should be in, HMRC should take other data sharing initiatives into consideration. The OTS has heard that reporting to HMRC would be just one of many different reporting obligations that third parties would have to fulfil, including for other areas of government.
- 5.36 One example is the proposed pensions dashboard,⁵ which will require reporting from pension providers. The pensions dashboard is an initiative to provide a service that will allow users to view information about all of their pensions in one place.
- 5.37 Third parties are concerned that there could be differing reporting requirements, including different fields of data or formats the data needs to be reported in. This would add to the costs involved in third parties complying with these requirements.

³ <https://www.gov.uk/guidance/automatic-exchange-of-information-introduction>.

⁴ Helping taxpayers get offshore tax right - discussion document (publishing.service.gov.uk).

⁵ <https://www.pensionsdashboardsprogramme.org.uk/>.

- 5.38 The OTS suggests that HMRC work closely with third parties when considering the format and fields of data that could be required, to help ensure effective reporting, as outlined in Chapter 4.
- 5.39 This should take into consideration the reporting third parties are already required to do, and the data fields required and format this is in. HMRC should be mindful of other government and regulatory data sharing initiatives and how and in what ways they could be able to link in with these in order to minimise the burdens on third parties.
- 5.40 Additionally, respondents have also highlighted that the introduction of or changing of any data reporting to HMRC should take into account any possible wider policy changes in the area. Third parties wanted to ensure that there wouldn't be any major policy changes that could affect the reporting requirements that could occur at the same time, causing the new reporting requirements to be further amended or even unnecessary.

Recommendations

8. The government should make legislative changes in order to:
 - a) be able to require the provision of further third party data
 - b) remove the need to submit annual requests for third party data
 - c) allow for the voluntary reporting of third party data
 - d) allow HMRC to use data held to give relief in the absence of specific taxpayer claims
9. The government should ensure that HMRC have the necessary funding to:
 - a) develop the Single Customer Account and Single Customer Record to fully facilitate access to, and the use of, third party data
 - b) make systems changes to facilitate effective reporting by third parties, including a gateway able to handle large volumes of data securely

Annex A

Scoping document

This scoping document was published on 17 December 2020.

Third Party Data Reporting Review

Introduction

The government and HMRC recently set out its ten-year Tax Administration Strategy¹ which states that one of the opportunities that would help to modernise tax administration would be:

‘smarter use of data on taxpayers and their activities – pre-population of tax returns, including with data from third-parties – would reduce the need for taxpayers and agents to submit additional information that HMRC either already holds or could verify itself’

This review will look at the principles that should apply in relation to third-party data and taxpayers generally. It will also consider sources of third-party data that it could be helpful to individuals for HMRC to receive, and how this can best be embedded into the next stage of HMRC’s work on the single digital account and system design more generally.

The review will consider the key considerations, impacts and priorities that HMRC should focus on, any stages in which work might best proceed, and what realistic timescales would be.

The OTS has previously considered the potential for third party data in relation to self-employment and rental income in its Tax Reporting and Payments review.² This review will focus on personal tax data.

The OTS will publish a call for evidence shortly and intends to publish a report outlining its findings in Summer 2021.

Focus of review

This review will look at a range of possible sources of third-party data that it could be helpful to individuals for HMRC to receive and include within the new single online account or pre-populate in tax returns, as well as considering the principles that should apply across the provision of third party data in relation to taxpayers generally.

¹ <https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system>.

² <https://www.gov.uk/government/publications/ots-tax-reporting-and-payment-arrangements-review>.

The review will consider the key considerations, impacts and priorities that HMRC should focus on, any stages in which work might best proceed, and what realistic timescales would be.

Possible sources of third-party data to be considered in the review include:

- Bank and building society interest (building on the information already available)
- Dividends from UK companies and distributions from authorised unit trusts
- Distributions from UK and overseas open-ended investment companies
- Pension contributions
- Gift Aid payments to charities
- Data from investment and wealth managers including information about chargeable gains, excess reportable income, interest, dividends and equalisation payments
- Insurance bond chargeable events
- Royalties

The OTS will also consider data already held by HMRC, and data that could be provided by other government departments, that it would be useful for taxpayers to be included within the single online account or prepopulated into tax returns.

This review will consider an alternative way for HMRC to receive information that is already provided in some form either by individuals or third parties, rather than considering the provision of new types of information.

Some of this data is already provided to HMRC on a regular basis, for example details of bank and building society interest. However, they are currently mainly used internally within HMRC for compliance purposes, rather than prepopulated into taxpayers returns. There can be issues with the quality of the data provided and the lack of any unique taxpayer identifier that leads to problems matching it to the appropriate taxpayer.

The review will explore the extent to which third parties have such data at present and any additional information that third parties would need to be able to provide data to HMRC in an effective manner (such as National Insurance numbers, or other taxpayer identification information).

It will consider the legal framework for data collection and provision, including error correction, and how this fits with the UK's international exchange of information obligations.

Other specific considerations include:

- how to ensure that taxpayers are safeguarded, including ensuring taxpayers have an effective way to query the data included within their online account or return, where they believe it is inaccurate
- in what ways, and the extent to which, the provision of further third party data to HMRC could improve the taxpayer experience

- recognise that data collection and provision to HMRC would add a burden to third parties and consider how best to keep this to acceptable levels
- giving consideration to taxpayer confidentiality and privacy and the importance of engendering public trust, as explored in the OTS Technology Review³
- the information the third party would need to hold or collect (such as National Insurance numbers or other taxpayer identification information) to enable taxpayer data to be reliably identified with the correct tax account or return
- the format in which data would need to be provided to HMRC, including the implementation of a standard format for information reporting
- to what extent HMRC already hold the powers to request third party data be submitted, and whether these would need to be extended
- international issues, including in relation to data held abroad

Further guidance for the review

In carrying out its review, the OTS will

- consider the likely implications of recommendations on the Exchequer, the tax gap and compliance
- take account of GDPR and relevant data protection laws
- engage widely with stakeholders
- be mindful of the role and contribution of taxation agents
- take account of the extent to which HMRC having better data could assist them in supporting other government departments (such as DWP) in delivering their services
- take account of relevant international experience
- liaise with the Administrative Burdens Advisory Board

³

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/771123/OTS_Technology_paper_Jan_19.pdf.

Annex B

Organisations consulted

Aegon UK

AJ Bell

Association of Accounting Technicians

Association of British Insurers

Association of Consulting Actuaries

Association of Member Directed Pension Schemes

Association of Taxation Technicians

Barclays Bank plc

BDO

Charity Tax Group

Chartered Governance Institute Registrars' Group

Chartered Institute of Taxation

Churches' Legislation Advisory Service

Computershare

EARNR

Equiniti

Ernst & Young

Hargreaves Lansdown

HMRC

HMT

Information Commissioners Office

Inland Revenue Authority of Singapore

Institute of Chartered Accountants in England and Wales

Institute of Chartered Accountants of Scotland

Investment and Life Assurance Group

KA Watson Consultancy
KPMG
Legal & General
Link Group
Lloyds Banking Group
Low Incomes Tax Reform Group
Manx Insurance Association
PwC
RSM
Saffery Champness
Schroders
St James's Place Wealth Management
Standard Life Aberdeen
Stewardship
Swiftaid
Tax Aid & Tax Help for Older People
The Investment Association
UK 200 Group
UK Finance
Untied

Annex C

Data

- C.1 This Annex contains the HMRC data that is referred to, or published for the first time, in this report.
- C.2 Where relevant there are references to the specific published tables from which data has been used.

Chapter 3

Bank and building society interest

Around 1.3 million taxpayers have taxable savings income, which includes Bank and Building Society Interest, that might be reported by third parties, out of a total of 50 million individuals who receive savings income.

- C.3 The data is for all savings income, not only bank and building society interest.
- C.4 For tax year 2018-19, HMRC estimates that around 50 million individuals received savings income. Of these, around 1.3 million had savings income that was taxable.
- C.5 The total savings income received by individuals in that tax year is estimated at £8.7 billion, of which £5.3 billion was taxed (because it was not covered by an allowance or special rate).
- C.6 The principal component of savings income is bank and building society interest.
- C.7 These estimates were prepared by HMRC based on a sample of 768,000 individuals from the Survey of Personal Incomes.¹ The Survey of Personal Incomes is based on information held by HMRC on persons who could be liable to UK Income Tax for the Income Tax year. It is carried out annually and covers the income assessable for tax in each tax year.
- C.8 Not all savings income is taxable. The following are reasons why savings income may not be taxable:

¹

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/974542/SPI_National_Statistics.

- The taxpayer's total income, including savings income, is below the individual's tax free allowances (the principal of these being the personal allowance of £11,850 for tax year` 2018-19).
- The taxpayer's total income does not exceed the personal allowance by more than £5,000, in which case a starting rate of 0% for savings income applies.
- It does not exceed the savings allowance of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers (additional rate taxpayers have no allowance).

C.9 The effect of these rules is to remove most individuals from the charge to tax on their savings income. However, £5.3 billion of the total £8.7 billion of savings income is taxable as it relates to relatively few individuals with income above the thresholds.

Dividends

HMRC data suggests at least 800,000 individuals receive taxable dividend income that could potentially be reported directly by third parties, out of over 1.5 million likely to be receiving dividend income via third parties.

- C.10 This statement is based on an analysis of HMRC Self Assessment data.
- C.11 HMRC estimates that, of around 3 million individuals who reported dividend income via Self Assessment for tax year 2018-19, over half (1.7 million) are not directors of companies and that 830,000 of these had income above the £2,000 dividend allowance.
- C.12 These individuals are likely to be receiving dividend income on an investment portfolio of some form, as the fact that they are not a director of a company suggests they have no connection with an owner managed or private trading company.
- C.13 There are then also 1.3 million individuals who received dividend income for tax year 2018-19 who are company directors, of whom 865,000 directors of close companies,² of whom 1.1 million and 760,000 respectively received amounts in excess of the £2,000 threshold.
- C.14 These individuals could have derived dividends from their own owner-managed businesses or from employee share schemes. However, this does not preclude them from owning investment portfolios of their own and so some of their investment income may well also be capable of being reported by third parties on their behalf.

² Definition of a close company can be found at : <https://www.gov.uk/hmrc-internal-manuals/company-taxation-manual/ctm60060>.

Pensions

In both the 2016-17 and the 2017-18 tax years, approximately 260,000 taxpayers claimed higher rate relief and 50,000 claimed additional rate relief under Self Assessment. The number claiming relief via a PAYE coding adjustment, or other means is not able to be provided by HMRC

Analysis by a pension platform suggests that, in total approximately 1.5 million taxpayers may have been eligible for higher or additional rate relief on pension contributions in the same tax years, suggesting that over 1 million did not claim.

Pensionbee estimates that for 2017-18 this represents unclaimed tax relief worth 770m for higher rate taxpayers and £60m for additional rate taxpayers.

However, HMRC considers that these figures are overestimated, with HMRCs own analysis suggesting that the amount of underclaimed tax relief is around half that suggested by Pensionbee.

- C.15 The figures in the first paragraph above were included in the response to a Freedom of Information Act request issued by HMRC to the pension platform pensionbee.com. The figure of 1.5 million in the second paragraph is from an analysis by Pensionbee.com published on their website.³
- C.16 The pension platform's analysis relies on an assumed uniform distribution of pension membership among taxpayers: the assumption that, as 14.1% and 1.1% of all taxpayers are higher and additional rate taxpayers respectively, therefore 14.1% and 1.1% of all pension owners are higher and additional rate taxpayers respectively. This could lead to an overestimation or underestimation.
- C.17 However, other elements of the Pensionbee analysis are likely to lead to an overestimation. For instance, there are some taxpayers who claim higher or additional rate relief for pension contributions via telephone call or letter to HMRC, who are not included in the Self Assessment statistics in the response to the Freedom of Information Act. Factoring in these taxpayers would reduce the number of taxpayers who did not claim in the analysis.
- C.18 HMRCs own analysis indicates that the amount of pension relief that is unclaimed is around half that suggested by the Pensionbee analysis.

Capital Gains Tax on investments

Gains on listed shares were reported by 195,000 individuals for tax year 2017-18.

³ <https://www.pensionbee.com/press/higher-and-additional-rate-taxpayers-likely-to-be-missing-out-on-1-billion-in-unclaimed-tax-relief>.

C.19 This figure was provided by HMRC analysts to support the OTS's work on its second report on Capital Gains Tax.⁴ Of the 195,000, 90,000 gains were taxable as the taxpayer's gains had exceeded the Annual Exempt Amount threshold, which for 2017-18 was £11,300.

Chargeable Event Gains

In an average year, HMRC receives around 15,000 chargeable event certificates from insurers, of which around 7,000 are issued by UK insurers and 8,000 by offshore insurers.

Based on figures for tax year 2016-17, around 45,000 individuals reported chargeable event gains, with the average gain being around £25,000.

C.20 This information was provided by HMRC.

Charitable donations

Taxpayers claimed back £530 million in higher and additional rate tax relief on Gift Aid donations in 2018-19.

In 2018-19 1.3 million taxpayers declared a charitable donation via their Self Assessment tax return.

A total of 71,000 charities claimed £1.4 billion in basic rate tax relief in 2019-20.

HMRC estimates that, each year, £560 million in Gift Aid goes unclaimed whereas £180m is overclaimed in basic rate relief in respect of taxpayers that are not eligible because they do not have an Income Tax liability.

C.21 This data is also referenced in Chapter 1. This information is from published data and reports. The national statistics published in respect of Gift Aid contain the following information:

C.22 Tables 1 and 2:⁵ in tax year 2018-19, the total Gift Aid relief claimed by individual donors was £530 million.

C.23 Table 5:⁶ in tax year 2018-19, 1,256,000 individuals declared a donation in their Self Assessment tax returns.

4

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/987994/Capital_Gains_Tax_stage_2_report_-_May_2021.pdf.

5

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/963630/Table_1_and_2_-_Summary.pdf.

6

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/963663/Table_5_-_Donors_by_tax_year.pdf.

C.24 Table 4:⁷ in tax year 2019-20, 71,350 charities claimed £1.4 billion of Gift Aid repayments.

C.25 The estimates of unclaimed and overclaimed Gift Aid were published in September 2016 in a report to HMRC by the Quadrangle Research Group.⁸

Chapter 5

Paragraph 5.16

“[T]he OTS understands that HMRC currently receive bank and building society data from 327 third parties in relation to around 36 million taxpayers.⁹ However, the majority of these taxpayers will not pay any tax on the interest reported, due to the savings allowance of £1000 for a basic rate taxpayer.”

C.26 The figures of 327 third parties and 36 million taxpayers were provided by HMRC.

C.27 As explained under the subheading “Bank and building society interest”, above, most recipients of savings income do not pay tax on it and only 1.5 million individuals in total pay tax on savings income (which includes bank and building society interest).

7

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/963653/Table_4_-_Gift_Aid_charities.pdf.

8

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/690609/HMRC_Report_482__GiftAid_Research_Report.pdf.

⁹ HMRC data from 2020.