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Witnesses: Caroline Miskin and Robin Williamson

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Members present

Lord Hollick (Chairman)
Lord Bilimoria
Baroness Drake
Lord Forsyth of Drumlean
Lord Kerr of Kinlochard
Baroness Noakes
Lord Teverson
Lord Turnbull
Baroness Wheatcroft

Examination of Witnesses

Caroline Miskin, Technical Director, TaxAid, and **Robin Williamson**, Technical Director, Low Incomes Tax Reform Group

Q25 The Chairman: Ms Miskin and Mr Williamson, welcome to the Finance Bill Sub-Committee. I believe you have already received a note of the issues that we want to discuss today. I start by asking your views on the quite far-reaching changes that have been made to the personal savings allowance and the tax deduction scheme for interest. Do you generally welcome these changes and do you have any particular concerns that you would like to share with us about how well they are going to be understood by taxpayers, particularly unrepresented savers? Ms Miskin, would you like to start?

Caroline Miskin: The personal savings allowance came as a bit of a surprise as it was unexpected. The only impact on the vast majority of savers will be the saving of up to £200. The vast majority—95%—of savers will not receive savings income in excess of the limit, so will have no additional compliance burden on them. Of the remaining 5%, the vast majority will have any tax they owe collected either through adjustment to their tax code or because they are already under self-assessment. My understanding is that there is a very, very small number of people—there are some—who will have an additional compliance burden either by filling in a self-assessment return or by receiving a simple assessment.

We very much welcome this move because of its impact on low-income savers, who will no longer have to complete R85 forms with their bank, or think about whether they need to or not. Many more will no longer have to fill in annual R40 forms to reclaim tax. This will address the issue that many savers do not reclaim tax to which they are entitled. At a stroke, there will no longer be anybody falling into that category.

Our concern is the accuracy of the data feed from the banks and HMRC's ability to link it up. With ISAs, the banks hold national insurance numbers and that is part of the feed of information to HMRC. It is a more difficult task for HMRC to match up data for other savers. In particular, there might be joint accounts, trust accounts, that sort of thing.

The other main concern is about the understanding. Although 95% of savers will not owe any tax, we think there is going to be an awful lot of confusion. It is going to be very difficult for them to understand their position and how to arrange their affairs to properly use the allowances that are involved. There is the combination of the nil-rate band for savings, ISA allowances, the new personal savings allowance and the dividend allowance. There is also the cliff-edge effect when you go into the higher rate and the interaction with the marriage allowance. Further up the income scale you have the interaction with the high-income child benefit charge, which we believe is going to make it very difficult for taxpayers, and even tax professionals, to calculate. The idea of being able to do calculations on a piece of paper using a calculator is almost going to have passed. We think there are going to be a lot people who will need advice and will need to understand what is going on, even if, at the end, they do not actually owe tax and they have no additional compliance burden.

Robin Williamson: We would certainly agree with that analysis. It is a generally welcome development. Having people whose savings income is relatively modest taken out of tax is a simplification, if it is well handled, and welcome in itself.

On the ending of deduction of tax at source, I pick up the point made about the numbers of people who at the moment overpay tax involuntarily simply because they never register with their bank or building society to have their interest paid gross if they are not liable to tax at all, or they do not reclaim the tax which they are not liable to pay if it is being deducted at the basic rate and they are, for example, liable on their savings income at the starting rate for savings, simply because they perhaps do not understand what the starting rate for savings is all about and do not realise that it is possible to reclaim this money. Up until now those people have been generally overpaying and there have been quite a few them at the lower end. Our colleagues at Tax Help for Older People see this quite a lot. Over the last 15 years or so there have been various attempts to publicise this fact through tax-back campaigns, but inevitably they can only reach a relatively small proportion, however well run the campaign.

Baroness Noakes: Have you any idea how many people might be involved in not claiming back tax?

Robin Williamson: I would have to look into that. I can probably get some idea from Tax Help for Older People. We could probably extrapolate and see how much of its client base is in that position and for which it has to do reclaims.

Lord Forsyth of Drumlean: You said that there was a very small number of people who would be affected. There will be people who are basic taxpayers who at the moment do not need to think about it because the basic tax has been taken off. They will need to know that they have to declare the tax. I do not know—I am just guessing—but in my mind I have a lot of elderly people, with smallish pensions perhaps, who will be told that they owe this tax, and then of course there is digital movement forward. Are you not concerned about that group of people and the impact on them, or are they very small in number? Is that why there is no concern?

Caroline Miskin: A lot will happen automatically because there will be an adjustment to their tax code. Yes, they will see an adjustment to their tax code and they may end up with underpayments, but I do not see significant numbers having to go into self-assessment.

Lord Forsyth of Drumlean: So they will not have to do anything; it will happen automatically.

Caroline Miskin: It will happen automatically. The other thing is that by definition, certainly at current interest rates, they would have to have interest income of over £1,000, so they are not the least well-off pensioners who would have to do anything. If they have interest income under £1,000, they will never need to do anything.

Lord Forsyth of Drumlean: That is not the point. I am thinking of people who have that income who are perhaps frail and elderly and not computer literate. You are saying it is not a problem because their tax codes will be automatically adjusted.

Caroline Miskin: Simple assessment, which we will probably come on to, will solve some of that and the digital piece is assayable**.** I am sure that those numbers are very, very small, but there will be some, and they will need help.

Q26 The Chairman: On Monday, when we met the representatives of the industry bodies, they were unanimous in their view that the changes were complex and potentially rather baffling, and that there was going to be a need for quite a lot of hand-holding. Who is going to do that? Does HMRC have the resources and the capability for doing that, or are people going to have to reach out to their accountant, if they have one, to try to make sense of this?

Caroline Miskin: HMRC is intending to make a calculator available, but there will be some people who need advice, and that was exactly my point about the complexity, and particularly the interactions. It seems very complex to have a nil-rate band for savings, so you have one particular relief there, and you have separate personal savings and ISA allowances. I absolutely agree that people are going to struggle with understanding rather than necessarily with the compliance and having to fill in forms and having to interact with HMRC. It is just that they will not understand them. It is not clear where they will get that information from; one imagines they may go to their banks. I am aware that HMRC is enlisting the help of the banks in communicating this information to taxpayers. However, there was a report in one of the newspapers this week on a mystery-shopper exercise that indicated there was some way to go on that.

Robin Williamson: The banks have not been great at informing their customers about the existing arrangements. It is not unusual for them to have out-of-date forms in their branches. This opens up the wider question of how HMRC, or these days the Cabinet Office and the Government Digital Service, is going to present the information on this essentially fairly complicated structure to those who want to know and are likely to be affected, particularly the small number Lord Forsyth referred to who, instead of having tax deducted automatically, will now have to have their self-assessment adjusted or have to pay additional tax through the PAYE system. At the moment, all information goes on GOV.UK and there is not a great deal, or indeed anything, available for those who cannot visit GOV.UK because they do not have a computer, or, if they have access, they do not know how to use it or their internet connection is poor or non-existent. By HMRC's own research, there is the equivalent of approximately 7 million adults in the UK in the position of being digitally excluded, and it really needs to do something for them as well.

The Chairman: Going forward, they would receive a tax demand from HMRC—please tell me if I am right or not—that would say, "We have now received this information about your income and you owe us this", or, "You don't owe us anything". How do they understand it, and how do they check it? The level of anxiety when people get a letter from HMRC is potentially quite high, and even higher if you cannot make sense of it.

The other point that was made when we met on Monday was that there are a number of types of savings, peer-to-peer lending for instance, where no information is provided to the lender, or at least not currently. What steps are being taken to ensure that the interest on those kinds of instruments is actually going to be communicated to the taxpayer and to HMRC?

Robin Williamson: Dealing with the point about how to check HMRC's information, which it will present to you in pre-populated form, I think that is going to be a big problem for our constituency, because there is a big risk that they will look at an official form, see the figures on it, and assume that the figures, which may be incorrect on the form, are in fact correct, whereas the records which they themselves have kept, which may be accurate, must be wrong because they conflict with the form. This is going to be a considerable danger, and the only way in which HMRC is going to be able to overcome that is by emphasising the message that HMRC's data is not necessarily correct and must be checked by the taxpayer.

Lord Kerr of Kinlochard: The problem you describe will lead to reduced revenue, because if the numbers on the form are higher than the individual believes is right, the chances are he will challenge them, but if the numbers are lower than he thought, he will think, "Oh well, they must have got it right. I'm wrong", and he will not challenge them. The risks are for the Exchequer in this confusion.

Robin Williamson: Among the client group of Tax Help for Older People, I think the reverse might be the case: they would be more worried if they thought they were underpaying tax and very worried if they felt they were going to be in debt to HMRC at any stage.

Lord Teverson: Can I come back to a couple of points that Caroline Miskin made quite strongly? One is people's ability to understand these changes and manage them or take advantage of them in the right way. Another is the matter of cliff edges that are introduced. I am particularly interested to understand whether you think there will be behavioural changes that might be good or bad and have unintended consequences. Classically, in other areas we have people who restrict the number of hours they work in order to not to cross thresholds and things such as that. Will these measures on savings have any potential effect that way or any unintended consequences that you can see?

Caroline Miskin: I cannot see too many unintended consequences. It is a population whose incomes are slightly above those of our client base, but potentially if people are on those boundaries, as on similar cliff edges, they will look at options such as making gift aid contributions, pension contributions, that sort of thing, to try to make sure they stay below those. You are looking at people who are on the boundary with the higher-rate band, so I would not have thought generally they would be the sort of people who would try to drop hours.

Q27 Lord Turnbull: We are told by the Government there are categories of people who will be better off and there will be others who will pay no more than they did before. The advantage for people who are paying under present arrangements is that for those who are not going to be paying any more, the right tax is being deducted at source from pensions or incomes by the banks. There is also a category of people who may not be any worse off, but now have to get involved in a process they did not previously have to get involved in. It may not simply be a matter of what the Chairman says: that they will get a demand. They will just get a number, so instead of getting 9576, they will get 8039, and they will not have the faintest idea why they have this lower coding number, so they will have to check it because there is a possibility that it might not be right. Previously, under this very simple scheme it was deducted at source by the bank, employer or pension provider and you were pretty sure it was right. The anxiety quotient is going to go up even if people are not losing money.

Caroline Miskin: People may have thought it was right, but in an awful lot of cases it was not and they should have been reclaiming tax, and in another significant number of cases they should have been paying additional or higher-rate tax. The HMRC produced a research report last year on people's understanding of the current system. At the moment there are an awful lot of people who think that the 20% that has been deducted at source is right, but for an awful lot of them it is not.

Lord Forsyth of Drumlean: What is wrong with the current system? Going back to my rich 90 year-old lady who has £40,000 of savings and is therefore above the savings threshold, if she is getting 3% and she has invested it for four or five years, or whatever, under the system as it is now she would be sent a certificate by the bank or another organisation that said, "This is the interest that has been deducted", and because she was a basic-rate taxpayer she did not have to do anything at all. I am not sure how the tax coding or PAYE will work in that case because she is not employed by anyone. She gets this letter from HMRC saying, "You owe me £35"—it will be a small number. You have experience of dealing with these people; I only have the experience of relatives. They go into a blind panic if they get a letter from the Revenue saying they owe money, particularly the older generation, which dislikes the idea of owing anybody money. You must have experienced that. Is this not adding a whole degree of complexity? It also means, of course, that the Revenue does not get money in advance and has to collect it, so it is not in the Revenue's interests either. But you are very enthusiastic about it.

Caroline Miskin: I do not really understand the motivation for it. What I am saying is that it saves people £200 and that the degree of complexity that it introduces is less significant for a smaller number of people than those people for whom the current system is complex because they need to fill in forms and reclaim tax. Those are exactly the sorts of vulnerable pensioners you are talking about. I agree that there will be unexpected demands for some, but that is a smaller group of people than the group of people who are not at the moment reclaiming what they are entitled to.

Robin Williamson: It is also worth mentioning that if you have £1,000 in savings income, that does not necessarily mean that you are a rich person with large amounts of capital. They may be bits that you have put away—

Lord Forsyth of Drumlean: For your funeral.

Robin Williamson: —at a rate of £1,000 or £2,000 a year over the course of a working life, added to perhaps by some modest inheritances from parents and so forth over the years, and this goes to supplement your state pension. Your total income is probably still under the personal allowance, so the £1,000 of savings income, plus any additional bits of savings income you might have that might otherwise be taxable, might anyway be covered by the personal allowance at that sort of level.

Lord Turnbull: Could you provide a profile of the kind of thing they produce after Budgets: this type of person with this kind of income? Going a bit further up the income scale where instead of £1,000 you only get £500, is that at an income where lots of other clawbacks begin to come into effect? What does that group of people look like?

Robin Williamson: You get very high marginal rates of course at the point where you become a higher-rate taxpayer. At an income level of £43,000 you get a savings allowance of £1,000 and at £43,001 you get £500, so that is a marginal rate of tax of 500-odd per cent.

Lord Turnbull: Does the marriage allowance not start coming off at that kind of level?

Robin Williamson: Yes, and the marriage allowance as well. You have to be a basic-rate taxpayer in order to get that additional £200.

Lord Turnbull: This is a position where the income distribution is really thick with people, is it not? There are lots of people around £40,000.

Robin Williamson: Indeed, there are cliff edges and high marginal rates at that sort of point. There are also a lot lower down because of the interactions with the benefits system: universal credit, council tax benefit and so forth.

Q28 Lord Kerr of Kinlochard: Can we move on to dividends? I should declare two interests. I am a director of two dividend-paying companies, so I receive dividends, and I fill in my form manually. What are we going to be required to do as companies when we issue dividends? Currently, we send out the tax voucher to the shareholder. That is going to stop. Presumably, we are going to have some new reporting requirement to the Revenue. Is it clear what that is?

Robin Williamson: I am not sure on that point.

Caroline Miskin: Not at the moment. I understand there will be a consultation document on third-party reporting requirements later this year, which would include that. I suspect there is an intention of a reporting requirement for third-party dividends, but there is absolutely no detail on that at the moment.

Lord Forsyth of Drumlean: Does this happen in April?

Lord Kerr of Kinlochard: This is applying to the tax for this year.

Robin Williamson: The dividend?

Caroline Miskin: Yes.

Lord Kerr of Kinlochard: In this tax year.

The Chairman: 6 April.

Lord Forsyth of Drumlean: Yes.

The Chairman: The tax year ending in April 2016.

Caroline Miskin: No, it starts in April.

The Chairman: 2016-17.

Caroline Miskin: Yes, 2016-17.

Lord Forsyth of Drumlean: You are consulting later in the year. How is that going to work?

Baroness Noakes: It affects the direct taxation year.

Lord Kerr of Kinlochard: Presumably, as companies we are meant to go on sending out tax vouchers for the moment until we hear something to the contrary. Is that right?

Robin Williamson: I suppose that any dividends declared for the current year, whenever they are declared, will carry a tax voucher.

Caroline Miskin: There will still be a tax voucher but without a tax credit on it.

Lord Kerr of Kinlochard: If we are going to stop doing that in the next tax year, which starts in April, we should surely be saying now in our annual reports and communications to shareholders what is going to be happening next year.

Caroline Miskin: Yes, I would have to check. I am not sure what the reporting requirement of companies to individuals is going to be from April. What is being consulted on is the information that a company may have to provide directly to HMRC. I would need to check whether the requirement to provide something equivalent to a dividend voucher but without a tax credit continues after April. It may do.

Lord Kerr of Kinlochard: I cannot help feeling that we ought to be saying something in annual reports that are being drafted about now.

Robin Williamson: My guess is that you would continue to give dividend holders a dividend voucher but without the tax credit attached to it.

Baroness Noakes: There would be no legal requirement. At the moment that derives from having to give tax information.

Lord Kerr of Kinlochard: I do not know. I think it would be very helpful if you could give us a little note on that.

The Chairman: As far as you understand it, the rules on reporting, both to HMRC and to the individual taxpayer, are going to be consulted upon over the coming months and it will be clear by the beginning of the new tax year.

Caroline Miskin: I think the consultation is on the information to HMRC. I would need to check exactly what the requirement is on information to individuals.

The Chairman: I think that would be very helpful.

Q29 Lord Kerr of Kinlochard: Looking now from the shareholder point of view, this is all designed to make life simpler for the taxpayer, but I think it is going to make it more complicated. It is rather nice to have these tax vouchers. When the company sends you a consolidated total at the end of the year, it is quite good when you are filling in or checking your tax return. I think it is going to be more difficult with the introduction of the PSA and these curious rates of tax once you have gone over the £5,000 and it has been taken into account. Is life not going to be quite difficult for the taxpayer if his dividend income is more than very modest and comes under the £5,000?

Caroline Miskin: Yes.

Robin Williamson: There is no change for anyone whose income is under £5,000.

Lord Kerr of Kinlochard: Exactly, but supposing it is more than that, his life is going to get more difficult.

Robin Williamson: They will have to pay tax which they did not have to pay before if they are basic rate taxpayers.

Lord Kerr of Kinlochard: What is this going to do to his behaviour, apart from making him worried? Is he going to decide that the simplest thing to do is to make sure he uses his maximum ISA allowance? Would that be the behavioural change that you would expect?

Caroline Miskin: The first thing to appreciate is that this measure has not been introduced as simplification; it has been introduced as a fairness and anti-avoidance measure. The changes on the rules on dividends are driven by that and not by simplification. Certainly very few of our clients who have portfolio shares will have incomes of more than £5,000. For people who do, it may push them towards ISAs, but it will be very difficult for the unrepresented taxpayer to get that information.

The main impact of the dividend measures and the main behavioural changes are going to be for those people who are trading through personal companies. Most of those are represented, so they have access to advice, but that is where you are going to see very significant winner and losers. The changes are very complex and they will change when the corporation tax rate drops to 18%. They may change again if the class 4 national insurance rate goes up. I think you have already been sent Rebecca Benneyworth’s paper for the ICAEW, which sets out very clearly exactly who the winners and losers will be in those different scenarios.

Robin Williamson: A colleague of mine who keeps an eye on these things tells me that there are already avoidance schemes in development at the moment, particularly for contractors of their own companies, on how to avoid the new dividend tax. As Caroline says, some are fairly bog standard, such as ISAs and equalising dividend holdings between spouses and that sort of thing. Others might be more intricate and they might not necessarily work, so there could well be another group of victims of the promoters of tax avoidance schemes at that end of the market.

Lord Kerr of Kinlochard: I will leave personal service companies to somebody else. I have one other question on ISAs. Why do you think the Chancellor did not increase the ISA allowance, as he and his predecessors have tended to do down the years except when things were very bad? The ISA seems to me to be the thing that most of the punters out there really understand now, and they rather like it. I understand what you are saying about the motivation behind all this, but do you think we have seen the end of a steady increase in ISAs? Is it frozen for ever? What is your feeling about where this is going to go?

Caroline Miskin: I am not quite sure where the ISA is going, but I think the £5,000 dividend allowance was an attempt to mitigate the additional complexity of these rules for a significant group of taxpayers who had dividends of less than £5,000. If the dividend tax rates had been changed without the introduction of the £5,000, that would have brought a huge number of more people into the system. I suspect any decision about ISAs is independent from the decision about the dividend allowance.

Robin Williamson: Also, the personal savings allowance and the ending of the deduction of tax at source scheme have to be seen as a package, and presumably the cost of that would have restricted the amount of money the Chancellor would have had to spend on increasing ISAs. The other thing he did at the beginning of this current tax year was to reduce the starting rate for savings from 10% to 0%, which is another cost. In future, I do not see why that should necessarily cause further restrictions in the rate at which the ISA limit will increase.

Lord Forsyth of Drumlean: For your poorer clients is there any point in ISAs? If you have an allowance plus the allowance for dividends of £5,000 plus your starting allowance, you have a bigger allowance than applies to ISAs, so why would you bother with ISAs?

Caroline Miskin: There is no financial advantage.

Baroness Noakes: If you are not a higher-rate taxpayer there is no particular reason to use an ISA.

Lord Forsyth of Drumlean: Does that undermine the ISA itself as far as people with fewer savings and less income are concerned?

Robin Williamson: There is probably less point now in having an ISA than there was before at that sort of level of income, although of course not everybody has access to the best advice and not everybody will necessarily appreciate that.

Lord Forsyth of Drumlean: That is my point. There is an expense in having an ISA and setting it up and it is not going to be in your interest. It has taken me about two weeks to work that out in my own head, so perhaps I am not very bright, but I think most people's eyes glaze over, so there is quite a lot of work to be done here.

Lord Turnbull: Once you have bought an ISA, that adds to an accumulative limit and you always have it; you can buy more ISAs each year and sell previous ISAs and put the money into other ISAs, so you always have that amount of protected income. If you decide that you are not going to bother with ISAs, you do not have that protection. That is the only incentive.

Lord Forsyth of Drumlean: Yes, but I was thinking of the client base of our witnesses. They do not think, "What am I going to do with my £16,000 every year, and how can I put it in a safe place?" I am thinking of people who are looking to get the best return and pay the least tax. It seems to me that ISAs suddenly become not as attractive.

Lord Teverson: Given this move, as you say, to tackle tax avoidance by people taking dividends rather than salaries in their own businesses, was there a policy option that you just make those dividends to natural persons subject to national insurance? Is that not an easier policy option that stops all the distortions?

Caroline Miskin: There are all sorts of policy options, but even with the introduction of this rule, there is still a benefit to paying dividends. This measure has not taken away all the benefit of the dividend route.

Lord Turnbull: Going back to this thing about companies, there are many year-end plcs that will declare their results in the next six weeks or so and say, "This is the final dividend", and then they get it approved at the AGM in May. Am I right in thinking that that dividend is not going to be within the rules?

Baroness Noakes: It is.

Lord Turnbull: It is?

Baroness Noakes: It will be paid in 2016-17.

Lord Turnbull: So it is when it is paid, not the year to which the dividend relates. I suppose they all know about it, do they?

Lord Kerr of Kinlochard: I do not think they do.

Baroness Noakes: They have nothing apart from the normal year in which incomes are assessed.

Caroline Miskin: There is certainly an incentive in paying dividends. There are personal companies looking at paying dividends before the end of this tax year to avoid this move. That is certainly the case.

Lord Turnbull: But there is a lot pressure on companies to boost the dividend and then to cut it the next year.

Baroness Noakes: For a normal plc, no.

Robin Williamson: I can clarify that by looking at the commencement provision, which my colleague has brought along. She is well prepared. It is for the tax year 2016-17 and subsequent tax years. If the dividend is declared for last year it will be subject to existing arrangements. Any dividends declared for 2016-17—

Baroness Noakes: No, it is when they are paid.

Caroline Miskin: Dividends are taxable when they are paid.

The Chairman: We will get clarification on that from our specialist advisers. Let us move on to the next question.

Q30 Lord Turnbull: You have partly dealt with the next question. This started as an anti-avoidance measure. There are still incentives to incorporate, but at the level of sole traders, small shopkeepers, mom and pop businesses, how are they affected by all this?

Caroline Miskin: At TaxAid we do not advise people who trade through limited companies, because they are generally unsuitable for people who cannot pay for ongoing advice. On income of up to about £20,000, the new rules have almost no impact on the decision whether to incorporate or not. The rules make some changes to the decision as to whether it is worth incorporating or not. That is also detailed in Rebecca Benneyworth's paper.

Baroness Noakes: Do we have that paper? Has it been circulated?

The Chairman: Yes, we do.

Lord Turnbull: Are the collective bodies representing small businesses, retailers, builders or whatever likely to welcome this, or will they think, "I've now got these funny rates like 7.8 and 32.1"? Are they going to find that difficult? The old imputation system was not the simplest thing to understand. Are your small corporate, as opposed to small personal, clients going to find that difficult?

Caroline Miskin: We do not advise small corporates.

Lord Turnbull: Or a small trader.

Caroline Miskin: Even small corporates need advice and will find it difficult to comply with their obligations without advice. It is not going to be popular, because in the vast majority of cases it is an additional cost to people trading through limited companies.

Robin Williamson: I suppose it could make a difference at the minimum wage level, where people are told that they are self-employed, not employed, and made to incorporate themselves when they work for, say, a particular construction company or another engagement of labour.

The Chairman: Do you advise the self-employed?

Caroline Miskin: We advise the self-employed; we do not advise those trading through limited companies. We do see occasions where people incorporate in circumstances when they should not. I admit I have not thought this through, but there is a risk that a £5,000 dividend allowance could possibly push some people on low incomes into incorporating in situations where they would struggle to deal with the obligations. I will have to think that one through more.

Q31 Lord Teverson: Perhaps we could come to Clause 71, which I know we have talked about a little, which concerns using information from third parties. In a way it sounds very Big Brother-ish, which it already is. It should be easier for ordinary taxpayers, but I wonder if that is the case. I am interested particularly in how comprehensive that will be. There must be sources of income that HMRC cannot merely grab out of systems that are there, such as foreign earnings. I have no idea what other things there might be. How comprehensive is it? Is it a simplification for people or likely to start with a large number of errors? Will people be able to check that themselves from those originating organisations?

Caroline Miskin: I would start by saying that we already have 30 million taxpayers, and only approximately 10 million are in self-assessment. The main third party that HMRC is getting information from is employers, which it has been doing for years. In our view, this power is about five years overdue, because we have had the situation for the last five years that HMRC has been putting very significant numbers of people into self-assessment when they do not have these other sorts of incomes; all they have is employment, pension, state benefits.

Very significant numbers have been going into self-assessment and getting caught up in late-filing penalties. It has been a huge amount of work for us and Tax Help for Older People in dealing with this in the last few years. Informally, we have been pressing for HMRC to have such a power. At the moment, if the individual does not make a voluntary payment, HMRC's only option under the law is to issue a self-assessment tax return. The fact is that instead of somebody being sent a PAYE calculation at the end of the year, they will be sent something that is very similar, hopefully in a much better format and with a lot more detail, not unlike what they are already getting, but it will be enforceable. At the moment, they are sent a P800 and it is either collected through their tax codes or they are asked to pay. Our clients already have the problem of checking these PAYE tax calculations when they get them; it is nothing new. There is another very significant group of people who will not have to go in, and that is people who have a state retirement pension that is more than the personal allowance, and the only way HMRC can collect it is by issuing a self-assessment tax return. The fact that it puts a stop to those two categories of people being issued with self-assessment returns is a huge benefit to us.

Obviously the power has been brought in with a view to digital tax accounts and being able to do other things. Part of the issue is that HMRC has not explained what it intends to use this power for. Informally, we know that it is intended for these PAYE underpayments and people claiming state pension, but HMRC has not made a public statement or anything in writing as to exactly what it intends to use it for. It is probably the first legislative provision to support digital tax accounts.

Regarding third-party data, there is going to be a consultation later in the year as to what those sources are. The main one will probably be savings. I think HMRC would say that the people with foreign income, and there are other sources of income, do not have simple tax affairs and they are already in self-assessment. This would enable HMRC to take significant numbers out of self-assessment, but there will still be a significant group. No, it can never be comprehensive.

Robin Williamson: The question of whether it is going to be easier for people to check will depend very much on how HMRC presents the information. If it gives a sort of composite interest figure to somebody who has more than one bank account bearing interest, so they are going to have to check that it matches up with all the different interest figures, that is going to be more complicated.

Lord Teverson: That is a very important point. Is there any indication whether that will or will not happen? Do we know?

Robin Williamson: No yet, but, as Caroline says, there will be consultation on all that. Also, of course, we need to persuade HMRC as part of this to draw particular attention to any reliefs or allowances that people might be eligible for so that they do not end up overpaying tax, which is the problem we have at the moment, because they are unclear of their reliefs.

Lord Teverson: That is a very good point. We know that HMRC has gone through quite significant manpower cuts over the last few years, as have other departments. Its customer interface at the moment is under some criticism. Does it have the ability to catch the information and put it out in a sensible and understandable form to its clients? Is it capable of doing that?

Robin Williamson: It puts out information on tax credits, which generally speaking it consults on, and by the time it has been fully consulted on it is okay. Whether other parts of the organisation have the kind of resource to devote to explaining new law and new practice otherwise than on GOV.UK, where it gets hijacked by the Government Digital Service, is another question. The kind of demographic Caroline was describing is very often people who will not have access to GOV.UK, where digital exclusion is fairly prevalent. It will be necessary to produce good explanatory material and guidance in paper form, as they do with the current PAYE coding notices, which are improving in clarity. That is probably the most important ingredient of the success of this new initiative.

Lord Teverson: Caroline Miskin, you were saying that you think it is very important that HMRC communicates this within a future context of where it is going. Are you saying that needs to be a lot better?

Caroline Miskin: Yes. I do not believe that there has been sufficient explanation of what this power is intended to be used for. We are very concerned about the accuracy of the data from third parties and HMRC's ability to match it up, which for interest data has historically been very poor. We are concerned particularly that taxpayers do not end up in the situation, which they sometimes can if their employment data is wrong, where HMRC tells them to go to the employer, the employer tells them to go back to HMRC, and they end up in a circle that they cannot cut through.

We are also concerned that there are only 30 days for individuals to dispute this with HMRC, which is a very short period. Typically, it is quite unusual for clients to come to us within 30 days of having received their tax bill from HMRC, because they worry about it for a while, try to phone HMRC, then maybe go to a front-line agency such as Citizens Advice, and only then do they find us. It will be a real struggle for people to check these and be in a position to challenge them within 30 days. If they get into self-assessment—this is a totally unsuitable mechanism for these people, but if they do—you have quite long periods of time to amend self-assessment tax returns and to claim overpayment relief if you have made a mistake and paid too much that way. There is a risk that after a short period of time the options could be much more limited and potentially end up with the tribunal being the only option, with a fee.

Q32 Lord Forsyth of Drumlean: I am going to ask about the 30 days, because it is not clear to me. You get this notice from HMRC that says "You need to pay £500 in tax", and you think, "No, I don't owe them £500 in tax", and you look at the information and find that it is duff. From your own experience, how often is the information duff? How often do they get it wrong? Is it a tiny proportion or a reasonable proportion? You think it is wrong, so you ring them up and listen to Vivaldi for two hours and eventually speak to someone. Does the fact you have reached them mean it all goes back to zero? My information is that HMRC has the power to suspend a simple assessment if the taxpayer disputes it, but it is a power and it does not have to suspend it. Is that right?

Caroline Miskin: It does not have to suspend, but it has that option. I would anticipate HMRC suspending it for that period if somebody disputes it.

Lord Forsyth of Drumlean: For which period? Is it another 30 days? Is your point about how long it takes you to sort it out?

Caroline Miskin: I do not believe it is another 30 days.

Lord Forsyth of Drumlean: At the back of my mind is the fact that it has this power now where it can take the money out of your bank account. Perhaps I am suspicious. You have asked, "What is this power for?" It would be jolly convenient, would it not, if it could send something saying, "The banks tell us you have had this money", you ring up and say, "I haven't", and it says, "We will take it out of your account and you can sort it out"? Are we moving towards that situation, or do you think there are enough safeguards?

Robin Williamson: It is not allowed to use deduction directly from the accounts if it has had some communication from the taxpayer, which it will have done if the taxpayer has disputed it. It will then have to go through the prescribed appeal processes.

Lord Forsyth of Drumlean: I understand that, but what happens if you do not do anything within the 30 days?

Robin Williamson: If you do not do anything within 30 days?

Lord Forsyth of Drumlean: You have 30 days to dispute it.

Caroline Miskin: So you are confused about the paperwork or you are out of the country, or whatever?

Lord Forsyth of Drumlean: Or you have just panicked and you have put it with a bill for the electricity because it is too worrisome to think about.

Caroline Miskin: It is not actually due for a minimum of three months or 31 January.

Baroness Noakes: Does it become conclusive after 30 days?

Caroline Miskin: The payment date is longer.

Baroness Noakes: Does the amount become conclusive after 30 days?

Caroline Miskin: Yes, that is the risk if people do not. In the legislation it is 30 days or such longer period as HMRC may allow.

The Chairman: Can we come back to the first point that Lord Forsyth made? Is there any data available about the error rate of assessments made by HMRC?

Baroness Noakes: Yes, there is.

The Chairman: Can we look at some trends so that we can see the scale of the problem that currently exists?

Robin Williamson: We can find out certainly, because periodically I go to Tax Help for Older People and ask how many PAYE coding notices have been checked and found to be incorrect. That is something which we could certainly dig out.

Lord Forsyth of Drumlean: You are dealing with these people all the time. From your experience, how often is there actually an error? Anecdotally, is it one in 100, one in 10?

Caroline Miskin: Anecdotally, the number of P800—PAYE calculations—that have incorrect information on them is very, very small. There are two areas where we look particularly at the data. The worst offender is the data that comes from the DWP. The data on state pensions is by far the greatest source of inaccuracy on P800s. There have been a few RTI teething troubles. Even going back to when the calculations started to be issued in the autumn of 2010, the number of calculations that are incorrect is very, very small; it is tiny. We had lots of them where we were disputing whether the taxpayer should be held liable, but a smaller proportion of ones where the figures were wrong.

Lord Forsyth of Drumlean: What I am describing is not going to be a problem.

Robin Williamson: It could be more of a problem for pensioners because of the inaccuracy of DWP data occasionally, and at the point where it kicks in during the year of retirement, where there is quite often an underpayment or overpayment which they never quite manage to catch up with.

Lord Kerr of Kinlochard: The key may be your point in answer to Lord Teverson, Mr Williamson, when you talked about the difficulties for the taxpayer if the numbers that come out of the Revenue machine are composite. I strongly agree with you. Under the present arrangements they are composite numbers, but as we move to this new regime, do you think there is a chance that they will come out disaggregated from what makes up the number in each section, interest, dividend, whatever, as well as the total? That seems to me highly desirable if you are moving to this different system where the taxpayer is going to have to do a lot more thinking for him or herself. It is going to be a lot of checking. It is going to be quite important to see how they got to these numbers and how the total is made up. Do you think that is going to happen, or are we going to stick to the composite?

Robin Williamson: What worries me is that it might well happen for those with digital tax accounts. For those who do not have digital tax accounts, they might have to make do with second best, which might be however the composite figure is made up.

Caroline Miskin: We are already there. There is a new format P800 which the HMRC is going to issue—it may even have started—which is not going to have composite figures on it but is going to list each employment and each pension separately. That is happening any day.

Lord Kerr of Kinlochard: In future, will interest payments and dividend payments be separate?

Robin Williamson: I think we are still some way off that potentially. That may have to come in a digital account.

Lord Turnbull: If you just get a figure saying “bank interest” and you in fact have several accounts—HSBC, et cetera—if you are not told which bank paid what, one recourse is to go back to the bank and see whether they agree with the number, but you will not be able to check it. They will say, “That is what we were told”. It may not be an HMRC error, it may be further back, but if you are not told which bank paid it, whether they paid it into the right account, or whatever, you cannot check. You need to know bank by bank.

Caroline Miskin: The whole area of any other third-party information, other than employer information, is still in its early days, and we do not yet know what information HMRC intends to supply the taxpayer. As Robin pointed out, we rather suspect that it will be through a digital account, and those who are not able to log on to a digital account are second best.

Baroness Noakes: This applies now. It is saying that simple assessment is going to affect 2015-16.

Caroline Miskin: It is not going to affect 2015-16. There was an error on the front page. It is 2016-17.

Baroness Noakes: That is 2016-17 as well.

Q33 Lord Bilimoria: You have mentioned digital tax accounts quite a lot. Simple assessments have been put forward as a way of moving towards digital tax accounts and replacing the old system altogether. There is going to be a consultation on this. Are your clients going to be able to cope with this change? I believe the LITRG, with the help of TaxAid, has conducted a digital capability survey. Could you tell us more about this when it comes to using government websites, and what the responses are to this survey so far?

Robin Williamson: HMRC's survey was put out in September last year, so it is fairly recent. It tried to divide the population into those who are digitally excluded, those who are never going to be able to cope with computers and the internet for various reasons, and the digitally assisted, who would be able to cope with assistance. Among the digitally excluded, the figure quoted was about 15% of the population at large, equal to about 7 million adults. Moving down to businesses, there was a gap between those with employees, roughly 2% of whom were digitally excluded, and those without employees who are sole traders, a very much larger proportion of whom were digitally excluded. Two out of five of those were within the digitally-assisted category. There is quite a large number.

Caroline Miskin: I think you were talking about our old survey and Tax Help for Older People's survey of our clients?

Lord Bilimoria: Yes.

Caroline Miskin: That is still ongoing. We have no concrete results yet. We have major concerns about clients' capabilities. Tax Help for Older People probably has more concerns than our clients, but even though our clients may do some things online, the complexity and trust involved in dealing with their tax affairs online is another matter. We are supportive of increased digitisation. We intend to adapt to help people in that world.

I would draw a distinction between people who are not currently within self-assessment, or who can be pulled out, and the self-employed and landlords. The digital tax account is going to give most PAYE taxpayers access to an awful lot of information and services that they do not have at the moment, and if they are digitally excluded they will have difficulty accessing them, but in many cases it is giving them something that was not there before. We have much greater concern about the self-employed and landlords. I am not going to get into the controversy of whether they are quarterly tax returns or updates, but it is mandatory electronic accounting records. At TaxAid, we have never come across a single client who has ever kept electronic tax records, because an Excel spreadsheet is not sufficient. We simply do not have one. We do not necessarily dispute the direction of travel, but the *Big Issue* sellers, actors, people in the construction industry, gardeners, and the very smallest businesses, where all people are doing is selling their own services, do not keep electronic records and do not find it necessary for their purposes. It is going to be a huge shift. By 2018 they are going to have to have electronic records. It will be an additional something that they will have to do for HMRC purposes, but they will not see any benefit.

Lord Bilimoria: Building on that, what about the plans of the new system that will require the self-employed and many landlords to report income quarterly rather than annually? Are they going to be able to cope with this? Is this a step too far?

Caroline Miskin: We are going back a stage further, because they will not have the electronic records. One can debate pressing the button four times a year or once a year, but they are not even at the stage where they are going to keep their records electronically

Lord Bilimoria: What is an electronic record? If it is not a spreadsheet, what is it?

Caroline Miskin: It is not a spreadsheet. It needs to be a piece of accounting software.

Lord Forsyth of Drumlean: If you sell honey at the bottom of your drive, are you saying that you have to have a piece of software on your computer?

Caroline Miskin: An app on your phone might be sufficient. HMRC has indicated its intention that there will be free apps and free software for those with simple tax affairs. As I said, our concern is that our clients are so far behind the curve on the idea of using that. We do not yet know what HMRC will produce. It might produce something, but it might be so simple that it does not cover all possibilities. We already have the situation where our clients are prevented from filing their tax returns online because HMRC's software does not cover all the possibilities. It does not cover partnerships and residence. At the moment, HMRC is not covering the needs of our clients.

The Chairman: They are not compliant, let alone the taxpayer. Is HMRC not yet in a position to receive all this data online?

Caroline Miskin: HMRC can receive it. I am talking about the software that HMRC makes available to taxpayers to file their tax returns online.

Baroness Noakes: It is not very sophisticated.

Lord Teverson: Is there not a contrary argument? A lot of people in business have to do health and safety. In the freight industry, which I used to be in, they have to have tachographs. I put this forward as a proposition. Will this benefit people who do not manage their businesses very well at all because they do not keep proper accounts? One of the lessons I see from the small businesses I deal with is that if they managed to get to a monthly P&L of some sort, for the first time they get control of the business. Maybe this will be a way in which small businesses will be regenerated and become properly managed at last. I just put that forward as an idea.

Caroline Miskin: Possibly. They are not our clients.

Lord Forsyth of Drumlean: They are not real people.

Caroline Miskin: Our clients are much more akin to employees. They are people who are in self-assessment and they would not recognise the term "business" a lot of the time. They call themselves "freelance".

Lord Teverson: That is a very good rebuttal, and I accept it.

Q34 The Chairman: Can we come back to the quarterly reporting, which is some way out? If you have a very cyclical income pattern, as a lot of self-employed people do, will you have to pay tax quarter by quarter, or will there be an annual estimation, rather as there is with PAYE, and the ups and downs are dealt with at the end, or do you have to do that every quarter?

Robin Williamson: I dare say we shall find out when they issue the consultation paper. What information is going to be reported every quarter is one of the big questions. Tax is annual and involves accruals and various other accounting concepts, which mostly work on a yearly basis. What exactly is going to be accounted for every quarter? A representative of a farmers' organisation asked me the other day how an arable farmer was going to account for the stock in trade every quarter when the plants were still in the ground and it was nowhere near harvest.

Lord Bilimoria: Let alone the Revenue being able to cope with having to deal with this information coming in four times a year. Does it have the resources to deal with that, as opposed to once a year? This puts more burden on the Revenue as well.

Baroness Noakes: It is digital.

Lord Bilimoria: Somebody has to monitor it, analyse it, and act on it.

Lord Forsyth of Drumlean: I should declare an interest; my wife runs some holiday cottages, which we own. If you were doing it quarterly, in the winter you would have no income, but you would have expense. Every year she gets me to do this and it is a complete nightmare, because you have to work out all the costs and everything else and send it in. It takes for ever. If you have to do it quarterly, that is a huge burden. Also, what is it going to tell the Revenue, because you may have expenses in one quarter and not very much income in another? Is this about getting the money in earlier? What is the point of this?

Robin Williamson: I suspect that a lot of it is movement towards sort of cash reporting. We started with the famous cash-reporting schedule in the Finance Act 2013, and we are continuing with universal credit, where self-employed people are going to have to report to DWP monthly, not quarterly. If they do not have any income in the winter, because they are in the tourist trade, but they do have expenses, they are not going to have their loss recognised for universal credit purposes and are going to be subject to a minimum income floor, which says that even if they have not had any income they ought at least to have earned what is equivalent to the national minimum wage. That is an example of the kind of mentality that seems to be seeping from the DWP through to HMRC. One of my fears is that this will be reflected in what we are expected to report under the quarterly reporting arrangements. Caroline might have more insight into this.

Caroline Miskin: It does not really seem to make much sense. There does not seem to be a rationale for doing it more regular payment is not expected. We would love more information. We do not know what the intentions are about making more regular payments. There is no detail on exactly what information is going to be provided, but one imagines that some of the motivation behind it must be—and there have been some indications—that it is more real-time payment of tax liabilities. I suspect there is also an element of more data enabling HMRC to do more risk analysis for compliance purposes. There will be more data going into its systems for its Connect system to use.

Lord Turnbull: Surely, if the HMRC wants to get revenue more evenly through the year, it can do that already. If you are self-employed, you make an annual return and pay the tax. Then there is the calculation of payment on account that you pay in the spring, and come the end of the year you have to balance all those up. Some would say that it is quite complicated, but it gives it two dollops of money rather than one. The problem arises when your income either goes up or down sharply and it does not adjust very quickly. HMRC does not need to ask for the details of the business more often in order to get a steadier flow of income.

Baroness Noakes: I suspect it is related to what you are saying about having the data to analyse so that it can then focus its compliance activity.

The Chairman: This brings us neatly on to the Office of Tax Simplification.

Q35 Baroness Noakes: We have had the Office of Tax Simplification for five years. It has produced quite a lot of reports, but relatively few of its recommendations have been implemented. What is your view of the effect of the OTS so far? Why do you think so many of its recommendations have effectively been ignored?

Robin Williamson: It is an interesting question. The Low Incomes Tax Reform Group has been very keen to help the OTS as much as it can, because we think that a simple tax system, or a simpler tax system, is better for unrepresented taxpayers who do not have advisers to explain it all to them. Yes, there has been a poor record of the Government accepting its recommendations. I suppose it varies from report to report. If you look at the report on the cash-basis regime, for example, the OTS vision was to provide a very simple means of accounting for businesses with a very low threshold—a turnover of about £30,000, I think it was. When the Government looked at this there seemed to be two thought processes going on. The first was, "This is a very good idea. Why can't more businesses do it?", and they pushed up the threshold so that it became equal to the VAT threshold. For universal credit claimants, they thought it ought to be double the VAT threshold, but they thought, "Quite a few fairly sizable businesses are now going to be entitled to the cash basis, so we had better put in some anti-avoidance provisions, and we might want to restrict loss relief carried forward and the deductibility of bank interest and make various prescriptions about expenses and so forth". So we have the two schedules consisting of 20-odd pages in the Finance Act, which is completely contrary to the OTS's initial vision.

We also worked with the OTS on the pensioner taxation report, which had one recommendation that was famously accepted, which was to abolish the age allowances on the basis that the personal allowance would eventually catch up, which it did. There were a lot of other much more useful recommendations, such as the DWP operating PAYE on the state pension, and then pensioners would be paying the right amount of tax on their state pensions. It would have been a very useful reform had the DWP accepted it, but it did not. HMRC has been doing its best since to try to provide work around it, and the consolidated coding notice which Caroline described is one step forward. It worked better with the OTS on the employment income reports, which fed into the 2015 Act last year and into the clause on trivial benefits in kind this year.

I noticed a document that came out in which the number of recommendations in the employment status report, which the Government have said they will accept, is 17 and the number of rejections is four, so we are probably moving in the right direction. If we have this permanent and statutory body, which is consistently funded by the Treasury, that may give it the extra standing necessary to persuade the Government to adopt more of its recommendations.

Baroness Noakes: Do you think that is likely?

Robin Williamson: One can only hope. I certainly hope very strongly, because we are helping at the moment with tax and NIC alignment, and that is certainly a field that needs simplification.

Baroness Noakes: Ms Miskin, do you have any views on that?

Caroline Miskin: I would make similar comments to Robin, and a couple of additional points. Change in itself adds complexity, and the fact that it is taking time for some of the fruits of its work to come through is not necessarily a bad thing, particularly where it is tackling the difficult areas, such as small company taxation and NIC alignment. I would also say that an awful lot of complexity is being added at the same time as there is an attempt to remove it. For example, we had a change in class 2 NI contributions being collected through self-assessment. Now the Government are looking at the possibility of abolishing class 2 and bringing in class 4. That could be followed not that long afterwards by any proposals that might come out of the possibility for alignment, so you might end up with a series of three changes.

On savings, you have the nil-rate band one year and the personal savings allowance the next year, and things such as the high-income child benefit charge and the marriage allowance add huge complexity and take huge amounts of HMRC resource.

Baroness Noakes: Is there any real hope that we will have a simpler tax system?

Caroline Miskin: Great political will will be required, because there are always going to be winners and losers. To make real changes, the Chancellor of the day would have to accept that. It would have to happen in a situation of growth so that you can eliminate the effects as you grow, or the Chancellor of the day would have to be ready to take some very hard political decisions on winners and losers.

Baroness Noakes: If the opportunity comes to put the OTS on to a statutory basis, which it is not at the moment, would it enhance the possibility of getting more simplification out of it?

Robin Williamson: Yes, if the OTS is considerably strengthened in numbers and resources so that it can get to grips with a larger part of the tax code than it has been able to do so far.

Baroness Noakes: It is nothing to do with whether it is in statute; it is whether it is well resourced.

Robin Williamson: Whether it is well resourced by the Treasury.

Caroline Miskin: And put into new proposals, not merely looking at what is already on the statute book.

The Chairman: Does the Office of Tax Simplification invite you on a regular basis to give your views and feedback?

Robin Williamson: Yes, indeed. It puts out consultation documents and invites not only representative bodies but the general public to input, and it goes out and interviews people.

Caroline Miskin: It comes out to assess.

Robin Williamson: It invites us to sit on its consultative committees. Colleagues of mine sat on the pensioners consultative committee and I am on the NIC alignment consultative committee. Yes, I think there is a lot of interaction.

Lord Forsyth of Drumlean: Is the problem with the OTS that it is not involved in these new wheezes and ideas before they are announced and therefore does not have an input into new ideas?

Robin Williamson: That could well be it. I suppose its remit is fairly narrow in that it is to simplify parts of the tax system once legislation has been enacted. It might be better if it was involved more in policy-making at an earlier stage.

Q36 Lord Forsyth of Drumlean: Does the Finance Bill that we have now reduce or increase the burden borne by taxpayers in complying with the tax code?

Robin Williamson: With one line I would probably say that for taxpayers who are digitally literate, it will probably reduce the burden in time. For those who are not it could well increase the burden, because those who can will have to become digitally literate and those who cannot will not be able to get access to the same sort of information that is available on GOV.UK as those who are. That is a very brief summary.

Caroline Miskin: I would say there will be a marginal reduction in the burden because of the people who are not going to be put into self-assessment who are in it at the moment, and the people who have to reclaim tax on their savings. I would say that it marginally reduces the burden but adds to complexity in understanding the system. The two things are slightly distinct.

Lord Forsyth of Drumlean: Why do you say that? All my life I have been able to work out roughly in my head what my tax is going to be. As I got older perhaps I needed a calculator a bit more, but broadly speaking I could do that. Now you have to solve a quadratic equation because of all the steps that are being made in different allowances.

Caroline Miskin: That is why I am drawing that distinction between people's burden in interacting with HMRC and dealing with their tax affairs and having to fill in forms. It reduces the burden there, but because of the addition of the different allowances and whatever, it probably makes understanding the tax system more complicated. A lot of that understanding will be by people who, once they do understand, will not owe tax because of the savings allowance, the nil-rate band, the dividend allowance and ISAs. There will be a lot people who do not owe tax, but trying to get their heads around it all will make it more difficult.

Lord Forsyth of Drumlean: Let me ask the question in another way, because you have not really given the answer I expected.

The Chairman: There is a clue in that.

Lord Forsyth of Drumlean: How important do you think it is to have a tax system that is easy for people to understand and they can know what their liability is, as before, and they do not have to log on to a computer or look retrospectively at events? Is the price of moving away from more form filling and more complexity a price worth paying?

Caroline Miskin: I think it needs to be simpler. I would very much like there to be fewer rates and allowances and for it to be much simpler so that people could do their calculations on a piece of paper with a calculator. I would very much like to be in that situation. It would make life for a lot of people an awful lot simpler, and this is a move away from that. It is almost as if HMRC believes that because of digital accounts, and because the information will be there and people will have access to that information, yes, it is more complicated with all these different things but it does not matter because they are not going to owe tax and will be able to see all the information in the digital account. I do not think that is right. People are still going to wonder and want advice about how all these different bits and pieces work.

Lord Bilimoria: Building on that, in reality in practical terms you advise individuals; they come to you for help. How many people can actually deal with all this even as the system exists now, let alone the small companies and sole traders that you have talked about? Most people running businesses will have an accountant who helps them, but the people you are talking about do not have access to that, so how do they manage? Do they need organisations such as yours to help them fill out the forms?

Caroline Miskin: Yes. If they want advice, it is from us. To be fair, the HMRC Needs Extra Support service does a lot, and it provides a better service than the old inquiry centres. It is difficult for people to access, but once they get there it is helpful. However, if they want real advice or if there is any dispute with HMRC and they cannot afford an adviser, the option is the tax charities really.

Lord Forsyth of Drumlean: I have one last question. You have talked about the people who are digitally excluded. By that, do you mean perhaps elderly people or other people who are horrified by computers, or do you mean all these people who live in rural areas, and in some urban areas, who do not have access to effective broadband? One of the problems with what you said earlier about people doing it on digital and having access to a whole load of information is that it implies that you have a reasonably good broadband connection so you can download the material and respond accordingly.

Robin Williamson: The digitally excluded category involves those and others.

Lord Forsyth of Drumlean: How many people are in that category?

Robin Williamson: According to HMRC's own research, some 7 million adults in the UK. They include older people who never learned computers at school and who have not got used to them since; people with disabilities who find it difficult or painful to use computers or the internet—a wide range of disabilities can have that effect; and people in remote areas—if you are in the Brecon Beacons, for example, and your nearest public library is a 60-mile round trip by road, it is the middle of winter and there is no broadband connection, there is no way you are going to be able to do a quarterly report at the end of January. To be fair, the Government have said that they will make other arrangements for those who really cannot manage computers.

We were involved in a case before the First-tier Tribunal (Tax) a couple of years ago, which basically said that all these particular categories of people had a measure of protection under human rights law and that HMRC had to make adjustments for them if it was going to mandate. The signs are that HMRC will make adjustments. We just have to make sure that it makes the right ones.

Lord Forsyth of Drumlean: Seven million out of how many?

Robin Williamson: Out of the entire population of the UK. I think the percentage figure was about 15% in that report.

The Chairman: Of taxpayers or total population?

Robin Williamson: Of the general population. For taxpayers it is slightly less. They estimated that 10% of taxpayers were digitally excluded.

Q37 The Chairman: We are going into a period of consultation, and much of the evidence that you have provided today, and which we have heard before, is clearly going to be put to HMRC on what is needed to help it to provide the service and the support that taxpayers need, and indeed expect. If we fast forward a year, and there is nearly a year of experience of doing this, are you satisfied that the independent oversight of HMRC's performance is adequate and suitably transparent to enable you to assess effectively how well it has performed and what additional measures might be needed to enable it to perform to your satisfaction, and in particular to the satisfaction of the people whom you represent?

Robin Williamson: Let us look at the independent oversight of HMRC. Of course, there is the non-executive board, which provides advice but cannot make any decisions, so HMRC is free to disregard whatever the non-executive board tells them. There has always been a charter advisory committee, but there is now a new charter committee reporting directly to the non-executive board, whose job is to make sure that HMRC in carrying out its functions adheres to its values as set out in the charter: treating taxpayers fairly and that sort of thing. There is of course the electorate, which will have a say in five years' time, but that is rather more of a political than an administrative oversight. We are very reliant on HMRC telling us and being transparent about its own data and figures, what it is up to and consulting genuinely, which on the whole it is very much more inclined to do now than, say, 10 or 20 years ago, but ultimately it is in a fairly privileged position as far as government departments are concerned.

The Chairman: It is possibly quite accountable to itself in the sense of how its performance is being measured.

Robin Williamson: And of course accountable to parliamentary committees.

The Chairman: Indeed.

Caroline Miskin: Undoubtedly, there must be additional things that it should be measured against in a dramatically different environment. Somebody needs to look at what it is measured against. It could be something as simple as how long it has taken to respond to webchat rather than how long it has taken to respond to a letter, and similar factors.

The Chairman: Thank you very much indeed. It has been a very interesting session. I presume that you will be making public the advice that you will be giving and the feedback on the consultation.

Robin Williamson: We shall indeed, yes.

The Chairman: Thank you very much. Thank you for joining us today.