



HM Revenue
& Customs

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Meg Hillier MP
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Dear Ms Hillier,

Thirty-Fourth Report of Session 2019-21

Thank you for the Public Account Committee's (PAC) report *COVID-19: Support for Jobs*. I am writing to respond to recommendation 2, that "HMRC should write to the Committee within three months to explain what it has learnt from its review of other countries' self-employed systems and how it will apply these to its plans for delivering the Making Tax Digital programme."

Existing Self-Assessment system

The PAC's report concluded that the age of the Self-Assessment system made it more difficult for HMRC to provide financial support to the self-employed. Tom Scholar and I wrote to the Committee on 2 February, outlining the challenges that HMRC had with accessing data in order to deliver COVID-19 support, and our planned solutions.

The Government has provided significant support to self-employed individuals adversely impacted by COVID-19 through the Self-Employment Income Support Scheme (SEISS), which is based on Self-Assessment tax returns. The Self-Assessment system has enabled the government to support 2.7 million self-employed individuals through this scheme. The scope of data collected via Self-Assessment is limited to the statutory purpose of HMRC, which is not traditionally to process income support for the self-employed.

In designing the scheme, the priority was to target support at those who need it most, and to protect public money against error, fraud, and abuse. This meant designing a system where people could apply in a straightforward way; and HMRC could match data they were provided with automatically with information already in their system to verify claims. Basing the scheme on data HMRC already held was central to guarding against fraud and abuse.

In the case of the SEISS, the initial eligibility, and the maximum award available, are determined from information that can be cross-checked against Self-Assessment returns. HMRC has built up systems and processes over many years to mitigate the risks of fraud and error in Self-Assessment returns, so the ability to check SEISS returns against Self-Assessments helps protect the SEISS from abuse by organised crime groups and fraudsters.

In contrast, it was not possible to provide support either through SEISS or CJRS to Company Owner Managers who pay themselves through dividends. Company Owner Managers are a diverse population where HMRC do not have data – as it is not needed for administering the tax system - to identify which Directors should receive financial support. The 3.3 million population of people who receive income from dividends includes working Directors but also inactive Directors (such as the spouses or children of working Directors who are jointly listed as Directors of companies) and general investors. Given some external estimates suggest an active Director population varies from 710,000 to 1.8 million, providing financial support to the entire 3.3 million population could result in more than 3 out of 4 grants going to people to whom support is not intended. This would be neither fair nor responsible use of taxpayer money.

The Government has engaged with various proposals put forward by stakeholder groups aimed at providing support to those groups who are not currently eligible to see if any are viable. These proposals primarily rely on self-certification to determine eligibility and they do not overcome the fundamental issues of protecting public money and safeguarding against fraud, error and abuse. Unfortunately, the fraud risks of creating a scheme for this group, built on self-certification which HMRC cannot corroborate, remain. Self-certification is feasible in instances where the Government can reasonably verify the declaration. Otherwise, it is far too susceptible to fraud which is why we have not been able to take forward many of the proposals put forward by different stakeholder groups. For example, in the case of Company Owner Managers, a key challenge is that HMRC do not have data to verify what parts of a Director's remuneration to support and therefore the amount of support to which they might be entitled. Dividend income could be coming from multiple sources including investments, and not just dividends in lieu of salary. Relying on self-certification to identify Directors or determine income sources could open any scheme up to unacceptable levels of fraud and error by organised criminals and others who would seek to exploit these schemes.

HMRC recognises the importance of ensuring that we have a robust Self-Assessment system that is flexible and responsive. It is essential that our tax administration system can keep pace with rapid changes in society, the economy and technology. COVID-19 has reiterated the need for us to ensure the tax administration system can provide timely financial support to those businesses or individuals who need it particularly in the event of national economic shock or other crises. However, we maintain that the system should not burden individuals or businesses unnecessarily through collecting information that is not needed by HMRC to fulfil its core functions.

Last year, we published our ten-year strategy to [build a trusted, modern tax administration system](#). A modern system will work closer to real-time, allowing people and businesses to pay the right tax with ease. Real-time information is vital to an effective, modern tax system as it provides customers with a more up-to-date understanding of and certainty over their tax position, and through real-time risk assessment, also has the capacity to remove opportunities for error. Making Tax Digital (MTD) will play a vital role in this.

International insight

HMRC has accounted for international insight in the development of our Tax Administration strategy and MTD, and have been undertaking exploratory work in the international space for several years.

We have studied a range of countries' tax systems and particularly those taking faster steps to digitise, such as New Zealand, Finland, Denmark and Australia. We have worked with further countries such as through the Organisation for Economic Co-operation and Development (OECD), to gather international insights through surveys. We have also engaged directly with several tax authorities from around the world to inform our plans.

International insights show that digital tax systems are increasingly the norm, and that trusted, modern systems that make it easier for taxpayers to pay the tax they owe are the most cost-effective way of securing and sustaining future revenues. The World Bank and PWC in their report 'Paying Taxes 2020'¹ found that since 2004 the use of electronic tax filing and payment systems has risen sharply. 43 economies of the 174 measured in 2004 had an online system for filing and paying taxes. In 2018, this number had more than doubled to 106, as economies have shifted from filing taxes manually and paying them in person, to filing tax returns electronically and paying taxes online.

Countries including New Zealand and Denmark are already offering business and taxpayers the benefits of more regular tax reporting and filing, and Denmark's introduction of a digital reporting system has led to a fall in the number of customer inquiries. Australia's Smarter Data Initiative is allowing sole traders and individuals to manage most of their tax affairs online.

Making Tax Digital

Recognising the pace at which other countries are moving toward the digitalisation of their tax systems, we have committed to extending the digitisation of the UK tax system to more businesses and taxes over the coming years.

VAT-registered businesses with a taxable turnover below £85,000 will need to follow MTD rules for their first VAT return starting on, or after, 1 April 2022, joining those with income over the VAT threshold who have been required to join MTD from April 2019. Self-employed businesses and landlords with annual business or property income above £10,000 will need to follow the rules for MTD for Income Tax (MTD ITSA) from their next accounting period from April 2023. We also plan to extend MTD to Corporation Tax (from 2026 at the earliest).

Increasing the use of closer to real-time information will provide both taxpayers and HMRC with a more up-to-date understanding of a taxpayer's financial position. This would improve the Government's ability to provide targeted support directly to those businesses and self-employed individuals should it be needed in future, supporting national resilience and our capability for crisis response. However, it is worth noting that HMRC's tax administration systems and customer information collected is primarily designed to meet HMRC's statutory function. HMRC cannot collect data not relevant to administering its functions.

Digital working will also bring wider benefits to businesses and the taxpayer, as well as the country at large, including through reducing the scope for error in tax returns. We are going further than some countries and mandating the use of software that integrates directly with HMRC's software. We recognise that this will be more straightforward for some businesses than others. We are ensuring that the right support is in place for those that need it, and that MTD software is available at differing levels of functionality and price points.

¹ <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020.html>.

We are exploring the scope to learn from countries such as Australia and Italy whose systems include pre-population of data, in order to improve further the accuracy of the UK system and make it easier for taxpayers to use.

Our plans for the future

As part of our strategy to build a trusted, modern tax administration system, the Government intends to publish a call for evidence to open up a wider conversation on the timings and frequency for the payment of different taxes.

HMRC continues to explore measures of good practice identified in other countries, such as those highlighted above, through various activities including direct engagement, working with the OECD, and research. We will give greater consideration to Self-Assessment systems as part of these activities in future.

We are working with the OECD Forum on Tax Administration currently on the design and delivery of a new survey. This survey will strengthen our evidence base and understanding of what has worked well in other countries as they continue to digitise their tax systems. We are undertaking work alongside this to improve our understanding of international tax administrations' strategies toward small and medium sized businesses. We will consider these insights in our future activities for furthering and developing the UK's tax administration system.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Harra', written in a cursive style.

JIM HARRA
CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY