

DIGITAL TAX ACCOUNTS

It is the aim of HMRC's newly launched Personal Tax Account to allow taxpayers to "manage" their tax affairs online. By April 2016, HMRC advise that everyone will be able to log into their own "simple, personalised and secure" online account, and view some of the information HMRC holds in respect of their affairs. It will also be possible to check how National Insurance Contributions affect their state pension. Self-assessment taxpayers will also soon witness the first step in "pre-population". When they log in to file online returns for 2015-16 later this year, those paid through PAYE can expect to find basic details of their earnings and tax deductions already filled in.

Within four years HMRC wants its relationships with taxpayers to have become almost exclusively digital; this seems a tad ambitious given Government departments track record with IT contracts. One of the main concerns in achieving this goal is getting the nation's 30 million taxpayers connected to the internet. Take the small village of Staylitttle in the Welsh county of Powys, they are just one of many areas in the UK that struggles to receive a mobile phone signal, let alone an internet connection, so how will everyone submit their taxes online?

PARLIAMENTARY DEBATE

The introduction of digital tax accounts for small businesses and self-employed individuals received more than 100,000 signatures to scrap the plans and as a result a parliamentary debate was convened.

Most MPs appeared to be in favour of a move towards digital filing and welcome attempts to cut red tape for businesses. Some MPs however expressed the view that it is in the public interest for HMRC to make more concerted efforts to recoup the estimated £6.5bn that goes unpaid every year due to mistakes on tax returns.

George Kerevan MP suggested the government might have a "hidden agenda" and that the proposed system has less to do with making life better for the self-employed and more to do with making cost savings at HMRC something which is clearly the case with HMRC committed to making £717m of sustainable resource savings, which it will offset in part by the digital reinvestment. In terms of headcount, a 3% reduction in staff will be enabled by digitalisation by 2020.

Conservative MP David Morris, the government's ambassador for small businesses, warned that the self-employed were concerned the new system would be onerous and lead to

overpayments in some cases. He said seasonal businesses, which experience uneven revenues during the year, would not want quarterly statements to become a "predictor for turnover". "This is not going to be a new form of taxation every quarter but the self-employed sector are frightened that this will become a new VAT," said Morris.

Morris also made the point, as did other MPs, that online filing required people to be IT literate and have access to internet broadband. "Not all of the self-employed are computer savvy; 20% are not online. Up to 40% aren't actually computer literate," he said.

WHAT HAPPENS TO CUSTOMER SERVICE?

HMRC predicts that digitisation will lower customer calls from 38 million to 15 million in 2019/20 as more and more information and services will be online, but many fear that this will cause havoc with its so-called 'customer service' in the meantime.

Financial secretary to the Treasury David Gauke unveiled detail around how the digital tax accounts are expected to run at HMRC's stakeholder conference in London. There are four key planks to the offering including tax simplification, tax all in one place, making tax digital for individual taxpayers and making tax digital for businesses.

However, HMRC is still in the process of migrating from its creaking **£10.7bn** Aspire IT contract and past IT howlers have left many advisers with the impression there will be major teething problems with online tax accounts during its initial stages. They will struggle to deliver this as an IT project and they will encounter a lot of cynicism from accountants such as me that have seen HMRC's numerous failures at trying to deliver any system on time.

WHO WILL BE AFFECTED

There are two prongs to HMRCs push to create 'the most digitally advanced tax system in the world'.

The first is the introduction of Personal Tax Accounts for all individuals, aimed at the majority of people whose tax affairs are relatively simple and who don't have accountants. Here, individuals' online tax accounts will be updated with information it has obtained from other sources, for example, wages or pensions, taxable benefits and interest on savings.

The second digital drive relates to small businesses, landlords and the self-employed, these groups will have to **report information to HMRC quarterly**.

AFFECT ON THOSE WHO HAVE TO FILE TAX RETURNS

Taxpayers may have initially felt elated following the Autumn Statement but once they have had chance to have a cup of coffee and think about it, they will realise that the compliance burden is likely to be greater not smaller. At the moment we are all used to filing our return information in one go before 31 January following the end of the tax year. Under the new proposals, a self-employed person for example will have to deliver robust accounts and tax returns on a quarterly basis.

In addition, the digital system will see Capital Gains Tax due on the sale of residential property within 30 days of the sale, this impacting from April 2019, and shortens the collection period by up to 21 months. Further, it is suggested that from 2020 landlords may also be required to update HMRC on a quarterly basis. All of these issues could have the potential to significantly impact on cash flow for businesses and individuals, not for the better.

CONCERNS FOR PEOPLE THAT ARE NOT IT LITERATE

Peter Hollis, who runs his own accountancy practice in Sheffield and is a senior member of accounting trade body the Institute of Chartered Accountants in England & Wales, worries that those who struggle with digital processes could be hit by penalties and fines.

He cites a case last year where a Hampshire-based taxpayer, Ann Hauser, submitted an electronic return which for some reason was not correctly picked up by HMRC's systems. She was fined a total of £5,209 by HMRC – penalties that she had to contest in court.

Finding in her favour in a ruling last month, judges attacked HMRC's hasty application of the fines and also a wider "lack of appropriate management and supervision".

This, worryingly, is all too familiar to those in practice, where even something as simple as a tax code seems to be beyond HMRC's ability to get right. They have tried to automate codes, populating from the previous year's return but about 70% of the codes generated this way are wrong. The Digital Accounts system seems mighty ambitious, especially when you realise you can wait on the phone for 20 minutes to talk to someone at HMRC about their errors.