



# UPDATE

on Improving Tax Environment

## **The Belt and Road Initiative Tax Administration Cooperation Mechanism**

### ***EDITOR'S NOTE:***

The strong desire for economic recovery after the COVID-19 pandemic has fired jurisdictions with the enthusiasm for enhancing business environment and they gradually adopted it as a national strategy. The business environment is the sum of the external environment involved in the life cycle of market players from entry, operating, to exit, including political, economic, rule-of-law, market, and tax factors. A jurisdiction's business environment is related to its investment attraction, foreign exchange and international competitiveness, and is an important economic soft power. The *Nur-Sultan Action Plan (2022-2024)* adopted by the Second BRITACOF has listed improving tax environment as one of the main topics and encouraged BRITACOM members to improve their tax environment by preparing taxation guidelines, optimizing procedures of tax law application, providing targeted services to taxpayers and improving taxpayers' compliance. To sum up, in order to facilitate the ease of tax business environment, a two-pronged approach from tax system and administration could be followed, i.e., reducing tax burden which hampers the operation and profitability of enterprises and enhancing tax administration capacity which mainly affects the experience and feelings of enterprises in tax-related aspects. The purpose is to encourage enterprises to focus on business development and minimize unnecessary losses in the process of operation, so as to effectively lift the burden on enterprises, stimulate their vitality, and promote economic growth.

The Special Edition of the BRITACOM Update on Improving Tax Environment is issued, aiming to provide a platform for BRITACOM Council Members, Observers, and other stakeholders to exchange views and share experiences for improving the tax environment and providing reference. Issue 6 is an article on the UK's experience with the digitalization of tax administration in recent years, and on the likely direction for further reform. Later we will share more experience of tax environment construction from countries and regions and views of international organizations and tax experts with you. If you would like to provide material and experience to the Special Edition, please contact us via email [secretariat@britacom.org](mailto:secretariat@britacom.org).

# Improving the UK Tax Environment—Building Future Success on Solid Foundations

**Abstract:** The World Bank Group's Paying Taxes survey has consistently ranked the UK within the top quintile of global tax administrations. In 2015, the UK embarked on the biggest modernization of its tax administration in a generation. The programme has delivered major achievements, even while pushing the limits of HMRC's technology and capacity. A central reform has been the digitalization of tax administration, known as "Making Tax Digital". The reform process has coincided with two major external events—the UK's exit from the European Union and the response to COVID-19, requiring HMRC to deliver employment support schemes as well as manage an orderly UK exit from the European Union. The UK Government is now taking this reform process further and has set out a 10-year vision. It sees real-time information as being at the core of an effective and modern tax system. It wants people and businesses to be able to pay the right tax as they live their lives and go about their business.

**Keywords:** Tax environment; Tax administration; Making Tax Digital; Real-time information; UK

We are in a time of rapid change for tax administrations, with the emergence of new technologies and business models, and an explosion in the availability of digital data. This is also leading to greater possibilities for taxpayer service—according to the World Bank, "on average, every year it becomes easier for a medium-sized domestic business to comply with its tax obligations."<sup>1</sup> Even with this success, many tax administrations face challenges due to technological change, an aging workforce and budget constraints. They are often expected to do more with less, as customer expectations increase even as budgets and manpower reduce. Reforms to tax administration are likely to remain a consistent theme: with the aspirations of today transferring from being final destinations to mere steps on a journey with the final destination changing every time one looks up.

This paper comments on the UK's experiences in recent years, and on the likely direction for further reform. It draws on recent improvements in tax administration in the UK, both by the tax authority and the tax advice community.

## 1. Background

HM Revenue & Customs (HMRC) is the UK's tax, payments and customs authority. It collects the money that pays for the UK's public services and helps families and individuals with targeted financial support. It was established by Act of Parliament in 2005 as a new department, bringing

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<sup>1</sup> The World Bank. Paying Taxes 2020, <https://www.doingbusiness.org/en/doingbusiness>.

together the Inland Revenue and HM Customs and Excise, and taking on a clearer role in the delivery of government tax policy.

Both HMRC and its predecessors have sought to be high-performing and professional departments and the UK has consistently been in the top quintile of global economies as ranked by the World Bank Group's Paying Taxes survey, currently ranking 27th (out of 190 global economies). It outperforms the average for OECD high income countries in three out of four indicators:

**Table 1: UK's Ease of Paying Taxes**

| Indicator                                      | UK   | OECD high income country average |
|--|------|----------------------------------|
| Payments (number per year)                     | 9    | 10.3                             |
| Time (hours per year)                          | 114  | 158.8                            |
| Total tax and contribution rate (% of profits) | 30.6 | 39.9                             |
| Post-filing index (out of 100)                 | 71.0 | 86.7                             |

The OECD has identified the following trends regarding the tax administration environment:<sup>2</sup>

(1) A significant shift towards e-administration, with increasing options and uptake of online filing of tax returns, as well as online payments and the full or partial pre-filing of tax returns;

(2) Engagement with taxpayers to support positive compliance attitudes, through:

- Initiatives to improve the education of taxpayers and communicate social norms;
- The use of taxpayer centric design in the expansion of taxpayer services; and
- The growing use of behavioral insights as a compliance tool.

(3) An increasingly proactive approach to compliance risk management, seeking to intervene at an early stage rather than after tax returns have been filed, for example:

- Increasing use of large and integrated data sets;
- Increasing segmentation and personalized interactions with taxpayers; and
- Continuing emphasis on co-operative arrangements to manage compliance and enhance tax certainty.

(4) Compliance-by-design approaches to maximize compliance.

All of these trends are relevant to the changing UK tax environment and like other tax administrations, HMRC is reforming in response. It is taking advantage of the availability of new technology, new data sources and analytical tools. The UK is also seeing increasing international co-operation and exchange of information as a way to manage compliance, tackle non-compliance and protect the tax base.

<sup>2</sup> OECD (2019), Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies, <https://doi.org/10.1787/74d162b6-en>.

## 2. Improving on Strong Foundations

Ahead of the latest set of reforms, HMRC was already in a strong position, with the vast majority (94.4% in 2019-20)<sup>3</sup> of tax revenue being received without any intervention by HMRC. This was occurring despite a 40% reduction in workforce, following the merger of the two predecessor departments and the challenge of introducing of new technology. However, the traditional challenges of managing a paper-based tax administration were still causing concern, as HMRC was criticized for aspects of its customer service, notably answering the phone and responding to post.

In its 2013 Improvement Plan<sup>4</sup>, HMRC identified six key areas for improvement:

- Increasing revenues by promoting voluntary compliance and addressing non-compliance;
- Customer experience;
- Sustainable cost reduction;
- HMRC's digital offering;
- Employee engagement; and
- Capability.

The 2014 report<sup>5</sup> showed that HMRC was meeting or exceeding many of its targets for improvement, notably on revenue raised, cost reductions and aspects of its digital strategy.

Nevertheless, HMRC included a note of caution:

“But this doesn't mean that we've reached where we need to be. Our 2013-14 figures show that our customer service levels still aren't high enough. And our employee engagement scores aren't yet hitting the Civil Service benchmark or even matching other comparative big organisations like the Department for Work and Pensions. We've also made progress in strengthening our skills and capabilities, but there's still more work to do.”

HMRC also had a complex Information Technology (IT) landscape, with nearly 600 different IT applications with some of these built at a time when data were entered into mainframe computers using punched cards. The 2005 merger of the Inland Revenue with HM Customs & Excise had resulted in duplicate systems.<sup>6</sup>

Against this backdrop, HMRC committed to “truly putting customers at the heart of everything

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<sup>3</sup> HMRC. 2019 to 2020 Annual Report and Accounts, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/933121/HMRC\\_Annual\\_Report\\_and\\_Accounts\\_2019\\_to\\_2020\\_\\_Web\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933121/HMRC_Annual_Report_and_Accounts_2019_to_2020__Web_.pdf).

<sup>4</sup> HMRC. HMRC Departmental Improvement Plan 2013, <https://www.gov.uk/government/publications/hm-revenue-and-customs-departmental-improvement-plan>.

<sup>5</sup> HMRC. HMRC Departmental Improvement Plan 2014, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/412636/HMRC-Departmental\\_Improvement\\_Plan\\_2014.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/412636/HMRC-Departmental_Improvement_Plan_2014.pdf).

<sup>6</sup> HMRC. IT Strategy. <https://www.blog.gov.uk/>.

we do” and to offer customers “first-class online services”.<sup>7</sup>

### **3. Government Investment in Reform**

A key part of that service was providing visibility to the taxpayer of their tax status and reducing the effort needed to provide tax information. Therefore, in the March 2015 Budget, the Government committed to transforming the tax system by introducing simple, secure and personalized digital tax accounts, removing the need for annual tax returns. The intention was to give individuals and businesses a more convenient real-time view of their tax affairs, providing them with greater certainty about the tax they owe.

In late 2015, the Government confirmed that it would further invest in HMRC, leading to “the biggest modernization of UK tax administration in a generation.”<sup>8</sup> The Government committed to:

- £1.3 billion funding to transform HMRC into one of the most digitally advanced tax administrations in the world, with access to digital tax accounts for all small businesses and individuals by 2016-17, delivering an additional £1 billion of tax revenue by 2020-21 and sustainable efficiencies.

- £800 million confirmed funding for additional work to tackle evasion and noncompliance in the tax system, delivering an additional £7.2 billion over the next 5 years.<sup>9</sup>

This funding represented an almost 10% increase in HMRC’s departmental expenditure over four years. HMRC was also required to deliver £717 million of sustainable resource savings a year by 2019-20, representing a headline 21% reduction in baseline resource costs, delivered through digitization of tax collection and a smaller but more highly skilled workforce.

This gave HMRC the opportunity to move closer to its aspiration of becoming one of the most digitally advanced tax administrations in the world, being one that is more effective, efficient and easier for taxpayers to deal with. It also set an ambition of delivering sustainable efficiencies and almost £1 billion of additional tax revenues by reducing errors through record-keeping.

### **4. The Recent Areas of Reform**

Using the additional funds provided, along with smart innovations, to improve efficiency and use modern technology, HMRC has introduced a range of improvements in tax administration to reflect changes to the current tax environment.

HMRC’s transformation programme initially contained 15 major programs, including:

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<sup>7</sup> HMRC. HMRC business plan: 2014 to 2016, <https://www.gov.uk/government/publications/hmrcs-business-plan-2014-to-2016/hmrc-business-plan-2014-to-2016>.

<sup>8</sup> HMRC. 2019 to 2020 Annual Report and Accounts, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/933121/HMRC\\_Annual\\_Report\\_and\\_Accounts\\_2019\\_to\\_2020\\_Web\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933121/HMRC_Annual_Report_and_Accounts_2019_to_2020_Web_.pdf).

<sup>9</sup> HMRC. HM Revenue and Customs’ Settlement at the Spending Review 2015, <https://www.gov.uk/government/news/hm-revenue-and-customs-settlement-at-the-spending-review-2015>.

- Making tax digital;
- Customs transformation;
- Creating regional centers;
- Developing data and digital platforms;
- Improving corporate services; and
- Developing people capabilities.

In practice, this ambition “pushed the limits of its technology and capacity”.<sup>10</sup> Such capacity constraints required, in 2017 and 2018, structured prioritization exercises, to focus on the most vital transformation projects.

According to the Comptroller and Auditor General, HMRC placed “a higher premium on making efficiency savings and collecting additional tax revenue than on other beneficial aspects of projects.”<sup>11</sup> Although these decisions delayed and reduced some of the expected benefits of transformation, the reprioritization has enabled HMRC’s transformation to align more closely with the Government’s current vision for the future of tax administration—reinforcing that tax reform is a journey rather than a destination.

#### 4.1 Making Tax Digital for Individuals: Personal Tax Accounts

Since December 2015, HMRC has provided individuals with a “Personal Tax Account” and increased its functionality year-on-year. A Personal Tax Account gives individuals, businesses and their authorized agents the ability to view and make changes to their personal information online. It provides a convenient real-time view of their tax affairs, providing them with visibility of the tax that HMRC believes they owe and payments they are due to receive. Personal Tax Accounts are voluntary, but take-up has been encouraged strongly.

HMRC now provides a Personal Tax Account to more than 22 million individuals (out of 32 million individual taxpayers).<sup>12</sup>

**Table 2: Number of Personal Tax Accounts**

| <b>Tax year</b>                           | 2016-17 | 2017-18 | 2018-19 | 2019-2020 |
|---|---------|---------|---------|-----------|
| Number of personal tax accounts (million) | 9.4     | 15.0    | 19.1    | 22.6      |
| Percentage of personal taxpayers (%)      | 30.1    | 48.1    | 62.4    | 74.3      |

<sup>10</sup> HMRC. 2019 to 2020 Annual Report and Accounts, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/933121/HMRC\\_Annual\\_Report\\_and\\_Accounts\\_2019\\_to\\_2020\\_\\_Web\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933121/HMRC_Annual_Report_and_Accounts_2019_to_2020__Web_.pdf).

<sup>11</sup> HMRC. Annual Report and Accounts 2017-18, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/726849/HMRC\\_Annual\\_Report\\_and\\_Accounts\\_2017-18\\_\\_web\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/726849/HMRC_Annual_Report_and_Accounts_2017-18__web_.pdf).

<sup>12</sup> HMRC. Number of individual Income Taxpayers, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/895182/Table\\_2.1.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/895182/Table_2.1.pdf).

#### 4.2 Making Tax Digital for Business: VAT

As a part of its reprioritization, in July 2017 the Government prioritized digitalizing the tax system on VAT rather than all business taxes. Businesses with taxable turnover above the VAT registration threshold (currently £85,000) are now required to keep their records digitally and submit their VAT return digitally using Making Tax Digital compatible software.

Around 1.3 million businesses registered for Making Tax Digital for VAT during 2019 to 2020, including over 280,000 businesses with turnover below the £85,000 threshold, which joined voluntarily. As of September 2020, the total registered since launch is over 1.4 million businesses (out of 2.3 million live VAT registrations).<sup>13</sup>

The Making Tax Digital initiative is intended to deliver benefits to both the tax administration and to the taxpayer.<sup>14</sup> For HMRC, these benefits include reducing or eliminating paper-based or manual processes through the use of software and an integrated approach to business administration and tax, allowing for greater accuracy in tax returns. For business, this reduces the time spent on administration, providing more time to maximize business opportunities, productivity and profitability.

#### 4.3 Sustainable Resource Savings

HMRC has met its commitment to deliver sustainable resource savings, through both business-as-usual activities and its transformation portfolio, which includes the digitization of the tax collection system.<sup>15</sup>

**Table 3: Resource Savings (£ millions)**

| <b>Tax year</b>                             | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---------|---------|---------|---------|
| Annual sustainable resource savings target  | 203     | 380     | 566     | 717     |
| Annual sustainable resource savings outturn | 181     | 410     | 576     | 693     |
| One-Off savings                             | 73      | -       | -       | -       |
| Total cumulative outturn                    | 254     | 663     | 1,239   | 1,932   |

As an example of the use of technology, previously, the compliance caseworker role included spending a significant amount of time manually uploading documents to HMRC's casework IT system. This has been replaced by robotics process automation (RPA), which uses a dedicated

<sup>13</sup> HMRC. 2019 to 2020 Annual Report and Accounts, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/933121/HMRC\\_Annual\\_Report\\_and\\_Accounts\\_2019\\_to\\_2020\\_\\_Web\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933121/HMRC_Annual_Report_and_Accounts_2019_to_2020__Web_.pdf).

<sup>14</sup> HMRC. Extension of Making Tax Digital for VAT, <https://www.gov.uk/government/publications/extension-of-making-tax-digital-for-vat/extension-of-making-tax-digital-for-vat>.

<sup>15</sup> HMRC. HMRC Performance Update: Spending Review 2015, <https://www.gov.uk/government/publications/hmrc-quarterly-performance-report-january-to-march-2020/hmrc-performance-update-spending-review-2015>.

secure document store where the caseworkers place their files for each case. The RPA software then retrieves the documents from this location and completes the upload into the HMRC casework IT System. In 2019, it was reported that, since the automation started, it has completed over 265,000 document uploads, freeing up at least 590 days of caseworker time.<sup>16</sup>

## **5. Expanding the Reach of the Tax Administration**

In delivering reform, HMRC has sought to consider its strategic approach to achieving its aims, rather than merely improve its current processes. This has included the following approaches.<sup>17</sup>

### **5.1 Compliance and the Platform Economy**

The UK made online marketplaces jointly and severally liable for the VAT due from those business customers that should have been registered for VAT. The UK now also requires online marketplaces to display a valid VAT number for businesses on its platform if provided with one. In 2019, HMRC received around 43,500 applications to register for VAT by online non-EU based businesses and issued more than 3,200 notices to online marketplaces resulting in the removal of non-compliant sellers.

### **5.2 Collecting Non Payroll Tax Debts via Payroll with Holding**

HMRC has extended its capacity to collect various tax debts through adjusting an individual's payroll withholding. This means that repayments are automatically deducted from earnings, using a sliding scale of limits for individuals with annual earnings above £30,000. Debtors also have the option to pay their debt in full to avoid the change of the pay as you earn (PAYE) code.

### **5.3 Use of Behavioral Insights to Encourage Taxpayer Compliance**

HMRC has been very active in the area of behavioral insights since understanding the factors that help taxpayers to get tax filing right, and that promote appropriate issue resolution when they do not, is fundamental to designing effective policies. People are faced with more decisions and information than can consciously be processed. They display unconscious behaviors in response to their surroundings and the probable reactions of others. Behavioral insights using these responses can lead to improvements in tax administration.

For example, HMRC collected additional revenue at a very low cost by applying social norms to tax debt letters. By adding the statement "9 out of 10 people pay their tax on time" in the context of the country as a whole, the taxpayer's postcode, or the taxpayer's hometown, HMRC successfully increased payments by up to 15 percentage points, from 67.5% to 83% on the best performing letter.

It has also used this approach in taxpayer education and the communication of social norms. This can support voluntary compliance and influencing beliefs, attitudes and norms is generally

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<sup>16</sup> OECD. Tax Administration 2019: Comparative Information on OECD and other Advanced and Emerging Economies, [https://www.oecd-ilibrary.org/taxation/tax-administration\\_23077727](https://www.oecd-ilibrary.org/taxation/tax-administration_23077727).

<sup>17</sup> Ibid.

considered an effective and efficient way to influence compliance behavior over the long term. HMRC has a programme for educating future taxpayers about the requirements to register for tax and the need to update personal details following a change in circumstances, for example moving home. This includes its “Tax Facts” programme of tax education for schools which has a range of teaching material for the 14 to 19 age range, including through animations available on social media.

HMRC has also used behavioral insights in its internal operations. It has redesigned its debt management call center guides using behavioral principles and applied change management approaches to implement these new procedures in call centers. The guides made it easier for new staff, and call operators were 20% more likely to agree to “time to pay” arrangement with upfront payments.

#### 5.4 Responding to the Changing Nature of Tax Evasion

As technology and global economies continue to develop, tax evasion can have an international dimension, sometimes involving third parties, described by HMRC as “enablers”. HMRC’s Fraud Investigation Service (FIS) has responded with a dedicated programme of activity focused on those who facilitate tax crime, using new corporate criminal offence legislation. This has made it a criminal offence for an organisation to fail to prevent someone acting on their behalf from criminally facilitating tax evasion.

The FIS was created in 2015 through a merger of HMRC’s Criminal Investigations and Specialist Investigations units. FIS brought together all of HMRC’s criminal and civil fraud investigators alongside specialist capabilities such as forensic accountants, cyber investigators and intelligence analysts—described as “a world first for tax enforcement.”<sup>18</sup> The FIS started the HMRC enablers of criminality programme in 2017, and has doubled the numbers of enablers under investigation since 2017.

It collaborates with other members of the Joint Chiefs of Global Tax Enforcement (J5, being the UK, the United States, Canada, Australia and the Netherlands) and shared more data in the first year of the J5 than in the previous ten combined.

#### 5.5 Use of Third-Party Data

HMRC’s main data analyzing tool, known as “Connect”, is a system which cross-references more than 22 billion lines of data including taxpayers’ self-assessment returns, property and financial data. This data matching and risking tool allows HMRC to cross match one billion HMRC and third-party data items, identifying “hidden” relationships between people, organisations and data that could not previously be identified. “Connect” has the capacity to highlight patterns in HMRC’s rich reserves of taxpayer and third-party data, allowing HMRC to find anomalies between

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<sup>18</sup> Simon York CBE. HMRC’s Response to the Rise of The Enabler, <https://www.taxjournal.com/articles/-hmrc-s-response-to-the-rise-of-the-enabler-44236>.

such things as bank interest, property income and other lifestyle indicators. “Connect” identifies more than 500,000 cases (onshore and offshore) for HMRC to enquire into every year.<sup>19</sup> Since its introduction in 2010, it has assisted in the recovery of more than £3 billion in taxes.<sup>20</sup>

## **6. Being Resilient in the Face of External Events**

In the last three years, HMRC has been required to deal with two major external events—the UK’s exit from the European Union (EU) and the response to COVID-19. As HMRC itself notes “it’s been a tough year of urgent and unexpected challenges...”<sup>21</sup>

### **6.1 UK’s Exit from the European Union**

The UK exited the EU on 31 January 2020 when the withdrawal from the EU became law, although a transitional period applied until 31 December 2020. HMRC was required to prepare for the UK’s exit from the EU, either with or without a deal, while maintaining many of its ongoing projects and day-to-day services. The work required including: working on Brexit preparations, building the customs, VAT and excise systems the UK will need and preparing taxpayers for leaving the EU, with or without a deal. This has been a significant extra burden with £516.9 million spent on UK transition work, and 6,100 full-time equivalents (19%) working on UK transition in 2019-20.

### **6.2 Response to COVID-19**

It implemented the Chancellor’s emergency support measures in record time—including the Coronavirus Job Retention Scheme, Self-Employment Income Support Scheme and the Eat Out to Help Out Scheme. It has also made temporary changes in tax policy and the way it operates—delivering vital additional support through helplines.

COVID-19 increased HMRC’s workload and made the organisation more complex. HMRC was required to reallocate many staff to work in COVID-19-related roles. At its peak, in May 2020, HMRC reallocated more than 9,000 (16%) of its staff. It has kept its usual services running and provided a safe working environment.

## **7. Future Direction for UK Tax Administration Environment**

All this reform does not mean that changes are complete—but rather the considerable steps have been made on the journey. Indeed, in his March 2020 Budget, the Chancellor highlighted the Government’s intention to create a tax system fit for the challenges and opportunities of the 21st century. The future direction for tax administration in the UK for the next ten years was set

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<sup>19</sup> HMRC. No Safe Havens 2019: responding appropriately, <https://www.gov.uk/government/publications/no-safe-havens-2019/no-safe-havens-2019-responding-appropriately>.

<sup>20</sup> Jay Sanghrajka. HMRC’s Connect computer and investigations, <https://www.taxation.co.uk/articles/hmrc-s-connect-computer-and-investigations>.

<sup>21</sup> HMRC. Charting HMRC's progress this financial year, <https://www.gov.uk/government/news/charting-hmrCs-progress-this-financial-year>.

out in July 2020. The Government sees real-time information as being at the core of an effective and modern tax system. It also sees timely payment of tax as important:

“The Government wants people and businesses to be able to pay the right tax as they live their lives and go about their business. It should be easy for people to pay any tax due, and for the vast majority of people the calculation and payment of tax should be effortless. For the majority of businesses, tax should be straightforward and hard to get wrong.”<sup>22</sup>

The Government also envisages that a well-designed tax administration system will allow third party software suppliers to align their systems more closely with those of HMRC, so that taxpayers are proactively offered new and innovative services.

This vision is important, worthwhile and achievable in the next 10 years. The resulting commitments made by HMRC<sup>23</sup> are to:

- Extend Making Tax Digital—With the new VAT service now in place, from April 2022 smaller VAT-registered businesses will also be required to join. From April 2023, Making Tax Digital will be extended to Income Tax Self-Assessment for businesses and landlords with income over £10,000. In November 2020, HMRC commenced consultation on Making Tax Digital for Corporation Tax, which will not be introduced before April 2026 at the earliest.

- Use real-time information—At the core of an effective, modern system is real-time information, giving taxpayers a more up-to-date understanding of, and certainty over, their tax position, with capacity for real-time risk assessment removing opportunities for error.

- Explore options for timely payment of tax—Bring tax payment more in line with the increasingly real-time nature of tax reporting and other services.

- Build a secure, easily accessible single digital account—Customers will be given one complete financial picture, bringing together their different taxes and data sources, enabling HMRC to provide more personalized services.

- Improve services for agents and representatives—HMRC will design in access from the outset, ensuring agents can see and do what their clients can.

- Modernize the Tax Administration Framework—HMRC will simplify and modernize the outdated legislative framework, so both it and taxpayers can benefit from advances in use of technology and data—for example, only needing to register once for all taxes.

Consultation has now commenced regarding improvements to the tax administration framework. Improvements will focus on the legislation, processes and guidance that underpin the

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<sup>22</sup> HMRC. Building a trusted, modern tax administration system, <https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system>.

<sup>23</sup> HMRC. 2019 to 2020 Annual Report and Accounts, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/933121/HMRC\\_Annual\\_Report\\_and\\_Accounts\\_2019\\_to\\_2020\\_\\_Web\\_.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933121/HMRC_Annual_Report_and_Accounts_2019_to_2020__Web_.pdf).

administration of taxes and duties. The Government proposes that the revised tax administration framework will:

- Provide certainty and appropriate safeguards for taxpayers. It will aim to ensure that obligations are clear and easily understood, with decisions made in a consistent way that promotes trust and fairness. There should be appropriate safeguards and effective support for taxpayers.

- Be flexible enough to adapt to changing circumstances and enable targeted support for taxpayers. It should support a simpler experience for those who are working, structuring their businesses or managing their income in non-traditional ways. The framework should also have the flexibility to allow the tax system to respond to future technological, economic and social change, and deliver targeted policy responses to any future crises.

- Support HMRC's aim to make it easy to get tax right and harder to get wrong. It should provide clarity over what taxpayers, intermediaries, third parties and HMRC need to do, and by when.

- Help build trust in a tax system that is seen as fair and even-handed.

- Be as simple and transparent as possible.

- Help reduce the cost for taxpayers, agents and representatives in interacting with the tax system, and make it easier for HMRC to collect the tax that is due.

In the next phase of tax reform, the UK has an opportunity to test whether the current rules and established ways of doing things still make sense. There is an opportunity to develop a framework that will reflect the needs and experiences of people who use the tax system, and to build public trust in HMRC as an organisation central to the UK national resilience and crisis response.

## **8. Conclusions**

The world has changed immeasurably over the last two decades, and the rapid growth of information and communications technologies and rising public expectations of world-class customer service mean that the UK both can, and must, have a fully digital tax system being able to support taxpayers across the full range of their needs.

Over recent years, many countries/regions have delivered improvements in tax administration, driven largely by advances in technology. As with many other areas of society, progress has not been universal or uniform, and this is reflected in the UK experience.

For all governments, the administration of tax is a priority. Paying tax is one of the most universal, frequent and potentially contentious interactions that citizens have with their government. It can affect, and be affected by, an individual's broader perception of government. If paying taxes is seen as easy, straightforward, fair and robust, then individuals and businesses may associate those traits with their government more broadly. If citizens can see how their taxes are used and if they recognise the corresponding value generated for society, they may be more likely to

comply with their tax obligations.

The UK's experience over this period offers some lessons for good practice in terms of improving the tax administration environment. These include:

- The need for agility and resilience: External events such as the UK's EU exit and COVID-19 have shown that tax administrations need the ability to adapt their plans in times of extreme need.

- Strong governance and prioritization reviews: HMRC's transformation was publicly identified as a strategic priority, key performance indicators identified and regularly reviewed by external bodies. Prioritizing aspects of a major transformation is difficult, as its components will often be interdependent, and some systems changes will have fixed dates. A clear and structured approach works well. HMRC benefitted from timely reprioritization exercises in 2017 and 2018.

- Modernisation cannot and should not happen overnight: HMRC's reforms and the UK Government's vision for future tax administration emphasize the importance of carefully sequenced reform in stages.

- Investment in good IT systems is vital: New technologies bring increased efficiency and effectiveness. The cumulative introduction of innovative technologies into the tax administrations' production systems, tax data capture at the transaction point and algorithm friendly tax code allow for unprecedented automation and efficiency. Dealing with legacy systems is often an issue for government bodies.

- Digitalization should be thought through carefully with an end goal in mind: Digitalization can bring huge benefits to taxpayers. Making Tax Digital has required a multi-year investment. It has shown that good systems for making registration, returns, payments, handling data and communications can contribute to a tax administration's ability to engage with taxpayers. Supporting secure and unique identification of taxpayers in a joined-up way helps to reduce burdens and to move tax into the background.

- Effective use of data requires a systems-wide approach: Since 2015, the amount of data available to tax administrators has increased dramatically. HMRC's use of data matching and data analysis, combined with the expanded collection of third-party data from private sector institutions, shows the potential in data.

- Minimize unnecessary change: Stability of the tax system makes administrative improvement easier to deal with. Change is the biggest source of complexity in the tax system.

- Tax administrations of the future will require different skills: Upskilling and increasing the competencies of tax officials is a major part of any reform to the tax environment. Human intervention will take place less frequently.

- Cooperation and understanding from all those involved makes a difference: Reforms benefit

from an open and comprehensive approach to stakeholder engagement, ensuring any future reform is designed in collaboration with those who will be affected. The tripartite relationship between tax administration, business and tax advisers will be key in achieving voluntary compliance.

- Reform needs to include review of the legal framework: Tax law governing administration needs to facilitate rather than hinder administrative improvements, whereas most tax administrations may still be following outdated laws. The UK's approach to reforming the tax administration framework could lead to lasting benefits.



## **BRITACOM Update on Improving Tax Environment**

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