

House of Commons  
Treasury Committee

**GOVERNMENT  
RESPONSE TO THE  
COMMITTEE'S EIGHTH  
REPORT: INLAND  
REVENUE: SELF  
ASSESSMENT SYSTEMS**

Fourteenth Special Report of Session  
2001–02

---

*Ordered by The House of Commons to be printed 15<sup>th</sup> October 2002*

---

HC 1220  
Published on 23<sup>rd</sup> October 2002 by authority of the House of Commons  
London : The Stationery Office Limited  
£3.00

## TREASURY COMMITTEE

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the HM Treasury and its associated public bodies.

### Current membership

Mr John McFall (*Labour, Dumbarton*) (Chairman)  
Mr Nigel Beard MP (*Labour, Bexleyheath and Crayford*)  
Mr Jim Cousins MP (*Labour, Newcastle upon Tyne Central*)  
Mr Michael Fallon MP (*Conservative, Sevenoaks*)  
Mr David Laws MP (*Liberal Democrat, Yeovil*)  
Kali Mountford MP (*Labour, Colne Valley*)  
Mr George Mudie MP (*Labour, Leeds East*)  
Dr Nick Palmer MP (*Labour, Broxtowe*)  
Mr James Plaskitt MP (*Labour, Warwick and Leamington*)  
Mr David Ruffley MP (*Conservative, Bury St Edmunds*)  
Mr Andrew Tyrie MP (*Conservative, Chichester*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in the House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk) The Committee has power to appoint a Sub-Committee, which has similar powers to the main Committee, except that it reports to the main Committee, which then reports to the House. All members of the Committee are members of the Sub-Committee, and its Chairman is Mr Michael Fallon.

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) from Session 1997-98 onwards are available on the Internet at [www.parliament.uk/commons/selcom/treahome.htm](http://www.parliament.uk/commons/selcom/treahome.htm). A list of Reports of the Committee published in the present parliament is at the front of this volume.

### Contacts

All correspondence for the Treasury Committee should be addressed to the Clerk of the Treasury Committee, 7 Millbank, House of Commons, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5769. The Committee's email address is: [treascom@parliament.uk](mailto:treascom@parliament.uk).

# FOURTEENTH SPECIAL REPORT

**The Treasury Committee has agreed to the following Special Report:**

## **GOVERNMENT RESPONSE TO THE COMMITTEE'S EIGHTH REPORT: INLAND REVENUE: SELF ASSESSMENT SYSTEMS**

1. On 25th July 2002, the Treasury Committee published a Report on the Inland Revenue Self Assessment Systems as its Eighth Report of Session 2001–02 (HC 681). This Report originated in the Sub-Committee. On 11th October 2002, we received the Government response, which is reproduced as Appendix II to this Report.

### **APPENDIX**

#### **Letter from the Paymaster General to the Chairman of the Committee**

#### **Eighth Report from the Treasury Committee, Session 2001-02 (HC 681) Inland Revenue: Self Assessment Systems**

The Government welcomes the interest shown by the Committee in Self Assessment. As you know, the Inland Revenue is itself currently reviewing Income Tax Self Assessment. The Committee's report makes a valuable and important contribution to improving the system and many of the recommendations involve work currently being considered. I attach the Government's detailed response to the Committee's recommendations.

At my appearance before the Committee, I offered to let them know about the Self Assessment Review's progress and I will write to you on this separately in a few weeks.

May I just finish by thanking the Committee for what I thought was an extremely useful exercise.

*11 October 2002*

#### **Government Response to the Eighth Report from the Treasury Committee, Session 2001-02 Inland Revenue: Self Assessment Systems**

**(a) People receiving Self Assessment tax returns are not told why they are issued, even though once received they are obliged by law to complete and return them. The Inland Revenue do not publish the criteria for issuing Self Assessment tax returns because of the enormous number of situations in which a return is issued. We believe this to be an unsatisfactory state of affairs, which stems from the complexity of the tax system. We note that the Inland Revenue is examining how it can provide greater transparency so that people have a clearer idea of whether they are covered by Self Assessment or not. We wish to see the criteria for issuing Self Assessment returns published in the interests of fairness to taxpayers (paragraph 7).**

The Department accepts there should be greater transparency about the criteria for inclusion in Self Assessment (SA). They are currently reviewing Self Assessment and are looking at ways in which the criteria might best be publicised.

**(b) We are concerned at the Revenue's failure to inform taxpayers who need no longer submit Self Assessment tax returns of this fact, causing unnecessary worry to taxpayers waiting for tax returns that will not arrive. We therefore welcome the Paymaster General's undertaking to the Committee that the Revenue will now write**

**to taxpayers when they are no longer required to submit a return to inform them of this fact (paragraph 10).**

The Department accepts that it would be helpful for people to know when they are no longer required to complete a Self Assessment tax return. They already write to some taxpayers in this situation and are planning to make systems changes so that a letter is issued to all taxpayers automatically where a return is no longer required. They plan to do this as a package of linked improvements (see the responses to recommendations (a),(c) and (e)) as soon as practicable.

**(c) The Revenue recognises that there are too many people with low incomes, particularly pensioners, in Self Assessment and is looking at ways of taking them out of the system altogether or of making it easier for them to assess. We support these aims and expect the Revenue to make real progress towards achieving them over the next year (paragraph 13).**

The Review of Self Assessment, which the Department is currently conducting, suggests that it may be possible to take taxpayers with straightforward affairs (including some pensioners) out of Self Assessment. But further research is needed to ensure that any taxpayers removed from Self Assessment will, as far as possible, not be required subsequently to be reinstated on the system as a result of minor changes in their income or circumstances. Once that research is completed the Department will seek to implement these changes as soon as it is able, subject to the constraints of resources and other priorities.

**(d) We are disappointed that the Budget contained no measures specifically designed to simplify Income Tax Self Assessment. Given the existing level of complexity, we support the proposition that there should be annual changes to the tax system aimed solely at simplification. We therefore recommend that this be included as one of the Inland Revenue's key Performance Targets against which the Revenue should report progress annually (paragraph 19).**

There are a number of objectives for the tax system including fairness, ease of compliance and simplicity. In this context, the Department considers its current targets and reviews provide a more suitable framework to find ways to make Income Tax self assessment easier to use:

- the Department has an existing Public Service Agreement target to reduce compliance costs for small businesses. It also contributes to the Government's wider Regulatory reform plan annually, to help reduce burdens on business and individuals and to improve the support service offered to businesses.
- the Department is also undertaking a Review of Self Assessment, which is focused on reducing complexity and making further improvements to forms and guidance.

**(e) We recognise that the tax return reflects the complexity of the tax regime and the need to obtain sufficient information to calculate their liability from taxpayers with different circumstances. But we consider there is scope for a shorter and simpler tax return, particularly for those with relatively straightforward affairs. We therefore recommend that the Revenue continues its efforts to develop a suitable form (paragraph 24).**

The Department accepts the Committee's recommendation and work is well under way on the development of a Short Tax Return for people with straightforward financial affairs.

Consultation with representative bodies and usability testing with taxpayers has begun and

will be followed by a Short Tax Return pilot commencing in April 2003.

Full implementation of a Short Tax Return will involve significant change to the Self Assessment IT system. Funding and resource to implement these changes will fall within the Department's prioritisation process.

**(f) We are concerned that, despite the marginal improvement in the number of taxpayers that filed their tax return on time last year, one in ten taxpayers had not filed by 31 January, the due date. We expect the Revenue to monitor this position closely and review what further steps it can take to encourage people to file on time (paragraph 30).**

The Department recognises the need to build on their success in turning around a four-year decline in the proportion of people filing on time. They are continuing to develop a programme of initiatives to research the causes of late filing and encourage people to file on time, and they are expanding this to cover 'payment' as well as 'filing'.

The Department is evaluating last year's initiatives to improve further the action this year: e.g. by sending earlier written reminders and increasing the number of telephone reminders to the most responsive groups.

**(g) There is a misconception, which the Revenue needs to address, that filing early increases the chance of being selected for enquiry. In fact the reverse is the case. We recommend that the Revenue takes steps to make this clear to agents and taxpayers in its publicity. We also recommend, to encourage early filing and spread filing peaks, that the Revenue considers the possibility of changing the enquiry window to run for twelve months from the date the tax return is received, rather than twelve months from 31 January (paragraph 31).**

The Department recognises the need to publicise the fact that early filing does not increase the chances of being selected for enquiry and will take steps to do so.

It may not be appropriate to change the 'enquiry window' for early filers. The existing system enables all returns filed up to the 31 January to be risk-assessed together, which has benefits for compliance generally and for compliant taxpayers. These benefits could be lost if the 'enquiry window' was changed, but the Department will consider this as part of the Self Assessment Review.

**(h) We were very surprised to learn there were tax returns outstanding from the start of Self Assessment in 1996–97 and for each of the following years. We are concerned that the Revenue has not actioned these cases in a timely manner and recommend action now be taken to resolve this matter (paragraph 35).**

The Department accepts this recommendation. They are prioritising available resources to pursue old outstanding returns and stepping-up the use of 'daily penalties' to enforce filing. They are also completing feasibility work on providing IT support for pursuing Self Assessment returns and debts by bringing them onto their Integrated Debt Management System.

**(i) The potential benefits from Internet filing to both taxpayers and the Revenue are considerable. But take-up of the service in the first two years has been very disappointing and much lower than the Revenue had anticipated. The Revenue will only achieve its ambitious target of 50 per cent take-up by 2005 if it offers a reliable service that meets users' expectations. In this context we are concerned that one in five attempts to file on-line fail and we recommend a review to identify the causes of these failures and remedies for those within the Revenue's control. We also**

**recommend that the Revenue examines what further steps it can take to make its on-line service more attractive to potential users (paragraph 41).**

The Department is continually looking at ways of enhancing and developing Self Assessment Online to make it easier to use and more attractive to customers. From April 2002 additional schedules were made available; some designatory fields were pre-populated with data and improvements were made to the registration and log-on process and on-line help.

The rate of take-up is encouraging and the submission success rate continues to improve. The Department continues to seek ways to make electronic service more attractive and also monitors those forms where submissions were unsuccessful to help identify further improvements.

**(j) We are very concerned that failings in the Revenue's Internet filing service allowed taxpayer confidentiality to be breached and that the service had to be withdrawn for more than a month while remedial action was taken. We note the Revenue's admission that there are lessons to be drawn from this extremely serious incident, including wider issues of Internet security, and that it is working with the e-Envoy's office to ensure that these are shared more widely. We expect the Revenue and the e-Envoy to include in their work a review of the procedures used to test the Revenue's system before it was implemented, and to report on the outcome of their deliberations on the lessons to be shared (paragraph 46).**

The Department very much regrets that this problem occurred. Independent Internet security specialists and the Office of the e-Envoy were involved in the investigations and have verified the actions the Department has taken.

A full investigation is currently being carried out and key lessons will be shared with the Office of the e-Envoy.

**(k) It is too soon to determine what impact this incident has had on the level of Internet filing. We expect the Revenue to monitor this closely, and to examine what additional steps it can take to restore taxpayer confidence in the security of the system should this be necessary (paragraph 47).**

The Department carefully monitors take-up and is encouraged by figures to date, which show an increase on the comparable period last year despite a temporary loss of service.

**(l) We note that the Revenue has been testing a scheme to allow taxpayers to pay monthly instalments by direct debit towards their Self Assessment liability. We believe that many taxpayers, particularly the self-employed and those starting a new business, would find such a facility useful. We are therefore concerned that the trial appears to have reached no conclusions after three years. We recommend that the Revenue evaluates and reports on the results of this trial as a matter of urgency (paragraph 52).**

The direct debit trial was a small scale experiment, which would require extensive new payment handling infrastructure to support it on a national scale. So to get the best value from investing in payment infrastructure the Department is systematically examining the combinations of payment methods and channels that are most convenient and cost effective. The Department recognises the need to make effective progress soon.

**(m) We agree with the Paymaster General that people should be able to pay tax rapidly and conveniently in various ways, but introducing new payment methods does not appear to be a matter of priority to the Revenue. We recommend that the cost**

**to the Revenue of providing a facility to pay by credit card be evaluated (paragraph 53).**

The Department accepts this recommendation. It is now looking at new payment methods, including payment by credit card and through third parties.

**(n) It appears from the evidence we have received that Corporation Tax Self Assessment has been introduced without any significant problems. We note the suggestion that the quarterly instalments large companies are required to pay should be based on prior year figures, rather than on estimates as at present, with a final adjustment based on out-turn when known. We recommend that the Revenue examine and report on the costs and benefits of such a change (paragraph 57).**

A major representative body has told the Department that despite earlier doubts, companies are coping quite well with estimating their quarterly instalment payments (QIPs).

Practical guidance on the instalment system, which the Department published in June 2002, has addressed most of industry's concerns. The guidance clarifies the underlying principles of QIPs and provides examples to help companies operate the system without excessive compliance costs. It was prepared jointly with industry, representative bodies and advisers and has been well received.

The Department is in regular contact with representative bodies and has arranged meetings with them to discuss the QIPs system. As the main concerns of industry appear to have been met, the Department does not consider a full report on the suggested change would represent value for money although it will continue to monitor the position

*October 2002*

Distributed by The Stationery Office Limited and available from:

**The Stationery Office**

(mail, telephone and fax orders only)

PO Box 29, Norwich NR3 1GN

General enquiries 0870 600 5522

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

Fax orders 0870 600 5533

You can now order books online at [www.tso.co.uk](http://www.tso.co.uk)

**The Stationery Office Bookshops**

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68–69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9–21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

The Stationery Office Oriel Bookshop

18–19 High Street, Cardiff CF1 2BZ

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

**The Parliamentary Bookshop**

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders 020 7219 3890

General enquiries 020 7219 3890

Fax orders 020 7219 3866

The Stationery Office's Accredited Agents

(see Yellow Pages)

and through good booksellers

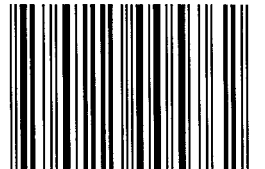
© Parliamentary Copyright House of Commons 2002

Applications for reproduction should be made in writing to the Copyright Unit,

Her Majesty's Stationery Office, St Clements House, 2–16 Colegate, Norwich NR3 1BQ

– Fax 01603 723000

ISBN 0-215-00576-7



9 780215 005762