



24 July 2024

James Murray MP
Exchequer Secretary to the Treasury
HM Treasury

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Dear Minister,

Thank you for inviting us to meet with you today to suggest priorities for reforms to the tax system, and how it can support economic growth.

The Association of Taxation Technicians (ATT) is a charity and the leading professional body for those providing UK tax compliance services. Drawing on our 9,800 members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our suggestions for six key priorities for the tax system are as follows:

1) HMRC service levels

Our members continue to experience significant problems with HMRC's performance, which in turn impact their ability to serve their clients. Agents regularly report waiting more than 40 minutes for phones to be answered, poor quality or meaningless advice on webchat and long delays in getting answers to post (more than 12 months in some instances).

These problems are not unique to agents. Statistics from the National Audit Office's report¹ on HMRC service levels in 2022/23 were widely quoted in the press, in particular the 7 million hours taxpayers cumulatively spent on hold to HMRC, which has more than doubled compared with pre-pandemic levels. From HMRC's perspective, we understand their staff dealt with almost 1.1 million "progress-chasing" phone calls in 2023/24. Improving service levels and response times would drive down this type of unnecessary contact.

Whilst we support the Government's commitment to tackling tax avoidance and evasion, £17.8 billion of the tax gap is estimated² to be due to errors and carelessness, with small business believed to be responsible for 60% of the overall tax gap. We believe improving the service provided to this population would boost compliance, save HMRC time in the long run in dealing with compliance failures, whilst allowing owners to dedicate more time to running and growing their businesses.

Shortcomings in HMRC service levels are likely to lead to taxpayers making more errors and failing to meet their compliance obligations if they cannot get good advice and answers from HMRC. At the same time, fiscal drag means that HMRC is being asked to support more taxpayers each year. In the short term, it is difficult to see a solution other than increases in HMRC funding, but this should be seen as an investment in improving a key mechanism of Government funding, which can help drive economic growth. The longer-term solutions include a renewed focus on simplification to remove complexity and increased digitalisation of services for taxpayers and agents.

¹<https://www.nao.org.uk/wp-content/uploads/2024/05/hmrc-customer-service-summary.pdf>

²<https://www.gov.uk/government/statistics/measuring-tax-gaps/1-tax-gaps-summary>

2) Expand and improve digital services for all

We believe expanding and improving the availability of digital services to agents and taxpayers is key to improving HMRC service levels, whilst delivering long-term value for money for the Exchequer.

Agents need to be able to see and do what their clients can do online, so that taxpayers who wish to can effectively and efficiently outsource their tax affairs and focus their own efforts where they will be most productive. Our members constantly say they want to do more online with HMRC, but there are significant gaps in HMRC's digital services, particularly for agents. Whilst we have seen improvements in digital services available to taxpayers (for instance, the recent expansion of digital services for Child Benefit), agents still lack access to digital services for even basic tasks such as correcting a client's PAYE code, accessing their NIC record, or cancelling a tax return.

The Making Tax Digital programme (MTD) is expected to bring improvements for HMRC by moving taxpayers to a more modern IT platform so that HMRC and taxpayers have a more holistic view of their tax affairs. Currently a taxpayer's affairs can be split over multiple systems that can't 'talk' to each other. However, there is currently no indication of when taxpayers outside the current scope of MTD will benefit from these improvements. This leaves a significant population of taxpayers on old, insecure systems for an indefinite period and means HMRC is both incurring the costs of developing MTD *and* maintaining old systems. HMRC need to provide a realistic timeframe within which the wider Self-Assessment population is expected to be re-platformed to the new IT system. At this stage it may also be worth considering more substantial changes, such as scrapping aspects of MTD which make it difficult for some taxpayers to engage with MTD (eg quarterly reporting and the lack of free software for very small businesses) in order to assist the process of transition. Providing a meaningful incentive for taxpayers to join the MTD testing programme would also help maximise the chances of delivering MTD successfully.

HMRC's continued heavy reliance on post is outdated and problematic – agents (and, we suspect, many taxpayers) would be keen to make greater use of email and other digital correspondence with HMRC. In the absence of digital services, agents and taxpayers resort to post rather than endure long waits on telephone helplines. Expanding digital services would also allow HMRC to better understand the demand in each area while allowing taxpayers to see the progress of their correspondence and reduce the number of chasing calls. The devolved administrations already allow more widespread use of digital communication channels, allowing matters to be resolved more quickly and reducing the risk of delays due to correspondence going missing.

Whilst digital services are vital, provision needs to be maintained for the digitally excluded and digitally reluctant to continue to access all HMRC services. By improving digital services for the majority, resources should be liberated to accommodate those taxpayers who cannot realistically be expected to go online.

3) Stability and certainty

Economic growth relies on business confidence. Alongside challenging macroeconomic conditions in recent years, businesses have faced instability and uncertainty due to frequent changes in tax policy.

Numerous alterations to tax rules and regimes, often at very short notice, in particular to the Research & Development (R&D) tax relief regimes and Capital Allowances legislation have created confusion, caused errors and potentially discouraged businesses from investing.

R&D tax relief has also been adversely affected by HMRC's current hard line approach to compliance checks in this area. Combined with the frequent rule changes in recent years, this is causing companies to abandon or simply not make legitimate R&D claims due to the complexity and time costs of doing so.

We urge the Government and HMRC to resist making further changes to common tax reliefs for businesses, so as to allow businesses to feel confident in making long term decisions which support economic growth.

4) Tackle 'cliff edges' within the tax system

The tapering of the Personal Allowance once an individual's adjusted net income reaches £100,000 creates a well-known cliff edge of taxation, resulting in a 62% marginal rate of income tax and NIC for employees earning between £100,000 and £125,140.

For working parents, the position is more severe since tax-free childcare is withdrawn as soon as one parent's adjusted net income exceeds £100,000. By that level of income, they also repay all Child Benefit received by their household (even if it is claimed by a non-working partner).

Combined, these factors can create significant disincentives for individuals to progress in the workplace – for instance the Institute for Fiscal Studies provides a case study³ where a parent with two children would be worse off if they earned £144,000 than if they restricted their income to £99,000.

The Government should address this significant barrier to hard work and growth by consulting on measures to address such 'cliff edges' of taxation.

5) Employment status for tax

Alongside its efforts to improve workers' rights via the Employment Rights Bill⁴, we urge the Government to also consider ways to align employment status for tax with employment law and tackle the 'IR35' problem which has been plaguing small businesses such as contractors and consultants for 20 years.

There remains a considerable 'grey area' in the interaction between tax and employment status, as demonstrated by the number of legal cases concerning the working arrangements of a string of high-profile media personalities. If employment law and tax law for workers were more closely aligned, the complexities and perceived unfairness of 'false' self-employment could be avoided.

6) Review small fixed allowances/exemptions

The tax system contains numerous small allowances and exemptions which are set in legislation without any built-in review mechanism and which have lost their value over time as a result of inflation.

For instance, the Approved Mileage Allowance Payments for reimbursing employees in respect of use of their own vehicles for business travel have been set at 45p and 25p per mile since 2011 and 2001 respectively. Similarly, the £300 annual 'trivial benefits' exemption has remained unchanged since 2016, whilst the Inheritance Tax annual exempt amount has been fixed at £3,000 since 1981. By way of illustration, if the latter had kept pace with inflation, it would now be worth approximately £11,000⁵.

We would welcome a review of this type of fixed allowance/exemption, and a commitment to review them periodically to ensure they remain a relevant and worthwhile feature of the tax system. If their value is eroded by inflation, they risk providing little benefit to taxpayers whilst adding unnecessary volume and complexity to tax legislation.

We consider the above to be some of the primary objectives in improving the tax system, and to support economic growth. We would be happy to meet with you again to discuss these.

Yours sincerely,

Jane Ashton
Chief Executive Officer
Association of Taxation Technicians

³<https://ifs.org.uk/news/childcare-reforms-create-new-branch-welfare-state-also-huge-risks-market#:~:text=For%20those%20with,pay%20reached%20%C2%A3144%2C500.>

⁴https://assets.publishing.service.gov.uk/media/6697f5c10808eaf43b50d18e/The_King_s_Speech_2024_background_briefing_notes.pdf

⁵<https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator>