

# Assessing Self Assessment

Response to the Public Consultation on Self Assessment

# Assessing Self Assessment

Response to the Public Consultation on Self Assessment

## FOREWORD BY THE CHAIRMAN OF THE BOARD OF INLAND REVENUE

Self Assessment has been the largest and most far-reaching change to the tax system since the introduction of PAYE over 50 years ago. Given its scale and complexity I am very pleased with what has been achieved in the first year of operation. Taxpayers have done tremendously well coping with new forms, procedures and time limits; and tax agents and the staff of the Inland Revenue have risen magnificently to the challenge of administering the new system.

400 responses were received to the invitation (contained in a press release on 23 February 1998) to send us views and suggestions on Self Assessment, particularly on what went well and what could have gone better.

With a change of this magnitude it is not surprising that there are things which call for improvement. We always expected Self Assessment to take a little time to bed down, and that we would need to learn lessons from its first year of operation. Where the response to the consultation exercise has been particularly useful is in helping us identify those aspects that we need to concentrate on.

This report describes the main concerns which people have drawn to our attention, and the action we are taking. In some areas we have already made improvements, or plan to do so as soon as possible; in others we are doing further work to see whether the suggested changes are feasible. Where we do not think it appropriate to make changes we say why.

So this is by way of a progress report, and is not the end of the consultative process. We shall continue to welcome suggestions from people outside the Revenue, as well as from our own staff. And we shall hold regular meetings with the main representative bodies, of the sort that have been immensely helpful over the last 5 years, to monitor how the new system is working in practice.

All this reflects my personal commitment to maintain a continuous improvement in the service that the Inland Revenue provides to the public.

NICK MONTAGU  
December 1998



# Background

1. By any standard, the introduction of Self Assessment was a huge and complex undertaking. It has certainly been the biggest change the Inland Revenue has introduced since the implementation of PAYE over 50 years ago, and ranks alongside some of the largest projects undertaken by the private sector. It was also the most fundamental reform ever of the personal tax system.
2. Self Assessment directly affected around 9 million taxpayers, 85,000 tax agents, 350,000 employers and 25,000 Revenue staff - and, indirectly, many more people than that.
3. For the Revenue in particular, it required:
  - the introduction of complex legislation in three Finance Acts;
  - the design and construction of one of the largest computer systems in the world;
  - careful management of a budget of £800 million, a significant number of important risks (not the least of which was uncertainty about how taxpayers would react) and a co-ordinated programme of 42 separate sub-projects, involving some 800 inter-dependencies;
  - a massive training programme (involving over 500,000 training days at a cost of some £60 million) to help Inland Revenue staff in some 600 offices quickly get to grips with new processes and procedures, new cycles of work and new ways of working, while keeping work up-to-date in other important business areas;
  - a similar education programme to inform the public of their new rights and responsibilities;
  - a large educational programme for agents and employers, involving some 16,000 seminars and workshops, attended by some 215,000 people;
  - consultation, testing, prototyping and trialling on a scale larger than ever before;
  - a step-change in customer service, including a national forms Orderline open 7 days a week, a taxpayer telephone Helpline manned every evening and at weekends, and the upgrading of local office switchboards in order to handle the expected increase in telephone calls;
  - a major publicity campaign involving national prime-time television advertising, branding and other marketing techniques; and
  - large scale data inputting by staff in local offices, and the adoption by them of 'process now/ check later', a radically different approach to the way that tax returns are handled and examined.
4. And it required all that to be done within a fixed budget, with an implementation date laid down by law and against the background of the need to maintain the Department's day to day work of collecting some £120 billion of revenue each year.

5. It also presented major challenges for taxpayers and their representatives. It required:
- all Self Assessment taxpayers to take legal responsibility for filing returns in a new format, and paying tax by fixed dates - and some taxpayers to bring their tax affairs up to date first in order to do that - or face automatic sanctions;
  - employers to get to grips with new requirements about the information they have to give their employees; and
  - tax agents not only to help their clients cope but also themselves to adapt to new legislation, procedures and work patterns.

#### Public Consultation

6. We always recognised that we would need to monitor very closely how Self Assessment was actually operating on a day to day basis. To determine that, we announced on 23 February 1998 the launch of a public consultation exercise called 'Your chance to assess Self Assessment'. We asked people to tell us what aspects of Self Assessment were working well and what aspects could be improved.
7. Exactly 400 responses were received. Around one third of these came from individuals - many of whom were pensioners. The remainder came almost wholly from agents - mostly accountants - or from bodies representing accountants or businesses. We are very grateful to everyone who responded.
8. Overall, the response has shown two things:
- on the positive side, it has confirmed that there is nothing fundamentally wrong with the principle of Self Assessment or with the way it was designed, introduced and is currently operating. Specifically, there has been widespread recognition of the efforts made by Revenue staff, in difficult circumstances, to help taxpayers and agents through the first year; but
  - on the other hand, it has emphasised that in a number of areas there is room for improvement - particularly in the accuracy of some of our day to day work, in certain aspects of our procedures and in the customer friendliness of some of our forms.
9. This report describes the main concerns expressed, explains what we have done already to address some of these and indicates what more we are planning to do. Where we do not think change is called for we also explain why.

#### Simplification of Tax Legislation

10. A strongly held view of some respondents, particularly the larger firms of accountants and the representative bodies, was that for Self Assessment to operate most effectively the underlying tax system needs to be simplified. Areas identified as causing particular problems were charges, pension premium and trading loss carry-backs, overseas tax credits and the rules about the averaging of farming profits.

11. The number one concern of individual respondents was also complexity: many found the return and the tax calculation working sheets difficult to complete, and statements of account and tax calculation notices difficult to understand. To an extent, this is also a consequence of the complexity of tax legislation.
12. All those suggestions have been noted. Simplification of the law is, however, a matter for Ministers and Parliament, and proposals for legislative change will be considered by Treasury Ministers as part of the normal Budget process. This report therefore focuses on suggestions for improving the day to day operation of Self Assessment that do not require legislative change.

#### Day to Day Work in Local Offices

13. In the first year of operation of such a major reform, local tax offices, like tax agents, had to cope with a host of changes as well as great deal of pressure. Inevitably, some mistakes did occur, and some things did not go entirely to plan.
14. While recognising the efforts of staff, and the difficult circumstances they had to cope with, respondents were particularly concerned about:
  - errors such as issuing returns to trusts or estates wound up some time ago; not always logging the receipt of returns; capturing information on returns on to our computer systems inaccurately, such as figures, changes of address or agent references; failing to deal properly with additional information on, or sent in with, returns, such as requests to reduce payments on account or to allocate payments in a particular way; 'correcting' returns incorrectly; being inflexible where only small amounts of liability were involved; providing insufficient explanations of corrections made; and failing to code out tax due when requested to do so. Understandably, these sort of errors were particularly irritating for agents when they resulted in incorrect reminders, penalty notices, statements of account or repayments; when it appeared to their clients that they had not done a proper job; and when they, or their clients, then had to incur additional costs to get things put right;
  - inconsistency between local offices, for example in the coding out of underpayments, the treatment of loss and averaging claims or requests to carry back pension premiums, the in-year issue of returns on request and the treatment of provisional figures on returns;
  - delay getting through to some offices by telephone - particularly at peak times, having returns (particularly partnership returns) dealt with, getting replies to letters and receiving repayments; and
  - breakdowns in internal communications, particularly where a request to reduce a payment on account had been made but action was still being taken to collect the full amount.
15. Growing familiarity with the new system should result in fewer errors, greater consistency, reduced delay and better internal communications in the future. Even so, we are taking a number of steps to improve further the level of service provided to taxpayers and agents.

16. We have already:

- clarified the guidance on the 1997/98 tax return about the treatment of pence;
- given local offices additional guidance - for example, on how to handle small differences between the taxpayer's calculation of liability and our own; and
- provided our staff with additional training, with a particular emphasis on areas where difficulties arose in the first year.

17. In addition, we are currently:

- reviewing how the weight of Self Assessment work varies during the year, so as to achieve the best possible alignment of staff resources and workloads;
- strengthening the quality control and assurance work carried out in local offices;
- piloting this year - with a view to rolling out to all offices next year - a national quality monitoring system, which will particularly target those areas which have given rise to errors so far; and
- preparing clearer guidance in our forms and publications on specific points, such as the treatment of provisional figures on tax returns, which caused difficulty or uncertainties for taxpayers and agents.

#### Procedures and Forms

18. In the area of procedures and forms, the main concerns of respondents related to:

- the user-friendliness of statements of account and tax calculation notices;
- PAYE coding notices and statements of account - agents wanted to receive copies of these routinely;
- the large gaps between dates printed on forms, such as statements of account, and their actual date of receipt;
- the information given to agents in February 1998 about the status of their clients affairs (agent/client details) - which appears to have caused some confusion;
- the notification of amounts due to be paid by 31 January - taxpayers and agents want to receive these in sufficient time to organise payment; and
- the receipt of returns and payments - many respondents wanted these to be routinely acknowledged.

19. Statements of account have been the most widely criticised single aspect of Self Assessment. Some respondents suggested that they should be set out like bank statements. Others have suggested that a better explanation of some entries is all that is required.

20. A number of improvements are already in hand, beginning in December 1998, when clearer descriptions of entries will be given, and subtotals will be provided where charges have been adjusted or more than one payment has been received. This should make the reconciliation of amounts due and the allocation of payments easier to follow. In January 1999 we will be providing agents with full details of what has appeared on their clients' statements of accounts since the previous issue of this information in April 1998, and updating these again in April 1999. We are also considering more generally the issue of statement details to agents in the future. And how best to make it clearer to taxpayers that they do not have to pay small underpayments and interest charges straight away but can, if they wish, have these amounts carried forward until a larger amount is due for payment.
21. A significant proportion of respondents also criticised tax calculation notices. They said that they lacked detail and were difficult to understand, that the read across to statements of account was difficult to follow and that the way the tax was actually calculated and the rates used were confusing.
22. Many of those commenting had not, at that time, seen revised notices containing changes that we introduced in February 1998. These forms now provide much more information on the make-up of income, deductions and allowances. Respondents that had seen notices containing these changes commented positively on the improvements made. We will be making further changes in April 1999 to make the link with statements of account clearer and to provide a fuller explanation of corrections made to returns. And we are planning to move away from the incremental way that liability is currently calculated and adopt instead a rather more conventional format using recognisable rates of tax. But we will not be able to introduce that change until at least April 2000.
23. Many agents felt that they should routinely receive copies of their client's PAYE coding notices, or that they should be sent the original notice. Others suggested that we should put a message on the coding notice suggesting that represented taxpayers show the notice to their agent
24. These are not new proposals, but the introduction of Self Assessment has increased the importance of agents being in full possession of the facts when calculating their client's liability. Agents who receive statements on account will increasingly be able to follow what tax has been coded out. Because of this we do not regard change here as high a priority as in some other areas. But we will keep this aspect under review. In the meantime, coding notices do carry a message suggesting that represented taxpayers show the notice to their tax agent.
25. Considerable confusion appears to surround the significance of dates appearing on some forms, such as statements of account or tax calculation notices. Many respondents thought that the dates were issue dates and, when comparing them to the date of their receipt, believed either that the Revenue had been dilatory in issuing these items or that there had been postal delays.

In fact, the date on statements of account shows when the data was extracted from the computer record. On tax calculation notices it shows when the calculation was made, and - although there were unfortunately some delays at one stage in issuing these forms due to technical problems - in normal circumstances these notices are issued to both taxpayer and agent on the following day. The system is, therefore, working as intended, but we do need to explain better what the statement dates mean. In December 1998 we will be making it clear on statements of account that the 'date' shown is the 'statement date' and seeking opportunities to provide appropriate explanations elsewhere.

26. In February 1998 agents were advised in agent/client details whether their clients' returns had:
- been processed, and all liabilities paid
  - been processed, and there were unpaid liabilities
  - not been received, or been received but not processed
27. This reminder about penalties and interest and a warning about the risk of incurring a surcharge was intended to be helpful. Unfortunately, it appears to have caused some confusion. We have decided, therefore, not to repeat the issue of these notifications. As indicated earlier, however, we will be providing agents with full details of what has appeared on their clients' statements of account at least twice a year.
28. We have carefully considered suggestions about the timing of the issue of statements of account that tell taxpayers what they are due to pay by 31 January, these were issued in early January this year. The only feasible alternative is to issue them before Christmas. Clearly, we need to balance the benefit of early notification with the risk of statements getting overlooked if issued too early, and particularly over the Christmas period. We have concluded that it would be better to keep to the same sort of timetable again next year - but within that we will try to issue them as early as possible. We will, as indicated above, also be giving agents details of statements of account at the same time as we issue statements to their clients. We will also be issuing blank payslips with those notifications in January 1999 to facilitate payment. We hope that these changes will be helpful.
29. A number of taxpayers and some agents said that the Revenue should always send an acknowledgement when a return or payment had been received. For individuals this suggestion appears to be linked to feelings of uncertainty regarding the status of their affairs with the Department; for agents it seems to be mainly linked to confusion about different practices adopted by our local offices.
30. The position is that those filing returns electronically will be told within 48 hours whether a return has been successfully processed. With returns filed on paper, the prompt issue of a tax calculation notice or a notice to agents that a return had been cleanly captured, and the subsequent receipt of a statement of account, should normally provide the assurance required. Unfortunately, difficulties occurred in the first year of Self Assessment because of backlogs which built up at certain times in some offices. We are monitoring the position closely during the second year of operation. If we were to provide this kind of information routinely we would want to do so automatically, and the necessary computer changes would take some time to introduce. In the short term, in accordance with our current practice, we will acknowledge the receipt of a return, or a payment, if we are specifically asked to do so.
31. There were a number of other procedural issues raised by respondents which we have also considered:
- the word correction was an irritation for many agents, and reasonably so where the amendment made by the Revenue is in fact incorrect. They requested the use of a more neutral term. We are planning from April 1999 to substitute the word 'revision' for 'correction' on tax calculation notices and in external correspondence;

- some taxpayers suggested that we should offer a monthly payment option. We are currently piloting a budget payment facility in the Newcastle area. If successful we would want to extend this service nationally;
- some respondents suggested that we should provide payslips and payment instructions with penalty and surcharge notices. Here, we think the existing arrangements are sufficient. Statements of account already contain details of all outstanding charges and we aim to issue one shortly after the imposition of a penalty or surcharge, so that there is sufficient time to make payment before the due date. These contain payment instructions and an encoded payslip;
- the need to complete separate employment pages for each employment was an irritation to those with multiple employments in a year. We have considered this carefully, but are unable to depart from the requirement to make a return in the format prescribed by law;
- a number of respondents were confused about the variety of different reference numbers the Revenue use, and suggested that for Self Assessment it ought to be sufficient to use just the Unique Taxpayer Reference (UTR). We are sympathetic towards this suggestion, and would like in the longer term to implement it. In the meantime, however, as our separate computer systems have different access requirements, we will need taxpayers and agents to continue to use existing references. In particular, we need to maintain consistency between references on forms like coding notices, issued by our PAYE computer system, and forms issued by the Self Assessment system;
- our handling of partnerships came in for some criticism. Most of the problems arose from the need to issue old-style partnership assessments for one last year. The transitional arrangements were complex, and resulted in differences of treatment that had not existed previously for most partners compared to other self employed taxpayers. This disparity will not exist in the future;
- concerns were similarly expressed about the different approach we adopt with small Sch E underpayments and equivalent amounts of tax due under Self Assessment. This is not something that has arisen with the introduction of Self Assessment. There always have been differences in our approach to taxpayers who had assessments and those who did not, based primarily on the cost of collecting the amount due. With taxpayers who do not self assess we do not issue a tax return and can deal with small liabilities informally. With Self Assessment we must process all returns and issue a statement, and the cost of doing that is the same whatever the amount remaining unpaid; and
- a number of respondents felt that the cost of putting right Revenue error should be reimbursed by the Department. Our approach to compensation is set out in Code of Practice 1 'Mistakes by the Inland Revenue' - basically, there must have been a 'serious error' or "persistent error" in handling a taxpayer's affairs to justify a claim to reimburse the costs the taxpayer incurred in putting matters right. There are also circumstances in which we will, exceptionally, make a consolatory payment for worry or distress caused as a direct result of serious or persistent error. Guidance on handling compensation claims has been issued to all of our Executive Offices, ensuring consistency of approach, and will be published under Open Government.

32. Finally, there are four aspects of Self Assessment which we are considering to see whether there is scope for easing the burden on specific groups of taxpayers. We are:

- keeping the tax return itself under review, particularly to see if we can shorten it for those with relatively straightforward affairs. But the scope is very limited. The core 8 page Self Assessment return is already shorter than the return form which preceded it. It includes a number of common elements to ensure that as many people as possible, including significant numbers of the elderly, need complete only that - and many others only the core return and one set of supplementary pages. It was thoroughly tested with taxpayers. It is now building up familiarity. And shortening the core return could increase the number of supplementary pages that most taxpayers have to complete;
- considering whether it might be possible, without undue risk both to tax collection and the taxpayers concerned, to exclude some people from the need to make annual Self Assessment returns - for example, those with relatively simple tax affairs;
- considering how best to provide better support and help for the elderly, some of whom have particular difficulties coping with their Self Assessment tax affairs; and
- examining the feasibility of reducing the number of tax calculation working sheets to two - one for most taxpayers and the other for use only by those taxpayers with the most complex affairs. Although we will also consider the potential for simplification as part of that process, our initial research suggests that there is little scope for much change here. If we are able to make some changes, the earliest is likely to be on the 1999/2000 return.

# Conclusion

33. We are extremely grateful to everyone who took the time to let us have views on the day to day operation of Self Assessment. While the scope of the responses was wide ranging, there was also a considerable degree of consensus on the main aspects that need to be improved. A comment by one respondent which perhaps sums up the overall consensus of opinion was as follows:

“The new system is an improvement on the old system. With a little more attention to the organisation within tax offices and a little more clarity of the notices which are issued to taxpayers, the new system could be a very considerable improvement on the old.”

That, in turn, has helped us prioritise our own response, which is reflected in this report.

Issued by Inland Revenue  
December 1998  
© Crown Copyright 1998