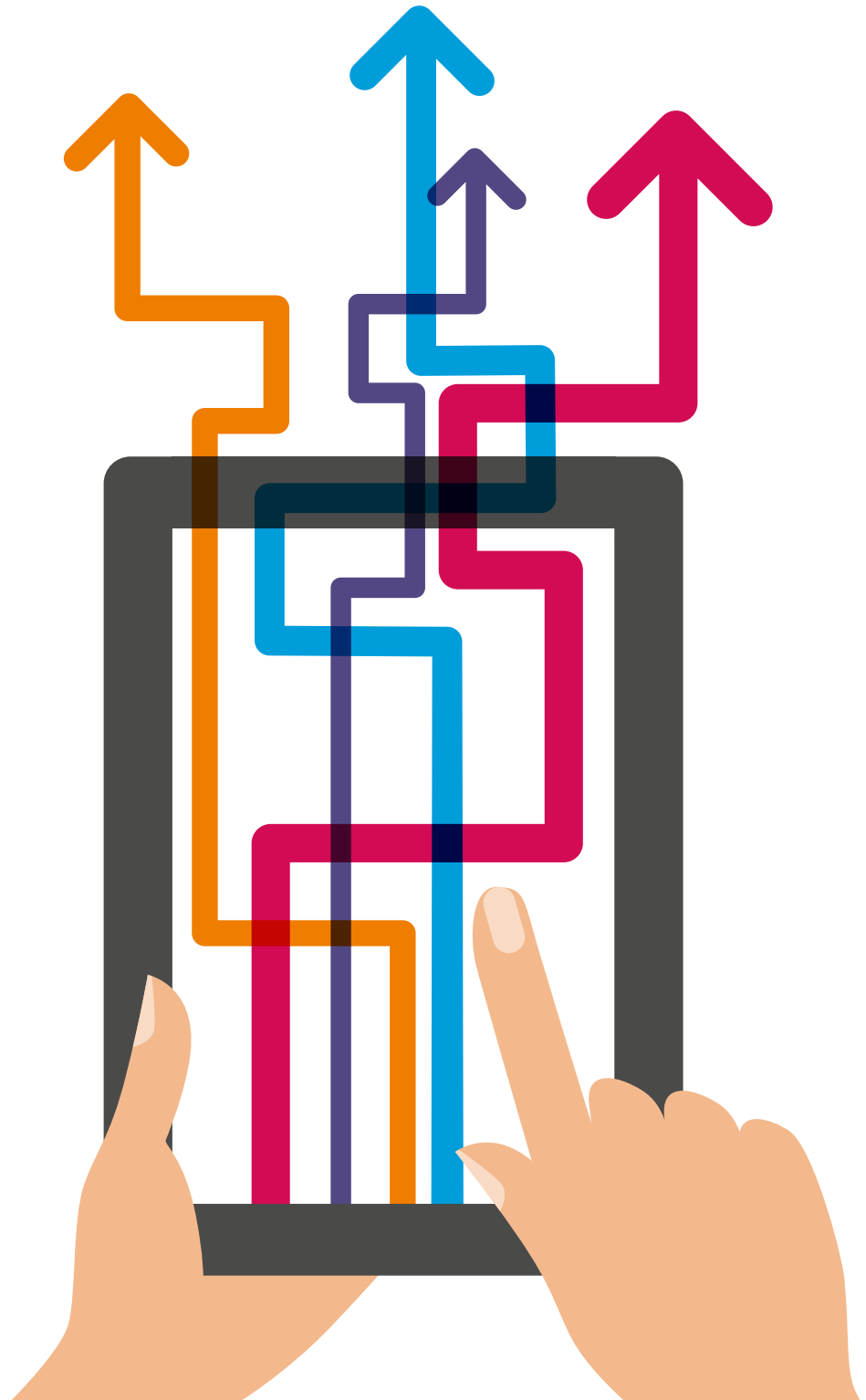




HM Revenue  
& Customs

## Making tax digital



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# Foreword



In every walk of life, people are embracing the digital revolution. From banking online to doing their food shopping, from making a GP appointment to booking a cinema ticket, from advertising a business to paying invoices, millions of individuals and businesses are benefiting from the convenience and simplicity of digital services. But businesses and service providers are going further than simple digital interaction with their customers – they are harnessing the opportunities of the digital age to transform the fundamentals of how their businesses work and how they provide their services. And their customers are reaping the benefits.

This Government is bringing the digital revolution to Whitehall – ensuring that the services it provides are similarly transformed. The tax system is no exception. During this Parliament, HMRC will make fundamental changes to the way the tax system works – transforming tax administration so it is more effective, more efficient and easier for taxpayers.

By 2020, HMRC will have moved to a fully digital tax system where:

- bureaucratic form-filling is eradicated – taxpayers should never have to tell HMRC information it already knows;
- unnecessary time delays are eliminated – the tax system operates much more closely to 'real time', keeping everyone up to date and removing the risk of missed deadlines, unnecessary penalties, debts arising and errors in the system being carried forward from one year to the next; and
- taxpayers have access to digital accounts – with the information HMRC needs automatically uploaded, bringing an end to the tax return.

These reforms will transform the experience of millions of taxpayers. More detail about how these reforms will be implemented, and some aspects of their design, will be the subject of further consultation. These consultations will give stakeholders and customers the opportunity to contribute to this work and shape tax administration for a generation to come.

A handwritten signature in black ink, appearing to read 'David Gauke'.

**David Gauke MP**  
Financial Secretary to the Treasury

# Transforming tax by 2020

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The vision set out here is about much more than simply adding digital tools to the current system: it is about transforming the UK tax system into something that feels completely different.



The government is committed to reducing burdens for taxpayers and building a transparent and accessible tax system fit for the digital age. At the March 2015 Budget, the government set out the vision for a transformed tax system and the end of the tax return.

More than two million small businesses are already using HMRC digital accounts, and digital accounts for individual taxpayers have been introduced this year.

By 2016, every individual and small business will have access to their own secure digital tax account, like an online bank account, that enables them to interact with HMRC digitally. There's much more that HMRC can do with today's technology to make tax easier, transforming tax administration into a personalised service, tailored to the needs of each taxpayer.

By 2020, businesses and individual taxpayers will be able to register, file, pay and update their information at any time of the day or night, and at any point in the year, to suit them. For the vast majority, there will be no need to fill in an annual tax return.

The vision set out here is about much more than simply adding digital tools to the current system: it is about transforming the UK tax system into something that feels completely different. HMRC will collect and process information affecting tax in as close to real time as possible, stopping tax due or repayments owed from building up. Individual and business taxpayers will no longer have to wait until the end of each tax year before knowing how much tax they should pay, avoiding any surprises and helping them to plan their financial affairs with more certainty. And taxpayers will be presented with a complete financial picture of their tax affairs in their digital account, able to see and manage all of their liabilities and entitlements together for the first time.

This document sets out how this bold vision for the future of the tax system will be achieved by 2020.

# Four foundations

The transformed tax system of 2020 has four foundations.

Taxpayers will see the information HMRC holds through their digital tax accounts

## Tax simplified

Taxpayers should not have to give HMRC information that it already has, or should be able to get from elsewhere – for instance, from employers, banks, building societies and other government departments.

Taxpayers will see the information that HMRC holds through their digital tax accounts, and be able to check at any time that their details are complete and correct. HMRC will use this information to tailor the service it provides, according to each taxpayer's individual circumstances. In 2016, HMRC will consult on how information from more third parties might reduce the reporting burden on taxpayers.

## Making tax digital for businesses

Businesses should not have to wait until the end of the tax year or even longer before knowing how much tax they should pay.

HMRC will collect and process information affecting tax in as close to real time as possible, to stop tax due or repayments owed from building-up. From April 2018, businesses, including everyone who is self-employed and those letting out property, will update HMRC at least quarterly where it is their main source of income (or a secondary source of income above £10,000 and their main income is from employment or a pension).

## Tax in one place

At the moment, most taxpayers cannot see a single picture of their liabilities and entitlements in one place. HMRC is changing that.

By 2020, taxpayers will be able to see their complete financial picture in their digital account, just like they do in their online banking. And they will be able to set an over-payment of one tax against the under-payment of another: it will feel like paying a single tax.

## Making tax digital for individual taxpayers

Individual taxpayers will interact with HMRC digitally, and at any time to suit them.

By April 2016, every individual and small business will have access to a digital tax account. The digital accounts will present individual taxpayers with a personalised picture of their tax affairs, along with prompts, advice and support through webchat and secure messaging.

# Tax simplified

All taxpayers will receive the data and services relevant to them, and those requiring extra help will receive personalised support to suit their needs.



At the moment, the information that HMRC receives from a range of sources is held on separate, stand-alone systems. This can result in taxpayers being asked to report via a Self Assessment tax return information that is already held by HMRC on another of its systems. This unnecessary burden for taxpayers is inefficient for HMRC as well: mistakes can be made or the information can be wrong or submitted too late, meaning the right tax is not collected and HMRC has to take recovery action. This can lead to penalties and interest charges which could be avoided.

HMRC is joining up its internal systems, and will populate digital tax accounts with the information it holds. This work is already underway – for instance, until now, taxpayers completing a tax return had to include details of their earnings, paid from their employment, even though HMRC already receives this information from their employer. From next year, most taxpayers completing their return online will find this information already filled in. The same principle applies to information from other government departments, such as the state retirement pension.

HMRC receives information from other third parties too – for example, banks and building societies reporting the interest they pay on their customers' savings. From 2016, information on bank and building society interest will start to be included in tax codes, removing the need for many taxpayers to report this income separately in a tax return.

As announced in the March 2015 Budget, as part of the government's efforts to simplify tax, HMRC will also look at how further information, for example other investment income, could make it easier for people to update HMRC and help end the tax return. In spring 2016, HMRC will publish a consultation document to gather views.

HMRC will make it easier to pay as well. A new system of online billing will mean that anyone who owes tax will be able to see a calculation and pay what they owe, without the need to complete a Self Assessment tax return as they do now.

HMRC understands that taxpayers need varying levels of support. All taxpayers will receive the data and services relevant to them and, for those who have difficulty going online or who need extra support, help will be available through other channels. HMRC is training the teams on its helplines to spot taxpayers in need of extra help. These taxpayers will be offered alternative means of support – over the phone, through face-to-face visits or through partners in the voluntary and community sector.

HMRC will also analyse the information it holds to identify those looking to bend or break the rules. They will be spotted earlier, and tackled earlier, to avoid non-compliance and reduce the need for expensive compliance interventions later on.

Through its better use of data, and presenting digitally the data it holds, HMRC will make life easier for taxpayers and make the collection of tax more efficient.

# Making tax digital for businesses

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By 2020, most businesses, self-employed people and landlords will be required to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax account.



Millions of businesses already manage their tax digitally: 98% of Corporation Tax returns and 99% of VAT returns are submitted online, and HMRC has delivered digital accounts to millions of small businesses. By April 2016, all of the UK's five million small businesses will have access to their own digital account.

By 2020, most businesses, self-employed people and landlords will be required to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax account. These changes will be introduced for some businesses from April 2018, and will be phased-in by 2020, giving businesses time to adapt.

These businesses will be required to use digital tools, such as software or apps, to keep records of their income and expenditure. HMRC will ensure that free apps and software products are available, but many businesses and their advisers will choose to use commercially-available tax software packages. Businesses will use software that compiles their tax data as part of their ordinary day-to-day activity, highlighting any possible errors (for instance, arithmetical mistakes or figures which look out of place) and offering prompts for information that might otherwise be overlooked. Once the software has compiled the relevant data, businesses or their agents will feed it directly into HMRC systems via their computers or smartphones. Updating HMRC directly in this way will be secure, light-touch and far less burdensome than the tax returns of today.

Businesses currently report information on tax returns and pay liabilities long after the end of the tax year. The government is changing the tax system so that it operates much more closely to 'real time'. Business will be able to see, through their digital accounts, a real-time view of their tax and a calculation of the tax due. By reporting information closer to real time, businesses will find it easier to understand how much tax they owe, giving them far more certainty over their tax position and helping them to budget accordingly.

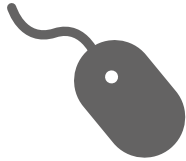
The government will consult widely on the details of these measures in spring 2016, including on whether they should apply to charities, sports clubs and their trading subsidiaries. The government has already announced, however, that these measures will not apply to individuals in employment or pensioners, unless they have secondary incomes of more than £10,000 per year from self-employment or property.

The government is consulting on options to simplify the payment of taxes, including whether to align payment dates and bring them closer to the point when profits arise, so that businesses make a single regular payment that covers all of the tax that they owe.

# Making tax digital for individual taxpayers

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By April 2016, every individual taxpayer will have access to their own digital account – simple, personalised and secure, offering an increasing range of services.



Millions of individual taxpayers are already starting to manage some aspects of their tax affairs digitally through online filing and payment in Self Assessment. 86% of Self Assessment tax returns are made online, and digital accounts for individuals have been introduced this year. The future tax system for individual taxpayers will be built on the same core principles as those for businesses – a digital tax system operating in as close to real time as possible.

By April 2016, every individual taxpayer will have access to their own digital account – simple, personalised and secure, offering an increasing range of services. By 2020, HMRC aims to be interacting digitally with all taxpayers. By that time, the full range of tax and Child Benefit services will be available for all taxpayers to use, accessible from a wide range of devices and protected by the very latest technology to encrypt data and keep it safe.

HMRC will automatically target prompts and advice through secure messaging in the accounts, tailored to taxpayers' specific needs and circumstances – such as when someone has a baby, or approaches retirement. Digital support will be there for those who need it, as HMRC builds on the successful online services it already operates through Twitter, YouTube, webinars and webchats.

Just like businesses, individual taxpayers currently give information on tax returns and pay liabilities up to ten months after the tax year to which the information relates. Even with the vast majority of employers now operating PAYE in real time, the final tax position for the employee is typically only reconciled after the end of the tax year. Millions of taxpayers find they have paid too much or too little,

which they find both frustrating and time-consuming to resolve.

HMRC has already started using real-time PAYE data to reduce end-of-year under and overpayments, by changing tax codes in-year. From 2017, HMRC will further develop its use of real-time data – checking income, benefits-in-kind and personal allowances each month to make tax code adjustments that will help avoid under and overpayments altogether. This will be of particular benefit to taxpayers with more than one job or those with low or fluctuating income, many of whom contact HMRC regularly to change how their personal allowances are shared between jobs and pensions to prevent overpayments of tax. In the future, they will be able to see these adjustments clearly through their digital tax account and choose how their personal allowances are allocated.

HMRC will be able to use its PAYE information together with real-time information from third parties to ensure that any tax due from other sources of income does not build up. Tax arising on additional income that is small or regular will be collected through in-year adjustments to tax codes, while those with tax due on larger or less predictable sources of income will be able to pay it online.

The government announced at Autumn Statement 2015 that Capital Gains Tax would be brought more closely into line with income tax – paid within 30 days of completion of any disposal of residential property. This requirement will be introduced from April 2019, with further options to align payment arrangements covered in the government's consultation on payment.



# Tax in one place

In the next five years, all taxpayers will be able to use their digital accounts to see a single, up-to-date and easy-to-follow overview of their tax affairs.



At the moment, many taxpayers have to contact different parts of HMRC to find out their financial position relating to different taxes. A business may pay income tax, VAT, National Insurance or Corporation Tax; an individual may pay income tax, National Insurance contributions or student loan repayments and receive Child Benefit; some people run a business as well as being an employee or having a pension. The modern, digital tax system will give all of these taxpayers a single, personalised view of their overall tax position across all of their liabilities.

This overview will make it much easier for taxpayers, and their tax agent if they have one, to see the payments they have made to HMRC. Those who need to pay HMRC will be able to do so through their digital tax account. Where they need to pay more than one liability, they will be able to make a single payment – off-setting any tax owed on one liability against an overpayment on another. It will feel like paying a single tax.

There will be rules governing when money can be reallocated

between different liabilities, and HMRC will be working with stakeholders to establish how these rules will work.

Those with more than one source of income collected through PAYE will see an up-to-date picture of their tax affairs, showing all of the information received by HMRC from their employer, and how each income source affects their tax calculation. For example, someone with two part-time jobs will be able to take control of how their personal allowance is split between each of them, in order to pay the right tax in-year.

To deliver these changes, HMRC needs to reconfigure its internal systems significantly and this work is already underway with, for example, the creation of the business tax dashboard and the launch of digital tax accounts. This will open up new opportunities for developing a simpler tax administration framework. Here too, HMRC will work with stakeholders and taxpayers to ensure that every opportunity is taken to improve the transparency and accessibility of the tax system.

# The end of the tax return

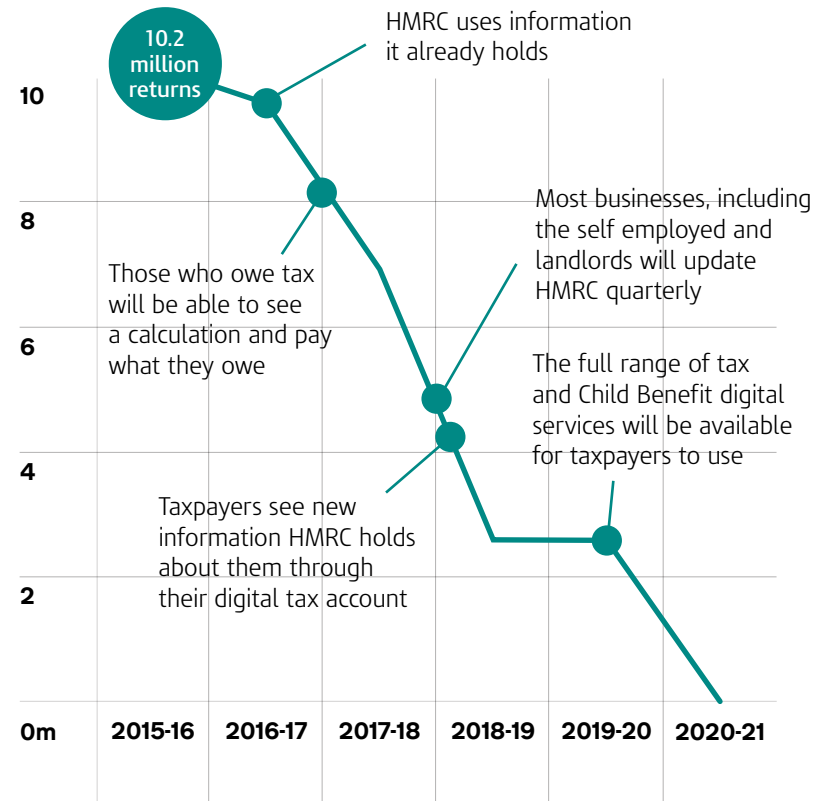
Digital accounts will make paying tax much easier, quicker and simpler

Over the next five years, the changes outlined in this document will bring about the end of the tax return for millions of taxpayers:

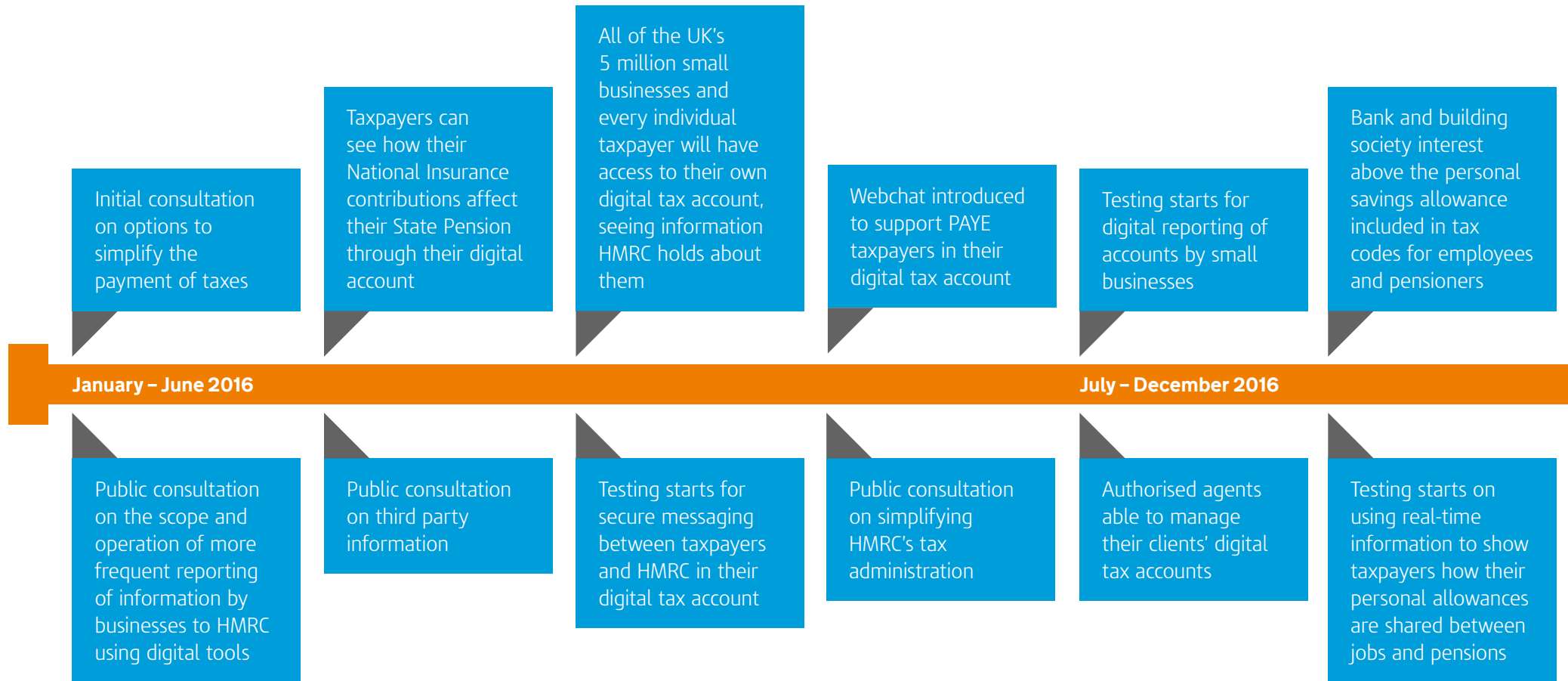
- Most businesses will keep their records using digital tools and send that information at least quarterly to HMRC
- In spring 2016, HMRC will consult on where it might obtain information directly from third parties, removing the need for taxpayers to report it
- Taxpayers with changes to report or other information to submit will do so through their digital tax account
- A new system of online billing will collect outstanding tax which can't be collected through PAYE (for example, small pensions) with no need for Self Assessment tax returns
- Those who currently choose to complete tax returns simply to check their tax is in order will find all the information they need in their digital account.

Of course, taxpayers will still be responsible for ensuring that their tax bills are right and telling HMRC about information that is not reported through other means. But digital accounts will make this much easier, quicker and simpler.

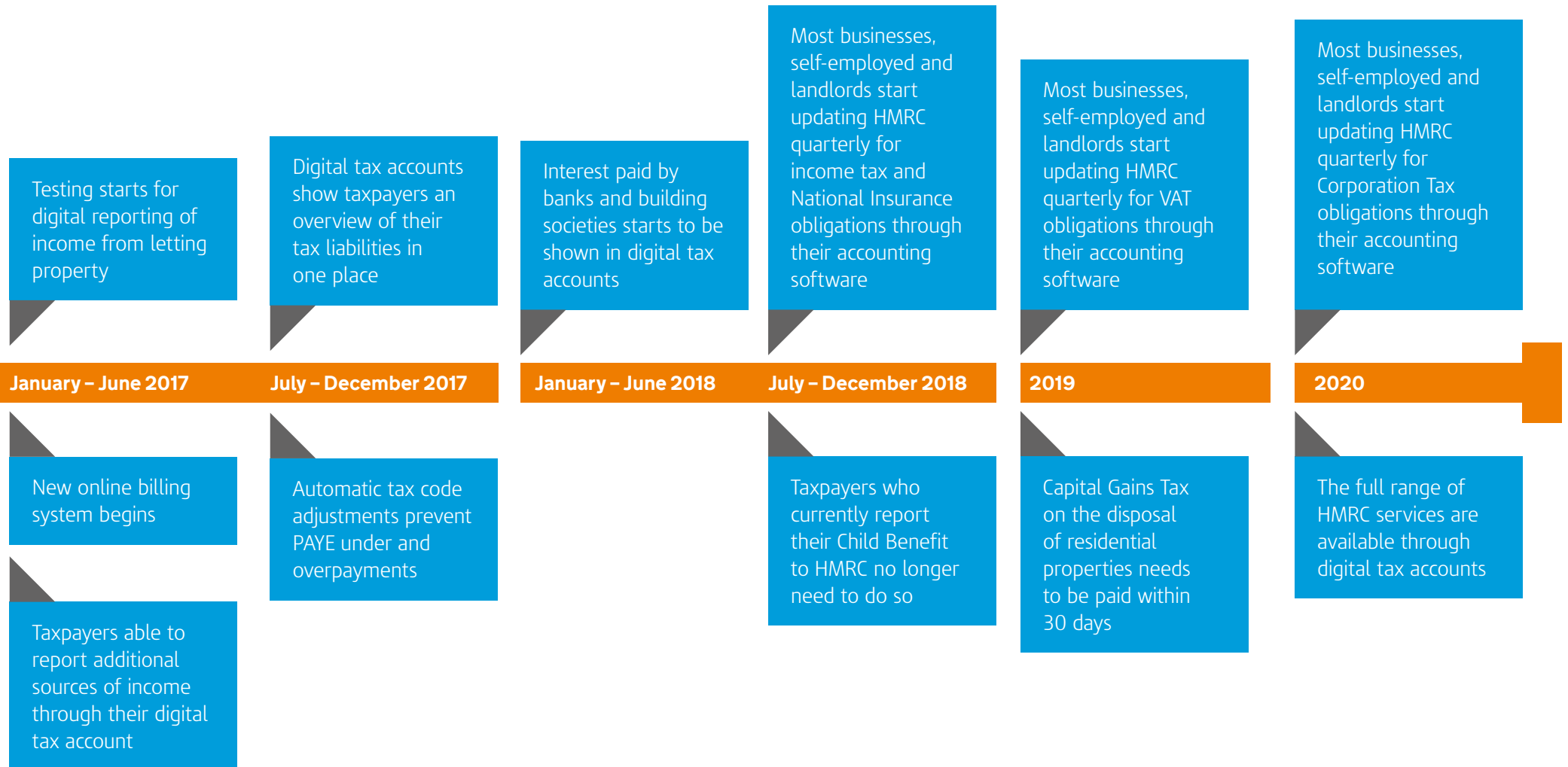
How changes will reduce numbers filing a Self Assessment tax return



# Timeline



# Timeline





# HM Revenue & Customs

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