The voice of banking

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Dear Guy,

Making Tax Digital: Transforming the tax system through the better use of information

The BBA welcomes the opportunity to make this written submission in response to HMRC's consultation on Making Tax Digital: Transforming the tax system through the better use of information (referred to as 'MTD' in this document).

The BBA is the leading trade association for the UK banking sector with 200 member banks headquartered in 50 countries, with operations in 180 jurisdictions worldwide.

Background

We expect that all BBA members will be affected by these proposals, and we note that given HMRC estimate that 300-400 organisations will be affected in total; more than half of those are likely to be banks. Measured by volume of accounts, BBA members are likely to provide the overwhelming majority of the savings income data relied upon by HMRC and therefore we have given detailed consideration to the consultation documents.

We support the overarching aim of making tax easier for our customers, and to make it easier for HMRC to support customers in assessing their tax affairs. There is a strong desire to make sure that the MTD initiative is successful for all those involved, and we are grateful for the ongoing engagement with HMRC teams during the consultation period. In determining how we can best work with HMRC to most effectively achieve the MTD objectives, we are particularly conscious of four key points:

> 1. *The needs of customers* - There has been a great deal of tax-led change for individual taxpayers in recent years, and further changes are likely to introduce additional complexity. We believe that the needs and protection of taxpayers should be central to any changes made in this area.
>
> 2. *Data security* - Aligned with the needs of customers, the data security environment for both the exchange of information and the provision of information through digital tax accounts will need to meet high standards for data security given the increased exposure to financial crime, particularly in support of protection from social engineering attacks.
>
> Banks will need to be confident that data security standards are met in order to meet their own requirements under the Data Protection Act 1998, and we would encourage early engagement by HMRC digital teams to discuss the intended approach. We are happy to engage with HMRC to support that work.
>
> 3. *Proportionality* - The consultation document indicates that fewer than 5% of taxpayers will have additional tax to pay on interest received from banks. There is therefore a need to make

sure that measures introduced are proportionate to the benefit gained by HMRC and by taxpayers.

At the same time, any changes in the provision of data are likely to result in significant costs for industry to implement. Many banks will have the current reporting regime built into core customer systems, and changes to those systems require a significant degree of development, lead time and testing. Depending on the scope of changes, many banks will also need to make changes to multiple systems, alongside changes to processes and procedures, staff training and customer communications.

Given these challenges, there is a potentially high cost to organisations to deliver these changes and we believe it is imperative that the impact assessment accompanying any measures is accurate to ensure the response is proportionate.

4. Timing - The proposed implementation date for new requirements from April 2018 is likely to prove challenging for both HMRC and data providers to meet. Typically core banking systems need a minimum of 18 months development time in order to successfully deliver change programmes. That timeframe represents the need to assess changes, design and deliver the necessary infrastructure developments, test changes to ensure they perform as expected and do not have unintended consequences.

Recommendations - for existing reporting of interest

Reflecting the comments in our wider response to the consultation, we believe that HMRC's approach to collecting data from third parties should reflect the following:

1. That reporting should continue in the existing Electronic Flat Text File format, which provides structured data to HMRC and in widespread use across the industry.
2. There should be no changes to the existing data reported by banks on individual customers; we believe the current data set provides all of the information needed by HMRC. The current data set should be provided for all joint accounts, recognising the limitations of current reporting in this respect.
3. The need for ongoing discussions on the new file transfer mechanism to replace SET
4. A full impact assessment to be carried out on the cost to industry once HMRC have determined the changes that are needed to ensure that changes are proportionate, including an assessment of the costs of more frequent reporting against the benefits to HMRC and taxpayers.
5. Detailed discussions on the security of both the data transfer and HMRC's customer facing platform, to ensure that sensitive customer information is secure.
6. A collaborative approach looking at the matching of data received to customer records, and supporting customers with adopting the new Digital Tax Accounts.
7. A campaign led by HMRC to raise awareness of the changing approach to taxes.

Given the challenges raised in our response, it would be preferable for HMRC, customers and for banks if the implementation date for MTD was not earlier than April 2019.

If there is no delay, there will be a requirement that key HMRC dependencies on the format of reporting, data requirements, data security and frequency of data provision are finalised by January 2017 at the latest. In those circumstances, we would encourage HMRC to assess where changes are unavoidable and therefore absolutely required, and how they can be delivered most effectively.

Recommendations - for new reporting

Any proposals for reporting on new income streams should recognise the need to be proportionate to the tax involved. There are many sources of income where the reporting cost could be disproportionate to the tax involved.

We would recommend that any new reporting requirements should have a have a minimum of a two-year implementation period, which should run from the point at which rules and specifications are finalised.

Next steps

The members of the BBA are keen to work with HMRC to make sure that MTD is a success, bearing in mind the challenges we have outlined.

We have therefore set out a proposed approach to the collection of information from third party data providers which we believe reflects the needs of HMRC and taxpayers, and delivers the necessary information in a proportionate manner. We have cross-referenced that approach to our responses to the more detailed questions in the consultation document.

In particular, our proposed approach recognises that there is an existing data standard for the exchange of this information and that there is nothing in the consultation document which indicates a need to change that standard. Fundamentally, we believe that HMRC should use the existing standard, with more frequent reporting required if there is a case for doing so.

There are a number of open questions regarding the data standards, matching of customer data, data protection and security which need to be answered in full and final by January 2017 if HMRC intend to continue with April 2018 as a go-live date. In practice, we believe that a targeted date for implementation which is not before April 2019 is necessary to ensure an effective and secure delivery of the MTD goals.

We believe that ongoing engagement between delivery teams from HMRC and banks is critical, and our proposed approach includes this requirement. We are happy to work with HMRC on these issues, but would reiterate the urgency for finalising the solution design. We look forward to continuing to work with you.

Yours sincerely,

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Executive summary

We have responded to the detailed questions included in the consultation document later in this document. As part of our response to those questions, and as a result of the initial meetings between the BBA and HMRC's policy team, we believe there are four key areas where focus is needed.

1. The needs of customers

See in particular responses to questions 1, 2 and 8

The needs of customers should be central to the implementation of the MTD proposals. We would encourage clear and simple rules, early engagement with industry on proposals, protections for those who do not use internet banking or are digitally excluded, and a clear strategy for HMRC engagement with taxpayers. A delay to April 2019 would support better engagement with taxpayers.

Overall, the banking sector has been supportive of changes introduced or proposed by HM Treasury and HMRC in recent years. However, there is growing concern that the pace and scope of reforms are, at least in the short term, adding additional complexity for customers. In particular, the ongoing pace of changes may lead to an increase in uncertainty around tax rules which apply to savers.

Significant change in the market

Consumers have seen a significant level of tax-led change across the majority of deposit products held with their bank and it is important that there is time for those changes to settle and be understood by customers before any further changes are made.

At the same time, the role of banks in relation to customers' tax affairs is changing. The introduction of Automatic Exchange of Information requirements under Foreign Account Tax Compliance Act (FATCA), Crown Dependencies and Overseas Territories (CDOT) and Common Reporting Standard (CRS) regimes, has meant that banks will be asking for new information from customers and sharing more information with tax authorities. The result of those changes is that since the start of this year, every customer opening a new bank account will be asked about their tax residency – a step which could cause confusion and complaints in the first few years.

Many of these changes are positive for customers and for the UK as a whole in the long term.

However, the scale and pace of change has added complexity for all customers from those opening bank accounts for the first time to long-term savers who will find that changes are made to both regular savings accounts and ISAs. HMRC also need to ensure that the underlying tax rules are clear and consistent so that a customer can understand what they see in their digital tax account.

It is also important that these changes are communicated internally within HMRC and that those communications are shared with the industry. We have gathered feedback from members which indicate that customers contacting HMRC in respect of recent changes, or in respect of FATCA and CRS changes, have come away with inaccurate or incomplete understandings of the requirements placed on them by HMRC. A shared view of communications will help to avoid such misunderstandings in respect of the MTD initiative.

Need for extensive HMRC communication to taxpayers

As a result of the scale of recent change, and the impact of these changes on taxpayers, it is imperative that HMRC communicates the breadth of the changing landscape to taxpayers. In the current environment, it is critical that customers are made aware of changes which affect them.

Raising the profile of taxpayer impacts can also help to secure better compliance, by helping customers to understand what HMRC is changing, what they hope to achieve and what they should expect. They should also be reassured that notifications from HMRC are not related to identify theft or other instances of fraud.

Given the scale of these changes and the impact on taxpayers, banks would expect their customers to have access to comprehensive HMRC guidance and a publicity campaign giving advance notice of the changes and what it means for taxpayers. Members specifically cited the 'Tax Doesn't Have to Be Taxing' campaign from the 2000s which first introduced online tax returns to the public as a good example of the level of the engagement needed.

Some recent HMRC initiatives have relied on banks communicating changes to their customers to a large extent e.g. introduction of Personal Savings Allowance (PSA) and decommissioning of Tax Deduction Scheme for Interest (TDSI). Banks are aware that there may be an expectation that they make customers aware that they report information to HMRC, but are not in a position to communicate the wider changes being introduced as a result of digital tax reforms. Bank staff should not give tax advice to customers and will need to be able to direct customers to HMRC resources for wider guidance on how to manage their tax affairs.

We note that the House of Lords Economic Affairs committee reached a similar conclusion in their assessment of the Finance Bill 2016 earlier this year[1]. In particular they noted, at paragraph 255, that:

> *"We do not agree with HMRC that the task of communication can largely be left to institutions, banks, intermediaries and advisers. Nor is it satisfactory simply to direct the individual to HMRC's website. We believe that government has a duty to inform the taxpayer directly, well in advance, of systemic changes that will affect the tax they owe, and how it is collected. The direct link between citizen and tax authority is important, and the authority must, by direct communication, ensure that citizens are aware of their responsibilities."*

The report went on to say that:

> *"We recommend that all major tax reform proposals should be accompanied by a fully funded plan outlining how the changes will be communicated to taxpayers affected by them and how those taxpayers will be guided and otherwise supported so that they can comply with the revised obligations."*

Fewer than 55% of the adult population use internet banking

It should not necessarily be assumed that all customers will have the technological knowledge or confidence to fully understand the implications of the proposals.

Ofcom data[2] indicates that fewer than 55% of the adult population use internet banking – 14% do not have access to the internet at all. Care is needed to ensure any solution addresses the needs of all the population. We also note that not all of those who are registered for internet banking use it regularly, which may contradict the usage case studies included in the consultation document.

It is also worth noting that the 5% of the population which HMRC expect to owe additional tax on interest are possibly more likely to be within the population who do not use internet banking. For example 74% of people over the age of 65 do not use internet banking[3], a population likely to have more substantial savings than other groups.

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1 http://www.publications.parliament.uk/pa/ld201516/ldselect/ldeconaf/108/108.pdf

2 http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr16/uk/CMR_UK_2016.pdf at Figure 5.21

3 https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/2016

The House of Lords noted in its report on the draft Finance Bill that[4]:

> *It is estimated by HMRC that there are some 7 million adults in the UK who are termed 'digitally excluded', although not all of them are taxpayers. According to Mr Williamson (from the Low Incomes Tax Reform Group): "They include older people who never learned computers at school and who have not got used to them since; people with disabilities who find it difficult or painful to use computers or the internet … and people in remote areas … and there is no broadband connection.*

Those 7 million people represent about 15-20% of the working age population in the UK, and may need to be fully excluded from any such plans.

We understand that HMRC has or will develop a plan for engaging with those who are digitally excluded, and we would also encourage the consideration of those taxpayers who are not just digitally excluded but may not be regular users of other similar digital services.

Alignment of interest payments

We note that following the introduction of the PSA and the abolition of TDSI frim April 2016, there remains considerable inconsistency on the tax treatment of certain interest payments. Compensation interest and some reward payments on current accounts classed as annual payments remain subject to deduction at source, whilst some reward payments are classed as miscellaneous income and not subject to tax at source but should be included in a customer's tax returns, outside the scope of the PSA.

There is a risk of considerable customer confusion, and therefore substantial numbers of queries sent to HMRC and to banks if these payments are not aligned as part of the MTD project. We would encourage HMRC to revisit the treatment of these payments as part of that exercise, with a focus on economic reality and substance over form of the payment rather than a strict tax interpretation.

In using data provided, HMRC will need to take care about the assumptions they make regarding future predictions of savings income based on the data received. In particular, HMRC need to consider that:

- income from a fixed product might be reported in one reporting period and will not be representative of regular income arising in other reporting periods,
- compensation interest is also likely to be a one-off payment and not representative of regular income.
- interest amounts may peak where a customer holds unexpectedly high balances on account for a short period of time – common both in moving house and in the event of the death of a loved one.

This misapplication of data in income extrapolation calculations has already been an issue for banks, highlighted by some of the queries from customers following changes HMRC have made to tax codes. We are also aware that this has potentially been an issue for the use of Bank and Building Society Interest (BBSI) reporting on compensation interest to determine potential account balances for HMRC Direct Recovery of Debt.

With this in mind, it will also be important that taxpayers have clear communications on how tax code adjustments have been calculated, so that they are able to validate any assumptions made about regular income before querying the calculation with the bank.

[4] http://www.publications.parliament.uk/pa/ld201516/ldselect/ldeconaf/108/108.pdf

2. Data security

See in particular the response to question 7

HMRC will need to ensure that both the digital tax accounts themselves, and supporting APIs are secure on day one, whilst recognising the need for a long-term investment in security to prevent cybercrime.

Once HMRC start to make digital tax accounts available, there will be a fundamental shift in the volume, quality and use of data which is available through online portals.

That is likely to be a big focus for cybercrime – in particular the use of data obtained from HMRC's portal to engage in social engineering attacks on banks and other financial service providers should not be underestimated, nor should the use of malware to obtain data or potentially redirect payments, or phishing attacks where email is integrated into the HMRC systems.

We believe that the threat level faced, and therefore the investment needed in security, is likely to be similar to that which banks deploy to secure their internet banking platforms.

That requires a long-term and ongoing commitment which is needed to secure taxpayer data against inevitable attempts to access it by criminals and others. We would like to see the detailed plans in this regard as soon as possible. Recognising there is a limit to what can be placed in the public domain in this regard, we would encourage an open dialogue between HMRC and the relevant specialists from banks.

As part of banks' data protection protocols it is likely that HMRC's data security standards will need to be validated against bank standards for customer information to be transmitted from bank systems to HMRC systems. It is also likely that banks will need to understand fully how HMRC plan to use the customer data provided, in particular how the matching will work to allow data reported to be shared with taxpayers.

3. Proportionality

See in particular responses to questions 9, 10 and 11

There is a need to make sure that any proposals are proportional to the number of people requiring tax adjustments and the tax at stake, and that the frequency of reporting correlates with the frequency with which the majority of customers' projected tax positions are likely to change

HMRC's own indication is that fewer than 5% of taxpayers will have additional tax to pay on interest. There is therefore a need to make sure that measures introduced a proportionate, and that the impact assessment reflects the correct costs for the industry and the benefits for HMRC and the taxpayer.

We believe the number of customers who would benefit from in year changes to tax codes is sufficiently small that it is disproportionate to the needs of HMRC or taxpayers to adjust codings more than annually, with considerable risk of miscalculation.

In addition, HMRC have indicated that taxpayers who do owe additional tax will be able to choose to pay that after the year end rather than on a 'pay-as-you-go' model. If there is significant uptake for that option, then there will be little or no benefit to more frequent reporting by banks.

In particular, we would ask HMRC to reflect on the following points:

- Whether activities should start with state pensions data from the DWP which would more effectively allow HMRC to pilot the digital tax account delivery with another Government department. Asking the private sector to act as the pilot for another government department appears to be counter-intuitive, and creates unnecessary risk for taxpayers.

- The ability to use data which is already provided by banks on BBSI returns, in the existing format. In that context, we do not see a need to amend the current format of BBSI reporting, which already meets most of the criteria specified in HMRC's discussion on data standards in paragraphs 4.9 and following. If no new information is required, then it is unclear why changes are needed to either the data or the format of the report. We have expanded on this in our response to question 9 below.
- To allow adequate time to make changes – shortened delivery times (<18 months) leads to a disproportionate increase in the cost of implementation (and not just a compression of costs into a smaller time period), and it is in HMRC's control to avoid these unnecessary costs.

Care needs to be taken with a 'one size fits all' approach

The consultation notes that HMRC expect 300-400 businesses will be affected by the changes, we expect that well over half will be banks, and by volume of accounts, BBA members are likely to provide the bulk of the data relied upon. Within that, a small group of fewer than 10 banks is likely to provide in the region of a hundred million records between them (recognising that many taxpayers will have multiple relationships), with the rest of the banking industry (along with building societies) reporting the majority of the remaining interests. HMRC needs to make sure that the needs of all organisations are protected.

For many banks, one of the key challenges will be the need to make changes to multiple systems, along with high volumes of reporting and the impact of other regulatory change programmes (such as ring-fencing).

It is also important to note that larger banks may submit tens or even hundreds of separate BBSI reports at the moment, each of which will need to reflect any changes requested by HMRC. Many returns are currently manual processes which if run with increased frequency would have significant additional resource requirements and/or may require additional work to automate.

For the smaller banks, the key challenges will be fewer dedicated resources to make changes, particularly on a shortened timescale. Smaller organisations will also have a wider range of starting points which may be highly automated or highly manual and that may have a significant bearing on costs. There is therefore a need to be careful about one-size-fits-all solutions.

Need for an impact assessment

We would be happy to work with HMRC to develop this but as an indication we believe that costs for large banks could be more than £10 million per bank, with costs for smaller banks more variable but likely to be approaching £1m in a number of cases. The total cost for the industry could therefore be well in excess of £100m.

If more substantial changes are required, that cost may increase further, and could well exceed hundreds of millions for the industry. We have estimated these costs by reference to the recent changes for the decommissioning of TDSI and introduction of PSA, and the introduction of automatic exchange for information reporting.

<u>We would note that we believe it is possible for HMRC to achieve the objectives of the MTD with a significantly lower cost, and we have set out that approach in detail as part of our response to question 9.</u>

Lessons learned from Direct Recovery of Debts implementation

The importance of impact assessments to define a proportionate response is best illustrated by the introduction of the Direct Recovery of Debt powers in March 2016.

During the implementation phase, HMRC indicated that they were expecting to realise a significant amount of unpaid tax liabilities through this measure. The impact note which indicated the cost to industry of the changes estimated "*the administrative costs of doing this are expected to be negligible*"[5].

However, in practice banks incurred significant expense implementing processes and procedures to facilitate the new mechanism, including the development of IT solutions to accommodate HMRC's Shared Workspace system and addressing the data security issues which arose as a result. There are ongoing costs related to the allocation of teams to process the expected volume of requests which are difficult to estimate.

4. Timing

See in addition responses to questions 13 and 14

We would encourage HMRC to delay the implementation of MTD until April 2019 to allow for full scoping of requirements and reasonable time for implementation.

On average, any IT change programme will need a minimum of 18 months to design, secure funding, test and implement. This timeframe will vary between organisations, and depend on the changes to be made, but 18 months will typically provide a good rule of thumb. Larger programmes, particularly those with impacts on core systems may take longer. In addition, any system changes which affect core systems will have high standards for testing to ensure that any changes made do not adversely affect other services, compliance requirements or reporting.

IT changes require a fixed set of rules which can be turned into processes, procedures and system changes. Accordingly, the 18-month development period can only begin once final rules are available which address major uncertainties.

In practical terms, that will require that key HMRC dependencies on the format of reporting, data requirements, data security and frequency of data provision will need to be finalised by January 2017 at the latest.

We would therefore encourage HMRC to assess where changes are absolutely required, and how they can be delivered most effectively.

We also note that the CMA's Open Data initiative is still in its early phases, and is likely to require Open Data APIs to be available from 2018 at the earliest. Alongside those developments, the 2nd Payment Services Directive also requires more open access to bank data through APIs. By adopting minimal changes at this stage, HMRC will be able to consider whether the APIs offered by the Open Data initiatives could better support the needs of MTD in the long term.

Priority of other regulatory programmes

The larger UK banks will be working towards putting in place their ring-fencing structures during 2018 as required by the Financial Services (Banking Reform) Act 2013.

5 https://www.gov.uk/government/publications/direct-recovery-of-hm-revenue-and-customs-debts-from-debtors-bank-and-building-society-accounts/direct-recovery-of-hm-revenue-and-customs-debts-from-debtors-bank-and-building-society-accounts

This will involve a substantial reconfiguration for the larger UK banking groups, with services to households and SMEs separated from other services. For some banks, this will also lead them to create new centralised service companies to oversee core functions, including IT systems. From an IT perspective, this may mean that the affected banks are required to implement an unprecedented level of change to core customer systems in 2018.

Changes involved may include the transfer of large volumes of accounts to different IT systems and legal entities, as well as allocation of new account numbers and customer IDs and substantial customer communications. Because the changes are to core IT systems, used to support day-to-day banking for customers, the changes will be high risk and high profile as well as being time critical for regulatory reasons. This will mean significant IT resources and capital will be allocated to the programmes, and extensive testing will be required before changes are authorised.

That level of development is likely to put constraints on banks' ability to deliver other IT changes – in fact, this topic originally came up in a meeting about a comparatively small level of change for other purposes. That could mean that a medium/large scale change, like the introduction of real-time tax reporting in a new format from April 2018 would be challenging and would be considered as putting successful delivery of ring-fencing structures at risk.

Start with pensions

Paragraph 2.16 indicates that HMRC will look at including state pensions after BBSI interest. We would strongly encourage HMRC to consider starting with state pensions. This would allow a longer time period for banks to adapt systems, but more importantly would allow HMRC a better pilot scheme for the new digital tax accounts. As data is provided by the DWP, there is an opportunity for Government to work together to test the digital tax accounts capabilities, test taxpayer matching and confidentiality requirements, and address any issues behind the scenes.

Response to detailed questions

Question 1: Where events during the year result in a change to a customer's tax projection, what is the appropriate format and regularity of notification that HMRC should send to employers and customers?

It is not clear that the tax position of a customer in respect of interest fluctuates significantly throughout the year, and we would therefore query whether reporting on a more than annual basis, or the amendment of PAYE tax codes for customers should be carried out within the year.

A monthly process may be disproportionately skewed by one-off interest payments received by a taxpayer – for example a customer who received an annual interest payment in May could find their tax code being adjusted based on a forward projection of interest extrapolated from that one event which is significantly higher than their actual interest received. Care will be needed in the design of HMRC's systems to ensure that one-off payments are not extrapolated to incorrect results in tax calculations. A monthly view could also be misleading in assessing the tax position for a full year when different savings products have different interest payment profiles e.g. some monthly and some annually or at the end of a fixed term (bonds).

Annual reporting would minimise the potential for such distortions, as the interest profile would in fact reflect the customer's earnings during the period and could properly be included in their tax calculation.

On the basis that only 5% of customers are likely to have additional tax to pay at all on interest, we believe the number of customers who would benefit from in year changes to tax codes is sufficiently small that it is disproportionate to the needs of HMRC or taxpayers to adjust codings more than annually, with considerable risk of miscalculation. We understand that taxpayers will have the option to pay tax owed after the year end, which could make any changes unnecessary if a significant proportion of taxpayers elect for this option.

From a customer perspective, it will be important that customers are notified of any tax adjustments to be processed via payroll in advance and are given access to a sufficiently detailed explanation of how it has been calculated to validate it. This should also reduce the volume of queries that employers receive in relation to any adjustments processed via payroll.

Question 2: Have you any suggestions for how we present third party information in your digital tax account in a way that will make it easier for you to understand your tax?

We believe it will be important that each element of income included in a tax account should be easily identifiable for the customer. That would best be achieved by showing each entry separately, which should allow a customer to identify each account which has been included within their digital tax account.

Data should therefore be presented at account level, based on the references included on the BBSI report. References to organisations should be recognisable, and HMRC should consider whether including the legal entity name paying the interest to aids identification or causes customer confusion.

We also believe that it is critical that the system has contextualised help which provides guidance on what a customer is seeing on any page, where that data has come from and what it means for their tax calculation. This will help users to understand what they are being shown on a given page.

Given the sensitivity of this data, appropriate safeguards will be needed to mitigate cyber security risks of presenting this level of data (see our response to question 7).

HMRC should recognise that this will result in significant increase in calls/service requests to both HMRC and to banks customer service departments. It will be important to have common messaging, led by HMRC to successfully support this. (see our response to question 8).

Question 3. If you are concerned over privacy impacts of HMRC's plans for improving how we use third party information we already receive, do you have any suggestions for how these concerns could be resolved?

It has not been possible to determine whether we have concerns with the proposed use of information based on the information provided in the consultation document. In order to fully address this question, we need to understand how HMRC will deploy the matching process, and particularly how a record will be matched from a BBSI return to a taxpayer's records in HMRC's system.

Based on discussions with the data use team, we understand that the following general approach will be deployed:

- There will be a master data management solution that allows better links internally within HMRC's systems by customer type and the ability to trace information and link it to the customer record.
- 'Hooks' will be used to match customer data, driven by the data contained in existing data sources.
- For individuals – there will six key identifiers being surname, address, first name, date of birth, reference numbers (which might include National Insurance Numbers (NINO) if available) and relationships to records held in other HMRC systems.
- There will be a matrix scoring system – refining matching criteria and defining governance.

In terms of the proposed approach, we have the following comments:

- Implementation experience suggests that whenever existing data is used for new purposes, it should not be assumed that the implementation will be simple. There are a number of necessary steps in the implementation including:
    i. data mapping, ensuring that information flows correctly from the bank to HMRC to the taxpayer,
    ii. appropriate testing cycles, including pilot schemes, to ensure that any issues are identified and corrected prior to go live.
- We agree that use of a NINO alone is insufficient to provide a match. Where available, this data is not otherwise validated by banks or HMRC and therefore could be inaccurate (people may for example misremember or guess or make an error when providing their NINO. A 0.5% error rate could lead to 500,000+ errors in cumulative BBSI reporting.
- We would also note that under current BBSI reporting requirements, banks are required to provide NINOs only if they are held in current records. They are not required to be collected for current or savings accounts, and may only be available in a small percentage of cases.
- The matrix approach could lead to high unmatched rates, depending on the underlying logic, which may frustrate the aims of the MTD initiative.

We understand that HMRC will be able to share the proposed matching process in due course, and we will provide more detailed comments once those details are available.

Question 4: If a third party information provider is aware of how the ownership of a joint asset is split, do you think the third party provider should inform HMRC?

We do not believe a requirement to report on the allocation of a joint asset would be appropriate because:

- It is unlikely that banks will hold this information on more than a small number of customers.
- Any information which is held was not collected for these purposes, nor validated, so may have changed or been inaccurate at the start, and not reflect the tax position of customers.
- It is unlikely to be held in the right systems and the right format for easy extraction, given the points above there is therefore a high cost for low return.

Alternative approach

Instead, for jointly held assets, we would propose that HMRC's system should allow banks to report an account as joint (as they do now), and for the individuals involved to allocate the share of that income between them. This has two key benefits:

- It will provide up to date information, collected in HMRC's portal.
- In effect taxpayers will be making a declaration to HMRC on the split of the income for tax purposes, which is more likely to be considered and appropriate compared to any information provided to a bank for other purposes. This will eliminate the risk of misinterpretation between customers and HMRC.

We recognise that in the current BBSI reporting on joint accounts, only the first two holders of the account are reported to HMRC. We understand that HMRC will want to receive all details, and we believe this can be reflected with changes to existing reporting. We note however that the administrative processes for banks to collate this data and include in the report are not insignificant, and we would appreciate HMRC's early confirmation of the proposed approach.

Question 5: Information providers will want to keep their customers fully informed about the information they provide to HMRC (and have a responsibility to do so under the Data Protection Act 1998). Do you think there should be a standard approach, or should information providers design the best approach to meet the needs of their particular business and customers?

(and)

Question 6: Do you have any preferences for how you would like to be kept informed by third party information providers?

We believe that the decision on how customers should be kept informed should be left up the banks/data providers and that there should not be a prescribed form.

At present, many banks include statements in account opening documents or terms & conditions which indicate that they will not share information with third parties unless for a stated valid reason, one of which is where there is a legal obligation to do so. This currently covers reporting of interest to HMRC.

A mandatory requirement for banks/data providers to issue statements going forward carries significant cost and may adversely impact customer experience, and as a general principle customer communications are managed carefully to minimize costs and avoid customers being bombarded with bank communications (particularly as many customers may hold multiple products and may then receive multiple communications).

Experience from the use of internet banking suggests that many customers will not use their digital account proactively as suggested in some of the HMRC case studies. HMRC should not rely on customers checking their digital tax account to identify updates or adjustments.

Banks can provide customers with information on interest received, but it will also be important for there to be appropriate HMRC notifications prior to action being taken such as PAYE coding adjustments being passed to employers. HMRC support and guidance for the use of digital tax accounts must also be adequate as it will not be practical for banks to provide additional support to customers who are not able to contact HMRC.

Question 7: Do you think there are any additional safeguards we should consider in relation to the protection and use of third party information by HMRC?

Further consideration of data security and safeguards is needed in two key areas:

1. Security – digital tax accounts

Once HMRC start to make digital tax accounts available, there will be a fundamental shift in the volume, quality and use of data which is available through online portals. That is likely to include personal information, detailed information on bank accounts and on payments received by customers.

That source of information could become a big focus for cybercrime – in particular the use of data obtained from HMRC's portal to engage in social engineering attacks on banks and other providers should not be underestimated, nor should the use of malware to obtain data or potentially redirect payments, or phishing attacks where email is integrated into the HMRC systems.

We believe that the threat level faced, and therefore the investment needed in security, is likely to be similar to that which banks deploy to secure their internet banking platforms.

That is a long-term and ongoing commitment which is needed to secure taxpayer data against inevitable attempts to access it by criminals and others.

HMRC must be absolutely sure that they have the necessary protections in place before proceeding with the roll-out of digital tax accounts. Even minor breaches may undermine confidence in the new system and raise major reputational issues.

Banks will need to be confident that the new proposals are adequate, otherwise they will not be able to provide information to HMRC.

2. Security – information exchange

We understand that there will be a move away from the current SET mechanism for data transfer initially to a file transfer protocol (FTP) approach and potentially to a new API-led method for the exchange of information. We would encourage ongoing engagement with industry during the design phase of this approach and to allow banks to support that development.

We also note that the current method is used for a number of information returns which may not be caught within the MTD initiative. It would be preferable to have one robust and fit for purpose method of exchange that can be used for the different information returns submitted to HMRC, e.g. BBSI, ISAs, FATCA/CRS rather than different methods with different IT build requirements. We are aware that HMRC are looking at APIs for other tax reporting in future e.g. for Lifetime ISAs.

Will data only be used for tax purposes?

If the data received for the MTD initiative were to be used for other purposes, the potential consequences of errors could be significant. In particular, under the new universal credit system, changes in income can have an effective tax rate effect >100% and at some 'cliff edge' points the effect may be binary. Small errors could have significant impacts, which cannot be fixed in the approaches discussed above. These could have adverse impact on most vulnerable customers, far more so than in the tax space.

We would suggest that there should be a clear indication that this data can only be used for tax purposes, at least until the system is fully embedded and errors are minimised.

Question 8: Do you agree with the principles we have set out for how information queries should be resolved? What are your expectations for how this would work in practice?

HMRC's consultation sets out an approach for dealing with incorrect or disputed data. However, we expect that in practice incorrect data is likely to be an issue for a low proportion of the data, and the majority of issues will arise in one of four ways:

1. Incorrect or disputed data – although the approach outlined is a sensible starting point assuming that taxpayers are fully informed and understand what the amount shown is intended to represent, banks will not be able to view the data which customers are querying.

If there has been an error not of the bank's making, there will be no way for the bank to reconcile, explain or correct the issue. We would suggest customer should be able to extract (perhaps as a pdf) any income items included so they can demonstrate what is on HMRC's system, although we would note that most organisations do not have the ability to accept attachments electronically from customers and therefore any corrections process is likely to place a substantial burden on the customer to rectify.

Care would need to be taken with that approach as there is a the risk that a customer shows a particular bank details of interest paid by other banks as well as that paid by the bank receiving the query. This may be neither intended nor appropriate.

There will then need to be an agreed process for correction of errors between bank and HMRC and submission of updated information outside of the regular reporting cycle assuming that reporting will not be on a cumulative basis. Banks will need to have access to a dedicated HMRC team for resolution of issues.

2. Misunderstandings – tax is complicated. Research undertaken for HMRC[6] in May 2015 suggested that customers did not have a clear awareness or understanding of taxation of savings interest, despite the rules at that time having been in place for a number of years; those rules have recently been subject to extensive changes adding to the complexity.

Similarly, a recent report published by the Government[7] indicated that there were misunderstandings and *"imperfect understanding"* about the impact of interest payments of tax liabilities and the current system for taxing interest (see in particular section 6).

We expect that the majority of queries will arise because there is a misunderstanding of what information is being represented in the digital tax account.

In some cases, the taxpayer will need to contact their bank to address this issue, but in the first instance discussions should be between HMRC and the taxpayer as this will predominantly be a tax matter. Contextualised help (for example, to explain where an interest payment has come from) may help to address a number of issues.

[6] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/445858/Research_Report_370_Awareness_and_Understanding_of_Taxation_of_Savings_Interest.pdf

[7] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/562187/HMRC_Use_of_Third_Party_BBSI_Data-Research_report.pdf

3. Unmatched, missing data – the next most common scenario will be missing data. This may be because there is income on which no-one is required to report, mistakes in reporting, failure to match data or other systems issues.

Again, banks will have limited abilities to address these issues, particularly where they stem from failing to match data. HMRC will need a mechanism to address this.

This is likely to take on more significance in the mid-term – once interest rates return to historically normal levels, or if the PSA were to be repealed or reduced etc.

4. Mismatched data – despite best efforts, it is likely that some data will be mismatched. In such cases, banks will not be able to identify the issues faced by the taxpayer or correct the issue.

HMRC will need a mechanism for addressing all issues which may arise when a customer does not recognise a payment which is included in their digital tax account.

Question 9: How can we best align HMRC's third party information requirements with information provider's circumstances? For example, with other standards information providers need to meet; other regulatory change; internal business processes and requirements.

Recognising the four crucial factors set out in our executive summary, we would proposed the following approach and project implementation plan to HMRC, as the best way of delivering the needs of HMRC and customers, in a proportionate manner.

In that context, we believe there are five key areas where there is a need to consider the needs of providers are:

A. Defining the HMRC dependencies:
   1. *Format for reporting*
   2. *Data requirements*
   3. *Data Transfer mechanism*
   4. *Timeline for delivery*
   5. *Data security standards*
   6. *Customer experience*
   7. *Customer engagement details*
B. Mapping the flow of information and the need for changes
C. Gap analysis of dependencies to existing requirements:
D. Minimum viable timeline for implementation
E. Practical timeline for implementation

We have considered these points in more detail in the following pages.

A. HMRC dependencies and recommended approach

Based on our response to the consultation, and the gap analysis carried out below, we have identified seven key dependencies for HMRC and our proposed approach for delivering the MTD objectives in a proportionate manner:

1. Format for reporting (see question 11)
There is an existing standard for reporting used for BBSI. If no changes are made to the data requirements, then reusing this format without changes would be the most efficient delivery, requiring minimal change to both HMRC and banking systems.

Recommended approach: No changes to current EFTF format

2. Data requirements (see question 11)
Banks already provide identification data for all accounts receiving interest. The requirement for new data fields, or the reformatting of existing data fields will add cost, complexity, and data may not be held/reliable. Careful consideration is needed for changes, including any changes to the frequency of reporting.

Recommended approach: No additions to current data reporting requirements. Changes to the reporting of joint accounts.

3. Data Transfer mechanism (see question 8)
Although not covered in the consultation, we understand that SET will be decommissioned. The new mechanism for data exchange needs to be defined early in the process to allow development work to happen in conjunction with other developments.

Recommended approach: Engagement with API team – standard to be defined by January 2017 for 2018 delivery (November 2017 for 2019 implementation)

4. **Timeline for delivery (see Executive Summary)**
The timeline for delivery will be critical, and communication with taxpayers needs to be central to the delivery timeline. We propose April 2019 as the suitable date for implementation (see following pages).

Recommended approach: Propose a delay to April 2019. Existing BBSI reporting used from April 2018

5. Data security standards (see question 7)
Once HMRC start to make digital tax accounts available, there will be a fundamental shift in the volume, quality and use of data which is available through online portals and for the transfer and storage of data. Banks will need to be sure that customer data is protected before they can report.

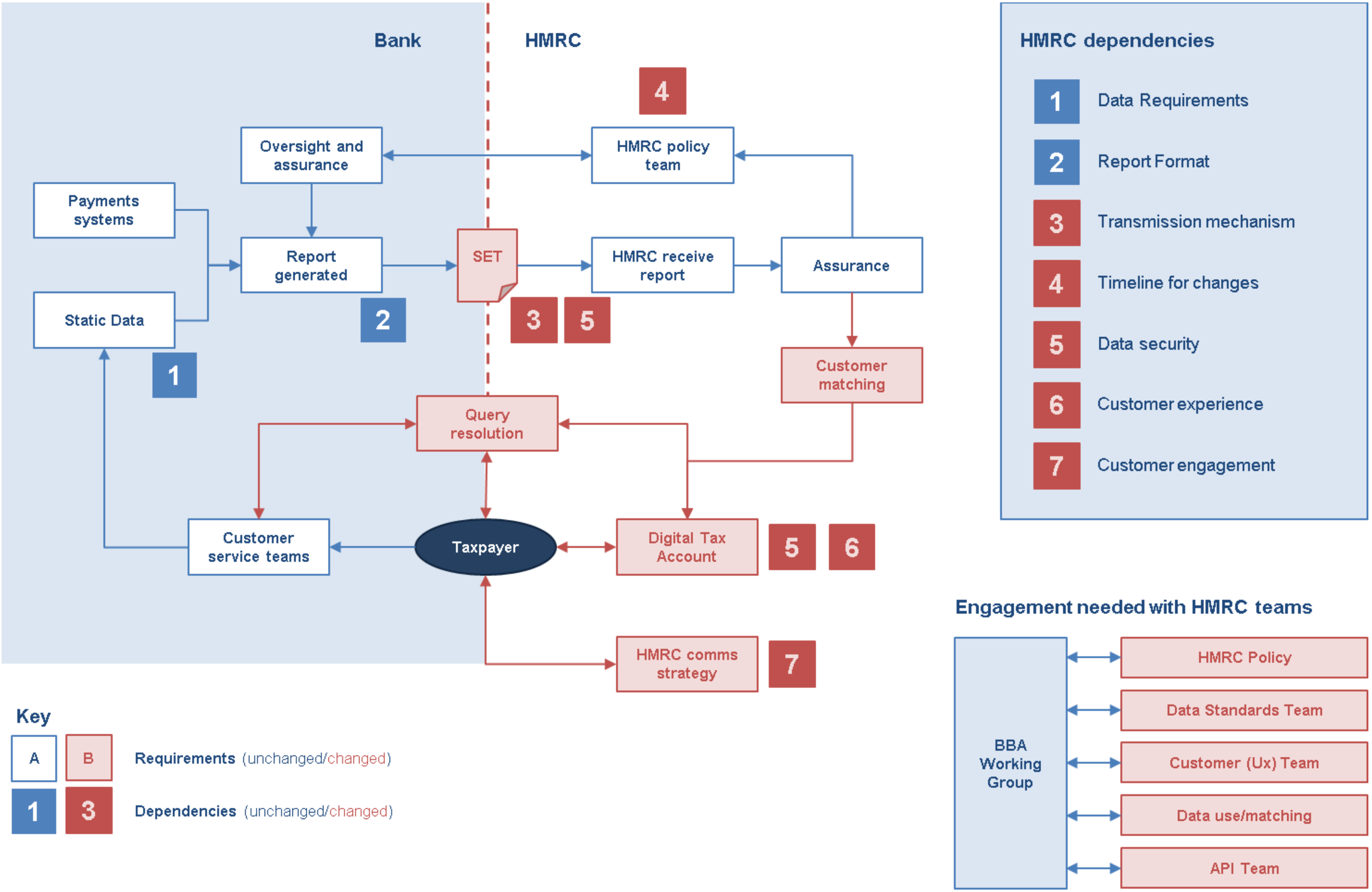
Recommended approach: Engage with API and Customer teams – standards to be agreed by mid-2017 (end 2017 for 2019 implementation)

6. Customer experience
The way in which the digital tax account will work is critical to the successful delivery. That will include data matching and query resolution, as well as the data that is available to customers.
Recommended approach: Engage with data use teams. User experience needs to be defined for customer engagement and tested to ensure it meets customer needs.

7. Customer engagement details
There is a need for substantial engagement by HMRC in advance of the implementation date, to introduce the digital tax account to taxpayers and explain its aims.

Recommended approach: HMRC plans by mid-summer 2017, ready for customer roll-out by November 2017

B. Mapping the flow of information and the need for changes



C. Gap analysis - existing standards mapped to dependencies

Banks already provide significant levels of savings income reporting to HMRC each year. In responding to the consultation document, and the need to "best align HMRC's third party information requirements with information provider's circumstances", we have included a gap analysis to the existing requirements and the proposals in the consultation document.

1. Format for reporting

There is an existing format (Electronic Flat Text File or EFTF) for reporting which is structured and in use by all banks and by HMRC to decode the reporting sent by banks[8].

We believe that this reporting format should be maintained, minimising the change requirements for both HMRC and banks. We recognise that there may be a compatibility issue with any new systems that HMRC may implement, but we believe that any such limits are best addressed centrally (for example and EFTF to XML conversion done by HMRC if the new systems are not backwards compatible to EFTF standards).

2. Data requirements

The existing BBSI reporting, implemented through the EFTF are set out in 3.10 of the Combined BBSI / SI 03/3297 Electronic Flat Text File Specification for Bank and Building Society Interest (BBSI) Returns[9].

Those requirements provide for the following data fields to be included in the reporting:

Return level information		
1	Institution Name	
2	Reference Number	
3	Tax Year	
4	Field lengths to enable decoding of data	
5	Total accounts reported (for data consistency purposes)	
Mandatory customer fields		**Optional fields (where held by bank)**
1	Title	National Insurance Number
2	Name	Date of birth
3	Address	
4	Postcode	
5	Account number or reference	**For EUSD reporting (no longer required)**
6	New Account indicator	Date of birth
7	Gross interest	Country of birth
8	Tax Paid	City of Birth
9	Currency identifier	Foreign TIN
10	Joint account holders ('participants')	

(Note: this is an abbreviated list of the fields included, but contains all of the key fields we believe are needed by HMRC for digital tax accounts)

[8] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/513218/bbsi_guidance_note_2016_17.pdf
[9] https://www.gov.uk/government/...data/.../**BBSI**_EFTF_**Spec**_2015_final__2_.docx

We note that in the case of joint accounts, only the first two holders of the account are reported to HMRC. We understand that HMRC will want to receive all details, and we believe this can be reflected with minimal changes to existing reporting. We note however that the administrative processes for banks to collate this data and include in the report are not insignificant, and we would appreciate HMRC's early confirmation of the proposed approach.

Based on the consultation document, and discussions with HMRC, we understand that there is no intention for any additional data to be requested from taxpayers, or reported to HMRC.

On that basis, we believe that the existing data requirements contained in the EFTF file should be sufficient for the needs of HMRC, other than in the case of joint accounts which can be adapted to the existing standard.

Timing of reports

There is a requirement for HMRC to define how frequently they will need to receive customer level reporting. As noted above, we believe this should be proportionate to aims of the Making Tax Digital agenda, and in particular should reflect the likelihood that information reported will change the tax position of the account holder.

We have considered that approach further in question 10, but it is not clear that there is a strong case for more frequent reporting – in the majority of cases, there will not be enough variation in the position of the customer to result in a changed tax position and there are significant risks of miscalculation as a result.

3. Data Transfer mechanism

We understand that the Secure Electronic Transfer mechanism currently used for sending BBSI returns will be decommissioned, and that the API Team within HMRC will consult separately on its replacement.

Based on meetings with HMRC's API team, we understand that there are two proposed phases to this work:

> **Phase 1** – the third party interface ('front end') of the existing SET system will be moved to an HMRC system, with minimal changes for existing users. There is an aim to remove the need for certificates, and for the end-user to encrypt the files. HMRC will handle all the necessary encryption. This will be delivered by June 2017.
>
> **Phase 2** - to look at more significant changes to the back end, implementing new architecture in particular looking at data transfers that can be performed by API, It has not yet been determined whether that will apply to the bulk data transfers made by banks.

There is a key dependency for this project on the successful design of the new technical specification which will need to be addressed as soon as possible. For the purposes of our project plan, we have assumed that the Phase 1 delivery above will be the mechanism used for data transfer.

We would note that although most bank use SET for their main returns, we are aware that some smaller returns are still submitted via encrypted memory stick, and the switch should be considered as part of any updates.

Use of APIs

We believe that the use of APIs is typically of limited benefit in the case of bulk, periodic transfers of data like interest reporting. The API model is better suited for frequent requests that return small amounts of data. By way of an example, SET currently allows for batch sizes up to 1GB. These sizes are beyond what makes sense for transfer via API.

We will continue to work with the API team, but believe that a file transfer protocol similar to SET offers the best solution for this reporting.

Any HMRC API initiative will need to be based on the Open Banking API Standards and follow the implementation of Open Banking Standard release 2 in January 2018 (customer transaction history) and PSD2 Regulatory Technical Standards in Q1 2019 (secure customer authentication to share data with a third party). 8.

The non-functional requirements (e.g. volume of API calls, frequency of API calls, size of data requested, peak demand/time of day spread, service levels for availability and response times etc) of any API solution will need to be considered very carefully and reviewed regularly to prevent demand exceeding API capacity and system outages.

4. Timeline for delivery

The challenges for implementation are considered in our executive summary on pages 9 and 10 of this response.

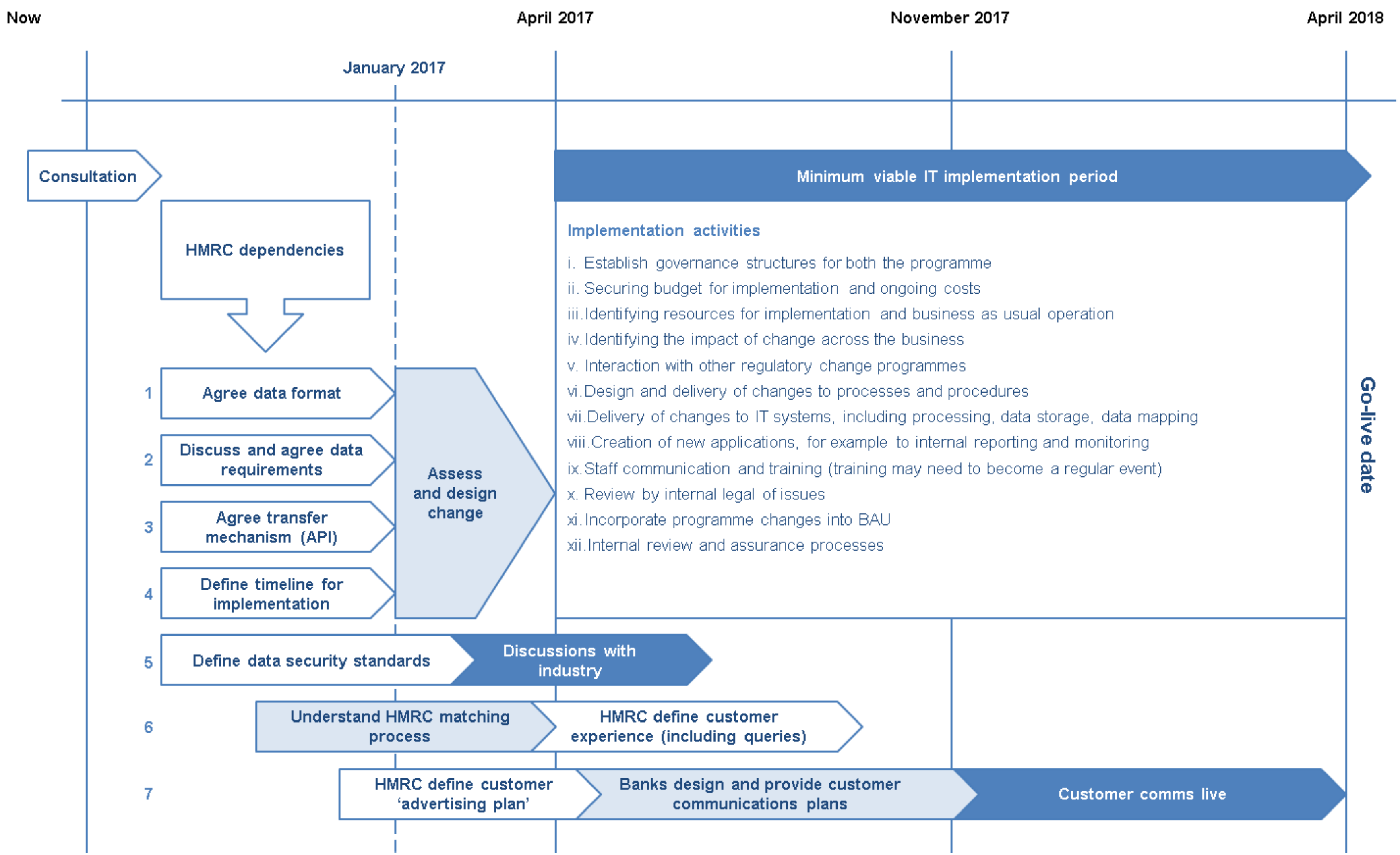
Recognising those challenges, we have set out a minimum viable timeline and a practical timeline for implementation on the following pages.

Given the considerable challenge and likely cost of the minimum viable timeline, we would encourage HMRC to set a date for the implementation of MTD which is not earlier than April 2019

5-7. Data security standards, customer experience and communications to be defined

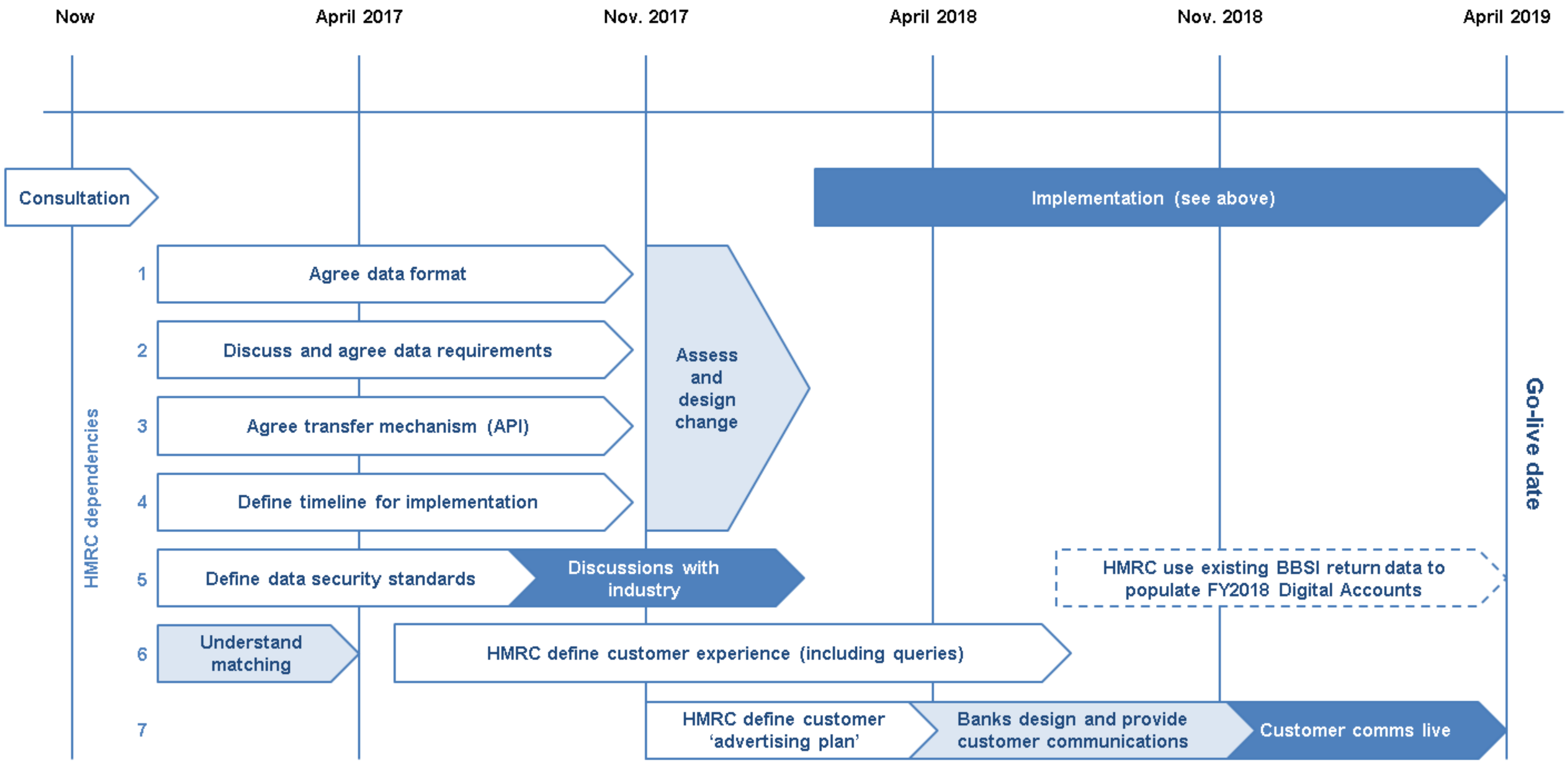
The customer-facing dependencies will need to be defined by HMRC in good time to facilitate the successful delivery of the MTD project. We are happy to continue to work with HMRC teams on these matters.

D. Proposed delivery timelines: Minimum viable timeline



E. Proposed timeline for delivery

Given time constraints, we would propose that April 2019 is a more practical timeline for implementation.



This approach could be supplemented by HMRC using existing BBSI data to populate digital tax accounts in 2018, if that deadline is maintained. In that event, the activities around taxpayer/customer communications would need to be accelerated to earlier in 2017.

Question 10: If you currently provide information to HMRC at year-end what would be the impact of moving to a more frequent in-year process, assuming that HMRC is able to align to your circumstances as described above?

Moving away from an annual process would require system changes over a number of core bank platforms and process changes to cater for more frequent submissions, the cost for this would not be insignificant.

It is difficult to estimate the costs of more frequent reporting in isolation, and it would be useful to better understand the extent of the changes e.g. frequency, reporting formats and timescales to implement more frequent reporting.

For many banks, reporting is a more complex process than extracting data from a system and transmitting it to HMRC. Some banks may need to process data, or combine separate data from multiple systems to meet HMRC reporting requirements – there needs to be an allowance in timing for that to happen. As an example, customer data including name and address may be held in a single core system, but payments data for interest may be held in separate systems. Separate data requests must be made, and the data combined in order to report to HMRC.

For organisations which are filing reports on millions of customers, the reporting process results in considerable demands on IT resources. Those reports must be run overnight or over a weekend when no other operations are taking place to minimise the impact on IT performance. If reporting is to be conducted more than annually, there may be considerable challenges to that data collection process as a result.

Some banks will use annual returns as a key tool to ensure compliance, conduct internal reviews and assurance, and to correct data issues. The interaction of more frequent reporting with those requirements needs to be considered to ensure that banks can continue to run robust control processes and reviews before data is sent to HMRC.

Is reporting needed more than annually?

It is not clear that there is a strong case for more frequent reporting – in the majority of cases, there will not be enough variation in the position of the customer to result in a changed tax position.

There is a risk that anything more than annually may cause customer confusion and may not result in a meaningful tax position extrapolation. In using data provided, HMRC will need to take care with the assumptions they make regarding future predictions of savings income based on the data received. In particular, they need to consider that:

- income from a fixed product might be reported in one reporting period and will not be representative of regular income.
- compensation interest is also likely to be a one-off payment and not representative of regular income.
- Interest amounts may peak where a customer holds unexpectedly high balances on account for a short period of time – common both in moving house and in the event of the death of a loved one.

This misapplication of data has already been an issue for banks, highlighted by some of the queries from customers following changes HMRC have made to tax codes. We are also aware that this has potentially been an issue for the use of BBSI reporting for HMRC Direct Recovery of Debt.

Question 11: We have given you a high level introduction to the standards necessary to make the exchange of data efficient and dependable. Do third party providers foresee any specific challenges in adopting standards along these lines?

There is a need to see detailed information in respect of the proposed data standards before it is possible to provide detailed comments on the implications for data providers.

Nevertheless, we recognise that this is a critical element for the successful delivery of HMRC's aims and have therefore tried to cover the likely challenges and key questions below. We would welcome the opportunity to provide more comments on detailed proposals.

A. A reporting regime already exists

There is an existing reporting regime under which more than 100 million records are filed each year.

We note that paragraph 4.9 states that *"Data standards are documented agreements, precise criteria, specifications, and rules for the definition, creation, storage and usage of data. Data standards take disparate information and turn it into structured data capable of processing by computers."*

<u>All</u> of these elements already exist under the current regime. [*See 3.10 of the Combined BBSI / SI 03/3297 Electronic Flat Text File Specification for Bank and Building Society Interest (BBSI) Returns]*

We also note that the current specifications are in widespread use; as well as BBSI reporting, ISA, Pension and Merchant Acquirer reporting uses the same format. These may not be immediately relevant for digital tax accounts, but consideration should be given to the consequences of changing BBSI returns without changing these returns

<u>**We have included a gap analysis of the current data standards in our response to question 9, along with proposals for implementing MTD in an effective manner.**</u>

B. Is there a need of a change to the data standards?

The consultation document does not make a clear case for changing the format of reporting itself. Whilst the current flat file, plain text format may no longer regarded as be best practice – it is not clear what benefits a move to XML or JSON type reporting would bring for HMRC.

If the same information is requested (which seems to be implied in the document), is there any need for a change?

Paragraph 4.13 states that HMRC data standards will set out guidance for "naming conventions, descriptions, data type, length in number of characters, examples and value ranges or taxonomies."

"….Later versions will look to cover business rules, ownership, access rights to data, compliance with legislation and protection of data assets."

As above, we note that most of this information is already prescribed in the Electronic Flat Text File format which includes specifications for names, addresses, NINOs where available, interest payments, tax deductions and a number of other fields. The file also allows the identification of joint accounts.

If HMRC intend to change this format, then any changes are only as good as the underlying data held by banks. The current rules reflect the fact that banks may choose to hold data in different ways, and in turn many organisations may have designed systems purposively to allow reporting in the current format

> *For example, HMRC may wish for addresses to be reported in a structured way e.g. Number, Street, Town, County, and Country. However, there is no requirement on banks to hold information in that format. If it is held as a single field, there is no practical way to report the data in the format which HMRC requests.*

We believe that section 3.10 of the *Electronic Flat Text File Specification for BBSI Returns* sets out a clear indication of the current information that banks have or are able to provide as this is the current requirements. Anything required beyond this should be subject to careful impact assessment.

In terms of the transmittal of data to HMRC, we have considered the replacement of SET and the use of APIs in our response to question 9 above.

C. Cost to change

We understand that HMRC will seek to provide an impact assessment for their proposed changes.

There is not enough information in the consultation for us to provide a detailed impact assessment, and we would be happy to support this process once the detailed changes are available.

As an indication, were there to be medium scale changes to the data reported, the format and transmission of the report, and the frequency, we believe that costs for large banks could be more than £10 million per bank, with costs for smaller banks more variable but likely to be approaching £1m in a number of cases.

The total cost for the industry could therefore be well in excess of £100m. If substantial changes are required, that cost may increase further, and could well exceed hundreds of millions for the industry

We have estimated these costs by reference to (i) the recent changes for the decommissioning of TDSI plus the ongoing support costs for queries (not reporting, but core systems changes, supporting materials, project and programme review, training and customer comms), and introduction of PSA, and (ii) the introduction of automatic exchange of information reporting, relating just to the costs of reporting and not the wider due diligence requirements under their regimes.

We believe it is possible for HMRC to achieve the objectives of the MTD with a significantly lower cost by adopting the approach as set out in our response to question 9.

D. Data standards are only as good as the underlying data

Any additional information, changes to structure, or the introduction of mandatory fields which differ from the spec are likely to cause significant data issues.

In terms of either new information, or changes to the structure of information request, there are five cases of data that HMRC should be aware of when thinking about structured data. **Any new data standards must be consistent with the way in which data is held.**

Data element	Example	Issue
Missing or unvalidated data – data which banks are not required to hold for any other purpose. It may either be absent, or if completed may never have been validated.	*Date of birth, NINO*	Data is not available for reporting, or as there are no other regulatory requirements on the data, there have been no validation checks or updates on the data.
Data which is held in a discrete form and is directly reportable	*Separate first name and surname fields (if held in that format)* *Joint account identifier* *Date of birth*	Relatively simple to include within a structured data field
Data which is subject to a calculation or logic flow	*Interest payments – which may be held in a separate system from static data and has to be aggregated to a single line in reporting*	Data must be processed before it can be included in a report. This may cause particular issues in terms of timing – a bank reporting a million records may need a substantial amount of time to collate and process information – may be unsuitable for real-time or near real-time collection
Data which is not held in the format requested	*Name or address held in a single field*	If structured reporting is mandatory, banks must find a way to split data into the structure fields. It is likely to be impossible to determine a 100% effective way to provide this information in the structure defined.
Data which may be held for other purposes, but cannot be reliably identified or disaggregated	*A NINO held in a taxpayer number field – it may not be possible to identify whether it is a UK or non-UK number*	Data protection will prevent the reporting of non-relevant data. May be impractical to determine whether data is relevant to UK tax or not.

E. Customer communications

The costs of customer communications will be critical to the cost of implementing the changes.

In particular, the typical cost for contacting a customer by post is £2-£2.50 per communication. In that context, bulk mail communication to customer has the potential to dramatically increase the cost of any implementation and have typically been of limited benefits is achieving widespread awareness of tax changes.

In the current environment, it is critical that customers are made aware of changes which affect them. Raising the profile of taxpayer impacts can also help to secure better compliance, by helping customers to understand what HMRC is changing, what they hope to achieve and what they should expect. They should also be reassured that changes are not related to identify theft or other instances of fraud.

Given the scale of these changes and the impact on taxpayers, banks would expect their customers to have access to comprehensive HMRC guidance and a publicity campaign giving advance notice of the changes and what it means for taxpayers. Members specifically cited the 'Tax Doesn't Have to Be Taxing' campaign from the 2000s which first introduced online tax returns to the public as a good example of the level of engagement needed.

Some recent HMRC initiatives have relied on banks communicating changes to their customers to a large extent e.g. introduction of PSA/decommissioning of TDSI. Banks are aware that there will be an expectation that they make customers aware of that they report information to HMRC, but are not in a position to communicate the wider changes being introduced as a result of digital tax reforms. Bank staff should not give tax advice to customers and will need to be able to direct customers to HMRC resources for wider guidance on how to manage their tax affairs.

Other key points for implementation

F. There should be a single package of changes

Adding new fields to a reporting schema is disproportionately expensive after the initial implementation.

If there are to be changes to the schema, this should be a single new introduction not a phase-in or transition.

New fields may be inevitable in the long term, but the longer the planning horizon without them, the more cost effective changes will be.

G. HMRC systems may be able to address some issues.

As noted above the case for moving from flat file data to XML or JSON formats has not been made.

If this is a practical requirement of HMRC's new systems, but no new data is being requested then we would suggest that this conversion is better performed centrally by HMRC than by each bank individually. Developing a tool to convert the EFTF supplied to XML should work for all existing reporting – especially given that any variations in field length and structure are included in the EFTF itself.

Question 12: What opportunities do current and potential information providers and software providers see for a stronger partnership with HMRC to enhance our customer experience?

We recognise the development of APIs under the open data initiatives. However we think it would be better to wait and see some outcomes of that development before specifying new requirements

It is important that customers understand the basic HMRC proposition and what HMRC can offer first before deciding on enhancements that a third party might usefully offer. Without this clear communication of intentions there is potential scope for confusion on the part of the customer and potential blurring of roles between third party providers and HMRC in the customer's eyes could become apparent.

Question 13: What new sources of third party information would most enhance the customer experience and best contribute to the aim of ending the tax return for all?

Question 14: How can we best open up discussions and begin to work with new potential information providers who are not currently providing information to HMRC on a regular basis?

There is a need to ensure that any changes are proportionate to the amount of tax at stake; there are many sources of income where the reporting cost could be disproportionate to the tax involved.

In that context, we would ask that HMRC also explicitly consider the availability of allowances (savings, dividends) before making any changes, as these could reduce or eliminate any tax benefits.

Implementing new reporting requirements in systems which have never previously supported that functionality will be costly, and we would suggest that HMRC should be thinking of a two-year implementation period, after rules and specifications are finalised.