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Better use of new and improved third-party data to make it easier to pay tax right first time

Response from ICAS

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About ICAS

1. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants. We represent over 24,000 members working across the UK and internationally. Our members work in the public and not for profit sectors, business and private practice. Approximately 11,500 of our members are based in Scotland and 10,000 in England and Wales.
2. The following submission has been prepared by the ICAS Tax Board. The Tax Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community; it does this with the active input and support of over 60 committee members.
3. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. From a public interest perspective, our role is to share insights from ICAS members into the many complex issues and decisions involved in tax and regulatory system design, and to point out operational practicalities.

General comments

4. We welcome the opportunity to respond to the HMRC consultation – Better use of new and improved third-party data to make it easier to pay tax right first time. We were pleased to have the opportunity to discuss the consultation with HMRC at a roundtable meeting on 7 May.
5. Our response deals with the proposals relating to bank and building society interest, dividends and other investment income (not card sales data). We are commenting from the perspective of agents and individual taxpayers, not third-party data holders.
6. We support the overall aims of improving PAYE coding and pre-population. However, we do not believe that changes to third-party data provision will be sufficient on their own to address the problems with end of year reconciliations or to ensure that taxpayers pay the right amount of tax.
7. It is essential that there are also fundamental improvements to HMRC's underlying digital systems and processes – especially the Personal Tax Account, Simple Assessment and P800s. HMRC needs to be able to provide a clear breakdown of interest from different sources (including paying institution and partial account details, so that different accounts with the same institution can be identified). HMRC having the data is not enough – it needs to be easily accessible to taxpayers (and their agents). Similarly, if HMRC intends to prepopulate self-assessment returns, the same breakdown of interest from different sources will be required.
8. Taxpayers also need the ability to report dividends and other types of income to HMRC via a simple online route (probably the Personal Tax Account), without having to call HMRC. Even if HMRC collects additional information about some dividends from investment managers and financial institutions, this will not capture all dividends (for example, where individuals have direct holdings).
9. As we have commented in previous consultation responses, taxpayers must have the right to correct any omissions or errors in data provided by third parties without needing to contact those providers. They should easily be able to make the corrections themselves for example, via the Personal Tax Account or by overriding a prepopulated SA return (or an agent should be able to do it for them). Currently, correcting any problems usually involves lengthy calls to HMRC helplines.
10. We are concerned that the proposal that financial institutions should be required to obtain NINOs from customers, could lead to customers without NINOs being refused access to accounts (or 'debanked'). We discuss this further in our responses to the specific questions below.

Specific Questions

Timely reporting – standing reporting obligations and frequency

Question 1: Do you support maintaining the scope of Schedule 23 of Finance Act 2011 paragraph 12 ‘interest’ as HMRC moves towards standing reporting obligations for financial account information? Are you aware of any unforeseen consequences or missed opportunities?

11. Yes, this seems sensible, for the reasons outlined in the consultation.

Question 2: Do you support maintaining the scope of Schedule 23 of Finance Act 2011 paragraph 13A for card sales data as HMRC moves towards standing reporting obligations? Are you aware of any unforeseen consequences or missed opportunities?

12. We have no comments on this question.

Question 3: Should specific types of financial accounts or providers receive special consideration in the reporting of financial account information and card sales data, and why? What is the volume or incidence of these exceptions?

13. A de minimis exception for reporting interest on financial accounts would not be helpful and would undermine the aims of improving coding and enabling more pre-population.

Question 4: Do you have any comparable examples of an effective process which ensures that a) those in scope are aware of their reporting obligations, and b) the relevant department is aware of those who should be reporting?

14. We have no comments on this question.

Question 5: The government’s emerging position is that the frequency of reporting financial account information should be monthly, and that data should be required as close as practicably possible to the end of each month.

1. What would be the cost of introducing monthly reporting?
2. Would a frequency more regular than monthly be preferable i.e. because it integrates better with business processes? If yes, what would be preferable between a week, a few days, 24 hours, or ‘on or before payment’, and why? What are the relative costs and benefits?
3. How soon after the end of each reporting period can data be provided?
4. Are there specific cases that need to be treated differently, if so, why, and what is the volume or incidence of these exceptions?

15. We appreciate that HMRC requires the BBSI data sooner than it currently receives it, to facilitate improved coding and pre-population. However, it is not clear why monthly reporting is essential. As discussed at the roundtable meeting with HMRC, we are not convinced that very frequent updates to PAYE codes (based on monthly reporting of BBSI) will be beneficial to taxpayers. These would certainly be likely to generate increased contact with HMRC, unless the accuracy, presentation and explanation of new codes is considerably improved.

16. Quarterly reporting would mean that HMRC would have the interest amounts for the full tax year by May. It seems unlikely that monthly reporting could provide it much earlier (but might give more scope for errors by data-providers). It is unclear why quarterly reporting would not be sufficient for improved PAYE coding and pre-population. HMRC would need to explore the practicality (and costs) of monthly reporting with data providers.

17. We also have concerns that unless the reporting requirements for third-party data holders are robust, HMRC might make incorrect assumptions about interest figures reported in a monthly return. If an annual payment (or a payment made when a fixed term account matures) is mistaken for a monthly one, this will not improve PAYE coding and will generate more contact with HMRC.
18. Taxpayers can already request confirmation of interest payments from financial institutions for tax purposes, but it would be helpful if third party data holders were required to automatically provide their customers with a copy of the information they have sent to HMRC, at the end the tax year.

Question 6: The government's emerging position is that the frequency of reporting card sales (merchant acquirer) data should remain as monthly and be extended to all in-scope data-holders, and that data should be required as close as practicably possible to the end of each month:

1. **Would a frequency more regular than monthly be preferable, for example because it integrates better with business processes? If yes, what would be preferable between a week, a few days, 24 hours, or 'on or before payment' (from the merchant acquirer to the vendor), and why? What are the relative costs and benefits?**
2. **How soon after the end of each reporting period can data be provided?**
3. **Are there specific cases that need to be treated differently, if so, why, and what is the volume or incidence of these exceptions?**

19. We have no comments on this question.

Collecting the right data – schemas and collection of tax references

Question 7: Regarding the schema for card sales (merchant acquirer) data, do you agree with our conclusion that exploring a different schema at this point is not preferable? If not, are there other schema options (such as internationally recognised schema) that the government should consider?

20. We have no comments on this question.

Question 8: Our preferred option is to tailor the CRS schema. We would be grateful for your views on:

1. **Which key specifications need to be included? How would you tailor the CRS schema to meet domestic reporting requirements?**
 2. **What the benefits and drawbacks are of combining BBSI and other interest under one schema?**
 3. **What are the associated costs with adopting a tailored version of the CRS schema? Would an alternative approach be more cost efficient?**
21. As noted in our general comments, from the perspective of individual taxpayers (and agents) it is essential that HMRC improves its digital systems and processes – especially the Personal Tax Account, Simple Assessment and P800s, so that these (and any prepopulated SA returns) provide a clear breakdown of interest from different sources (including paying institution and partial account details, so that different accounts with the same institution can be identified).
22. To support this, we believe that the schema for BBSI reporting should include the following required data, to ensure that there are genuine improvements for taxpayers:
- Details of joint accounts (or accounts with multiple holders), including the split of interest between account holders. If financial institutions cannot provide the split (for example, where there are unequal shares), HMRC will need to ensure that taxpayers (and agents) have a simple route to correct coding notices/simple assessments etc and supply the right information (for example, via the Personal Tax Account).

- Details of the frequency of interest paid. As noted in our response to Question 5, HMRC needs to know whether an interest payment is monthly, quarterly, annual or irregular (for example at the end of a fixed term).
- Beneficial ownership of accounts, for example, parents holding accounts on behalf of children, or accounts held on behalf of those lacking capacity. We regularly receive feedback that this is a problem area. Again, if financial institutions do not have this information, HMRC should ensure that taxpayers (and agents) have a simple route to provide it.
- Customers who do not have NINOs – we discuss this further in our responses to Questions 12, 14 and 16.
- Tax withheld at source (where relevant).

Question 9: What are your views on how the data, in line with the schema options, should be shared/transmitted from third-party suppliers to HMRC?

23. We have no detailed comments on this question. A method that ensures secure data transmission is clearly essential.

Question 10: To help alleviate burdens on data suppliers and to support greater efficiency, what are your views on:

1. **HMRC providing a manual resource like a user interface (compliant with the XML standard schema like the CRS model) for providers supplying small volumes of data?**
2. **What easements should be provided if any?**
3. **Would you use an Application Programming Interface (API) if they were made available to share information and data with HMRC in this context? Are there other forms of transmitting data that are effective and secure for the transfer of bulk data between systems?**

24. We have no detailed comments on this question. Security is essential and APIs have been successfully used in other contexts, but we do not have any input from data providers that would allow us to comment further.

Question 11: Which identifiers are appropriate for these types of categories (Partnerships, Trusts and Charities) and do you have views on how they may be collected and supplied by third parties?

25. We have no comments on this question.

Question 12: What are your views on the proposed requirement to place obligations on suppliers to request NINOs from individual customers, CRNs from incorporated businesses and VRNs from businesses and traders making sales via card machines (merchant acquirer data)?

26. We are only commenting on individuals.

27. The [2023 consultation on information and data](#) noted that NINOs “are not a robust unique identifier for tax administration, as not every taxpayer has a NINO, and there are instances of NINO duplication.” In our response to that consultation, we agreed that use of NINOs would be inappropriate and supported the use of a unique taxpayer identifier, specifically for tax purposes.

28. We note the comments in the current consultation that the government expects that providers should not decline or terminate an account for prospective or existing customers because they cannot obtain a NINO. However, it is clear from the proposals in the consultation and the roundtable discussion with HMRC that whilst it will be possible for financial institutions not to provide NINOs for some customers, this could involve repeated attempts to obtain NINOs,

explanations to HMRC and potential disputes about penalties. We are concerned that providers may find it easier not to offer accounts to those without NINOs or to 'debank' existing customers.

29. It is not clear how this could be monitored and the 'expectation' not to decline or terminate accounts enforced, to ensure that individuals without NINOs, or who struggle to provide the information to financial institutions are not denied access to accounts.
30. As a minimum, HMRC will need to ensure that they provide clarity on how financial institutions report data for customers for whom they have been unable to obtain NINOs and how disputes over penalties will be avoided.
31. We suggest that the schema should allow providers to record customers who do not have NINOs and will not be able to provide them, so that the missing NINOs do not prompt repeated interventions from HMRC. An approach should also be agreed for customers where the financial institution has made 'best efforts' to obtain a NINO but has been unable to do so.

Question 13: What are the associated costs on suppliers for collecting the relevant tax references from your customers?

32. We have no comments on this question.

Ensuring data quality – due diligence requirements and penalties

Question 14: What are your views on introducing due diligence requirements that align, where appropriate, to those for RRDP and the CARF?

33. For the reasons outlined in our response to Question 12, we believe it is important not to make the due diligence requirements too onerous.
34. We assume that many financial institutions already collect NINOs (for example, for ISAs) and do make some checks, for example that a NINO is in the correct alpha-numeric format. We welcome the suggestion in the consultation that HMRC might provide a digital solution for verifying NINOs. A secure verification system provided by HMRC would be the most effective approach.

Question 15: Do you agree that, in principle, penalties relating to bulk third-party data obligations should be consistent with those set out above?

35. As set out in our response to Question 12, it is important that the approach to penalties does not contribute to financial institutions refusing to offer accounts to those without NINOs or to 'debanking' existing customers. We discuss this further in our response to Question 16.

Question 16: If not, is there an alternative penalty structure that would be more appropriate to ensure accurate data, including on tax identification numbers, are collected for customers?

36. As set out in our responses to Question 12 and Question 15, it is important that the approach to penalties does not contribute to financial institutions refusing access to accounts to those without NINOs or 'debanking' existing customers.
37. We understand that HMRC does not intend to impose penalties automatically for missing NINOs but would try to find out why there is an issue. However, for large providers, we assume that this could potentially mean onerous administration in dealing with HMRC queries.
38. As noted in our response to Question 12, some taxpayers do not have NINOs, so will not be able to provide them. The schema should allow providers to record these customers, so that the missing NINOs do not prompt repeated interventions from HMRC. An approach should also be agreed for customers where the financial institution has made 'best efforts' to obtain a NINO but has been unable to do so.

Extending reporting to new third-party data sets: dividends and other income from investments

Question 17: What are your views on how the gap between domestic reporting and international obligations under Common Reporting Standard could be closed? Are there any specific types of financial account, or financial account information, that you believe should be included or excluded in future phases of reform? If so, why?

39. We support the introduction of requirements for investment platforms, investment managers and financial institutions to report dividend and investment information to HMRC – this is likely to be helpful to taxpayers. However, this will not cover all dividend income – taxpayers may also have direct investments in companies (including OMBs and close companies).
40. We agree that it is very unhelpful that taxpayers currently need to call HMRC to report their taxable dividend income, but this requirement will not be removed simply by improving third-party reporting (as noted this will not cover all dividend income). It is essential that HMRC provides the functionality for individuals to report this income via a simple online route, for example via their Personal Tax Accounts. Agents also need a digital route to report information on behalf of their clients.

Question 18: What data do you (individuals and their agents) currently use to calculate tax liability on dividends and other investment income? Would it be easier if this data were pre-populated in self-assessment or shown in a PAYE tax coding notice?

41. We agree that pre-population/inclusion in PAYE coding notices could be useful for taxpayers and agents. However, as with interest, it is essential that HMRC provides a breakdown of the dividends, so that taxpayers can easily check that all their dividends are included and compare the figures with their notifications from providers. There is a risk that if the coding notice (or pre-population) only gives a single total figure, taxpayers will assume that it includes all their dividends whereas in cases where, for example, they also have direct investments, those dividends will be missing.

Question 19: How straightforward would it be for you (third-party data suppliers) to provide dividend and other investment income data to HMRC that mirrors what is provided in customer annual tax packs and aligns with the tax year end 5 April? What are the main challenges with this approach?

42. We have no comments on this question.



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