

The Tax Administration Framework Review – Creating innovative change through new legislative pilots

The Institute of Financial Accountants welcomes the opportunity to comment on [the Consultation](#) published on 27 April 2023.

We would be happy to discuss any aspect of our response and to take part in any further consultations in this area.

Established in 1916, the Institute of Financial Accountants (IFA) is an internationally recognised professional accountancy membership body. Our members work within micro and small to medium-sized enterprises or in micro and small to medium-sized accounting practices advising micro and SME clients. We are part of the Institute of Public Accountants (IPA) of Australia Group, the world's largest SME-focused accountancy group, with more than 49,000 members and students in 100 countries.

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Questions raised in the Consultation

Question 1: What benefits and challenges do you think piloting potential policy and process changes in this way would bring?

1. The IFA approves, in general, of efforts to improve collaboration and transparency between HMRC, taxpayers and agents when it comes to implementing changes. This is true whether those changes pertain to legal obligations, regulations, policy and/or processes.
2. Legislative pilots, or sandboxes, have the potential benefit of increasing collaboration and transparency in this way. They also have the potential of enabling HMRC to better integrate policy demands and policy implementation, as well as increasing HMRC's time and opportunity to get processes and systems fit for purpose in advance of a general launch.
3. However, there are several challenges and potential dangers the IFA would highlight here. The first of these is fairness. If a sandbox gave (or could be manipulated to give) different liabilities and obligations to different individuals or groups, this would be both legally and ethically problematic, and would contravene the HMRC Charter¹ obligation to treat taxpayers fairly.
4. Related to the problem of fairness is the challenge of identifying and onboarding sandbox participants. If a sandbox process is potentially to a participant's benefit, this will raise questions over fairness – but if a sandbox isn't to its participants' benefit, it will be difficult to get participants to sign up willingly. Mandating or obliging taxpayers to participate in a sandbox would also be unfair, if for no other reason than the time and resource cost of familiarising themselves with their new obligations (and potentially incurring costs if they have an agent who must do the same). This problem would remain even if HMRC provide additional, focused support to sandbox participants, as they will still be expected to spend increased time and energy on something offering them no benefit.
5. Significant concerns exist over HMRC's current and future resource levels, with Jim Harra writing to the Public Accounts Committee in May stating that "existing resource levels will not enable us to handle current forecast demand,"² and the National Audit Office's value for money report on Making Tax Digital³ exposing the increased (and increasing) cost of that project. Further to this, IFA members and fellow professional bodies continue to identify issues with current HMRC digital systems and integration. The question arising for HMRC in considering this proposal is whether the technology and systems currently exist to handle sandboxes effectively – and if not, whether the time and resource are available to correct this.

Question 2: What safeguards would you like to see in the operation of pilots conducted within the proposed approach?

6. However safeguards are formulated, they will need to account for the administrative burden participation in legislative sandboxes will place upon participants (see paragraph 4). This is especially important for micro business and sole trader taxpayers, who lack the resources and capacity of larger business taxpayers to adapt to short-term changes and engage in co-creation.
7. Further to the fairness challenge outlined in paragraph 3, clarity and transparency over who is involved in a given sandbox (and why) will be key, for ethical and reputational reasons.
8. To protect taxpayers involved in legislative sandboxes, clarity will also be needed regarding the impact of their involvement on their existing relationship with (and rights in relation to) HMRC. For example, will a participant's right to appeal in the event of an adverse judgement from HMRC be maintained at the same level and via the same channel as it would be were they not engaged in the sandbox? In the interests of transparency and securing participant buy-in, the IFA would suggest this relationship should be defined via a contractual agreement between participants and HMRC.
9. HMRC should also consider other Government departments and regulators which may be impacted by multiple variant iterations of a given rule or process (for example, DWP and the FCA).

¹ [The HMRC Charter - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

² [Public Accounts Committee Report: HMRC Performance 2021-22, Recommendation 5](#)

³ [Progress with Making Tax Digital - NAO report](#)

Question 3: In addition to the ‘showcase space’ outlined at paragraph 4.4., are there any other ways you would want to engage in the development of new policy, processes, and legislation?

10. The legislative pilot approach to trialling and iterating policy and process changes could potentially become a powerful part of HMRC’s movement into co-creation with professional bodies and other key stakeholders. Further to paragraph 7, clarity and transparency will be invaluable in realising this potential. Regular updates and forums to discuss and feed back on progress within sandboxes, live timelines showing the direction of travel and upcoming milestones/gateways, and open communication with relevant professional bodies could all help to achieve this.
11. To realise the full potential of legislative sandboxes, they should be treated as an opportunity to test policy, implementation and connected systems and processes in an integrated way. User testing of a system should not solely be focused on the user experience: HMRC should consider whether the policy and legislation behind the system are working as intended, and both HMRC and participants should reflect on how the sandbox system and processes will interact with other systems and obligations.

Question 4: What areas of HMRC activity do you think would benefit from this type of approach?

12. Policy areas which are relatively niche, with a small taxpayer base and limited interaction with other HMRC activities, are logically the best place to start working out how legislative sandboxes will function in practice.
13. In the longer term, the HMRC activity which would most benefit from legislative sandboxes concerns systems implementation and integration (see paragraph 11). Opportunities to explore how policy and legislation are implemented will doubtless be valuable to HMRC, but at the point of a sandbox going live the Government policy direction will have been set. At this point, then, focus should be on ensuring systems and processes function effectively, both as standalone systems and in connection with related systems.
14. One alternative use of sandboxes could be to effectively protect those who are unable to use a new or changed HMRC system at point of launch. This could mean the digitally excluded, or any number of excluded “corner cases” whose complex tax affairs mean they (or their agents) are unable to use the digital system as intended for most taxpayers. This alternate use of a legislative sandbox could empower HMRC to grant temporary exemptions, for practical reasons, to those who cannot immediately access a new system or process.

Question 5: What participant support and oversight would you like to see?

15. Legislative sandboxes are likely to be a concept many taxpayers struggle with. As stated in paragraph 6, they will represent a particular burden on micro business and sole trader taxpayers. These taxpayers will likely rely on their agents to both explain the sandbox to them and fulfil their obligations in relation to it. Further to the administrative burden placed on the taxpayer, then, significant burden will likely be transferred to accountants working with SME clients. It is therefore vitally important that HMRC includes agents when considering education and other participant support – particularly those agents working with SMEs, and in small practices or as sole practitioners.

General comments

16. The IFA would like to raise a concern about the volume and proximity of HMRC consultations opened on “Tax Administration and Maintenance Day”, 27th April 2023. In total 11 consultations were opened 27th April, with deadlines falling in either June or July. This gives professional bodies and other interested parties approximately 8-12 weeks to respond to up to 11 consultations.
17. For professional bodies, providing meaningful representation requires engagement with members (which itself takes time, as members cannot be expected to respond immediately upon their professional body’s request), collation of member responses and internal deliberation before a representation can be written, assured and submitted.

18. Professional bodies like the IFA are therefore left facing difficult decisions over where to focus attention and resource – decisions which would not be necessary if HMRC consultations were spaced more evenly throughout the year, and/or deadlines were extended where necessary in recognition of the proximity of so many consultations opening at once.
19. Labelling 27th April “Tax Administration and Maintenance Day” suggests that HMRC are considering making this mass release of consultations a regular annual event: the IFA would strongly caution against this, and request HMRC consider a more reasonable approach to stakeholder consultation. If this approach is maintained over time, inevitably consultation responses will skew further towards the largest professional bodies, whose interests are not always necessarily aligned with smaller accountancy practices and their small business clients.

Contact details

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