



HM REVENUE AND CUSTOMS
Filing of Income Tax Self Assessment Returns

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EXECUTIVE SUMMARY



1 Self Assessment returns enable taxpayers to establish how much Income Tax they should pay and provide HM Revenue and Customs with the information it needs to validate their calculations. For the tax year 2003-04, the Department sent Income Tax Self Assessment forms to 10 million of around 35 million individuals, partnerships and trusts who pay Income Tax. Just over nine out of 10 people filed their completed forms by the 31 January 2005 deadline. HM Revenue and Customs collected £16 billion from Income Tax Self Assessment net of repayments in 2003-04. It has targets for returns filed on time, those filed within 12 months of the deadline, and accuracy rates for both filed returns and for the Department's processing of returns. It uses publicity campaigns to encourage people to file their completed tax forms early, by the deadline and to do so electronically. It has a range of sanctions to encourage taxpayers to file their returns and to penalise them if they do not.

2 Until April 2005, responsibility for operating Income Tax Self Assessment was vested in the Inland Revenue. The Commissioners for Revenue and Customs Act 2005 received Royal Assent on 7th April 2005. The Act provided the legal basis for the new integrated Department, HM Revenue and Customs, which was launched on 18th April 2005. HM Revenue and Customs exercises the functions previously vested in the Inland Revenue and HM Customs and Excise. In this report, references to HM Revenue and Customs, or the Department, cover both the functions of the Inland Revenue up to 18th April 2005 and the new HM Revenue and Customs.

3 This report examines the Department's progress in securing correct Income Tax returns on time from those who should submit them. It covers:

- **The need for tax returns** – why taxpayers should file them on time and accurately (**Part 1**);
- **Timeliness** – the Department's performance in getting returns in by the deadline and in chasing late returns (**Part 2**);
- **Accuracy** – of taxpayers in submitting returns and of the Department in processing them (**Part 3**);
- **Simplicity** – the Department's progress in making the forms easier for people to complete to reduce compliance and processing costs (**Part 4**).

4 Our study methodology is at Appendix 1. It included modelling the Self Assessment process, comparisons with the processes of revenue departments in seven other countries, assessing the tax forms for ease of use by non-professionals, consulting organisations with a professional interest in tax returns, and holding focus groups with HM Revenue and Customs' staff. We also examined the Department's progress in implementing previous recommendations in the Committee of Public Accounts reports on "Income Tax Self Assessment" (HC 296 2001-2002) and "e-Revenue" (HC 707 2001-2002) (Appendix 2).

Our main findings are:

Previous recommendations by the Committee of Public Accounts

5 HM Revenue and Customs is making progress in implementing the Committee's recent recommendations by making greater use of sanctions to encourage filing of overdue returns, simplifying tax forms to make returns easier for people to complete and increasing the number filed electronically. It is reviewing the effectiveness of the sanctions available to encourage taxpayers to file returns.

Encouraging taxpayers to file on time

6 As at July 2004, an estimated £1.1 billion of Income Tax was outstanding from 1.1 million overdue returns.

This estimate is based on the average net amount of £1,000 assessed as due per return filed more than six months late, although the Department prioritises pursuit of cases which it considers highest risk. A significant proportion was outstanding from taxpayers whom the Department could not trace, were living abroad or were insolvent. The percentage of returns filed on time and within 12 months of the due date fell between 1998 and 2001. HM Revenue and Customs has since stemmed the decline and reports it achieved its Public Service Agreement target of 90.6 per cent filed on time by the 31 January 2005 deadline. It has a further target to increase the percentage of returns filed on time to 93 per cent by January 2008. But the Department has also removed over one million taxpayers with very simple tax affairs from the need to file returns for the 2004-05 tax year. As these have a better record of filing on time it will make the new target harder to achieve.

7 The Department has a target to obtain 35 per cent of Self Assessment returns electronically by 2007-08, with an interim target of 25 per cent by 2005-06. It achieved 12 per cent for returns in 2003-04 and met its forecast of 17 per cent (just over 1.6 million) of returns submitted electronically in 2004-05. The Department encourages all taxpayers to file their returns electronically. Taxpayers and their agents can use the internet service (www.hmrc.gov.uk) and their agents can use an electronic lodgement service. To increase take up of online services HM Revenue and Customs targets groups with high potential to file electronically through e-marketing campaigns. Over the weekend of 29 and 30 January 2005, the online filing service did not send an instantaneous success or error message to around 80,000 people when they submitted their completed return, although confirmation

followed early on 31 January. HM Revenue and Customs is undertaking a comprehensive review of the problems experienced to identify the causes and to prevent similar occurrences in the future.

8 HM Revenue and Customs has identified the groups of taxpayers at high risk of late filing. These include young male taxpayers, those who are new to filing a tax return, those with no further tax to pay, those in the Construction Industry Scheme and taxpayers in parts of London. It has researched the causes of late filing and has developed an action plan to achieve its target of 93 per cent filing by 31 January 2008, focusing on these groups. It runs national media campaigns to encourage taxpayers to file on time. Before the deadline it writes to those who have not yet filed and telephones some people at high risk of late filing.

9 HM Revenue and Customs issues automatic penalties of up to £100 to taxpayers who have not filed their tax returns by the deadline. But these penalties are limited, by law, to the amount of tax owed which, in our view and confirmed by HM Revenue and Customs research, reduces their effectiveness in getting returns in on time where little or no further tax is payable. Around 60 per cent of taxpayers who file up to six months late have no further tax payable from their return or are due a repayment, so HM Revenue and Customs cannot impose a penalty. In some countries, penalties for late filing are a percentage of the tax owed or are related to the taxpayer's net income.

Encouraging taxpayers to file overdue returns

10 At July 2004, over 260,000 taxpayers had more than one return outstanding, and over 12,000 of these taxpayers had six or more returns outstanding. HM Revenue and Customs pursues overdue returns through its Receivables Management Service which is dealing with around 130,000 taxpayers to obtain their tax returns and recover the tax due and attempting to trace around a further 100,000 of these people. Around 35,000 of those with more than one return outstanding are insolvent or living abroad. The Department undertakes compliance work to identify moonlighters and "ghost" traders. Since April 2002, HM Revenue and Customs' Right Track Teams have identified 89,000 people who are not registered for Self Assessment who should be filing tax returns – those working in the shadow economy or having multiple jobs. A further 19,000 people have voluntarily come forward to notify HM Revenue and Customs of the need to register.

11 The Department has a range of sanctions to penalise late filers and encourage them to submit their returns including determinations of the tax due, charging interest, automatic and daily penalties and court action. The main purpose of daily penalties is to get returns in, establish the liability and collect any outstanding debt. Taxpayer awareness of the penalty regime is not high. Research indicates that only one third of taxpayers know that daily penalties may be imposed if they fail to file returns. Under the Spend to Save initiative announced in the 2003 Budget the Department was given additional funding to make greater use of daily penalties to bring in Self Assessment returns from recalcitrant taxpayers and deliver additional tax yield. In about a quarter of cases where the Department has threatened to raise daily penalties it has been sufficient to bring in the outstanding returns. The projected additional Income Tax yield over the three years from 1 March 2003 to 31 March 2006 was £470 million but the Department now projects that the final yield may be less. The projected shortfall in additional Income Tax yield is partly due to there being fewer taxpayers than the Department expected against whom it needs to take penalty action. With the benefit of additional information and analysis, the Department should have a clearer understanding of the reasons for the projected shortfall and it is continuing to monitor the performance of cases to assess the effect upon compliance, filing and payment behaviours.

12 HM Revenue and Customs can make an estimate (or determination) of the tax due and pursue the taxpayer for payment of this estimated amount to encourage the taxpayer to submit their outstanding returns and thus reveal their true tax liability. For the 2002-03 tax year, the Department raised 260,000 determinations totalling £540 million. In July 2004, the Department was pursuing some £330 million of Income Tax due from all determinations issued up to that date on returns that were still outstanding.

Helping taxpayers file accurate returns

13 The Department estimates that taxpayers make errors in around 32 per cent of tax forms filed. Some are simple mistakes and others are due to more deliberate non-compliance such as fraudulent under or non-declaration of income. HM Revenue and Customs carries out random enquiries on a sample of returns to estimate the overall percentage of returns with errors. This has shown that around three quarters of the tax liability from inaccurate returns is accounted for by just five per cent of returns. The highest levels of error are in returns from partnerships and sole traders. The Department estimates that around £2.8 billion in the 2000-01 tax year (the most recent result available) was at risk from inaccurate returns, but this is subject to a significant margin of error.¹ Significantly improving the accuracy of this estimate would require examining a much larger random sample of returns. The estimated amount at risk was equivalent to 18 per cent of the net receipts of Income Tax Self Assessment in 2000-01 and around four per cent of the taxes of the Self Assessment population, both deducted at source and Self Assessed.

14 The Department carries out checks during processing of filed returns to identify and, where possible, correct simple errors and mistakes made by taxpayers and undertakes enquiries into some returns. Online filing automatically checks for taxpayer errors and calculates the tax. The Department also offers help in completing forms through its enquiry centres, helplines and website. Taxpayer representative groups consider the information on the website is helpful but that some telephone helpline staff often lack the detailed knowledge to respond consistently and accurately to tax enquiries. They have also experienced difficulties in getting through to helplines at peak times. HM Revenue and Customs carries out enquiries into some Self Assessment Income Tax returns which may involve an extensive examination considering all aspects of the taxpayer's tax affairs. Such enquiries help HM Revenue and Customs identify any taxpayer errors as well as more deliberate non-compliance such as fraud.

¹ This estimate is subject to a confidence interval of plus or minus 19 per cent (£530 million). The figure underestimates the true extent of tax at risk because not all enquiries will identify all non-disclosed income. The Department is considering whether to update the figure to account for non-discovered non-compliance.

15 HM Revenue and Customs consults agents to canvass their opinion about the filing process and the guidance it provides to taxpayers. More generally agents have a role in encouraging their clients to file accurate returns on time. Agents are more likely to file their clients' returns close to the deadline than unrepresented taxpayers. After consulting with representative groups HM Revenue and Customs wrote to certain groups of taxpayers alerting them to the most common mistakes made in completing tax returns. More queries were made concerning the letters than the Department expected from earlier trials because some people interpreted them as suggesting they should put right a specific problem on their previous tax return, rather than as enabling them to avoid these mistakes in future. Once the letter is clarified, it may provide an effective mechanism for improving compliance amongst those groups with a higher risk of errors in their returns.

Accuracy of HM Revenue and Customs' processing of filed returns and tax codes

16 HM Revenue and Customs has a target to achieve accurate processing in 95 per cent of Self Assessment cases. In 2003-04, the Department estimated that it made mistakes in the processing of six per cent of returns (500,000) which may have led to errors in the assessed tax liability. The Department examines a sample of 20,000 processed returns to measure the accuracy of its processing work and to estimate the effect of its mistakes on tax bills. In 2003-04, the Department estimated that total under and over charges to taxpayers resulting from its mistakes were around £120 million (£70 million undercharges and £50 million overcharges). 12 per cent of over charging errors found exceeded £500. Taxpayers without agents may be less well placed to identify HM Revenue and Customs' mistakes in processing returns and in calculating their tax. The Department has improved performance in those offices with a poorer record of accurate processing through its quality assurance and quality control procedures which provide managers with information on common errors. And it has introduced annual quality action plans to improve performance more generally. Around 25 per cent of returns are filed within two weeks of the January 31 deadline, which causes a major peak in workload at the Department and higher risks of internal inaccuracies.

17 The Department estimates it incorrectly imposed in 2004 late filing penalties on around 30,000 taxpayers (three per cent of all taxpayers with penalties imposed and 0.3 per cent of all taxpayers) who had filed by the deadline. Around 20,000 of these were due to mistakes in logging returns on the day of receipt. The Department cannot identify individual taxpayers who have incorrectly received a penalty. The penalty notice tells people what to do if they do not know why they have been sent the notice. Taxpayers without agents may be less well placed to identify or respond to HM Revenue and Customs' mistakes in issuing penalties. In November 2004, the Department improved its system for logging in returns on the day of receipt and tracking the location of returns.

18 An individual's Pay As You Earn tax code determines the deductions from pay that are made for Income Tax during the year, based on an estimate of forecast income. An accurate Pay As You Earn tax code is therefore important to HM Revenue and Customs in collecting the right level of tax through Pay As You Earn and minimising the amount that might become payable on completion of the tax return at the end of the year. With the changes underway to remove the requirement to complete a tax return for some taxpayers, accurate Pay As You Earn tax codes assume even greater importance. The Department measures its accuracy in setting taxpayers' tax codes. In 2003-04, the Department made around two million coding errors and had an accuracy rate of 71 per cent. A third of Departmental errors were due to failure to update a taxpayer's code in line with information the taxpayer had given on their tax return. Other mistakes were made in calculating codes for people with multiple sources of employment income and people with investments. Taxpayers without agents may be less well placed to identify HM Revenue and Customs' mistakes in setting their tax codes. For taxpayers who will not need to file a return from 2004-05 onwards, HM Revenue and Customs will identify those who should receive a short Tax Review Form which asks for details of taxable income and of claims for some kinds of tax relief. It has also introduced a coding tool (for more complex cases) to improve its accuracy in determining Pay As You Earn tax codes by reducing the need for manual calculation of tax codes.

Simplicity of the tax forms

19 HM Revenue and Customs' tax forms compare well with other countries in terms of clarity and ease of use by those who are not tax professionals. The Department has introduced a new four page short form for around 1.5 million taxpayers with simple financial affairs. It estimates this will save each taxpayer one hour compared to completing the full tax return resulting in an overall saving of around 1.5 million hours for taxpayers. Piloting of the short form proved it was quicker for taxpayers to complete, and for the Department to capture the data provided and to process, although there have been teething problems with scanning the returned forms. The removal of over one million taxpayers with very simple financial affairs from Self Assessment in 2004-05 will further reduce compliance costs and improve the net revenue yield, as many of these people may have less tax owing than the cost of processing their return. It will also reduce overall operating costs for HM Revenue and Customs. The Department is planning improvements to the main return for people with more complicated tax affairs.

HM Revenue and Customs' processing of tax returns

20 Operating Income Tax Self Assessment costs HM Revenue and Customs over £220 million a year or around £22 per tax return. As a broad comparison the cost of processing benefits applications ranges from £17 for the Social Fund to £60 for Income Support applications. Chasing overdue tax returns and carrying out enquiries to confirm whether the right amount of tax is being declared incurs further costs. The Department collects around £70 in Self Assessment Income Tax for every £1 spent operating Self Assessment.

21 The private sector uses various methods to manage efficiently the processing of large volumes of communications with its customers. These include standard processing times and projected volumes of work to identify processing centres which are over or under capacity. HM Revenue and Customs is carrying out a trial within its Lothian Area to improve its processing of tax returns by eliminating waste and introducing standardised, quicker, more efficient and more accurate procedures.

22 Experience of tax authorities in other countries suggests that HM Revenue and Customs might consider more fundamental changes to the filing process to get returns in earlier and reduce operating costs by smoothing the flow of work although any decision on filing dates would be for Ministers. For example, taxpayers in the United Kingdom have 10 months to file their returns. Other tax authorities typically allow taxpayers only three to four months to file their returns, granting extensions to those who apply for extra time or those who use agents.

Overall Conclusions

- i **Getting tax returns in on time is important as it allows timely assessment and collection of tax as well as minimising the costs of chasing late returns. HM Revenue and Customs has stemmed the fall in people filing their tax returns by the due date and the percentage of taxpayers who filed by the 31 January deadline has now stabilised at just over 90 per cent.** Achieving its higher target of 93 per cent of tax returns filed on time by January 2008 will be a challenge not least because of the removal of some taxpayers, who have a better than average filing record, from the requirement to file. HM Revenue and Customs intends to target those groups at risk of late filing.
- ii **The wider review by HM Revenue and Customs of sanctions currently underway provides an opportunity to improve the effectiveness of the penalty regime for late filing of Self Assessment returns.** In particular, the effectiveness of the penalties for deterring late filing are diminished because the Department cannot, by law, impose the automatic penalties if people have no further tax liability; and there are significant numbers of people with two or more outstanding returns who have not yet had daily penalties imposed.

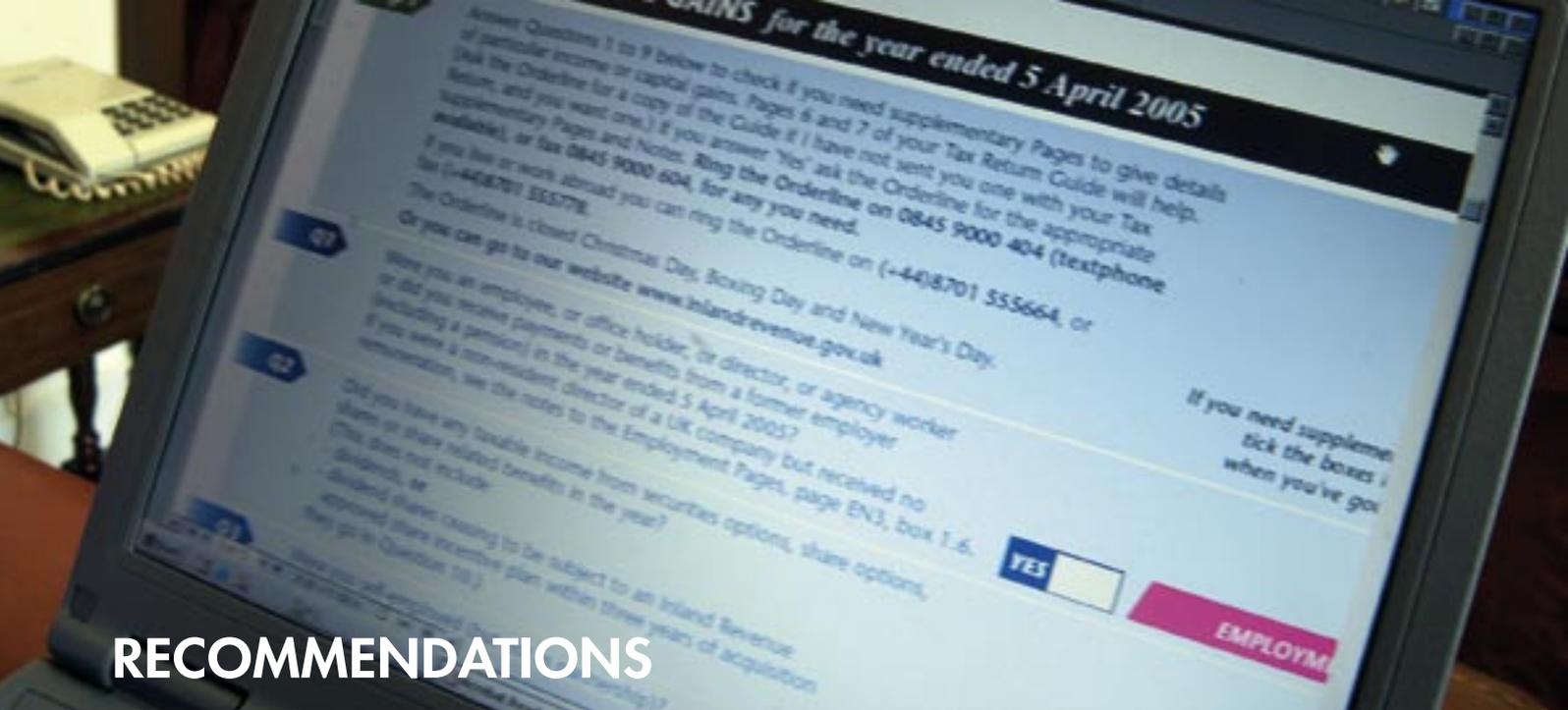
iii There is considerable scope to improve tax yield by improving the accuracy of returns. Some 32 per cent of tax returns contain accidental or deliberate inaccuracies by the taxpayer. As a result around £2.8 billion is at risk from liabilities not being accurately stated in returns (although this amount is subject to a wide margin of error). The Department targets those at risk of high value errors and is working to improve the accuracy of its targeting. Further improvements in return accuracy could reduce the tax at risk. The distribution of inaccuracies is highly skewed ranging from a few pounds at the low end to a very few with several thousands of pounds at risk. Considering the average amount at risk, a one per cent point reduction in the error rate of returns filed by such taxpayers would reduce the tax at risk by at least £28 million. HM Revenue and Customs could build on the work it has done to identify common mistakes by working more closely with agents.

iv Taxpayers expect that their returns will be processed accurately by HM Revenue and Customs. This is not always the case. There were processing errors by the Department in around six per cent of returns filed (500,000 returns). This can lead to inaccurate assessment of tax liabilities, incorrectly applied penalties and inaccurate Pay As You Earn tax codes as well as higher compliance costs to taxpayers and their agents in rectifying the mistakes. The Department is introducing various

measures which should improve its accuracy of Pay As You Earn tax codes which will be essential to the success of other measures underway to simplify the reporting obligations of taxpayers with simpler tax affairs. It also needs to improve its accuracy in logging returns and so prevent issuing penalties wrongly rather than relying on taxpayers or their agents to challenge any errors.

v HM Revenue and Customs' advisory service to taxpayers in the form of guidance, enquiry centres, dealing with people with complex financial affairs and the ease in completing forms, is comparable with the best practice of tax authorities in other countries. But there is scope for HM Revenue and Customs to improve communications with taxpayers in alerting them to commonly made mistakes in completing returns and in providing access to consistent and accurate advice.

HM Revenue and Customs is continuing to improve the main form and supporting guidance. The introduction of the short form is likely to reduce compliance costs for taxpayers and HM Revenue and Customs alike provided that teething problems with scanning documents can be resolved. There is also scope for HM Revenue and Customs to draw on private sector experience in efficient processing, workload smoothing and having standardised work processes and the Department is currently undertaking a trial in its Lothian Area to improve its processing of tax returns.



RECOMMENDATIONS

The recommendations are focused around seven areas:

a Achieving the 2008 Public Service Agreement filing target of 93 per cent

To increase the proportion of taxpayers who file on time the Department has identified and targeted those groups most likely to file late such as those in the Construction Industry Scheme. It needs to assess the potential effects of any improvement in filing on time on the accuracy of filed returns, efficiency and tax yield, and take steps to manage these through monitoring the level of returns filed without errors, internal accuracy in processing returns, total operating costs, costs per return issued, and the amount of tax outstanding from late returns.

b Using sanctions to encourage filing of returns by the due date

To improve the effectiveness of the sanctions against those who file late or have outstanding tax returns and to deter late filing HM Revenue and Customs, as part of its review of sanctions, should:

- with the help of the National Audit Office, review the Department's processes for imposing daily penalties against those who persistently fail to submit their tax returns taking account of the ongoing results of the Spend to Save initiative² on daily penalties in gaining additional Income Tax yield;

- improve its information on the payment of penalties to ensure that penalties are rigorously enforced;
- communicate the risk of penalties directly to taxpayers by targeting its media campaigns to raise awareness. The Department started this in 2005 with media campaigns highlighting fixed penalties for late filing;
- determine whether new or greater sanctions are needed to change taxpayers' behaviour, so that more people file on time, for example, by increasing the scale of the penalty for those with a return outstanding particularly where significant tax amounts are at risk; and
- examine the level of the existing automatic penalties and explore whether a minimum penalty could be set and the penalty be linked to a taxpayer's tax liability.

² The Department's Spend to Save Initiative was announced in the 2003 Budget. It focused on areas with significant risks to tax receipts and where targeted compliance work was expected to be highly effective.



c Improving the accuracy of HM Revenue and Customs' processing of filed returns

The Department has developed a quality assurance and control process to address high rates of internal errors. Its Quality Monitoring Exercise is also providing information on the main types of processing errors and the consequent effect on tax liabilities notified to taxpayers. It is analysing the information to help reduce the risk of errors, compliance costs (particularly for taxpayers without agents) and losses in tax. The Department should now use that information to drive up accuracy rates.

Pay As You Earn tax coding work is one of the main areas where internal errors occur. The Department is monitoring the type and frequency of its coding errors which are mainly related to failures to update codings following the input of data on tax returns and internal mistakes in coding taxable benefits. The Department should ensure the information on internal accuracy of tax codes and the main types of error is used by regional management to tackle the internal causes of error and improve the overall rate of accuracy.

The Department should improve the accuracy of its recording of when returns are filed to reduce the number of taxpayers who receive automatic penalties in error. In November 2004, it improved its system for logging in returns on the day of receipt and to help track the location of returns. The Department should assess the effect of its improvements during 2005 on the levels of automatic penalties issued correctly and those issued in error. Given the recurrences in issuing automatic penalties to some people who filed by the deadline, the Department should, in future years, record the reasons for cancelling automatic penalties. This will enable it to assess the difference between the number of penalty notices it estimates it has issued wrongly and the number of people affected who have successfully challenged its errors.

d Improving the Self Assessment form and support for taxpayers

HM Revenue and Customs, as part of its review of the main tax return form, should improve the clarity of the form and seek to reduce compliance costs for taxpayers by:

- greater use of plain English supported by guidance focused on the needs of specific groups, such as those without agents, Construction Industry Scheme members, those with multiple employments and the newly self employed;
- improved information for taxpayers and staff on the main errors, for example by posting them prominently on its website;
- providing information to taxpayers on the common mistakes made in completing returns and consulting with stakeholder organisations to make sure the letters will achieve the desired effect;
- providing face to face support for those taxpayer groups who cannot use other means, such as the telephone and the internet, either at its enquiry centres or through organised events in the local community;
- providing enhanced training for call centre staff to ensure they can handle enquiries effectively, accurately and consistently and managing capacity to reduce the likelihood of taxpayers not getting through to the helplines.

Removing the obligation to file returns from over one million people with very simple financial affairs has many benefits. There is a risk that such taxpayers may subsequently not notify HM Revenue and Customs of changes to their circumstances which may require them to make a tax return. The Department estimate the risk of lost tax revenue is some £5.5 million a year. The Department should evaluate the benefits and the actual effect on tax revenue after the first year to determine whether more people can be removed from the obligation to file without risk of material loss of revenue and whether taxpayers who have overpaid Income Tax and who are no longer sent a tax return, receive the repayments due to them.

e Improving management information to evaluate the effectiveness of the Department's processes and sanctions

HM Revenue and Customs should determine the benefits and costs of generating further information to enable it to manage its processes and meet its responsibilities on filing returns more effectively. This should include:

- developing systems to enable it to track the imposition of penalties and their enforcement;
- monitoring the impact of its errors in processing, coding and imposition of penalties;
- assessing the impact of overdue returns on the amount of tax outstanding and at risk.

f Reducing operational costs and improving efficiency

Removing the obligation on people to file returns and the use of e-filing reduces costs both to taxpayers and the Department. The Department has had increasing success in encouraging taxpayers to file electronically. However, in the light of the problems around 80,000 taxpayers had in filing their returns electronically at the end of January 2005, the Department needs to ensure that its service be fully available and accessible at all times and that contingency plans be in place if systems fail. HM Revenue and Customs should, in time, when appropriate IT systems are in place, consider the cost effectiveness of pre-completing parts of the tax return forms for taxpayers as an incentive to file returns electronically, for example, by including on the online version of tax returns the Pay As You Earn information it receives directly from employers.

g Smoothing of workflow of processing tax returns to aid efficiency and accuracy

HM Revenue and Customs should improve efficiency of processing returns by:

- reducing the numerous centres inputting data thereby pooling their resources to achieve economies of scale in handling the volumes of work and peaks in workload;
- evaluating, and adopting where appropriate, the good practice in the private sector and emerging from the trial in its Lothian Area to identify opportunities for savings and ensuring the continuous flow of returns through its processing stages;
- making savings in data capture costs by ensuring that its review of the main tax return includes a requirement in time for the revised core pages to be capable of scanning in the same way as the new short tax return has been designed to be scanned in.

Self Assessment has existed for eight years. While much of the Self Assessment taxpayer population is now more familiar with the process, taxpayers are increasingly filing tax returns later each year. The Department should explore differential filing dates for paper and electronically filed returns although the decision would be for Ministers. Changing the filing deadlines and reducing the period which taxpayers are given to complete their returns could reduce operating costs, by smoothing the peak flow of work associated with paper returns. It would also have the further advantages of enabling the Department:

- to take account of any over/underpayment of tax in Pay As You Earn coding for the next tax year, as the coding exercise is performed in mid-January;
- to start debt collection earlier as filed returns could be processed earlier;
- to have more time to process returns accurately (currently 25 percent of returns are filed in the two weeks before the deadline of 31 January and all returns filed by the deadline have to be processed by 31 March).

Any changes in these dates would need consultation with stakeholder groups to convey the benefits for compliant taxpayers, and tested to ensure improved accuracy and efficiency can be delivered.

The Department should also review the optimal timing for sending out paper tax returns and issuing taxpayers with notices to file. While HM Revenue and Customs sends these out in April many employed taxpayers do not complete their form until they receive their P60 form(s) which provide details of earned income. This is not issued until the Summer. A later despatch of returns and notices to file may ensure that most people receive the return at a time when they are in a position to file. This would enable the Department to have finished the processing of previous years' returns and so have a more accurate list of taxpayers who should be included in Self Assessment, and which of those should have a short tax return. It need not delay taxpayers from filing online for those wishing to claim a repayment.

The Recommendations above could result in significant additional revenue or efficiency savings. The National Audit Office is working with HM Revenue and Customs to determine how these may be most effectively achieved.