

About Sage

Sage exists to knock down barriers so everyone can thrive, starting with the millions of small and medium-sized businesses served by us, our partners, and accountants. Customers trust our finance, HR, and payroll software to make work and money flow. By digitising business processes and relationships with customers, suppliers, employees, banks, and governments, our digital network connects SMBs, removing friction and delivering insights. Knocking down barriers also means we use our time, digital tech, and expertise to tackle digital inequality, economic inequality, and the climate crisis.

Introduction

Our research identifies that the single most important area of **untapped potential for SMBs is data**. Data is a critical source of information for businesses to build their strategy and inform the nature of their products and services. For example, identifying trends and rates of sales.

However, at present, SMBs do not feel that they are able to unlock the full value of their data. While many areas of technology that generate data have been widely adopted by SMBs – such as websites (80%), social media (73%), and accounting software (76%) – adoption of technology to collect and use data lags significantly behind at only 3%.¹

Despite the challenges in accessing and using data for insight, a resounding **100% of SMBs surveyed by Sage said that data is important to their business**.² SMBs need more support to understand how data works – the algorithms which sit behind analytics – and more tools that allow them to gain insights from their data to inform business decisions.

While developing data policy, it is essential that the Government considers SMBs as end-users and ensures policy meets their needs, not just those of large corporations. The Government must set the right frameworks to **enable more trusted, efficient, and innovative data-sharing across businesses and third parties**, while maintaining the trust and transparency needed to build confidence.

Sage welcomes the opportunity to input into HMRC's consultation into 'The Tax Administration Framework Review: information and data' and the commitment to use data efficiently to enable digital transformation of taxpayer services, improve HMRC's compliance capabilities, and reduce administrative burdens.

Having reviewed this consultation, we have chosen to focus our feedback on specific areas and questions namely around third-party information, a unique taxpayer identifier and the proposal to update Section 114 Finance Act 2008 regarding computer records.

As a software provider, we do not believe we are best placed to comment on the remaining content.

Question 2

UK taxpayers are responsible for overall accuracy of their return(s), including supporting information and data. This reflects practice in OECD partner countries, which pre-populate taxpayer return(s):

- A. What are your views on retaining the principle that taxpayers are responsible for accuracy of their return(s)?

¹ Digital Britain Report <https://www.sage.com/investors/-/media/files/investors/documents/pdf/public%20affairs/sage-digital-britain-report-june-2022.pdf>

² Sage response to UK National Data Strategy Consultation <https://www.sage.com/investors/-/media/files/investors/documents/pdf/public%20affairs/uk-national-data-strategy-sage-response-december-2020.pdf>

- B. What process(es) should be available for challenging and resolving discrepancies in information and data pre-populated in taxpayer return(s)?
- C. Are there any specific alternative approaches to accountability HMRC should consider?

Response

Sage welcomes the idea of pre-population of tax returns. If implemented in the right way, pre-population can bring a wealth of benefits for both taxpayer and HMRC including cost and time savings as a result of increased efficiency and accuracy of data.

By moving to a model where tax return data is populated by third party data it seems prudent that the questions surrounding accountability and process to challenge should perhaps be broken down and the following elements individually examined:

- Discrepancies in the data provided by third parties - For example, a bank provides a taxpayer with an interest statement which states they have paid the taxpayer £100 in a tax year. They then provide HMRC with data stating £10 due to a decimal point error. Who is accountable for this and how is it challenged?
- Similarly, what if the bank provided HMRC and the taxpayer with the £100 figure but the calculation of that £100 was incorrect?
- The completeness of a tax return – What if the £100 is included on the tax return but bank interest from another overseas bank is missing?

In theory we would agree that the taxpayer should remain responsible, but we would urge HMRC to be clear on all scenarios, roles and responsibilities and the boundaries of those responsibilities. We would also urge HMRC to ensure that the role of tax software is clearly defined as a data processor and not a data controller and as such are therefore not accountable.

There are likely to continue to be scenarios where HMRC cannot guarantee that a tax return has been fully populated by third parties and/or is 100% accurate. For example, interest from foreign bank accounts or offshore dividends. Until HMRC can guarantee that they have 100% of the required data and it is accurate and have the historical data to support this, taxpayers will need to retain a level of accountability and taxpayers and their agents must be able to challenge the figures.

Without the ability to challenge, taxpayers and their agents will be funnelled through inappropriate support channels resulting in significant taxpayer and agent frustration and avoidable costs to both HMRC and 3rd party software such as ourselves.

In terms of what that the process should be, it is difficult to comment in detail without having a clear picture of how HMRC intends pre-population to work which isn't covered in the consultation paper.

However, in designing any system for tax return pre-population, including the process to challenge, we would encourage HMRC to do 2 things:

1. Ensure the API first strategy is followed and share the data with third parties. This will allow third parties like ourselves to provide the most effective and innovative solutions to ensure tax returns are accurate. We would also encourage HMRC to follow this principal for the data they gain through their existing powers.
2. Consider the role and needs of agents in the tax return process. We believe many agents would welcome more data but would like to be in control of how that data is used and included on tax

returns. We would urge HMRC to work closely with the agent community to really understand how they want to use this data and how it can benefit them in preparing accurate tax returns.

Whilst somewhat anecdotal in nature, one example we have is... In 2017 HMRC provided APIs for self-assessment data held in relation to a particular taxpayer. Many of our competitors used this data to populate the tax return but, after talking to customers (agents) it was clear that they wanted the data but wanted to be in control and have full visibility of how that data was being used. As a result, Sage created a free tool, the 'Personal Tax Viewer' which allowed agents to see a read only version of the data held in relation to their client. This allows the agent to compare it to the information they have, assess whether its complete and accurate and then decide what goes on the tax return. This feature has been incredibly successful (c2,000 users with c80,000 annual searches for client data) and we believe this is down to the agent being provided with the data as a tool and not as the end solution. This approach is far more likely to result in accurate and complete tax returns because there is a positive action to carry out in filling out the tax return as opposed to a passive one in challenging what's already there. Whilst anecdotal in nature, hopefully this example demonstrates that different cohorts may have different needs and preferences when it comes to pre-population, and this should be fully considered as part of the design process.

Sage would also encourage HMRC to make the third-party data available via APIs with clear guides on how it can be used. There will be many ways this data can benefit the taxpayer outside of their tax return (for example to assist with financial planning and cash flow). By providing clear guidance on the use of this data HMRC can help drive the benefits that wider access to data will bring, following on the wider themes of Open Finance and Open Data

Question 5

What are your views on:

- A. The advantages, disadvantages, or any specific considerations of HMRC introducing unique taxpayer identifier(s) to enable more accurate information and data-matching to improve tax administration, including fuller pre-population of taxpayer returns?
- B. Similar approaches used by partner OECD countries?
- C. Alternative unique identifier(s), or data-matching mechanisms which could be utilised to improve tax administration, including fuller pre-population of taxpayer returns?

Response

Whilst Sage strongly supports the concept of a single way to identify a taxpayer, we see this as one aspect to the larger discussion around digital identity and would urge HMRC to work with other government departments to ensure an aligned approach that is suitable for citizens, taxpayers, SMBs, government and the private sector alike.

Sage supports the development of a digital identity (ID) that would enable the Government and businesses of all sizes to further digitalise their processes and increase both efficiencies and productivity across the economy. A Digital ID for SMBs could deliver **enhanced productivity, better access to finance, enhanced trust across organisations and industries, and reduce instances of fraud**. It would also provide a more seamless registration and authentication process when setting up a new business.

However, for Digital ID to unlock these benefits, different **frameworks impacting SMBs should be aligned, and the Government should join up public and private sector initiatives**. Currently, the

Government is progressing a new Digital ID Trust Framework¹⁸ to enable trusted digital identities to be available to people across the country. At the same time, the Government's Digital Service's One Login¹⁹ for government services will replace more than 40 logins. Companies House is also setting up a new ID verification process²⁰ for registering companies.

Without coordination, the take-up of digital IDs looks uncertain and SMBs may be forced to navigate a complex operating environment when needing to verify their identity.

To deliver the potential benefits of digital ID, the Government needs to align on one framework for the UK. The Government should introduce a **government-backed digital ID that any business is able to use to verify their identity digitally to a third party**. For example, this would enable businesses to verify their identity with a bank when setting up a business or registering for accounting software. This would streamline processes and remove the need to use a one-off verification, such as paper documents.

The development of a **digital identity could also enhance e-invoicing**. Tax authorities in several jurisdictions now use digital identities embedded in electronic invoices to learn about taxes owed and later use this to ensure that the correct taxes are paid. Payment diversion fraud is one of the largest single areas of fraud in the world. Digital identities could be used to identify fraudulent invoices that include incorrect payment details, for example a fraudster's bank account, and help reduce this significant cost to tax authorities.

Question 6

What are your views on the advantages and disadvantages of adopting a set of 'schema' like the OECD model, to standardise information and data reporting from third parties? If HMRC were to explore this further, how should any new obligations in this area be structured?

Response

In principal Sage would welcome and support the adoption of a schema. Schemas help provide structure and consistency and help facilitate the reporting and sharing of accurate robust data. However, we would urge HMRC to ensure that third parties are mandated to work to the same schema and that this is appropriately consulted on and stakeholders are properly engaged and given suitable lead times to prepare.

The introduction of the Payment Service Directive 2 (PSD2) saw the mandation of open access to banking data. However, this resulted in each bank having its own schema which was costly and cumbersome for software providers to implement. This was significantly streamlined with the implementation of 'Open Banking' in the UK which implemented a consistent schema across banks.

Appropriate consideration should also be given to third parties who are less able and/or willing to comply with a schema such as foreign companies and offshore accounts.

Question 13

What are your views on updating Section 114 Finance Act 2008 to take into account the issues set out above?

Response

Whilst we fully appreciate the wording of Section 114 Finance Act 2008 is somewhat outdated, we have several concerns regarding the suggested revisions and how this might conflict with Intellectual Property (IP) conventions that the UK has signed up to.

Firstly, specifically with regard to the proposal to 'analyse and investigate the software of third-party and intermediary software providers', assuming the scope of this includes tax software such as ours:

- **Basis for the proposal** – We feel that we already work closely with HMRC to ensure that tax calculations are correct and as expected and in many cases alert HMRC colleagues to issues. We already go through a level of review in order to be listed on the approved software pages and our tax calculation has to provide the same result as the HMRC calculation. At least from our own experience, we are not aware of any instances where the existing process has proved to be insufficient. We would therefore like to understand the basis for the proposal i.e. have HMRC got grounds to believe that significant errors in tax returns are a result of errors in tax software code as opposed to the completeness and/or accuracy of the source data?
- **What would this look like in practice** - We would like to understand, what these extended powers might look like in practice. Would HMRC want to review source code on an ad-hoc or regular basis? And what might be the trigger point for review? For example, would HMRC want to carry out a review every time we intended on releasing a new feature to the market? Regular review and even the potential for regular review could have a significant impact on our internal processes and delivery times and come at a significant cost to the software industry.
- **Does HMRC have the resources** - If HMRC did gain additional powers, do you have the resource and skills needed to scrutinise source code and identify algorithmic bugs?
- **Alternative models** - If HMRC feel they need additional assurance over the reliability of tax software, have you considered other models such as a voluntary certification model similar to that used in Germany whereby tax software could go through a certification process on a voluntary basis. Taxpayers then have a choice between certified and non-certified software and HMRC can take this into account when calculating the risk factor of a particular tax return.
- **Forced IP disclosure** - Lastly but potentially most importantly we feel that this constitutes forced disclosure of intellectual property and is at odds with the UK's stance on forced source code disclosure, international intellectual property laws, the Bernes Convention and other best practice.

Secondly, specifically with regard to the proposal to 'providing HMRC with a broader set of powers to obtain and access any type of information and data (including software) from any system that stores or processes information or data':

- **Conflicts with GDPR** - We have concerns that these broader powers potentially conflict with GDPR. Sage consider themselves to be a 'data processor' with regard to tax returns and as a data processor we should not be deciding who to share data with – this is the role of the data controller. We would encourage HMRC to ensure they are clear on who are data controllers and who are data processors and reflect this within any revised text.
- **Erosion of trust** - Broader powers to obtain any data could erode trust between software providers and their customers especially when that software is considered a data processor and not a data controller.

- **Overreaching powers and impact** - In many cases, the software that contains tax related data could also contain additional information that potentially sits outside the scope of these additional powers such as client meeting notes. We are concerned that the proposal may result in software providers needing to provide the ability to separate out and ring fence data that falls in and out of scope.