Article by **Benedict Jennings, Senior Tax and Trust Manager at Payne Hicks Beach** originally published by IFA Magazine online on 27 September 2021 and reproduced with kind permission
https://ifamagazine.com/article/how-hmrcs-increasing-access-to-data-will-affect-taxpayers/

IFA magazine

Benedict Jennings
Senior Tax and Trust Manager

How HMRC's Increasing Access to Data will Affect Taxpayers

BY REBECCA TOMES
SEPTEMBER 27, 2021 IN FEATURED, NEWS

By Benedict Jennings, Senior Tax and Trust Manager at Payne Hicks Beach

HMRC has, for several years, had the power to request information and access taxpayers' data from taxpayers and third parties. Schedule 36 of the Finance Act 2008 is HMRC's main information-gathering power and requires a taxpayer to provide information or to produce documents to check tax returns. Under Schedule 23 of the Finance Act 2011, HMRC can request bank and credit card statements from third parties ('data holders') and other documents in order to build up a picture of a taxpayer's lifestyle if an investigation is raised. Now, the draft legislation for the upcoming Finance Act will allow HMRC to go straight to third parties (especially banks) under a new 'Financial Institution Notice' to obtain information about a taxpayer without needing to raise an enquiry or to obtain prior approval from the Tribunal.

Less well-publicised is an advanced data-gathering (or mining) software called 'Connect' developed by HMRC in 2010, which has 'raised' over £3bn in undeclared tax in a little over 10 years. Connect is a very sophisticated and key weapon in HMRC's arsenal to address the 'tax gap'- the difference in the amount that should be paid to it and what it actually received (currently estimated at £35bn or 5.3% of tax liabilities). In a letter to the HMRC Select Committee in 2016, HMRC described Connect as:

"… a data matching and risking tool that allows HMRC to cross match one billion HMRC and third-party data items. It identifies 'hidden' relationships between people, organisations and data that could not previously be identified. Connect has the capacity to highlight patterns in HMRC's rich reserves of taxpayer and third-party data, allowing HMRC to find anomalies between such things as bank interest, property income and other lifestyle indicators."

Connect analyses data from many different sources, including public bodies such as the DVLA and the Land Registry, and from social media, credit reference agencies, and airlines. In a digitalised age, HMRC now has a vast wealth of information at its disposal through Connect to monitor taxpayers. The increasing amount of taxpayer data held online and electronically will increase the information available to HMRC.

As Artificial Intelligence becomes more and more sophisticated, HMRC's access to data will grow correspondingly. At present HMRC is implementing its well-publicised initiative to get small businesses and taxpayers to complete tax returns and records digitally "Making Tax Digital" (MTD) which will only increase the information that HMRC gathers on a taxpayer.

Furthermore, the UK government has recently announced plans to implement the OECD rules (the Model Reporting Rules for Digital Platforms) requiring digital platforms to report details of the income of sellers on their platform to HMRC. In layman's terms, this means that online marketplaces such as eBay and Amazon will have to declare information to HMRC, as well as tech companies who employ freelancers such as Deliveroo and those who let their property through something like Airbnb. The plan is for these rules to be implemented as early as January 2023.

Although these powers may seem Orwellian, most of the taxpayers in the country should not have anything to fear. The key point for the public is to ensure that their tax affairs are complete and not to attempt to evade tax. HMRC maintains that the increasing move towards MTD will reduce the tax gap further and ensure that everyone is paying the tax they should. Additionally, MTD is looked on by HMRC as a simplification for the taxpayer which many will welcome, and make it easier for the taxpayer to claim oft missed reliefs such as pension contributions and gift aid. The unknown is whether this will coincide with increased scrutiny of our private lives.

Payne Hicks Beach LLP
10 New Square, Lincoln's Inn, London WC2A 3QG
DX 40 London/Chancery Lane
Tel: 020 7465 4300   Fax: 020 7465 4400   www.phb.co.uk