

## **XBRL Conference - 9 June 2006**

### **e-FILING OF COMPANY TAX AND ACCOUNTS**

#### **Keynote Address - Lord Carter of Coles - 10.10am**

### **REVIEW OF HMRC ONLINE SERVICES**

Thank you, Paul [Aplin], for inviting me to speak today. Sadly, I cannot, stay for the whole conference, but doubt that I would be able to contribute much once you get into the more technical aspects of XBRL.

What I want to do today is set out some of the context of my review and talk a little about the next steps for HMRC and online filing. In particular, I'll quickly walk through what this means with regard to Company Tax.

I was first asked to look at how information technology could help taxpayers back in 2001, with the Review of Payroll Services. Much has changed since then - and I don't just mean because both the Revenue and I have changed our names!

Today HM Revenue & Customs is a very different organisation from the Inland Revenue with whom I worked five years ago. The newly-merged department covers a range of businesses and a variety of customers.

You know, when my Review Team and I first spoke to users we found a little hesitation and reluctance over the introduction of electronic filing. But five years on there has been a big difference in attitude and practice:

Technologically - the United Kingdom is now one of the most wired-up countries in the world and UK businesses are ranked amongst the most sophisticated users of information technology;

Culturally - citizens and businesses have come to expect easy-to-use, high quality websites that provide quick access to information and services;

And financially - last year more than 60% of small employers filed their PAYE returns online and nearly 25% of Self Assessment returns were filed online this year.

In the course of our review we found there is now a general acceptance of online services as the way forward. And I was certainly encouraged by improvements to the Online Self-Assessment filing service, which now provides a high quality response even at the peak filing period.

So what now? Well, building on this good progress we made a package of recommendations.

I'm pleased to say that most of that package has been well received by the tax industry, but I know there have been concerns about the proposals to change income tax self assessment filing dates.

However, the overarching recommendation made in my report was that Government should set an aspirational goal for HMRC to aim for universal electronic delivery of business tax returns by 2012. And that it should also aim for universal electronic delivery of individuals' returns from IT literate groups by the same date.

That's clearly ambitious, and to make this possible, we believe HMRC should continue to invest in the right infrastructure. That also means building in more rigorous testing. We recommended that each service should be tested to confirm it has capacity to cope with anticipated demand at peak times at least a year before the relevant recommendations are implemented.

But more widely, these recommendations pave the way for a more effective, more efficient, 21st century service from HMRC. Government has long recognised the importance of embracing the knowledge economy - and there have been challenging targets for government online services. Yet the rates of voluntary adoption here are disappointingly low.

In part this reflects customer frustration with some parts of the service, and doubts about resilience. But it is also clear there is still some reluctance to engage with the Government in an online way. Businesses and citizens who interact electronically on a day to day basis - with their customers, or in the course of their work or personal lives - seem less inclined to change the way they deal with HMRC to take advantage of these developments.

That is why we have set an ambitious - but realistic - timetable, that will change the way you file company tax returns as well as PAYE, VAT and Income Tax Self-Assessment. Taken together, these will increase the use of online services, promote earlier filing, and provide taxpayers with certainty sooner.

Why? Because online services offer benefits to businesses, to taxpayers, and to the Government.

Customer use of online services undoubtedly provides a real opportunity to free up resources from low value tasks, such as processing and error correction, so HMRC can focus on more complex activities.

As you may expect, I saw some staggering statistics on the amount of time and money HMRC spends simply trying to put right the data entered from paper forms that is, for whatever reason, wrong.

To maximise those benefits, the services must be designed collaboratively and around the needs of customers. During the review I was impressed by the willingness of stakeholders, including agents and software developers, to work with HMRC on this.

So I very much hope that HMRC takes advantage of what is on offer here.

I'd now like to talk about the recommendations to do with companies that I made in my report.

I am, of course, an unashamed champion of the use of IT in business, in government and between business and government. And I believe that online filing of company tax returns offers significant opportunities - not for process improvements that are at best a bolt-on, but a chance to redesign processes for the better.

I have been pretty astonished by the high degree of IT literacy of most of the people I've met who are starting out in business. Clearly business is ready for this step.

So why XBRL? Well I think everyone here knows that XBRL has the potential, and looks set, to revolutionise financial reporting.

While others later in the day will cover this in greater depth, I hope I haven't dumbed it down too much if I say that XBRL is the language for the electronic communication of business and financial data. Based on XML, which is already used in the online filing of company tax returns, it has become a standard means of communicating information between businesses and on the internet.

The introduction of XBRL cuts out laborious and costly processes of manual re-entry and comparison. Computers can treat XBRL data "intelligently" - and so can government as a result. Better still, they can recognise the information in an XBRL document, select it, analyse it, store it, exchange it with other computers and present it automatically in a variety of ways. Not just that, but in a much faster, much more accurate way.

That's the goal. Already, XBRL has been introduced into the quarterly reporting by US banks to their regulator, for example. And, of course, Companies House are already receiving certain accounts in XBRL format.

Beyond the technological leap that XBRL offers, there are other benefits too. For example, those who currently file company tax returns online submit accounts and computations as PDF attachments. HMRC automatically captures the information from the return into its computer systems, but the attachments have to be printed.

So if we want do this - submit accounts and computations as data - then, as far as I'm aware, there isn't really an alternative to XBRL that offers the same range of benefits.

But why no incentives, you may ask? Well, I guess this touches on one of the key differences from my earlier Review of Payroll Services. Those of you who file employer returns are no doubt well aware of one of my main recommendations back then - that Government should make incentive payments to encourage smaller businesses to file online before being required to from 2010. And yes, that has been a phenomenal success - over 900,000 small businesses took this up in its first year.

That's good - especially for smaller businesses. But as part of that trend towards greater IT use that I mentioned earlier, the vast majority of businesses are now using IT in their day to day work. To be blunt, they just don't need financial encouragement to adopt electronic ways of working. And we ought to celebrate that fact.

Of course, that means the onus is now on government - on HMRC - to improve its online services, and to focus on building robust services that can cope with high volume usage at

peak times. This is the consistent message we heard - from businesses and other service users alike.

And as a result, I have recommended that resources available for online services should be focused on improving the services themselves rather than on further incentive payments.

I have also recommended that the period for enquiry into a company tax return runs from the actual date that a return is submitted if that precedes the statutory filing date. I received a lot of representations suggesting this, and it seems to me that doing this removes a significant obstacle to earlier filing. And earlier filing is a good thing - it spreads loads, it encourages early addressing of any issues and so on.]

That leaves one last point I'd like to answer. During my Review, I spoke to many firms of accountants and had three members of the profession, from different sized firms, as part of my team. And a number of accountants pointed out that, for the clients they served - mainly small companies - best practice was to prepare accounts and computations as a single task in time to submit accounts to Companies House.

So wouldn't it therefore make sense to bring the statutory dates in line? And, on the back of that, shouldn't we expect government to offer a joined-up service that enabled a company's statutory obligations to be met more easily?

Well, that seems right to me - and I understand this doesn't work for large groups. But it must help the vast majority of companies to have a single date to focus on to pay their tax and file their accounts and returns.

I've spoken for some time now, so let me end on this note. Whilst I have been concerned about the reliability of HMRC's online services, I was greatly encouraged by the success of the SA online filing service this year.

Robustness of service matters, as does a realistic, but stretching timetable of reform.

So there is indeed a challenge - both to HMRC and to you as the industry. And it is important that you keep talking to each other and listening to each other as these changes are implemented.