

## **Summary – Working Toward Tax Fairness**

### **Presentation by ContractorCalculator & Self-Employed Australia for APPG Loan Charge & Taxpayers Fairness Group - 21<sup>st</sup> Feb 2023**

#### **Proposition**

The best tax systems maximise voluntary compliance. Effectiveness heavily depends on whether the tax office administers a system with transparency and accountability built on top of statutory processes which ensure the system is 'fair'. **HMRC currently fails the fairness test. Prime examples are IR35 / Off-payroll and the Loan Charge.**

The UK Parliament can **solve this problem using tried and tested mechanisms enacted by the US Congress**, which confronted similar unfairness problems in the 1990s. Congress successfully enacted laws (1998) imposing procedural fairness rules on the IRS, resulting in US tax collections being maintained at a lower cost to the community and the government. **The US laws offer a perfect model/template for the UK Parliament.**

#### **Translating the US model to the UK**

After **US Congress passed the Taxpayer First Act in 2019 to upgrade the 1998 laws**, Self Employed Australia (SEA) visited the critical instigators in Washington to fully understand the US package of laws. **SEA published an extensive report detailing how the US model could work in Australia** to solve similar unfairness issues. The information underpinned a formal review by the Australian Parliament's Tax and Revenue Committee, which subsequently recommended Australian reforms. **SEA and ContractorCalculator have collaborated on a similar exercise of how the US model can be modified and used in the UK. See attached paper.**

#### **Legislative features and principles of the US model**

- ***Taxpayer Bill of Rights*** supported by ***Taxpayers Rights Code***
- ***Powerful Taxpayer Advocate*** overseeing compliance which can issue orders.
- **Legislated procedures** must be followed.

These legislative measures **maximise dispute resolution, reduce the pressure on the appellate courts, and lower collection by intimidation by curtailing abuses of power**, focusing on collecting the correct amount of tax.

#### **Modelling for the UK**

**UK parliamentarians can draft similar legislation** by converting into legislation parts of HMRC's debt management procedural manual, which it is supposed to follow, alongside **further simple measures** outlined in section 6 of the accompanying paper.

#### **Success in the US:**

- In 1997 the IRS had one staff member for every 2,720 Americans
- In 2019 the IRS had one staff member for every 4,150 Americans

This indicates around a 50% increase in productivity by the IRS since 1998.

HMRC has already reduced staff numbers but hasn't made enforcement and compliance any easier, leading to questionable methods to hit tax revenue targets, which have departed from the principles of fairness.