

Use of Third Party Data: CenTax Response

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1 About CenTax

We are researchers at the Centre for the Analysis of Taxation (CenTax), a research centre co-hosted by LSE and University of Warwick. CenTax is dedicated to improving public understanding of tax policy and helping to design a better tax system, by generating evidence that is rigorous and relevant to policymakers and the public. Further information about CenTax is available via our website.

Our work focuses on tax policy design and the measurement of tax policy outcomes. We conduct cutting-edge research on the behavioural and economic impacts of tax policy changes and have contributed substantively to debates on tax policy in the UK over recent years. We use HMRC administrative data accessed through a secure research environment that allows us to compare academic research findings with official government costings, providing insight into how policy analyses are conducted.

We sent this in response to the government's consultation on Better Use of New and Improved Third-Party Data which can be found [here](#).

2 Background

CenTax is one of HMRC's largest users of data for research purposes via HMRC Datalab. We rely heavily on HMRC's ability to collect data in a format that is suitable for large-scale analysis, and to link data reliably and efficiently across data sources. This capacity is essential for compliance purposes to facilitate analytical risking in addition to individual casework. It is also crucial for policy evaluation and other research in the public interest. We feel that the latter uses are often undervalued or overlooked when considering the potential benefits of improvements in data collection, including third party data.

As well as conducting our own research using HMRC data, CenTax also has expertise on the international empirical evidence on the role of third-party data reporting for tax compliance. There is a large existing literature demonstrating the importance of third-party data reporting for detecting non-compliance (e.g. [Seim, 2017](#)) and facilitating pre-population as a means of improving upstream compliance ([Saez & Seim, 2025](#)). We would be happy to have further discussions with HMRC regarding this international evidence, if it would be helpful.

3 Question 1

Do you support maintaining the scope of Schedule 23 of Finance Act 2011 paragraph 12 'interest' as HMRC moves towards standing reporting obligations for financial account information? Are you aware of any unforeseen consequences or missed opportunities?

The move to standing reporting requirements is very welcome.

We disagree with the limited focus on 'interest' because the potential utility of third-party reporting of financial account information extends far beyond savings income. Savings income represents a very small proportion of the total taxable income of UK residents that flows into/through domestic financial accounts. The exclusive focus on interest represents a missed opportunity to use financial account information to detect underreporting of other non-savings income e.g. trading income, dividends, rent.

We note that this focus on savings income is also a flaw under CRS and (to a lesser extent) FATCA.¹ We think that the government should explore options for additionally requiring reporting of the *total credits* and *total debits* for the account over the relevant period. When combined for all accounts held by an individual (netting off transfers between accounts of the same individual), this information would provide a much better picture of potential non-compliance across a wide range of income sources.

4 Question 8

Our preferred option is to tailor the CRS schema. We would be grateful for your views on: which key specifications need to be included; the benefits and drawbacks of combining BBSI and other interest under one schema; and the associated costs with adopting a tailored version of the CRS schema.

The CRS schema would represent a significant improvement on the status quo, and there is case in terms of familiarity and scalability for rolling out the CRS scheme for domestic purposes. However, there are some aspects of CRS that could be significantly improved upon, where departures from the CRS scheme would be warranted. Aside the lack of information in CRS regarding other non-savings income flowing into/through the account, another weakness concerns the reporting of beneficial ownership.

¹CRS does include reporting of account balance at year-end (CRS); however, this is still of limited use for detecting large flows of non-savings income. The requirement under FATCA to report maximum account balance is better in this respect.

The consultation states that “The NINO we require to be collected and supplied, is the NINO of the beneficial owner of the account or business”. However, it is unclear how this reference to the ‘beneficial owner of the account’ is or will be defined and enforced in practice. We would be grateful if HMRC could let us know whether there is any existing statutory basis for this reference, or any official guidance on its application.

We note that the current approach under CRS is subtly different to this reference to beneficial ownership (depending on exactly how it is interpreted and applied). CRS draws a distinction between the named account holder and ‘controlling persons’. However, the concept of a controlling person focuses mainly on control rather than benefit, so is not apt to cover individuals who are entitled to the interest but lack control over the account as is typically the case for e.g. beneficiaries under a trust.

We think it is important that third party reporting of financial account information includes information about the beneficial owner(s) of the account in such a way that the definition closely tracks the relevant concept of beneficial ownership for tax purposes. This entails that the definition of beneficial ownership should cover trust beneficiaries even if they cannot exercise control in relation to the account. This may require a departure from the CRS framework for defining a ‘controlling person’, although this may be possible within the existing schema.

5 Question 11

Which identifiers are appropriate for these types of categories (Partnerships, Trusts and Charities) and do you have views on how they may be collected and supplied by third parties?

We think that the following identifiers are appropriate:

- Partnerships – UTR (plus CRN for LLPs)
- Trusts – UTR
- Charities – Charity Number

We do not express a view on exactly how these are collected, but we would emphasise that it is *essential* that they are collected in *all* cases where the account holder is a partnership, trustee or charity. HMRC must ensure the capacity to link the account information to the relevant individual/entity for tax purposes, in a way that is *reliable at scale* (i.e. not requiring manual matching or enquiries). Otherwise, the usefulness of the data for analytical risking will be severely compromised.

6 Question 12

What are your views on the proposed requirement to place obligations on suppliers to request NINOs from individual customers, CRNs from incorporated businesses and VRNs from businesses and traders making sales via card machines (merchant acquirer data)?

As above, we emphasise that the requirement to provide relevant identifiers (rather than only e.g. name/address/DOB) is essential to the efficacy of third-party reporting.

We are concerned that NINOs are not fully comprehensive for UK resident taxpayers and so there needs to be a subsidiary requirement to report the individual's UTR where they do not have a NINO. In cases where a UK resident individual does not have either a NINO or UTR, we think that they should be required to register for one in order to open or retain the account as account holder or beneficial owner. In other words, it should never be acceptable to hold or be the beneficial owner of a reportable account without supplying either a NINO or UTR to the account provider.

7 Question 17

What are your views on how the gap between domestic reporting and international obligations under Common Reporting Standard could be closed? Are there any specific types of financial account, or financial account information, that you believe should be included or excluded in future phases of reform? If so, why?

We think that the UK government should set its sights higher than merely closing the gap with the CRS. Closing this gap would be a useful intermediate step, but it is important to recognise that CRS itself has important gaps and limitations as described above. We think that in subsequent phases of reform, the government should be more ambitious in exploring options for using third party reporting of financial account information to assist detection of underreporting of other income types beyond savings income.

8 Question 18

What data do you (individuals and their agents) currently use to calculate tax liability on dividends and other investment income? Would it be easier if this data were pre-populated in self-assessment or shown in a PAYE tax coding notice?

In our previous response to the consultation on self-reporting of information about close company dividends, we highlighted concerns that HMRC had missed an opportunity to automatically link Companies House data with individual tax records. We think that requiring individuals to supply their NINO/UTR to Companies House as part of the new ID verification would be an administratively simple and effective reform for improving dividend reporting by enabling automatic linking of Companies House data with HMRC data. We think that HMRC should be strongly making the case for this as part of the government's wider drive for digitalisation and reform of Companies House.