**Draft Request for Information for Tax-Compliant Banking products exploration and Proof of Concept (POC)**

**SUMMARY**

The HM Revenue & Customs CDIO Innovation Team invites suppliers, including those from the financial industry and FinTechs, to contribute to building our knowledge regarding the possibility of using real-time transaction data in banking products for streamlined tax determination, automatic calculation and payment to HMRC, simplifying this process for tax paying customers.

HMRC has researched and developed the concept of a tax-compliant bank account and seeks an industry view to build intelligence and an understanding of the opportunities that existing and new technology innovation might present to make tax simpler for users in this way.

In the future, HMRC sees the requirement to engage on a collaborative innovation project to test feasibility with a Proof of Concept, developing greater understanding of existing technology and identifying new requirements and gaps in order to shape future HMRC strategy. Ultimately the desired outcome is to identify a market neutral methodology and open-source framework that could be applied across the industry.

This Request for Information (RfI) will be publicised for two weeks from the date of issue during which time we invite you to submit responses to the questions and provide any other additional information you think may help HMRC and the financial industry develop the concept.

**BACKGROUND**

HMRC is one of the largest government departments and one of the UK’s biggest organisations. Almost every individual and business in the UK is a direct customer of HMRC. We collect in excess of £500 billion a year in revenue from over 50 million customers across the UK. This is an exciting time for digital and technology in HMRC. HMRC’s principles of operating supports an API-first policy with cloud-based services. Our services must work in accordance to UK Government policy whereby data cannot be sent offshore and must be GDPR compliant. Security and accessibility must be built into service design from the ground up.

Treasury ministers have decided to increase the capability of, and competition in, the UK’s world leading payments system by creating, through regulation, Open Banking (and the Implementation Entity charged with delivering the necessary standards) and the new PISP/AISP markets that will provide the competitive solutions that will benefit end users.

At the same time, ministers have approved HMRC’s recently published Tax Administration Strategy with its commitment to “introduce increasingly integrated processes, drawing on information from business systems and validated third parties”. The strategy commits HMRC to exploring how we can get more data on which we make our tax-based decisions from trusted third parties, rather than customers themselves, and to better align data submission process with other business processes.

The HMRC CDIO Innovation Team are interested to collaborate with the industry to explore how these ministerial priorities can be delivered to the benefit of taxpayers and account holders in a collaborative and innovative way, building on existing technology and work already underway. We want to test how the market might operate differently with greater use of Open Banking, PSD2, ISO20022, other regulatory and compliance changes and the increased intermediation capability in the market. If we can couple HMRC’s developing API capability with greater provision of information, this may enable HMRC to make decisions on tax much quicker and better and, crucially, without our customers having to do anything else. The project and Proof of Concept outcome may be made publicly available and will be used by HMRC to shape future strategy and direction.

Consideration should be given to new payment services capabilities, competition, use of data, and impact (positive and negative) to customers, and the effect that these changes might have in future tax calculation and collection, and the potential benefits for HMRC, tax paying customers and the market.

We hypothesise that there must be an opportunity to collate tax related payment data from existing footprints left in the UK payment system given the changes agreed by ministers. With the tax payer’s permission, they can effectively submit to HMRC all their financial data safely and securely, potentially associating this with their HMRC persona automatically and in real time, leaving them with more time to trade, earn and do business with less tax administration to undertake.

Almost all taxable events are evidenced in the UK’s well-regulated, well-trusted and highly efficient payments system and there is scope to build frameworks in order to access the tax event data. HMRC would like to see how the tax event evidence can be used in real-time whilst making the tax payment journey more frictionless.

FOCUS

Currently Small and Medium Enterprises (SMEs), sole traders and self-employed individuals are required to manually complete and submit a Self-Assessment tax return.

We want to fully understand the feasibility and potential uses of accessing real-time transaction data through open banking directly from business banking products and the application of automated tax determination, calculation and payment to HMRC.

We plan to investigate what activity might be centralised to a bank account or banking application to simplify the process for tax-paying customers, and what related functionality, connectivity and regulation would be required by all involved parties for this to work.

SCOPE

Questions HMRC would like to investigate:

* How can we make tax calculation frictionless for everyday business transactions?
* How feasible is it to calculate and take tax in real-time in / from business banking products, and submit it directly to HMRC?
* What activity can feasibly be centralised to banking products to support and simplify the preparation and calculation of income tax, VAT, Corporation and other taxes (e.g. self-assessment tax) for small and medium enterprises / sole traders / self-employed customers?
* How can we better leverage the PSD2 mandate to give open access to banking data in order to improve products and services available for the sole trader and small businesses population?
* What appetite is there for this amongst sole traders and small businesses?
* How can we determine if there is a user need within the targeted user group?

PURPOSE

By answering these questions, we aim to develop a better understanding so we can shape future HMRC strategy. Ultimately our future aims are to:

* Reduce the effort and burden of calculating and submitting tax to HMRC for SMEs / sole traders / self-employed customers
* Reduce the reliance on manual calculation
* Explore the potential for a closer technical link between a customer’s financial banking system persona and their taxable persona
* Help an individual or a business identify their real-time tax position, and the ability to use this for tax determination and submission to HMRC
* Provide a better user experience, reduce the need to contact HMRC and improve tax compliance through smarter use of technology
* Access technical, subject matter knowledge and expertise to support thought leadership
* Understand what existing technology and processes are available and identify the technology, data and regulatory gaps that need to be filled to fully achieve the scope in future

DELIVERABLES

General

* Develop a shared understanding of what tax-compliant banking products, tax preparation and calculation processes might look like for Customers, HMRC, banks and the finance industry
* Set out the minimum data requirement, standard, process and framework for sharing of real-time taxable information with HMRC
* Test a prototype tax-compliant banking product including Open Banking, technology integration and tax determination logic on order to prove and demonstrate the concept in a test environment with test data
* Define the opportunities and measurement framework for HMRC, banks and third parties to measure and project from this activity
* Produce written recommendations in collaboration with HMRC about the future roadmap for scaling

Technical

* Understand what opportunities PSD2, Open Banking and ISO20022 bring to simplifying tax
* Test the application of open banking, explore the use of transaction data, the feasibility of determining taxable transactions and potential automation opportunities
* Understand the connectivity required for sharing of information with HMRC
* Test how much data HMRC can use from transactions
* Investigate how submission to HMRC can be made simple and convenient for customers

Supplier criteria

* Knowledge of small businesses, sole trader and self-employed customers (user needs / pain points)
* Knowledge of Self-Assessment / taxation
* Knowledge of / access to banking products and processes or proven experience working with banks
* Knowledge of Open Banking, PSD2, ISO20022 technology and standards
* Ability to work with HMRC APIs
* Proven experience working with financial regulators
* Access to / supply of environments for technical proving / testing

QUESTIONS FOR SUPPLIERS

* In order to understand your market segment, could you provide an overview of your experience, technical knowledge and particular area of expertise around banking products, Open Banking and third-party API connectivity?
* Which banking products, to which you may have access to, could deliver the Proof of Concept?
* What insights can you offer around SME, sole trader and self-employed user needs and pain points with banking, accounting and tax?
* How does tax compliance and legislation fit into your product roadmap?
* What considerations, if any, have you made around the use of Open Banking to simplify tax within banking products as part of your business or product roadmap?  And if you have not considered this, why not?
* What opportunities do the PSD2 regulations, New Payment Architecture, Open Banking and ISO20022 bring to simplifying banking and taxation for SME, sole trader and self-employed customers?
* How feasible could it be to determine what transactions are taxable via banking products, and how much could this be automated?
* What data could be submitted to HMRC from banking products, to enable real-time taxation, and how could submission to HMRC be made simple and convenient for users?
* Which other organisations, if any, would you consider working with to deliver this type Proof of Concept (POC)?