Date: 21 May 2025

Author: Aisling Morgan

Response to the consultation on better use of new and improved third-party data to make it easier to pay tax right first time

About the Building Societies Association

The Building Societies Association (BSA) represents all 42 UK building societies, including both mutual-owned banks, as well as 7 of the largest credit unions. Building societies have total assets of almost £525 billion and, together with their subsidiaries, hold residential mortgages of over £395 billion, 24% of the total outstanding in the UK. They also hold £399 billion of retail deposits, accounting for 19% of all such deposits in the UK. Building societies account for 40% of all cash ISA balances. With all their headquarters outside London, building societies employ around 52,300 full and part-time staff. In addition to digital services, they operate through approximately 1,300 branches, holding a 30% share of branches across the UK.

Executive summary

The BSA welcomes the opportunity to respond to the Government's proposals on the better use of new and improved third-party data. The below response addresses proposals for the reporting of financial account information, including bank and building society interest (BBSI) and other interest.

This response does not address proposals on extending reporting to new third-party data sets for dividends and other income from investments, as it is not relevant for building society or credit union sector.

Our members support the intentions of the Government to modernise and improve the reporting framework for financial account information; however, the proposals must be developed and implemented in a way which keeps in mind the significant burdens of changing reporting frameworks on many smaller financial institutions, like many building societies and credit unions. Requirements should be as harmonious with other reporting frameworks as possible, such as Cash ISA reporting. The implementation timeline should also allow for firms to understand their requirements fully, so they can plan and outsource development work as needed.

Effective reporting by financial institutions will only work if depositors are willing and able to submit their national insurance number (NINO). While the consultation rightly recognises there will be depositors who do not have a NINO, or who may not want to disclose their NINO in the first instance, the Government must make significant efforts to raise awareness of the importance of disclosing their NINO to the financial institution. Otherwise, financial institutions will be obliged to request the NINO from depositors repeatedly and bear the associated administrative costs, but with little to no benefit to depositors, HMRC, or the financial institutions themselves.

Contact: aisling.morgan@bsa.org.uk

Standing Reporting Obligations and Frequency

We support maintaining the scope of Schedule 23 of the Finance Act 2011 paragraph 12 on 'interest' and we are not aware of any unforeseen circumstances or missed opportunity. The consultation also confirms that the Government will not be taking forward unmodified domestic Common Reporting Standard (CRS) reporting, which we strongly welcome.

Moving financial institutions to a routine reporting framework instead of HMRC notices ought to create certainty in the system, however the consultation does not suggest that the reporting framework can sit alongside the reporting of other information, such as Cash ISAs. While reporting monthly will be a significantly heavier burden than financial institutions currently face, it is important that if institutions are reporting in the future for Cash ISAs, that efficiencies in BBSI reporting can be found. This is the case for both the frequency of reporting and the schema chosen for reporting, allowing financial institutions to build simpler but more comprehensive reporting frameworks. However, it is important that financial institutions can select their own monthly reporting date and it will naturally vary depending on the institutions and when they credit interest.

Reducing the time lag at the end of the reporting period to below three months should be possible. However, a balance needs to be found between the burdens of financial institutions reporting a significant amount of financial account information on depositors and the timeliness needed at the end of the reporting period to support pre-population of Income Tax Self Assessment (ITSA) returns. It would be a significantly high burden for all financial institutions to submit the day after the end of the reporting period, and it is not clear if that is necessary to achieve the goal of these proposals. The consultation states that under the new Making Tax Digital rules for sole traders, landlords, and agents, HMRC needs time to check, process, and share interest data with taxpayers. However, it doesn't say how much time is needed; this makes it hard to find a fair balance between the reporting burden on taxpayers and HMRC's needs. An appropriate time period should also be taking account of how financial institutions could be continuing to report BBSI information monthly and HMRC will already have the data for all months, including month 12 of the period, and will be in a strong position to present strong estimations of interest before the submission of the report at the end of the reporting period. As taxpayers are still obligated to assure that the pre-populated information is correct, it may be that this would fulfil the goals of these proposals.

Schemas and Collection of Tax References

We would welcome the introduction of a streamlined single schema for the reporting of financial account information, however we again propose that the schema tries to align with existing schema, such as Cash ISAs or the CRS, instead of introducing a wholly new schema. It is crucial that the Government develops and publishes this schema with at least 18 months' notice to financial institutions before the beginning of the reporting period comes into effect. This is very important for smaller financial institutions, such as our members, who are already undertaking significant administrative burdens to digitise Cash ISA reporting, and HMRC must try to make efficiencies where possible to reduce further administrative costs.

We understand the value of the collection and reporting of common designatory data such as a NINO as this is a commonly understood unique identifier that the majority of depositors will have access to. This system can be rolled out for new accounts with some work but financial institutions will require significant time to collect and report the NINOs of existing depositors. Having to contact all depositors to request their NINO and then following up will also come at significant costs for financial institutions. It is important to not underestimate the burdens of collecting NINOs, particularly for existing accounts, as customers will likely not understand why they are being asked to supply a NINO for a deposit account, invalidating the benefits of the exercise. For that reason, we stress that there must be a transition period for the collection of NINOs for existing accounts. HMRC must also undertake significant communications with taxpayers on the importance of submitting this information when requested, otherwise depositors will likely see it as irrelevant if they do not complete tax returns already. We welcome that financial institutions should only make 'best efforts' to gather the NINO and that non reporting of a NINO by a depositor is not grounds for declining or terminating deposit accounts.

Due diligence requirements and penalties

The consultation says that financial institutions should 'use all records available, as well as any publicly available electronic interface to ascertain the validity' of NINOs, with the example of checking that NINOs are submitted in the correct alpha-numeric format. However, verifying only the format of a NINO is very different from verifying its validity. Requiring financial institutions to use all records available is a very high threshold that would oblige financial institutions to undertake significant work to verify the NINO. This would create undue friction in the creation of new accounts and significant work to valid existing accounts to little benefit. For small financial institutions who often have fewer than 100 members of staff across the whole organisation, validation of each individual NINO could cause disproportionate costs. At this time, there is no authoritative way for financial institutions to verify the validity of a depositor's NINO (unlike the mechanism to verify a Company Registration Number which is publicly available on the Companies House register). The validity of NINOs should only be required if the Government introduced a register which would allow financial institutions to verify the accuracy of NINOs using HMRC data. Until then, financial institutions must only be required to verify the format of NINOs, not their accuracy.

Conclusion

While we recognise the public benefits of pre-populating tax returns with financial account information, we ask for the Government to consult further with the financial services industry with more detailed proposals on the implementation of modernised financial account information reporting along with a cost benefit analysis.