



Tax returns exiting U.K., but don't expect it in U.S.

British want to simplify taxes; questions arise in U.S. over control

By Russ Britt

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LOS ANGELES (MarketWatch) -- As tax season goes into the stretch, think of what life might be like if, well, if there wasn't one.

What if the "madness" in March conjured only visions of college hoops, not pretax return anxiety? Imagine April 15 being just another day. And H&R Block? Poof.

That's not likely to happen here, but it's what the U.K. is shooting for as Britain plans to push forward a new system in which very few, if any, of the isles' 30 million or so income-tax payers would have to file a complex annual return. In its budget plan recently submitted to Parliament, the nation's ruling Conservative Party is looking to essentially eliminate tax returns within the next half-decade.

"It's going to happen," said Patrick O'Brien, spokesman for Her Majesty's Revenue & Customs service.

How can it be possible? For one, the U.K. obviously is much smaller than that U.S., with about one-fifth of the overall population, which simplifies matters tremendously. Second, two-thirds of the nation's taxpayers are on a basic, pay-as-you-earn, known as PAYE, system in which they don't really file much of a tax document at the end of the year anyway.

It's the 11 million taxpayers who file more complex tax documents than the average Brit that Prime Minister David Cameron's government is targeting. Eventually, the government wants to get people like the U.K.'s self-employed plumbers, artists and various other entrepreneurs on a streamlined system in which the government keeps tabs on tax payments and deductions year-round. Reconciling shortfalls and surpluses could be a perfunctory exercise at year's end, they believe.

But it wouldn't happen right away, O'Brien says. The change would come over time, between now and around 2020.

"There wouldn't be a big bang," he said. "This will happen over a number of years."

Before you cry Big Brother, there is some planned nuance in the system, O'Brien says. Governments keep tabs on individual incomes and major deductions already, so this would just formalize it. Plus, any credits due the taxpayer that the government doesn't know about could be brought up before individuals reconcile their tax bill at the end of the year--and they could stick with the old-fashioned filing methods if so desired.

O'Brien says the government just wants to simplify tax filing to make it easier for Brits to comply, and make the end-of-year process less stressful. The U.K. isn't looking to make plumbers and other entrepreneurs constantly report in, he adds. He says the government just wants to keep the process from being a shock at the end of the year.

"We don't want to inhibit their work product," he said.

Would such a system fly in the U.S.? Experts from both sides of the argument see some of the benefits.

Bill Gale, a senior fellow at the left-leaning Brookings Institution and co-director of the Urban Institute-Brookings Tax Policy Center, says the government already possesses much of the information that's included on tax forms anyway. In the U.K., it's even simpler because many of the major deductions such as mortgage interest don't exist.

Still for many, such a system poses a conflict of interest for the government, which benefits from the tax bills it's calculating, he says.

"The whole invasion of privacy argument is a non sequitur, but the conflict of interest is interesting," he said.

Dan Mitchell, a senior fellow at the libertarian Cato Institute, says if the U.K.'s plan truly did simplify tax codes that would be desirable among conservatives, but he's skeptical that's the case. Besides, he says, citizens in the U.S. probably would instinctively resist such a plan.

"I would think there would be intuitive hostility and antagonism to it here, just because people don't trust the government," he said.

What conservatives and other antitax groups seek is a flat tax for all, Mitchell says. He adds that the Brits' plan to keep tabs on tax debts on a continuing basis rubs against conservatives' concerns over the U.S.'s equivalent system of withholding taxes throughout the year.

"Withholding, I think, has enabled much higher tax burdens and much bigger government," he said.