

Bills Committee on Inland Revenue (Amendment) (No. 2) Bill 2001

**The Administration's Response and Follow-up Actions
on Issues Arising from the Discussion at
the Meeting on 3 January 2003**

Introduction

At the meeting of the Bills Committee held on 3 January 2003, the Administration was requested to:

- (a) provide an undertaking in the speech to be delivered by the Secretary for Financial Services and the Treasury during the resumption of Second Reading debate on the Bill that the Administration would continually review and improve the functionalities and compatibility features of the return filing application under the Electronic Service Delivery (ESD) platform, including the support for other operating systems, such as Linux;
- (b) advise whether it was a central policy decision that “official-paid mail” should not be provided, and which bureau should be responsible for reviewing such a policy;
- (c) provide a comparison between the password used in the Inland Revenue Department’s (IRD) tax filing application under the ESD system and the one used in similar system in the United Kingdom (UK), e.g. why IRD did not propose to adopt a 8-digit alphanumeric password as in the UK;
- (d) review whether it was necessary to adopt the same password for filing tax returns by Internet and by telephone since taxpayers would not file a tax return under both systems;
- (e) strengthen public education on the difference in the level of security between using a password and a digital signature in filing a tax return electronically; and
- (f) improve the drafting of the Bill by considering –

- (i) to replace the word “adopting” in the proposed section 2(5) by “affixing of a digital signature to a return” and “inclusion of a password with a return”; and
- (ii) to replace the words “for the purposes of this Ordinance” by “for the purposes of this section” in the proposed new section 51AA(7).

2. The Administration’s response and follow-up actions on the above issues are set out in the following paragraphs.

Review of the return filing application under the ESD platform

3. We will provide an undertaking in the speech to be delivered by the Secretary for Financial Services and the Treasury during the resumption of Second Reading debate on the Bill that IRD will continually review and improve the functionalities and compatibility features of the return filing systems including support for other operating systems.

Policy on not providing official-paid mail

4. This issue has been dealt with in a separate letter.

Comparison between the password used in IRD’s tax filing application under the ESD system and the one used in similar system in the UK

5. In the UK, filing of Self Assessment (SA) Tax Returns electronically over the Internet is classified as credential Level 1 transaction, that is, a taxpayer may lodge the return by using either a digital certificate or his User ID and password.

6. To encourage more taxpayers to use the service, the UK Inland Revenue issues “Getting Started” letters (see sample at **Annex A**) to taxpayers to notify them of their User IDs. A taxpayer may file SA Returns by using his User ID together with a 10-digit Unique Taxpayer Reference which is printed on the taxpayer’s tax return and serves as a password. Taxpayers who do not receive the “Getting Started” letters will need to register at the Government Gateway (centralized registration point for e-Government services in the UK) in order to use the Internet Service for SA Returns. A taxpayer may register by using either a password or a digital certificate. If the taxpayer chooses to register with a password, he must select a password between 8 to 12 characters long in alphanumeric format. The taxpayer’s User ID is sent to him by post after the registration.

7. In IRD's proposed system for electronic filing of tax returns through the ESD Scheme, a taxpayer may file his tax return by using either a digital certificate or his Taxpayer Identification Number (TIN) and password. The TIN is sent by post or collected in person for every taxpayer who registers with the IRD for such service. The Taxpayer has to register in the system a 6-digit password of his own choice consisting of numerics only. IRD will not print a taxpayer's password in his tax return or in any other document for security reasons.

8. In proposing to adopt a 6-digit password, IRD has made reference to the prevailing practice in the commercial sector, and has taken into consideration the desirability of enabling taxpayers to use the same password for both the telefiling and the TeleTax service, a system for a taxpayer to assess by telephone some of his personal tax information, such as whether the tax return has been filed, whether a tax assessment has been issued, and tax reserve certificate account balance. Furthermore, we believe that the convenience of providing a common password for accessing both the telefiling and ESD tax return filing services would be an incentive to attract taxpayers to use these services and conducive to the promotion of e-government. On the security side, IRD considers that a 6-digit numeric password would provide sufficient security protection against unauthorized access because a security feature will be built into the proposed system such that if the correct password is not entered within five attempts, the password will be revoked by the system and the taxpayer will have to register for the service again whereupon his identity will be re-verified. After all, the TIN (which is a unique 9 or 10-digit numeric number) coupled with the password (6 digits as presently proposed) would provide a 15 or 16-digit key that should be sufficiently secure for return filing purposes.

Whether it was necessary to adopt the same password for filing tax returns by Internet and by telephone

9. As mentioned in paragraph 8 above, IRD considers it more convenient to the taxpayers if they can use the same password to file their tax returns through the Internet, in addition to filing through the telephone, and to access the Department's TeleTax service. A common password will save taxpayers from registering separately for different kinds of services and memorizing different passwords. In the UK, in contrast, a taxpayer's password can only be used for online taxation services through the Internet.

10. IRD plans to commission a security audit exercise after the implementation of the proposed system for electronic filing of tax returns. The Department will also review

whether the length of the password should be increased and whether the same password should be used for other taxation services on the ESD or through the telephone.

Public education for the difference in security level between a password and a digital signature

11. IRD will draw taxpayers' attention to the difference in the level of security between using a password and a digital signature for filing tax returns in the relevant publicity leaflets. The publicity leaflets will be sent to all taxpayers along with each Tax Return for Individuals and each Property Tax Return. In addition, IRD will provide further and fuller details of the difference in its Homepage. A similar message will also be given in the "Instruction Note" and by way of "pop-up screens" in the return filing application under the ESD platform so that taxpayers will be fully informed during the entire filing process.

Drafting issues

12. Members requested the Administration to consider replacing the word "adopting" in the proposed section 2(5) by "affixing of a digital signature to a return" and "inclusion of a password with a return", and replacing the words "for the purposes of this Ordinance" by "for the purposes of this section" in the proposed new section 51AA(7).

13. The proposed new section 2(5) is a general construction clause that extends the act of signing to the adoption of devices (digital signatures and passwords being devices) other than a manual signature. Apart from stating the purpose of the adoption, we consider that it might not be necessary to associate the device with the return in this context. Nevertheless, we note Members' concern and that they wish to tie in with the terminology used in the proposed section 51AA(6)(b) as amended by the draft Committee Stage Amendments (CSAs) submitted earlier. Therefore, we are prepared to amend the Bill in this respect.

14. Regarding the use of the words "for the purposes of this Ordinance" in the proposed new section 51AA(7), we consider that these wordings will not prejudice any taxpayer because, other than under the new section 2(5) [i.e. "for the purpose of authenticating or approving the return"], the Commissioner's act of approving a password and/or designating any system will have no legal consequences under the Inland Revenue Ordinance. An approved password may only commit a taxpayer and attach legal consequences if, and to the extent that, the taxpayer adopts it in furnishing a tax return under the IRO. Nevertheless, we agree that the amendment now proposed by Members would not affect the scope of application of the proposed Bill and we have no objection to adopting it.

15. Consequentially, to tie in with the amendment to be made to the new section 51AA(7) as per paragraph 14 above, we also propose to amend the proposed definition of “password” in section 2 of the IRO by adding “in relation to a return required to be furnished under this Ordinance” after the words “in communicating with the Commissioner”. In addition, we wish to propose another minor textual amendment, i.e. in the new section 51AA(2)(c), to amend the words “that is arranged” to “that are arranged” to make it more clear that it was the “particulars” of a return and not the “electronic record” that is referred to in the section.

16. A revised draft of the CSAs incorporating the above two proposals is given in **Annex B**.

Financial Services and the Treasury Bureau
January 2003



April / May 2002

GETTING STARTED..... YOUR USER ID IS XXXXXXXXXXXX

Sending your Tax Return over the Internet offers you automatic calculation of the tax and faster repayments. It's quick, convenient and secure. The use of Tax Return software eases completion and you also get an acknowledgement online when we receive your Return.

To help you get started, this letter provides your personal User ID so that you can log straight on and use our secure service without having to first register and wait for a User ID to be sent through the post.

What's involved?

- When you're ready to start completing your Tax Return, visit the Inland Revenue Website at www.inlandrevenue.gov.uk and select the Internet service for Self Assessment.
- Logon by entering your personal User ID shown above in the User ID box, then in the password box enter your 10 digit Unique Taxpayer Reference (UTR). You can find this at the top of your Tax Return or Notice to complete a Tax Return.
- You will be guided through and asked to choose the software you would like to use for your Tax Return. You can either use one of the Commercial Software products listed on the site, or the Inland Revenue's own 'SA Online'.
- Once you've completed your Tax Return using the software of your choice you will be prompted to send it over the Internet. You can also print and save a copy.

Anything else I need to know before I get started?

- You should keep your User ID and password safe as you will need them each time you visit the service.
- SA Online is free and covers the Main Return, Employment, Self Employment, Individual Partnership and Land and Property pages.
- We are pleased to accept Tax Returns sent using any of the Commercial Software products listed on our site. Most of the commercial software covers more pages than SA Online and some of it is free.

What if I need Help?

- The service has online help and there's also a frequently asked questions area.
- If you need further help please contact our Electronic Business Helpdesk (see below). The Helpdesk is open 0800-2200 weekdays and 1000-1800 weekends.

If you do not plan to use the Internet service for Self Assessment for your Tax Return, please destroy this letter.

Inland Revenue Electronic Business Helpdesk, Hockney House, Quayside, Salts Mill Road,
ShIPLEY, West Yorkshire BD18 3ST
e-mail helpdesk@ir-efile.gov.uk Telephone 0845 60 55 999

INLAND REVENUE (AMENDMENT) (NO.2) BILL 2001

COMMITTEE STAGE

Amendments to be moved by the Secretary for
Financial Services and the Treasury

<u>Clause</u>	<u>Amendment Proposed</u>
1(2)	By adding "Financial Services and" before "the Treasury".
2(a)(ii)	In the proposed definition of "password", by adding "in relation to a return required to be furnished under this Ordinance" after "Commissioner" where it last appears.
2(b)	In the proposed section 2(5), by deleting everything after "includes a reference" and substituting - "to - (a) the affixing of a digital signature (supported by a recognized certificate and generated within a period during which the certificate is valid) to; or

(b) the inclusion of a password with, the return for the purpose of authenticating or approving it."."

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In the proposed section 51AA -

- (a) in subsection (2) (c), by deleting "is" and substituting "are";
- (b) in subsection (5) (b), by deleting "person or return" and substituting "persons or returns";
- (c) in subsection (6), by deleting paragraph (b) and substituting -
 - "(b) how a digital signature is to be affixed to, or a password is to be included with, a return furnished under this section; and";
- (d) in subsection (7), by deleting "Ordinance" and substituting "section".