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PUBLIC ACCOUNTS COMMITTEE INQUIRY INTO PROGRESS WITH MAKING TAX DIGITAL

Submission of evidence by the Association of Taxation Technicians

1 About us

1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to respond to the Public Accounts Committee (PAC)'s inquiry into progress with Making Tax Digital (MTD).

1.2 The ATT is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

1.3 Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members are found in private practice, commerce and industry, government and academia.

1.4 The ATT has more than 9,500 members and Fellows together with over 5,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.

1.5 The ATT has been heavily involved in a consultative capacity in the development to date of MTD, working with HM Revenue & Customs (HMRC) and other stakeholders to support the delivery of an efficient, workable system. We have also worked to spread awareness of MTD throughout its developments to date amongst our members and have periodically gauged members' opinions on professional and public readiness for MTD. We are therefore well-placed to report on the progress to date of the MTD programme and are pleased to have the opportunity to submit evidence to the PAC's inquiry.

2 Executive Summary

2.1 The MTD programme has, to date, achieved very few of its stated goals since the vision to digitalise the UK tax system was first announced in 2015.

2.2 MTD for VAT was eventually fully implemented in 2022, three years later than planned. However, outside of VAT, the MTD programme to date has not yet met any of its objectives.

2.3 The benefits promised by MTD have therefore not been realised to any meaningful extent. Even in respect of taxpayers operating MTD for VAT, there is no consensus on whether the user experience and economic benefits are positive. Feedback presented by HMRC in this area is significantly more positive than the experiences reported by our members.

2.4 Postponing the introduction of MTD for Income Tax Self-Assessment (MTD for ITSA) programme until 2026 at the earliest was a welcome decision given the lack of progress to date. Whether or not the revised timetable is itself deliverable will depend on a number of factors, including public awareness, scepticism as to whether MTD will ever happen, technical complexities and HMRC resources.

2.5 The prospects of MTD for Corporation Tax being delivered appear even more remote, given the lack of progress to date. As yet, there has been no meaningful discussion around companies being brought within MTD.

2.6 It is, however, encouraging that HMRC are engaging proactively with stakeholders to capitalise on the additional time available to address the significant challenges which remain. We welcome the level of engagement we receive from HMRC, and the recent willingness to listen to alternative ideas as to how MTD can be delivered.

2.7 Whilst we welcome digitalisation for record keeping, and its role in the modernisation of the tax system overall, we remain concerned about the deliverability of the MTD programme, and the benefit of it (at least as currently proposed) to many taxpayers.

3 HMRC's original vision and plans

3.1 The Government first announced its intention to bring the tax system into the digital age in the March 2015 Budget, with MTD named and launched by HMRC in 2016 as the transformation programme to achieve this.

3.2 HMRC's goals[1&2] for MTD, originally to be achieved by 2020, were to:

- Make tax administration more effective, more efficient and simpler for taxpayers;
- Introduce 'one stop shop' digital tax accounts for businesses and individuals, where all tax records, would be available; and
- Abolish the tax return in most cases.

3.3 The benefits[3] of MTD were intended to be:

- to make it easier for individuals and businesses to get their tax right;
- to allow customers to integrate tax management with a range of business processes through software;
- to contribute to wider productivity gains for businesses by encouraging digitalisation.

3.4 HMRC also expected[3] MTD to help reduce the amount of tax lost to avoidable errors thanks to:

- improved accuracy of digital records
- additional help built into many software products
- digital records being sent directly to HMRC

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/545715/Making_Tax_Digital-Bringing_business_tax_into_the_digital_age-consultation.pdf
[2] https://webarchive.nationalarchives.gov.uk/ukgwa/20160114105542/https:/www.gov.uk/government/publications/making-tax-digital
[3] https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital

3.5 The timing of taxes to be brought within the scope of MTD (i.e. requiring digital record keeping and quarterly updates to be submitted to HMRC) was originally proposed to be[4]:

April 2018 – most businesses and landlords brought within scope for income tax & NIC purposes

April 2019 – anyone registered for VAT brought within scope for VAT

April 2020 – incorporated businesses brought within scope for Corporation Tax

3.6 At Autumn Statement 2015, the then-Chancellor announced a target for HMRC to reduce businesses' tax administration costs by £400m by the end of 2019/20[1]. A 2016 Consultation[1] stated that MTD was expected to make "a significant contribution to achieving" that aim.

3.7 A further driver behind MTD was to improve tax compliance, reduce errors and reduce the *tax gap* – i.e. "the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid"[5].

According to HMRC's estimates[1], MTD was expected to reduce the tax gap by £945m by 2020/21, and by £625m each year thereafter.

3.8 Administrative cost savings for businesses brought into MTD were forecast by HMRC to be between £85m and £250m[1], indicating a lack of real understanding of the programme's likely impact on businesses and the time and costs of researching, acquiring and learning to use new software.

4 Progress made before re-phasing the programme at the end of 2022

4.1 Consultation on MTD only began in 2016, by which point the scope, timescale and fundamental principles appeared to have already been decided. As a result, HMRC did not benefit from any stakeholder feedback on how MTD could be best designed to achieve the Government's objectives, whilst providing value to taxpayers and HMRC alike.

4.2 It is perhaps not surprising, therefore, that the timetable set out in 3.5 above has suffered numerous delays. In addition to failures to reach its key milestones for the taxes concerned, the support facilities such as improvements to digital tax accounts[1&2] due by 2016 have still not been realised.

4.3 Following the latest delay, MTD for ITSA has now been deferred until April 2026 for businesses and landlords with income over £50,000, and until April 2027 for those with turnover of more than £30,000. This represents delays of eight and nine years respectively compared with the planned implementation date.

4.4 No decision has yet been taken on MTD implementation for "small" businesses and landlords (those with turnover between £10,000 and £30,000). The MTD timetable for partnerships (general partnerships, Limited Liability Partnerships and any with corporate partners) is currently also unclear.

4.5 MTD for corporation tax is not expected to begin before April 2026 at the earliest – at least six years later than expected. Given the lack of progress in this area, it appears likely that the delay in delivering this aspect of MTD will be significantly more than six years.

[4] https://www.gov.uk/government/publications/making-tax-digital-for-business/making-tax-digital-for-business
[5] https://www.gov.uk/government/statistics/measuring-tax-gaps/tax-gaps-main-findings#background

MTD for VAT

4.6 To date, VAT is the only tax to have been brought within MTD.

Even within VAT, the timetable in 3.4 above was not met. In reality, the only businesses required to be within MTD for VAT from April 2019 were those with taxable turnover above the VAT threshold (currently, and at that time, £85,000). Within that population, some businesses with more complex requirements were granted a six-month deferral – e.g. VAT groups, unincorporated not-for-profit businesses, local authorities/public corporations and overseas traders.

4.7 MTD for VAT was extended to *all* VAT registered businesses, regardless of turnover, from April 2022 – three years later than originally intended.

4.8 MTD for VAT is now considered 'Business As Usual' by HMRC. Whilst it is being marketed as a success by HMRC[6], a survey[7] of members conducted by the ATT in conjunction with the Chartered Institute of Taxation in January 2020 revealed much less positive views from the 1091 respondents, for instance:

- Nearly 90% said that MTD for VAT has not reduced errors.
- The costs of MTD compliance have far exceeded government estimates.
- Just 14% reported an increase in productivity in their organisation as a result of MTD for VAT.
- 74% of respondents thought that income tax for non-VAT registered individuals should be the last area which should be brought into MTD.

4.9 Common teething problems with MTD for VAT included a lack of awareness and difficulties putting in place the required digital links to transfer information from the VAT records through to submission to HMRC. Additionally, the number of businesses not engaging with MTD for VAT until they were forced to was significant, and likely higher than HMRC expected. Businesses and agents reported the transition to MTD was more challenging than it should have been due to a lack of available HMRC contact points and support.

MTD for Income Tax

4.10 Progress on MTD for income tax self-assessment ("MTD for ITSA") prior to the December 2022 postponement was limited, and the ATT welcomed the deferral as we did not consider either HMRC or any stakeholders were ready for the previously proposed 2024 implementation.

4.11 A second members survey[8], conducted by the ATT in conjunction with the Chartered Institute of Taxation, shortly before that deferral revealed that of 332 respondents:

- 97% did not think that MTD for ITSA, in its current form, could be successfully introduced from April 2024.
- 94% were uncomfortable with the level of taxpayer awareness.
- 94% were uncomfortable about taxpayers' ability to comply.
- 65% were uncomfortable about the availability of suitable software.

Only 3% of respondents were comfortable about HMRC's capacity and resources to support taxpayers and agents.

4.12 A key area of concern regarding the readiness of MTD for ITSA prior to the postponement was the delayed nature and limited scope of the pilot, which raised serious doubts as to the validity of testing which would be carried out in advance of the proposed 'go live' date.

6 https://www.gov.uk/government/case-studies/case-studies-for-making-tax-digital
7 https://www.tax.org.uk/policy-making-tax-digital-ciot-and-att-survey
8 https://www.att.org.uk/technical/news/new-digital-tax-reporting-requirements-self-employed-need-reboot-say-tax

Restrictions on eligibility to join the pilot included:

- Having to draw accounts up to 5 April (which many businesses do not)
- Only using one agent (HMRC's systems could not accommodate more than one authorised third party)
- Non-complex tax affairs only
- Limited availability of approved software

4.13 We also had reservations about the availability and cost of software, despite HMRC's assurance in 2016 that "For those businesses who aren't already keeping records digitally, there will be free software and straightforward advice on how to use it"[1]

4.14 The lack of clarity over how MTD reporting would work in practice, including the proposed rules[9] as detailed in draft legislation was also a significant cause for concern prior to the deferral.

5 The realism of HMRC's latest plans for the programme

5.1 MTD for VAT has provided HMRC with a learning experience for future rollout of MTD to other taxes. However, we would anticipate the number of issues arising on mandation of MTD for ITSA will be greater as a result of the larger number of income tax payers compared with VAT. ITSA with its wide range of income types, expenses, adjustments and allowances can also be much more complicated than VAT, which is at heart a transaction based tax which lends itself more easily to digital record keeping. Many businesses within the scope of MTD for VAT were already filing VAT returns on a quarterly basis, so the move to quarterly reporting was less of an upheaval than is to be expected for ITSA, where taxpayers are used to only filing once a year. Additionally, the ITSA population is much more diverse than that for VAT, with varying levels of digital expertise and tax and accounting knowledge.

5.2 We welcome the phased implementation of MTD for ITSA between 2026 and 2027, and agree the focus on higher-turnover businesses first is an appropriate approach. These businesses and landlords are more likely to already have digital accounting processes and professional advisors in place. Failing that, they should be better placed than small businesses to absorb additional software and professional costs as they begin the MTD journey.

5.3 Whilst we support digital record keeping in principle, HMRC should remember the goals and promised benefits of MTD identified in 3.2 and 3.3.

MTD will be easier to implement if businesses and landlords can see a real benefit to themselves of digitalising records and making frequent submissions to HMRC.

Quarterly updates (especially free-standing, non-cumulative reports) will have no real benefit to many businesses in forecasting tax liabilities – in particular businesses with seasonal trading patterns, or landlords of holiday accommodation.

HMRC should not be fixated on quarterly updates without good reason as our members report they will be of extremely limited practical value to the vast majority of businesses/landlords. Instead, this requirement will only add to tax compliance costs, with no clear benefit to the taxpayer. We would therefore encourage HMRC to explore alternative ways to drive the take up of digital record keeping, without the need for businesses to file on a more regular basis.

[9] https://www.att.org.uk/sites/default/files/220726%20Tertiary%20legislation%20for%20Making%20Tax%20Digital%20for%20Income%20Tax%20-%20ATT%20response.pdf

5.4 It has been encouraging to see HMRC make use of the additional time allowed by the further postponement of the programme announced in December 2022 to expand their consultation and co-operation with external stakeholders. Based on this, we believe that improvements to the MTD programme can and will be made in the additional time available.

5.5 In particular, HMRC's 'Small Business Review' covering landlords and businesses with turnover between £10,000 and £30,000 has appeared to be particularly open-minded, with most options open for discussion and potential review.

Our impression is that HMRC have valued and learned from the opportunity to listen to stakeholders and taxpayers, and have gained a better understanding of this population as a result of the extra time granted by the deferral.

5.6 HMRC's "co-creation sessions" focussing on areas of MTD identified as particularly difficult to implement (e.g. the where rental properties are jointly owned and where there is more than one agent acting for a taxpayer) have been valuable for all involved. HMRC appear to have recognised the difficulties which will need to be addressed in these areas.

Equally, discussion of the role of "End of Period Statement" is a worthwhile part of the MTD process which appeared to consider all options.

5.7 There remains an enormous amount of work to do by HMRC to assimilate the feedback gained and to deliver MTD in a workable and valuable form by 2026.

5.8 Limitations with the previous MTD pilots were discussed in section 4 and lessons should be learned from those issues to improve the chances of smooth implementation from April 2026. In particular, testing needs to be started in time to allow at least one full compliance cycle to be run (including the End Of Period Statement if this is retained). This would require the pilot to open fully to taxpayers in tax year 2025/26.

5.9 We consider the main barriers facing the rescheduled MTD programme will include the following:

5.10 i) Lack of public awareness

Awareness of MTD amongst unrepresented taxpayers is extremely low. The smallest affected landlords/businesses (those with income around the £10,000 threshold) are unprepared for MTD and, in many cases, unaware of it entirely. Many rely on paper records and are unable or unwilling to move to digital, or to pay for software and/or professional advice to make them MTD compliant. This will make any required transition to MTD extremely challenging for this population.

HMRC should be conscious of wider consequences of mandating MTD to this population – it is not uncommon for our members to report that their smaller clients will sell rental properties and/or cease trading in order to avoid the complexities of MTD. This goes against the original goal of MTD to make tax administration more effective, more efficient and simpler for taxpayers"[1]. Furthermore, the social and economic impacts of such reactions should not be underestimated.

5.11 ii) Scepticism as to whether MTD will happen

Although necessary, the repeated postponement of MTD mandation means some tax professionals (and businesses) are sceptical as to whether MTD for ITSA or Corporation Tax will ever happen.

Engagement among these groups and willingness to prepare themselves, their systems and their clients is therefore low. This cynicism is likely to also exist among the whatever proportion of unrepresented taxpayers are aware of MTD.

5.12 iii) Unresolved complexities

Key difficult issues raised with HMRC which will require resolution include:

- The treatment of jointly owned properties
- Accommodating taxpayers with multiple agents
- Frequency of updates (quarterly/6-monthly/annual reports), and whether these can be made cumulative
- Interaction of the MTD reporting period with Basis Period Reform

5.13 iv) Unrealistic cost estimates

HMRC's initial estimates of cost savings for business identified in 3.8 are unlikely to be accurate in view of the range of costings established, the time elapsed since those estimates, and recent inflationary pressures.

The expected cost implications for businesses should be revisited, along with an assessment of the public costs of the MTD programme to date, including deferrals. This should be compared with a revised estimate of MTD's expected benefits in closing the tax gap.

5.14 v) Availability of software

Software developers have understandably been unwilling to commit to further work given the delays to the rollout and potential changes in scope of MTD. Depending on the outcome of the Small Business Review, the market for MTD software could be smaller still than expected prior to the December 2022 postponement.

MTD relies on software being available, whether commercially, free from HMRC, or both. The lack of incentive for and engagement from developers therefore presents a risk to the programme.

5.15 vi) HMRC resources

HMRC is being asked to do more with less. Whilst the move to digital services is part of the proposed solution to this problem, in the early stages the transition to MTD will *increase* demand on HMRC for support as taxpayers will inevitably struggle to adjust to the new processes.

HMRC's poor service levels have been widely covered in the press and the recent closure of both the Agent Dedicated Line and VAT helpline to allow reallocation of resources does not instil confidence in HMRC's ability to support tens of thousands of businesses with the transition to MTD.

6 Acknowledgement and contact details

We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Association of Taxation Technicians is named when evidence of the PAC's inquiry is published.

We would be pleased to join in any further discussion. Should you wish to discuss any aspect of this submission, please contact our Technical Team on atttechnical@att.org.uk.