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The Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
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Via email: Budget.Representations@hmtreasury.gov.uk

Dear Sir / Madam

Budget representation on Making Tax Digital (MTD) by the Chartered Institute of Taxation and Association of Taxation Technicians

The Chartered Institute of Taxation (CIOT) and the Association of Taxation Technicians (ATT) (jointly referred to as 'we' or 'our') welcome the opportunity to make representations in relation to the spring 2020 Budget.

We are writing to urge the government to carry out a thorough review and evaluation of the roll out of Making Tax Digital (MTD) for VAT, in accordance with stage 5 of the government's tax consultation framework, and undertake further consultation around MTD, before making any commitments to the extension of MTD to other taxes or businesses. The results of our recent survey, upon which we elaborate below, indicate that for the majority of respondents MTD is, so far, neither reducing errors, nor delivering productivity benefits to businesses; yet is costing businesses significantly more than HMRC estimated.

Purpose of the CIOT and the ATT

As an educational charity, the CIOT's primary purpose is to promote education in taxation. One of the key aims of the CIOT is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

Our stated objectives for the tax system include:

- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- Responsive and competent tax administration, with a minimum of bureaucracy.

The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the

experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This submission is written with that background.

Our recommendations

We believe that the Government should carry out a thorough review and evaluation of the roll out of MTD for VAT, in accordance with stage 5 of the government's tax consultation framework ie *'Reviewing and evaluating the change'*, before making any commitments to the extension of MTD to other taxes or businesses.

In addition, the stage 2 consultations on MTD took place nearly four years ago. We think that the Government should undertake further co-ordinated consultation around MTD; this would bring valuable insight following the roll out of MTD for VAT. We have summarised at appendix two a 'potted history' of MTD, which demonstrates the difficulties and delays that have occurred, largely we think due to a lack of early co-ordinated consultation. While we appreciate that new systems will often give rise to initial problems, these have been significant. Future similar problems could be avoided, when the next tax is brought into MTD, through further consultation and moving forward in a measured and collaborative manner.

Evidence supporting our recommendations

No detailed review of MTD has been undertaken by HMRC, but we understand that there is a strong desire to roll out MTD to other taxes and / or other businesses. With this in mind and to provide some solid evidence, we conducted a comprehensive survey on experiences of MTD for VAT to date, and views on the future of MTD. The results of our recent survey, to which we received 1,091 responses, indicate that MTD has not so far achieved a reduction in errors, nor delivered benefits to businesses, yet is costing businesses significantly more than HMRC estimated. Some of the key findings of our survey are:

- Nearly 90 per cent of respondents say that MTD for VAT has not reduced errors
- The costs of MTD compliance have far exceeded government estimates
- 55% of respondents reported a small or significant decrease in productivity as a result of MTD for VAT

Commentary on the survey and its results are included in appendix one. We have enclosed the complete survey results (excluding the freeform comments), though in the interests of brevity they are separate from this letter and the appendices.

Since MTD was announced in 2015, we have consistently argued that mandation is inappropriate, because if software and systems deliver benefits; even if this entails some initial / ongoing cost, businesses and their agents will adopt them. These findings suggest that the intended benefits of MTD are not being achieved, either for businesses or for the exchequer. This calls into question the 'business case' for simply rolling out MTD as originally planned, and further research and consultation is required.

Next steps

We have already shared the results of the survey with HMRC, including the freeform comments, and will be meeting key personnel shortly. We would be happy to meet with HM Treasury to discuss the above. Please contact Richard Wild, Head of the CIOT Tax Technical Team (0207 340 2797 / rwild@ciot.org.uk) if you would like to take this forward.

Yours faithfully

Tina Riches

Chair, CIOT/ATT Digitalisation and Agent Services Committee

Summary of findings from the CIOT and the ATT's joint survey on MTD

We have set out below some of the key elements and findings of the survey. This does not cover all areas addressed, and we would encourage a review of the full survey results in order to see a comprehensive picture. Note that numbers and percentages of respondents reported are based on those who provided a positive response to the question (ie ignoring 'don't know' etc).

1. Impact of MTD (productivity, errors, changes to record keeping – questions 4 to 6)

HMRC, government and software providers argue that MTD will make it easier for taxpayers to account for their tax, resulting in improved productivity and a reduction in errors. HMRC has also estimated the ongoing revenue benefits of MTD for VAT as around £400m per annum. Whilst we appreciate that MTD for VAT is still in its infancy following mandation in April 2019, our survey results at this stage demonstrate that the government's aims for increased productivity and reduced errors are not being achieved. We remain sceptical as to whether the predicted revenue benefits will be achieved at all on the current model.

For productivity in-house or within a practice, just 14% (112) of respondents reported increased productivity, 31% (243) reported there was no difference, and 55% (438) reported a small or significant decrease in productivity. There were similar trends reported by agents for their clients.

In relation to errors, only 11% (62) of respondents noted a decrease in client errors, 72% (400) noted no difference and 17% (95) actually reported an increased error rate.

2. Experiences of the MTD for VAT pilot (questions 12 to 14)

There were a number of delays with the roll out of the pilot for MTD for VAT, and access to join the pilot was released in stages depending on the type of business. The public pilot opened to simple businesses in October 2018, with a staggered release to other types of business in the months following. Taxpayers did not therefore have the full year's testing period, covering a whole VAT cycle, originally committed to, and many taxpayers only had the option of trialling one VAT return period, if any at all, before mandation on 1 April 2019.

Unsurprisingly, in that context, 83% (578) of respondents indicated that they did not join the pilot. 156 rated their pilot experience; of those, 45% (70) were neutral, with 31% (48) indicating a positive experience and 26% (40) having a negative experience. We received 72 freeform responses providing details of pilot experiences. Several respondents highlighted difficulties with the pilot including:

- Lack of availability of HMRC staff (*'No practical assistance available from HMRC. Watching youtube videos of what should happen aren't any help when things go wrong. Not able to speak to HMRC and when eventually got through they weren't able to help. Problem with Direct Debits.'*).
- Pilot period was too short (*'Tried to sign up for it a year in advance but then was only added when there was only one quarter left before MTD started. So, only one quarter to learn on, not a valid time for a pilot.'*).

We received several positive responses which was pleasing, an example being *'We only put one client through the pilot scheme but it was useful to follow the processes through and therefore better advise our clients of what to expect.'* Though these were much outweighed by responses indicating difficulties.

3. Costs (questions 15 to 18)

HMRC published a [technical note on 1 December 2017](#), setting out an estimated average one-off transition cost for taxpayers moving to MTD for VAT of just £109, and an additional, annual, ongoing cost of MTD estimated to be £43.

The experiences of our survey respondents indicated that the one-off transition costs of moving to MTD are greater or significantly greater than £109. Less than 10% (66) of respondents estimated their own or their clients' costs at or below £109, with 45% (313) estimating costs between £109 and £500, and 12% (82) estimating costs of over £5,000.

Only 8% (55) of respondents estimated ongoing MTD for VAT compliance costs at or below the HMRC estimate of £43 a year, with 54% (376) estimating costs of between £43 and £500, and 20% (138) estimating costs of between £500 and £1,000. Those working in-house for larger businesses reported the highest costs; 46% reporting transition costs above £5,000 and 29% reporting ongoing costs over that amount.

Tax agents reported significant, additional cost burdens of irrecoverable time spent on MTD for clients, with over 70% of respondents estimating irrecoverable costs of over £100 *per client*.

4. Signing up for MTD and the Agent Services Account (ASA) (questions 23 to 28)

Of the 411 agents who indicated that they set up an ASA, 61.8% (254) of respondents had found the process somewhat or very difficult. There were similar trends for experiences of linking the Government Gateway to the ASA, signing up new clients and authorising new clients.

We asked for freeform comments for each of the questions in this section. The most common message was that the ASA was difficult/confusing to use and respondents had found it frustrating. For example:

- *'It was not clear that I had to use the ASA for new clients I took on who were already registered for MTD. I was trying to authorise myself as agent with old agent account first and it told me a code was issued but it was never sent and HMRC did not inform me on this when called despite lost codes getting marked. It was a frustrating experience.'*

5. Easements and filing VAT returns (questions 34 to 36)

265 respondents reported the easements for MTD for VAT that were being used, including easements for recording petty cash transactions and the use of supplier statements, both of which arose from the stakeholder consultation feedback. The identification of the need for, and introduction of these easements, was a good example of HMRC and stakeholders working well together, but the difficulties in complying with these obligations would have been identified earlier had appropriate earlier proper consultation had been undertaken.

It was disappointing that 58% (391) of respondents reported that they had had difficulties filing VAT returns, with 201 respondents providing additional details of what had gone wrong. Examples included:

- *'We have non-standard periods and these have either not been updated by HMRC for new clients or have changed to normal quarter ends which had an earlier end date than expected. As we do not get email reminders with date and could not see details on the ASA account this resulted in a couple of late submissions.'*
- *'Problems with the submissions being rejected and having to go through the process numerous times.'*

6. Freeform feedback on MTD for VAT (questions 40 and 41)

We asked respondents to comment on the benefits of MTD. The vast majority of the 356 comments indicated 'none' or similar.

We asked for any other feedback about MTD. We had 241 comments that set out various difficulties that agents and businesses had experienced with increased costs, increased resource time and system frustrations being the recurring points arising:

- *'MTD has resulted in us filing an incorrect VAT return. The first in years. This was because we spent longer focusing on the procedure and being frustrated with the process and less time on checking we were sending off the right figures.'*

- *'We have spent many, many hours hand-holding our clients on this. Had to get involved in helping them to use software too which meant increased visits to their premises. Others gave up, two retired, three sold up, and five de-registered. We dread a further roll out of MTD as we simply cannot afford to support them again without making a charge. However, clients expect us to do it for free as it is an HMRC requirement.'*

7. Future direction of MTD (questions 42 to 47)

As well as experiences of MTD to date, our survey also invited views on the future direction of the programme. The results demonstrate strong support for not rushing any future expansion of MTD to other taxpayer populations or other taxes, and the importance of adequate public pilots.

Regarding which population should be mandated into MTD next (assuming MTD is to be extended), nearly half of respondents felt it should be the extension of MTD for VAT to those businesses that are voluntarily VAT registered. However, corporation tax for those companies who are already mandated for MTD for VAT was also a popular first and second choice, although we and HMRC are aware of the extremely limited anticipated benefits of introducing MTD for corporation tax, while there will be additional costs.

Very little support was shown for income tax self assessment (ITSA) being the next tax to be brought into MTD. In particular, the least popular of the options presented was introducing MTD for ITSA for all taxpayers, with 74% of those responding indicating that this should be the last population to be mandated.

Our survey also demonstrates the importance of a substantial public pilot for the next phase of MTD, regardless of which tax is brought in. Of those who responded positively to question 46, 78% felt that the pilot for ITSA should be at least two years in length, with 31% indicating it should be over three years.

Overall our survey results demonstrate that Government should not rush the next stage of MTD, and should carefully consider which population is the next to be mandated. In particular, as set out in sections 1 and 3 above, we believe that a detailed review should be undertaken of HMRC's, taxpayers' and their agents' actual costs and benefits arising from MTD for VAT before any commitment is made to further roll out.

Background and timeline of Making Tax Digital (MTD)

In the March 2015 Budget, the then Chancellor of the Exchequer, George Osborne, announced ‘the death of the annual tax return’ and ‘Making Tax Easier’. Nine months later, after a period of relative silence, MTD was launched in December 2015. It was proclaimed that, by 2020, HMRC would have moved to a fully digital tax system where bureaucratic form-filling was eradicated, unnecessary time delays eliminated, and taxpayers would have access to digital accounts with the information HMRC needs automatically uploaded, bringing an end to the tax return.

The proposed timetable for MTD was also published in December 2015 as follows:

- April 2016 - every individual taxpayer will have access to their own digital account — simple, personalised and secure, offering an increasing range of services
- 2017 - HMRC will further develop its use of real-time data — checking income, benefits-in-kind and personal allowances each month to make tax code adjustments that will help avoid under and overpayments altogether
- April 2018 - most businesses will keep their records using digital tools and send that information at least quarterly to HMRC
- April 2019 - Most businesses, self-employed and landlords start updating HMRC quarterly for VAT obligations through their accounting software
- April 2020 – As above, but for Corporation Tax

In relation to MTD for Business, it was stated that *‘Businesses will use software that compiles their tax data as part of their ordinary day-to-day activity, highlighting any possible errors (for instance, arithmetical mistakes or figures which look out of place) and offering prompts for information that might otherwise be overlooked. Once the software has compiled the relevant data, businesses or their agents will feed it directly into HMRC systems via their computers or smartphones. Updating HMRC directly in this way will be secure, light-touch and far less burdensome than the tax returns of today.’*

Once embedded, HMRC estimated that MTD would generate additional tax revenues, through reduction in errors and failure to take reasonable care, of around £900m per annum.

All the above announcements, including scope, key requirements and timescales, were made before any consultation had been undertaken.

The vast consultation, which did take place during the latter part of 2016, was at stage 2 of the consultation framework and therefore focused only on implementation, rather than on policy design. These consultations highlighted many concerns; including around the alleged business costs, revenue benefits, and the deliverability within the planned timescales. Most of these concerns either remain, or were unanswered.

The implementation of MTD

In March 2017 the government announced a one year delay, to April 2019, to the income tax proposals for businesses trading below the VAT threshold.

Four months later, in July 2017, the government announced that income tax as a whole would not in fact go ahead until at least 2020. Inexplicably, the timetable for VAT was confirmed as April 2019, even though the stage 2 consultation above had been almost entirely silent on VAT. Notwithstanding this, concern was still expressed, including calls for it not to coincide with preparations for Brexit, and the fact that the main ‘target’ of MTD is businesses who trade below the VAT threshold.

In spring 2019, the Chancellor confirmed that MTD would not be extended to any new taxes or businesses in 2020.

In our view, the piloting of MTD for VAT was seriously squeezed in its scope and duration as a result of delay. Private testing of MTD for VAT should have started from April 2017, and public testing from April 2018. In fact, private testing did not start until early 2018, and public testing only started, for a limited number of businesses, in October 2018. For many businesses mandated from 1 April 2019, the pilot period was simply non-existent.

Allied to these delays, HMRC deferred the mandation date for over 35,000 of the more complex businesses until 1 October 2019. Some of these deferred businesses (eg many overseas businesses) were also unable to sign up to the pilot.

A number of problems have arisen during the implementation period, especially in relation to the agent journey. Whilst most of the problems have affected a relatively small proportion of the mandated population, they have taken a disproportionate amount of time to resolve. This put significant pressure on HMRC's resources. With no dedicated MTD for VAT specialist helpline, performance on the VAT helplines plummeting in early 2019 to an average speed of answer of over sixteen minutes in May 2019.

The fact that there has been a relatively high level of MTD sign-ups and digital submissions of VAT returns is a testament to the hard work of businesses and their agents, as well as the HMRC teams involved.

Both prior to, and since 1 April 2019, relaxations have had to be granted for some of the requirements of MTD, which otherwise would place impossible or impractical burdens on businesses. For example, the obligation to digitally link different software systems continues to be extremely problematic and expensive for many businesses. This digital link requirement was initially deferred for twelve months after the business' mandation start date (ie to 1 April 2020 or 1 October 2020), and HMRC has recently announced that businesses can apply for further time to put those links in place. These relaxations have been welcome and are a positive consequence of HMRC's continued engagement with stakeholders around the delivery of MTD. However, better understanding within HMRC of the significant changes required to systems and giving firms more time to adjust from the outset would have been preferable.

Of the nearly 500 MTD for VAT compatible products available, very few contain the sorts of prompts, nudges and controls envisaged when MTD was announced.

The Chartered Institute of Taxation

The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

The CIOT's 19,000 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

The Association of Taxation Technicians

The Association 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.

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 may be found in private practice, commerce and industry, government and academia.

The Association has more than 9,000 members and Fellows together with over 6,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.