



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Dear Ms Ashton and Ms Whiteman,

Thank you for your letter of 14 November about Making Tax Digital for Income Tax Self-Assessment (MTD for ITSA). I am grateful for your kind welcome, and I look forward to working with you.

I am pleased to note your commitment to our shared objective to digitalise the tax system. This is a critical objective, which will modernise tax processes and support businesses to stay productive. I am grateful for your proactive engagement, and the time you have invested in the small business review. Equally, I am grateful to you for raising your concerns about MTD's design and implementation. Below are responses to the points raised in your letter.

Review of MTD for ITSA

The extensive engagement that HMRC have had with you and other trusted stakeholders within the accountancy and business professions has influenced the design and timing of MTD greatly.

We know the transition to MTD for ITSA represents a significant change for taxpayers, their agents, and for HMRC. The change in timing of MTD for ITSA has allowed HMRC to build stronger links with all stakeholders, maximising the benefits for customers and working to ensure that all parties have full confidence that delivery will happen successfully.

The review also provided an opportunity to further improve the overall proposition for MTD for ITSA, making it simpler and easier to use, while preserving its aim to reduce the tax gap and support businesses to grow.

I understand your view that the review process should be extended to include a wider rethink of MTD. However, I believe MTD is crucial to modernising the tax system, and its strategic design remains the right approach. It is important now that we continue our focus on working in partnership to ensure successful implementation in April 2026.

Cost of compliance

I recognise that administrative costs associated with taxation are a concern for taxpayers and agents alike. The challenging economic environment, and the significant changes MTD would bring for taxpayers and their agents were drivers for the December 2022 announcement and subsequent review.

HMRC have looked carefully at MTD's costs – in particular, the transitional costs for business in moving to MTD. Most recently, in 2021, HMRC set out the (then) projected benefit and cost impacts of MTD for ITSA in a Tax Information and Impact Note (TIIN), as well as a detailed Policy Paper. The business impacts presented in the TIINs are calculated using Standard Costs Model (SCM) methodology – an internationally recognised model that provides a consistently calculated set of estimated costs against each tax obligation. HMRC believe this represented a realistic assessment of the likely costs those within scope would have faced, however welcome ongoing engagement in this matter as they develop new cost estimates to reflect the changes announced last December and review outcomes. A revised TIIN will detail these cost estimates and impacts, informed by work with the accountancy, business, and software communities.

The tax gap

MTD is central to HMRC's approach to tackling small business error and carelessness. MTD has already successfully delivered changes to how customers manage VAT. HMRC's published evaluation analysed actual differences in VAT payments made by traders around the introduction of MTD for VAT. This concluded that MTD in 2019 to 2020 is likely to have generated additional tax revenue of £185m or £195m depending on the methodology used.

The study followed recognised evaluation best practice and was peer reviewed by academics. The findings are corroborated by independent social research HMRC had undertaken with a representative sample of around 2,000 MTD for VAT businesses, where for example, two-thirds agreed that MTD has reduced the potential for mistakes. The Office for Budget Responsibility has certified a forecast for additional revenue from MTD for VAT of £2.6bn over the 6 years to 2027–28. This is an increase of £825m from the previous forecast of the six years to 2026–27, based on the evidence from evaluating MTD.

Surveys

Thank you for sharing the data from the surveys you have undertaken. These highlight the importance of a strong focus on communications and work to prepare taxpayers ahead of April 2026.

You may be aware that HMRC commissions and publishes its own social research on GOV.UK, which is undertaken by independent contractors on its behalf. Specifically, in 2022, HMRC published a survey of a representative sample of 2,000 Income Tax businesses, exploring their readiness for MTD. This larger, in-depth survey found more of a balance: around 40% of businesses thought complying with MTD would be easy and could recognise the benefits of MTD, whereas 35% thought MTD would be difficult.

Customer service levels

HMRC are making significant efforts to improve their customer service performance. By improving their digital services, customers and agents can access the advice they need without the need for a phone call. This makes the process faster and more convenient for both the customer and HMRC. Last year, HMRC's digital accounts and app were accessed almost 200 million times and customer satisfaction for these services was over 80%, around 28 percentage points higher than on the phones. By encouraging more customers to interact with HMRC online, the department can focus its advisor resources on assisting customers who need extra support and reassign experienced advisors to other tasks, including addressing complex cases.

Thank you, once again, for taking the time to relay your views. I would welcome the opportunity to meet with you and have asked officials to consider options for a meeting in the new year.

Yours sincerely,



NIGEL HUDDLESTON MP