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# MAKING TAX DIGITAL: CORPORATION TAX

## Response by Association of Taxation Technicians

### 1 Introduction

- 1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to respond to the HMRC consultation document *Making Tax Digital: Corporation Tax* ('the Consultation') issued on 12 November 2020<sup>1</sup>.
- 1.2 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 response is written with that background.
- 1.3 We have set out our main concerns and wider comments regarding Making Tax Digital for CT ('MTD for CT') in Sections 2 to 5 below. These include:
- We would like to see a clear commitment from HMRC to keep the proposed timeline for MTD for CT under review and to update or extend it as needed [2.1 – 2.4].
  - The complexity of corporation tax will make bringing it into MTD difficult to achieve in practice, and we do not believe that the benefits are likely to be as extensive as the Consultation anticipates [3.1 – 3.4].
  - In particular, it is unclear how imposing extra reporting requirements on entities that are already keeping digital records and making quarterly reports will increase their productivity or reduce errors [3.5].
  - We would therefore recommend that HMRC consider excluding those companies within MTD for VAT from the scope of MTD for CT, and focus their efforts instead on encouraging those businesses not already keeping digital records to do so [3.6].
  - It is highly disappointing that the Consultation has little to say on the role of agents in the successful roll out of MTD for CT – we strongly encourage HMRC to ensure that agents are given a level of focus in the development of MTD for CT in line with their importance [4.1 – 4.3].
  - Whilst the use of nudges and prompts can play a role in reducing error, careful thought needs to be applied to the level of reliance taxpayers can, and will, place on these [5.1 – 5.5].
  - The practical implications of digital links should be explored in more detail before mandation of MTD for CT [5.6 – 5.9].

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<sup>1</sup> <https://www.gov.uk/government/consultations/making-tax-digital-for-corporation-tax>

We have addressed the specific questions posed by the Consultation in Sections 6 to 11.

- 1.4 We would be pleased to discuss any aspect of this response further. Relevant contact details can be found in Section 12.

## **2 Timeline for introduction of MTD for CT**

- 2.1 We are pleased to see that the Consultation includes a clear timeline for the introduction of MTD for CT, with a commitment not to mandate it before April 2026 and time factored in for a public pilot.
- 2.2 How feasible this timeline is will depend upon a number of factors, including the COVID-19 pandemic, speed of software development and the level of engagement with the pilot. The focus of many stakeholders (including businesses, agents, software houses and HMRC) in coming years is likely to be on post-COVID recovery and the introduction of MTD for ITSA in 2023. It may be that less preparatory time is available in advance of MTD for CT than the April 2026 timeline might otherwise suggest.
- 2.3 We would therefore like to see a clear commitment from HMRC to keep the proposed timeline under review, and to update it or extend it as needed.
- 2.4 In particular, we would recommend that a time lag of at least two years is built in between the commencement of the MTD for CT pilot and mandating, such that any delay in launching the pilot similarly delays the date of mandating. It would also be helpful for HMRC to commit to not mandating MTD for CT before a broad selection of software products, including free and low-cost options, is commercially available.
- 2.5 We would also like HMRC to make clear *why* companies should take part in the pilot and clearly articulate any direct benefits that HMRC can identify from taking part. Without some incentives it is difficult to see why smaller companies in particular would opt to sign up to reporting five times a year instead of once. Incentives do not have to be financial – they could include additional support from HMRC (particularly but not necessarily confined to the MTD process itself). To get the best out of the pilot time a wide enough range of companies need to be persuaded to sign up early enough for their feedback to be taken into account. We have concerns over how likely this will be in practice.
- 2.6 We would also recommend that the possibility of a phased mandating be considered. The proposed MTD for CT population covers a wide range of entities in terms of both size and complexity. It may therefore be sensible to mandate MTD for CT to the simplest entities first, only bringing in those with more complex affairs (such as groups and international operations) once the system is shown to work.

## **3 Complexity of corporation tax, and anticipated benefits of MTD for CT**

- 3.1 Corporation tax will be the most complex tax to be brought into MTD. There is no cash basis for corporation tax, meaning that *all* entities in scope have to deal with accounting adjustments as well as often having to comply with more complex tax rules. Larger companies may also have audit adjustments and international or group transactions to take into account. Alongside this inherent complexity, the proposed scope of MTD for CT is much wider than that of Income Tax Self-Assessment (ITSA) or VAT – including not just trading and property income, but also chargeable gains and investment income. Taken together this will make the successful extension of MTD to CT more difficult to achieve in practice.

- 3.2 For the reasons set out below we believe that the benefits of MTD for CT may not be as extensive as the Consultation anticipates. In particular, quarterly updates are unlikely to give much of an indicator as to a company's eventual tax liability.
- 3.3 Paragraph 1.17 of the Consultation indicates support for the benefits of MTD based on MTD for VAT and notes that 19% of companies said they had better visibility of tax liabilities thanks to the scheme. However, there is a big difference between MTD for VAT (where a final VAT return is submitted each quarter) and the proposals for MTD for CT (where the unadjusted transactional data which is submitted may bear little relation to the final profits chargeable to tax at the end of the year).
- 3.4 Given the complexity of corporation tax, it is highly unlikely that unadjusted income and expense figures will give a reliable indication of final tax liability, especially when accruals, tax adjustments, recharges of central expenses, audit adjustments, losses, group relief etc. are taken into account. Even those aspects of the corporation tax regime which follow the accounts (such as loan relationships and intangible fixed assets) deviate from these in final tax treatment. For example, amortisation of goodwill is often disallowed for corporation tax purposes.
- 3.5 Paragraph 3.2 of the Consultation indicates that 4 in 10 small businesses already keep digital records, and presumably this figure will be even higher for medium and large businesses (the vast majority of whom will already be subject to MTD for VAT). It is not clear how merely imposing extra reporting requirements on entities that are already keeping digital records and making quarterly reports will increase their productivity, or reduce errors.
- 3.6 On balance, it appears that the main benefits of MTD for CT, both in terms of reducing errors and increasing productivity, are likely to come from encouraging the timely keeping of digital records by those businesses not already doing so. We would therefore recommend that HMRC focus their efforts on those businesses, and consider excluding entities which are within MTD for VAT and already fully complying with those obligations from the scope of MTD for CT on the grounds they will already be keeping digital records on at least a quarterly basis.

#### **4 Role of agents**

- 4.1 Paragraph 1.14 of the Consultation states that '*Accountants and agents will be able to provide a full service to their clients through MTD for CT*' and paragraph 1.27 acknowledges that 85% of entities within the charge to corporation tax rely on agents to fulfil their tax obligations. It is therefore both incredibly surprising and disappointing that there is then nothing further in the Consultation which specifically addresses the role of agents.
- 4.2 It will be vital to the success of MTD for CT that the role of agents is factored into planning and designing from day one, with adequate consultation undertaken. Once MTD for CT is live, it will be important for HMRC to provide adequate support for agents, including dedicated phone lines and online access to as much relevant client information as possible.
- 4.3 We strongly encourage HMRC to ensure that agents are given a level of focus in the development of MTD for CT which is in line with their acknowledged importance, and are not merely 'bolted on' to the proposals at a later date.

## 5 Other wider comments and concerns

### *Use of nudges and prompts*

- 5.1 We were encouraged to see references to nudges and prompts in the Consultation (for example in the illustrative customer journey on page 9 and at paragraph 1.21). These were part of the earliest proposals for MTD but they have not yet been introduced for MTD for VAT and we understand they may not be in place in time for the mandating of MTD for ITSA.
- 5.2 However, whilst we believe nudges and prompts have a role to play in reducing certain types of errors, we believe that they need to be introduced very selectively with their impact closely monitored. Only in that way can their benefit be properly ascertained and developed.
- 5.3 One of the possible consequences of mandating MTD for CT is that companies may choose to ‘go it alone’ and use software to prepare and file quarterly updates and corporation tax returns themselves, rather than relying on agents or advisers. This could, depending on the complexity of the business and the level of tax knowledge of the person undertaking these tasks, lead to an increase, rather than a decrease, in errors.
- 5.4 Tax law is very complicated and nuanced at times. To those with little knowledge or experience the availability of software including nudges and prompts may give a false sense of security, for example leading them to believe that a particular entry or tax treatment must be correct if they don’t receive a message warning them otherwise. The complexity of tax law means that it will be impossible to incorporate prompts to cover all areas where errors can arise – consider for example the range of possible ‘professional fees’ which can be incurred by a company and their varying tax treatment (as illustrated by the number of different categories listed in HMRC’s Business Income Manual at BIM46400). This in turn raises the question of whether, and to what extent, taxpayers will be able to rely on such inbuilt nudges and prompts and the associated penalty implications if an error arises. Might such reliance constitute a reasonable excuse?
- 5.5 If nudges and prompts are to be introduced, it will be important for HMRC to clearly specify the requirements for these in software and communicate to taxpayers what level of reliance they can place on them – and what is not covered by nudges/prompts. We anticipate that there will be a range of MTD for CT software products available, and without some form of minimum standard or specification the efficacy of nudges and prompts will depend on the particular software chosen by a business. It could be that the cheaper options will incorporate fewer nudges and prompts, when the companies using them (which will tend to be smaller) could stand to benefit the most from them.

### *Digital links*

- 5.6 The requirement for digital links between different items of software is likely to be a key practical problem in complying with MTD for CT. It is therefore disappointing to see that the issue is not addressed in the Consultation.
- 5.7 We would encourage further consideration of the practicalities of digital links being required in MTD for CT, especially where complex or bespoke systems are used by businesses. As has been seen in MTD for VAT, linking such systems can be very difficult and/or expensive.
- 5.8 Even where companies already have digital links in place for MTD for VAT, these may not suffice for MTD for CT due to the close relationship between accounting and corporation tax. We note that the ‘customer journey’ on page 9 of the Consultation is not realistic - this suggests that a single piece of software is used for producing both the statutory accounts and corporation tax computations, which in our experience is unlikely. Whilst some

packages exist which can produce both accounts and tax returns, these are generally targeted towards smaller businesses. It is much more common in practice for separate pieces of software to be used or, for example, for the accounts to be prepared in-house with an agent then engaged to prepare the tax computation and return.

- 5.9 We would like to see the practical implications of digital links explored in more detail before mandation of MTD for CT. Consideration should also be given to relaxing the requirement for digital links where a company is able to declare that adequate controls are in place regarding any manual transfers of data - a manual transfer with thorough checking and controls can be as effective a safeguard against error as a digital link, and more practical to put in place. Such declarations could be enforced by requiring HMRC approval, agent certification and/or having an associated penalty regime.

## 6 The scope of MTD for Corporation Tax

*Question 1: Do you think there are any reasons why an entity within the charge to CT (or a sum assessable as though it were CT), should not fall within the overarching scope of MTD?*

- 6.1 We note that the consultation proposes that all UK companies are potentially within the scope of MTD for CT, regardless of their size. This is a departure from MTD for ITSA and VAT (to date) which have incorporated minimum income thresholds. The mandation of MTD for CT, including the requirement to invest in software, will impose a disproportionate cost and administrative burden upon very small companies and those which are reaching the end of their life. We would therefore recommend that HMRC reconsider introducing a minimum income threshold so that such companies are excluded from scope.
- 6.2 It is proposed that non-resident companies within the charge to corporation tax and UK Permanent Establishments (PEs) should be within the scope of MTD for CT. These entities are likely to find compliance with MTD particularly difficult, both in practical terms and with respect to tax technical issues such as double tax relief. For UK PEs, a key source of problems will also be allocation of head office expenses, which is an exercise often undertaken only once a year after the end of the accounting period. We would therefore recommend that HMRC consider excluding UK PEs and non-resident companies from the scope of MTD for CT.
- 6.3 We would also suggest that dormant companies be excluded entirely from the scope of MTD for CT – keeping digital records and filing quarterly updates for such entities is likely to be a pointless exercise.
- 6.4 Consideration should also be given to the treatment of personal service companies (PSCs) and how the MTD for CT requirements will interact with the off-payroll working rules which are due to be extended to the private sector from April 2021. No corporation tax will be payable in respect of income of a PSC from contracts which fall to have income tax deducted from them under the off-payroll working rules. Would it be possible to exclude such companies from the scope of MTD or relax their reporting requirements?
- 6.5 We welcome the commitment at Paragraph 6.9 and 6.10 of the Consultation to exempt the digitally excluded from MTD for CT. We agree that it is sensible to apply a similar test to that applying for MTD for VAT – this test will already be familiar to advisers, taxpayers and HMRC and using the same test should prevent an entity being deemed digitally excluded for one tax, but not the other.

## 7 Digital record keeping

***Question 2: Do you agree that all entities should be required to record the date, amount, and category for all transactions within MTD compatible software? Where this approach differs to your current approach to record keeping, please provide details of any additional one-off and ongoing costs or savings.***

- 7.1 More clarity is needed on what these proposals will mean in practice before it is possible to decide whether they are reasonable. The interaction with MTD for VAT record keeping requirements also needs to be considered carefully.
- 7.2 The proposal at paragraph 3.5 of the Consultation to not define what is meant by a ‘transaction’ is unhelpful. Corporation tax, unlike VAT, is not a transaction focused tax. It is also unclear how the requirement to record each ‘transaction’ will fit in with the practice of double entry bookkeeping and accounting standards. More clarity is therefore needed over exactly what entities will be expected to record under MTD for CT.
- 7.3 The proposed minimum categories for transactions included in paragraph 3.15 of the Consultation go beyond simple income and expenses to include items such as dividend payments and capital expenditure. This indicates that digital records under MTD for CT are expected to include information which goes beyond what some might reasonably view as a ‘transaction’. To avoid confusion we would recommend that consideration be given to excluding such ‘below the line’ and balance sheet items from the requirements for digital record keeping, especially where they are likely to have no, or minimal, direct impact on the corporation tax position of the entity.
- 7.4 Looking at the proposals in more detail, it is unclear whether recording each ‘transaction’ could be interpreted as having to record each supply (in line with MTD for VAT) or more broadly. For example, where an invoice is received containing several different supplies will this need to be split out in the digital records or could the invoice total be recorded? Will the answer to this depend on whether the supplies fall into different categories?
- 7.5 What exactly is meant by the requirement to record the ‘date’ of transactions also needs to be considered in more detail – is this the date of invoice, payment or accrual? We note that this could be different from the tax point for VAT purposes. To avoid duplication of record keeping we would recommend allowing the same date to be recorded for both MTD for VAT and MTD for CT purposes.
- 7.6 Overall we would recommend that, as far as possible, the record keeping requirements for MTD for CT are aligned with those for MTD for VAT. If there is a marked divergence between the types of transactions that need to be recorded and/or their dates and values, then this could lead to businesses being effectively required to keep two sets of digital records – one for MTD for VAT and another for MTD for CT. This would impose an undesirable administrative burden for those entities affected, as well as undermining any productivity or error reduction benefits of MTD.
- 7.7 Such an outcome could be avoided entirely if our proposal at 3.6 above of excluding VAT registered companies from the scope of MTD for CT were to be adopted. Failing that, careful thought needs to be given as to how record keeping requirements for the two taxes will interact in practice.

***Question 3: Would group companies value the ability to keep digital records at group level? Are there any additional benefits to utilising a mixed approach?***

- 7.8 We believe group companies would value such an ability, provided that it was both optional and sufficiently flexible.

- 7.9 It is quite common for groups to centralise accounting and/or tax functions in a specific group company. However, this is not always the case, and we would therefore recommend that such an approach be optional.
- 7.10 We would also like to see a flexible approach as to which entities can be included in a 'group' for these purposes, rather than a strict legal definition. Groups may not always want to, or be able to, include some entities in group record keeping – for example overseas companies, joint ventures, recent acquisitions etc. It should therefore be possible for the group to decide which companies it will include or exclude from group record keeping.
- 7.11 It is unclear from the Consultation if the proposal would be for one company to keep separate digital records and file quarterly returns on behalf of each company, or if a consolidated approach could be allowed. Allowing for a single consolidated group submission (i.e. not split by company) each quarter would reduce administrative burdens and be particularly helpful in terms of not requiring companies to deal with recharges, central expenses etc. during the year. The potential for consolidated reporting to deliver simplification, including the possibility of consolidated corporation tax returns, should be considered further.

***Question 4: Do you agree with the suggested minimum categorisation for MTD compatible software?***

- 7.12 Imposing a mandatory set of categories to be applied to transactions could result in entities having to make significant changes to their existing record keeping processes. As a company's records are maintained for a variety of purposes beyond tax (such as internal reporting and statutory accounts) any such changes will have knock-on effects. It could be viewed as HMRC dictating how companies should keep their records.
- 7.13 Paragraph 3.12 of the Consultation states that companies already provide a breakdown of income and profit as part of their corporation tax return. Whilst this is true, unlike ITSA there are few set categories in the corporation tax return itself and companies can, as noted in paragraph 3.13, include whatever categories they choose in their accompanying tax computations provided disallowed expenses are clearly identified.
- 7.14 The administrative burden of introducing categorisation is therefore likely to be much higher for corporation tax than for ITSA. This burden may be ameliorated somewhat if software is capable of mapping across the existing categories used by a company to those required under MTD for CT. However, not all software packages may be able to do this, especially those that are free or low cost.
- 7.15 It is not clear whether companies will be expected to use the same categories on their tax computation as they apply in their digital records and quarterly updates. We would not recommend such an approach as it would require further significant changes to established processes. However, assuming such alignment is not required, HMRC are unlikely to be able to clearly map information included in quarterly updates to the final tax computation, further limiting the benefits of categorisation.
- 7.16 Looking at the specific categories proposed in paragraph 3.15 of the Consultation, we note that the majority are likely to include a mixture of disallowable and allowable expenditure. It is therefore unlikely that categorisation will be particularly informative in terms of estimating tax liabilities in any event.
- 7.17 It will also be difficult to apply some of the proposed categories on a quarterly basis. For example, some such as dividend payments and loans to directors are often only calculated on an annual basis. The proposed requirement to split capital expenditure by category is also likely to be difficult to perform on a quarterly basis – not only are the definitions of capital and revenue different for accounts and tax purposes, but this exercise is often not undertaken by companies until after the year end.

7.18 We would therefore recommend that the proposed list of categories in paragraph 3.15 be reviewed and narrowed down to focus on those income and expense items which are recorded on a more regular basis and feed directly into the entity's profits chargeable to corporation tax.

***Question 5: Are there further categories or alternative approaches to the categorisation of records within MTD compatible software that you consider would be appropriate?***

7.19 We have partially addressed this question in our response to question 4 above.

7.20 However, we would also note that, given the varying sizes, industries and complexities seen in the corporation tax population, a huge range of possible transactions exist. Flexibility in categorisation will therefore be key – a 'one size fits all' approach will not be appropriate. As mentioned at 7.18 above we would recommend that the number of mandatory categories be reduced and focused on those profit and loss items that feed into the entity's final tax position.

7.21 In terms of specific categories, we note that the list in paragraph 3.15 includes 'cost of goods bought for resale or goods used' but no clear category for other costs which directly contribute to sales but don't relate to stock. If this category is to be maintained we would recommend that a further category of 'other direct costs' be added to the list to capture such costs.

7.22 Outside of transactional data, paragraph 3.8 of the Consultation proposes that businesses will need to keep digital records of certain non-financial data, including 'details of property addresses'. It is unclear what is meant by this - does it include all properties owned or rented by the business, or just properties held for investment or rental purposes? The former may be difficult to achieve in practice, for example where large retailers have multiple sites.

7.23 Finally, we note that paragraph 3.17 indicates that corrections should be made to the digital records even if an error has no effect on the tax position of the company. We question why that is necessary or appropriate given that the objective of MTD is the reduction in errors which could lead to an incorrect tax position being reported? Picking up on point 7.22 above, how would the inclusion in digital records of a slight transposition error in the postcode of a property address impact the tax position of the company? Would there be any sanction on a company that failed to make such a correction?

## **8 Providing regular updates**

***Question 6: Would group companies value the ability to provide regular updates through a nominated company? Please provide details of any increased or reduced administrative burdens or costs that could result from this.***

8.1 We believe group companies would value such an ability. However, as per our response to question 3 above, such a facility should be optional and flexible in terms of which entities can be included or excluded in the 'group'.

8.2 As noted at 7.11 above, we would also recommend that HMRC explore the possibility of consolidated quarterly reports being allowed, as this would deliver a welcome simplification.

***Question 7: Do you foresee any constraints to providing updates at group level and how do you think these could be addressed?***



- 8.3 This would depend on the exact requirements for updates and the position of the group in question. However, making group updates both optional and flexible as discussed above should go some way to addressing the majority of potential constraints.

***Question 8: Which forms and processes around incentives, allowances and reliefs would you most like to see digitised? Please provide details of the guidance and/or tailored assistance that would help this process.***

- 8.4 We agree with the proposal that, for quarterly updates, accounting and tax adjustments should be optional. If not, companies will be effectively required to prepare four mini tax computations a year, something which would impose a heavy administrative burden.
- 8.5 We would therefore welcome the ability to include the indicative effect of incentives etc. in quarterly updates, though would stress that this should be optional and not a requirement.
- 8.6 In terms of forms and processes which could benefit from being digitised, we would recommend the following be considered:

- Claims for a repayable credit under the R&D tax credit regime for SMEs – allowing credits to be claimed in advance of the CT600 being submitted would provide welcome cash flow benefits to smaller companies.
- Loss carry back claims (for both terminal and regular losses) - currently these are included in the CT600, but in our experience they are not processed automatically, requiring the company or their agent to spend time calling HMRC to chase them. Consideration should also be given to digitising the process for making provisional loss carry-back claims in the year of the loss – something which would have been helpful during the COVID-19 pandemic.
- Introducing a downloadable digital version of the CT61 (Return of income tax on company payments) - currently this has to be specifically requested from HMRC
- Informing HMRC a company is dormant – currently this requires the company or their agent to call HMRC.

***Question 9: What practical benefits do you think could result from standardising how entities submit claims and elections through software? Please provide details of any increased or reduced administrative burdens or costs that could result from this.***

- 8.7 Standardising submission of claims and elections could be beneficial in terms of reducing the administrative burden on companies and facilitating processing of claims by HMRC. However, if submission is required to be made via software then it needs to be borne in mind that not all software may offer this level of functionality, or may only offer it as a ‘bolt-on’ which brings with it extra cost. Care needs to be taken that those companies who cannot afford (and arguably do not need) more sophisticated software are not disadvantaged.

***Question 10: Do you agree that an entity’s update cycle should be based upon its expected accounting period with updates due one month after each quarter end?***

- 8.8 We agree that an entity’s update cycle should be based on its accounting period end - any other option is likely to be too complicated in practice and result in quarterly update periods potentially spanning a year end.
- 8.9 However, we note that this approach could lead to quarterly updates for corporation tax not aligning with those required under MTD for VAT. Where this is the case companies could presumably align their quarterly

updates by either changing their VAT stagger or year end. It would be helpful if clear and simple processes and guidance were put in place to allow them to do this.

- 8.10 Further consideration also needs to be given to how update cycles will work for those companies which have non-standard year-ends, operate a 52-week accounting period or have mean accounting date elections in place.
- 8.11 We would prefer the deadline for filing quarterly updates to be extended to one month and seven days so that it aligns with the filing deadline under MTD for VAT. This would prevent potential confusion arising from having different deadlines, as well as avoiding creation of another month-end deadline (when companies and agents may already face other internal and external deadlines).

***Question 11: Do you agree with the principles for very large companies within the QIPs regime?***

- 8.12 We understand that the proposed relaxation on quarterly reporting would only be available to those companies in the very large regime QIPs regime (i.e. those with taxable profits of more than £20 million) as distinct from all companies within the QIPs regime. However, this is not always clearly reflected in the Consultation – for example in the first bullet point under paragraph 4.12.
- 8.13 We agree that excluding companies in the very large QIPs regime from quarterly reporting would be a sensible simplification. However, we note that the example on page 25 of the Consultation indicates that such companies would still need to keep digital records in the required format and have digital links in place. We question why this is needed when such companies are likely to have strong controls in place and may also be subject to the Senior Accounting Officer (SAO) regime? The requirement for digital links in particular is likely to require a major investment of time and money for the biggest companies to put in place, as they are more likely to operate bespoke tax and accounting systems.
- 8.14 If MTD for CT requirements are to be relaxed, then consideration needs to be given to the treatment of those companies that change in size such that they move in and out of the very large QIPs regime - it would not be desirable for such companies to also move in and out of quarterly reporting as this could cause confusion and require frequent changes to reporting systems. This could be achieved by setting a threshold above and below the very large QIPs limit such that there is a 'buffer zone' within which profits can move without the requirement for quarterly reporting changing. Alternatively, it could be a requirement that if a company is making quarterly reports, but then moves into the very large QIPs regime, they have to continue to do so unless they can demonstrate to HMRC that they will stay above the very large QIPs threshold for the foreseeable future.

***Question 12: Do you consider that any of these other scenarios require a different approach to the process of updating HMRC? If so, please provide details of any barriers and how these could be addressed within the overall approach outlined in this chapter.***

- 8.15 The Consultation proposes that being subject to Country by Country Reporting (CbyC) could exempt a company from making quarterly updates. It is not immediately clear why this should be the case – the reporting under CbyC is not to the same level of detail as required for corporation tax purposes, and many such companies will be exempt under the very large QIPs regime in any event.
- 8.16 As noted in our response to question 1 above, including UK PEs within the scope of MTD for CT is likely to be difficult. Omitting an overseas PE of a UK company where a branch exemption election is in place appears reasonable, though we note that this could make it difficult to tie the figures in quarterly updates (which won't

contain the results of the exempt PE) to those in the final corporation tax computation (which might initially contain the results of the exempt PE before stripping them out as an adjustment).

- 8.17 International tax adjustments such as those arising from double tax relief, transfer pricing and the corporate interest restriction will be difficult to bring within MTD for CT as the overall position can often only be determined post year end. It would be best to ignore these entirely for the purposes of quarterly updates and allow them (as now) to be dealt with in the final corporation tax return. It would also be helpful if such adjustments could be calculated outside of software without a digital link being required (as is the case for capital goods scheme adjustments in MTD for VAT).

## 9 Establishing the final CT liability

***Question 13: Do you agree it is appropriate to align the filing dates for tax and company law purposes? If not, what difficulties do you foresee?***

- 9.1 We strongly disagree with the proposal to reduce the filing date for corporation tax returns to nine months after the period end in order to align it with the deadline for company accounts.
- 9.2 The profit before tax shown in the statutory accounts is the starting point for preparing the corporation tax computation and, except for the smallest companies, accounts are rarely finalised significantly in advance of their filing deadline (especially where an audit is involved). As a result, there would, in many cases, be insufficient time to complete the corporation tax computation and return within the same deadline as the statutory accounts.
- 9.3 This has been seen recently in practice where, in response to the COVID-19 pandemic, Companies House extended filing deadlines without a similar extension being made to the corporation tax return deadline. Members have reported that the extra time taken for statutory accounts to be finalised led to many companies and their advisers struggling to complete and file corporation tax returns on time.
- 9.4 Some tax adjustments such as accrued but unpaid salaries or loans to participators can only be carried out based on the position nine months after the year end. Other information required for completion of corporation tax computations may also take time to become available - for example partnership income and R&D and capital allowances claims calculated by specialists. Setting the corporation tax return filing deadline at nine months would lead to estimates of these adjustments having to be made, leading to an increase in resubmissions.
- 9.5 We would therefore recommend that the filing deadline for corporation tax returns be maintained at one year after the end of the accounting period.

***Question 14: Do you agree that amendments to an entity's Company Tax Return should be made through MTD compatible software?***

- 9.6 This proposal appears sensible. However, we note that making amendments in this way may not always be possible, for example if a company undergoes a change of ownership, or changes its agent or software such that it cannot easily access the software used to file a past return. An alternative amendment route should be considered for such scenarios.

- 9.7 We would also recommend that, if this proposal is pursued, HMRC make it a requirement for all software to incorporate this feature.

***Question 15: How can MTD for CT ensure that accounts and tax computations submitted as part of a Company Tax Return, are fully and accurately tagged in iXBRL format?***

- 9.8 We are unclear as to how MTD for CT could play a role in enforcing iXBRL requirements. iXBRL has been with us for some time now, and how and when it is enforced is a separate and distinct issue to the proposals for MTD for CT.

- 9.9 If iXBRL and MTD for CT were to be linked in any way, it would be necessary for HMRC to make it a minimum requirement for software developers that iXBRL functionality is built in to all products.

***Question 16: Do you think HMRC should reject returns or charge penalties where the XBRL tagging is incomplete or inaccurate?***

- 9.10 This question appears to go beyond the subject of MTD for CT. We do not have any specific comments, other than to note that we are yet to see any particular evidence of the benefits to HMRC of iXBRL tagging, or any detailed reasoning as to why it should persist once MTD for CT comes into effect.

***Question 17: What hurdles do you think would need to be overcome should HMRC want businesses to tag data at a transactional level?***

- 9.11 We would not support any proposal to iXBRL tag data at a transactional level. It is unclear what the purpose of this would be, or what benefits could be expected to arise to HMRC or businesses. Such a proposal would not take into account the practicalities and complexities of company accounting and would merely impose further administrative burdens on companies.

***Question 18: What do you think are the potential impacts of HMRC withdrawing the free filing product, known as CATO? Please provide any examples or evidence held including evidence relating to the potential impact on filing accounts with Companies House.***

- 9.12 Page 31 of the Consultation states that only 8% of company tax returns are submitted using CATO. Whilst this is a low percentage, it still equates to around 224,000 entities (based on a figure of 2.8m returns per annum on page 16 of the Consultation) being affected by its withdrawal. These are likely to be some of the smallest companies in MTD for CT, including those with the lowest income and the unrepresented.

- 9.13 If CATO is to be withdrawn, then it is essential that free and low cost software options are available to replace it, together with sufficient support from HMRC. However, we remain concerned that such alternative software is unlikely to meet all requirements discussed in the Consultation, such as categorisation of transactions, iXBRL tagging, digital links etc. As set out at 6.1 above, we believe that HMRC should reconsider introducing a minimum income threshold for MTD for CT, such that the very smallest companies are exempted. If that approach is not pursued, then it may be necessary for requirements to be relaxed for those companies which will be affected by the withdrawal of CATO.

- 9.14 We are also aware that dormant companies frequently use CATO. As noted at 6.3 above we believe consideration should be given to excluding these companies entirely from the scope of MTD for CT.

## 10 Special cases and exemptions

*Question 19: Should charities, CASCs and other not for profit organisations, be within the scope of MTD for CT where they have income within the charge to CT and are required to complete a Company Tax Return? If not, please explain why you consider an alternative approach is necessary for charities and what criteria should be applied to assess eligibility for this?*

- 10.1 Including CASCs, charities and not for profit organisations within the scope of MTD for CT appears reasonable at first glance. However, we note that charities have very different accounts to companies, and specialist tax rules also apply. It would be regrettable if application for CASC status was discouraged by the burden upon a volunteer-run organisation of the obligation to file quarterly.
- 10.2 Careful consideration needs to be given to ensuring that the MTD for CT rules can actually be applied by such entities in practice, and that suitable low cost software solutions are available (particularly for those who have seen their income affected by the COVID-19 pandemic).

*Question 20: Do you agree that MTD obligations should cease where a company is exempted from mandatory online filing of CT returns due to insolvency?*

- 10.3 This proposal appears reasonable.
- 10.4 We would recommend that HMRC also consider how MTD will apply to those companies which, instead of undergoing a formal insolvency, pursue an informal striking off under s1003 of Companies Act 2006. In such cases HMRC will often agree corporation tax liabilities on paper without a formal return (provided there is no risk of tax loss) in order to allow for strike off to proceed. Could this be extended to waiving the requirement for quarterly updates under MTD for CT as well?

## 11 Assessment of Impacts

*Question 21: What timescales and costs do you consider would be involved in acquiring, updating, replacing or adapting existing software in order to be MTD compliant? Please provide details of one-off and ongoing costs and benefits you think may arise.*

- 11.1 We do not have specific data regarding timescales and costs, but these could be significant as MTD for CT will involve not just four extra reporting requirements a year, but also changes to record keeping processes and systems.
- 11.2 The corporation tax population comprises great diversity and complexity, so there is likely to be a wide spread of costs and timescales. However, all companies in scope are likely to be affected in some way.
- 11.3 Paragraph 7.8 of the Consultation states that entities in MTD for VAT are likely to have incurred some of the transitional costs of MTD for CT already. While this may be the case, we note that the requirements (especially in terms of record keeping) for MTD for CT go far beyond those for MTD for VAT and therefore further costs are likely to be incurred. As noted in section 5, we also believe that the requirement for digital links is likely to be difficult to apply in practice for CT purposes.
- 11.4 We would recommend that HMRC engage early with software houses to identify their estimates of what one-off and ongoing charges are likely to be, as these are likely to be a significant factor for many companies in scope. It is important that planning for MTD for CT proceeds on the basis of realistic cost estimates. Under-

estimates in relation to previous transitions have seriously undermined the credibility of HMRC communications.

*Question 22: Apart from software costs, what timescales and costs do you consider would be involved in making the transition to MTD for CT? Please provide details of one-off and ongoing costs and benefits you think may arise.*

11.5 We anticipate that additional in house costs of transition could include:

- Training staff and familiarising with the new requirements.
- Changing existing record-keeping processes
- Reviewing and producing quarterly reports.

11.6 Those entities which currently engage an agent to prepare and file their corporation tax computations and return are likely to see their fees increase, especially where the agent will also be required to review or file quarterly updates. Increased costs could tempt some businesses to 'go it alone' and carry out these tasks themselves, which as noted at 5.3 above, could increase the risk of errors being made. We would also anticipate, based on our experiences of MTD for VAT, that agents will incur significant 'sunk costs' in helping their clients transition to MTD for CT which they are unable to recover. That necessarily limits the enthusiasm of agents to act as ambassadors for MTD.

11.7 The timescale of transitioning to MTD for CT will vary depending on the exact requirements, as well as the current practices, size and complexity of the company in question. As mentioned elsewhere in this response, there is no 'one size fits all' for companies.

11.8 As noted in section 3 above, we believe the benefits of transition to MTD for CT are likely to be limited, and there is a risk that these may be outweighed by the costs involved. This is in line with our experience from the introduction of MTD for VAT, as evidenced in our member survey from January 2020<sup>2</sup> which showed limited benefits of MTD and costs significantly exceeding HMRC estimates.

## 12 Contact details

12.1 We would be pleased to join in any discussion relating to this consultation. Should you wish to discuss any aspect of this response, please contact our relevant Technical Officer, Emma Rawson on 07392 824718 or [erawson@att.org.uk](mailto:erawson@att.org.uk).

## The Association of Taxation Technicians

### 13 Note

13.1 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

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<sup>2</sup> See <https://www.att.org.uk/technical/news/press-release-survey-results-contradict-government-claims-realising-benefits-digital>

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.