

# Welcome to the April Technical Newsdesk

Welcomes

28 March 2022

April 2022 marks the second major milestone in the roll-out of Making Tax Digital (MTD), bringing businesses with a taxable turnover below the VAT threshold into the requirements of MTD for VAT. HMRC have been contacting these businesses to put this on their radar, and it's important that they (or their agents) sign up to MTD for VAT at the right time (see [www.tax.org.uk/mtd\\_sign\\_up](http://www.tax.org.uk/mtd_sign_up)). Most of these will be small businesses, which may have to adopt digital record-keeping for the first time. As many will be registered for VAT voluntarily, it will be interesting to see if the next few months brings an increase in deregistrations.

Will MTD for VAT prove worthwhile? According to the government and HMRC, it has. As reported in AccountingWEB, Financial Secretary to the Treasury Lucy Frazer MP says: 'MTD is succeeding in its central aim to reduce errors, while also making it faster to prepare and submit returns, therefore boosting productivity for firms'. Agents' comments below the article might suggest otherwise.

Support for the FST's comments derive from the recent research 'Evaluating additional tax revenue from Making Tax Digital for VAT' (see [bit.ly/3q9yVxc](https://bit.ly/3q9yVxc)). But, spoiler alert, the research concludes that 'there is likely to be a positive additional tax revenue'. For those below the VAT threshold, this increase is estimated at £19 per business per quarter on average (a 2.2% increase); and for those above the VAT threshold £57 (a 0.9% increase). For 2019/20, this equates to additional revenues of around £190 million from all businesses that had joined MTD for VAT.

Whether these figures can be considered reliable is debatable. Even an inspection of individual business's returns would lead to the question of whether errors made pre-MTD would have recurred. A statistical analysis is perhaps the best we will get. So, if the exchequer is £190 million better off because of MTD for VAT, what has been the cost to businesses? In September 2021, HMRC published 'Extension of Making Tax

Digital for VAT' (see [bit.ly/35VYuew](https://bit.ly/35VYuew)), followed by 'Customer costs and benefits for the next phases of Making Tax Digital' (see [bit.ly/367KT3w](https://bit.ly/367KT3w)), which address the most recent step of extending MTD for VAT in April 2022. We should praise HMRC for the work they put into this process, with input from professional bodies such as CIOT and ATT, to fully understand the 'journey' that different types of business will face.

For these businesses, transition costs are estimated to be £157 per business on average (£173 million in total across approximately 1.1 million businesses), with ongoing costs of around £69 per year on average (£76 million in total). While I accept that I'm comparing apples and oranges, the exchequer benefit is only £7 more (4 x £19 - £69).

For some, the position will be more extreme, as HMRC's own examples highlight. A company director who already uses accounting software has transition costs of just £45 and no additional ongoing costs. A self-employed VAT-registered business owner who buys software has transition costs of £335 and ongoing costs of £132 per year.

The biggest unknown is the extent of any efficiencies that MTD for VAT brings. HMRC estimate this at around £75 per business per year, which means it will take the average business 26 years to recover the initial costs. I don't think we will ever fully determine the precise impact of MTD for VAT, but perhaps all this is irrelevant. As a key government priority, MTD is something we all need to engage with in whatever capacity we operate.