21st Century tax

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Bill Dodwell considers the impact of the introduction of digital tax accounts

I purchased my first computer in the early 1980s – an Osborne. As you can imagine, it was large and heavy, but it was sufficiently portable to travel with me as I prepared accounts for a relative.

Supercalc – the forerunner to Lotus 123 and Microsoft Excel – was a very efficient program to record sales and purchases and then turn the information into a profit and loss account, and a balance sheet. I still do the year-end accounts and tax return, although all the day-to-day accounting is done on a cloud-based system and the business now employs half a dozen people.

The Autumn Statement contained one announcement of great interest to a small business – the introduction of digital tax accounts that would lead to an additional tax yield of more than £600 million a year. We needed to wait for HMRC's stakeholder event on 14 December to find out a little more – which has clearly alarmed a great many small businesses and their advisers.

Financial Secretary David Gauke has taken the unusual step of writing to all MPs about the plans, in advance of the Westminster Hall debate on 25 January on e-petition 115895, which calls on the government to 'scrap plans forcing self-employed and small business to do four tax returns yearly'.

There are two issues of keen interest. The first is that the self-employed, individuals with investment income of at least £10,000 a year and, ultimately, companies will be expected to submit data to HMRC quarterly. Second, agent access to digital tax accounts is not currently available and is expected to lag behind the introduction of the accounts.

The government has posted a response, in which it says that four tax returns will not be required. Instead, 'the updates will be generated from existing digital business records. In most cases, little or no further entry of information will be needed. As part of the process the business owner or individual will receive a developing in-year picture of their tax position, helping people have greater certainty about what they owe, allowing them to plan their finances more effectively.'

There are also more details on why it believes the plan will raise more tax. 'We also estimate that £6.5bn in tax goes unpaid every year because of mistakes made when filling in tax returns. These reforms will make it easier for taxpayers to maintain accurate and up-to-date tax affairs, reducing the scope for error.'

I am a big fan of digitisation as I hope my computer purchase more than 30 years ago demonstrates. We can see areas within the public sector where digitisation has simplified processes for consumers (although not necessarily for businesses): paying car tax is much easier for consumers, although this depended on insurers, and MOT test stations have new systems for providing data.

Not every software project in the tax world has gone entirely to plan. For example, the launch of iXBRL filing for company accounts needed to be a ‘soft launch’ because not everyone was ready at the filing date. There were considerable issues with filing through the government gateway due, no doubt, to the computer’s need for everything to be in the correct format and the inevitable variety of data from so many companies. Business costs did rise with iXBRL because of the cost of converting the accounts into the new format either through new software or outsourcing the work.

Quarterly data submission will apply to many more businesses and individuals than the iXBRL company accounts project. There are many more variables in accounting packages used and it is likely that many very small businesses rely on paper records or spreadsheets. They will need to buy an accounting package or use HMRC software.

HMRC will shortly consult on the details of the data submission. Accounting packages vary enormously in what they do but the cloud-based one I’ve seen records purchases and sales, together with debtors or creditors and stock. It does not cover payroll. Accruals and prepayments, together with fixed asset accounting, do not feature and are, of course, not hugely relevant to day-to-day business management. Understanding margins and making sure that the income exceeds the outgoings are the core objectives. Thus, it would not be too hard to upload basic data for each quarter, but there will clearly be year-end entries, including bad debts and stock adjustments. I struggle with the idea that the digital tax account will help a business understand its tax liabilities. Many enterprises have a form of seasonality and lumpy expenses.

I am glad that the CIOT has formed a digital group to work with members, businesses and HMRC on these changes. I am sure we shall hear more from the group in the months and years ahead. I hope HMRC will announce an acceleration of its timetable for providing agent access.

One target the government set for this parliament in last May's Queen's speech was to reduce business costs from regulation by £10bn. HMRC's share of this target is £400m. Since any version of digitisation is likely to increase business costs until 2020, HMRC will have an even bigger target to find elsewhere.