

Progress with Making Tax Digital

General Features



22 August 2023

The CIOT, ATT and LITRG have published their responses to the Public Accounts Committee's inquiry Progress with Making Tax Digital.

In May, the Public Accounts Committee (PAC) opened an inquiry entitled 'Progress with making tax digital' (MTD) (tinyurl.com/bdhjy7z7). The CIOT, ATT and LITRG each provided written evidence to the inquiry. Parliamentary rules prevented us from publishing this evidence until the PAC had done so.

CIOT response

We reiterated our position that, in principle, digitalisation offers the best way to improve the efficiency and effectiveness of the tax system, improve HMRC's performance, and enable them to provide better support for taxpayers trying to do the right thing. But again we emphasised that it should be allowed to grow organically, with systems that are attractive enough for businesses to choose to migrate to them, as has happened with online filing more widely.

We stated that failure to consult properly on MTD has directly contributed to its delays, rescoping and large-scale resistance to its requirements. Many see these requirements as unnecessary or unduly onerous.

We agreed that the decision in December 2022 to further delay and rescope the policy was necessary, reflecting the lack of testing, awareness and functionality at that stage. However, we said that decision should have gone further. While we welcomed the commitment to consult on the needs of smaller businesses, we believe the government should be consulting on the fundamentals of MTD. It is not apparent that the 'business case' for MTD, to the extent that it existed in 2015, still exists. Notwithstanding the deferral, the revised timetable remains extremely challenging, with major issues still to be overcome.

We also called for an in-depth evaluation of MTD for VAT, involving real business data. There is a lack of compelling data to demonstrate that MTD is reducing the tax gap and delivering efficiencies for businesses. Until this is available, progressing with MTD for Income Tax Self-Assessment (MTD for ITSA), with its associated costs for taxpayers, agents and HMRC, seems imprudent.

ATT response

We stated that the MTD programme has achieved very few of its stated goals, since the vision to digitalise the UK tax system was first announced in 2015. Therefore, the benefits promised by MTD have not been realised to any meaningful extent. Even in respect of MTD for VAT, which was fully implemented three years later than planned in 2022, there is no consensus on whether the user experience and economic benefits are positive. Feedback presented by HMRC is significantly more positive than the experiences reported by our members (see comments on our survey below).

We agreed that postponing the introduction of MTD for ITSA until 2026 at the earliest was a welcome decision, given the lack of progress to date. Whether or not the revised timetable is itself deliverable will depend on a number of factors, including public awareness, scepticism as to whether MTD will ever happen, technical complexities and HMRC resources. It is, however, encouraging that HMRC are engaging proactively with stakeholders to capitalise on the additional time available to address the significant challenges which remain. We welcome the level of engagement we receive from HMRC, and the recent willingness to listen to

alternative ideas as to how MTD can be delivered.

Overall, whilst we welcome digitalisation for record keeping, and its role in the modernisation of the tax system overall, we remain concerned about the deliverability of the MTD programme, and its benefit (at least as currently proposed) to many taxpayers.

LITRG response

In our evidence, we challenged how realistic some of the apparent benefits of MTD would be for those on the lowest incomes. For example, there is likely to be as much confusion about in-year tax estimates as there are benefits, and the productivity benefits for those on low incomes are unlikely to be significant.

We highlighted the need to design a strong support model for unrepresented taxpayers as MTD progresses, because the amount of help required by small businesses will be considerable.

As part of HMRC's review of MTD for those with annual turnover below £30,000, we urged consideration of key issues such as the mandation threshold, provision of free software and need for quarterly updates. We also warned of the practical issues that need to be overcome before April 2026, such as allowing time for comprehensive testing.

The CIOT's full response can be found at: www.tax.org.uk/ref1146

The ATT's full response can be found at: www.att.org.uk/ref431

LITRG's full response can be found at: www.litrg.org.uk/ref2780

CIOT and ATT survey

To inform our ongoing engagement with HMRC on MTD, we recently carried out a survey to obtain members' feedback. The results can be found on the CIOT (tinyurl.com/4tzk5y25) and ATT (tinyurl.com/ycwkytkn) websites, and reinforce much of the evidence set out above. We have shared the results of this survey with HMRC.

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