



Low Incomes
Tax Reform
Group

A voice for the unrepresented

10 November 2017

Sent via email: Makingtaxdigital.consultations@hmrc.gsi.gov.uk

Dear Sir/Madam

Making Tax Digital (MTD) for VAT: legislation overview

We write in response to the invitation to comment on the above document which was published on 13 September. We note that detailed Regulations will be available in due course, however we take this opportunity to make some general comments. Our constituents most likely to be affected by this legislation are self-employed businesses with turnover above the VAT threshold but low profits, and therefore our comments are made with this in mind.

About Us

The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.

LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.

The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

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Comments

We note the intention is that much of the detailed principles of the MTD for VAT regime will be contained in regulation rather than in primary legislation. We strongly disagree with this approach as it means there will be little or no Parliamentary scrutiny of the main areas of MTD for VAT. We believe the fundamental principles of MTD for VAT should be written into primary legislation.

As MTD for VAT is due to be introduced in April 2019 this timeframe gives less than 18 months for software to be written and tested with pilots so that any problems are ironed out. It must also be made generally available sufficiently in advance of April 2019 to enable traders to get used to any new systems and be fully trained in their use. We are concerned this is too tight a timescale in which to deliver a fully workable digital system which is fit for purpose.

It is also a relatively short timeframe in which to raise awareness of the new rules amongst businesses who will be required to comply with them. It will be particularly important to target publicity at unrepresented taxpayers as soon as possible. These taxpayers will be relying on HMRC for information, as they will not be receiving any details of the new system from professional advisers.

It must be remembered that a VAT registered business does not automatically mean that it is a business which makes substantial profits. Many small businesses such as cafes, restaurants, corner shops, etc. may be VAT registered due to the level of their turnover but nonetheless may only make relatively modest profits due to significant expenditure on supplies and payroll costs. In view of this we are very disappointed to understand that HMRC will not be providing free MTD compliant software and would urge reconsideration of this decision.

We are pleased to see that the exemption provisions which currently apply to online VAT filing will be carried through to the MTD programme and trust that the method by which exemption must be claimed will be simple and straightforward.

We are also pleased that the time limit for filing the VAT return will remain at the one month and seven days that VAT registered traders are currently familiar with. We feel it would be helpful if the regulations allow for a VAT return to be filed for a shorter or longer period than three months, as we expect that many traders will wish to align their income tax quarterly update periods and VAT return periods in due course and this will help them be able to do this.

We note the regulations will allow voluntary periodic updates whereby a business will be able to submit VAT information outside of their usual quarterly return cycle, for example when they submit an update for income tax purposes. However as information provided in this way will not obviate the need for a VAT return for the usual quarter or create a VAT liability/refund it is hard to envisage why a trader may choose to make a voluntary update in this way.

We hope you find these comments helpful. We would be pleased to meet to discuss the contents of this letter in more detail if you would like to do so.

Best wishes

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Williamson', with a stylized flourish extending to the right.

Robin Williamson

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