

**Lords Economic Affairs Committee
Finance Bill Sub-Committee**

**Supplementary Evidence in relation to HMRC's 'Making Tax Digital for Business' programme from
the Low Incomes Tax Reform Group (LITRG)**

1 We welcome the opportunity to provide supplementary evidence to update this Committee regarding HMRC's 'Making Tax Digital for Business' programme, and in particular its potential effect on low income taxpayers, which in this context will primarily be self-employed individuals. There has recently been a shift in the immediate focus of the programme towards VAT registered businesses, however the initiative remains of great interest to LITRG. There are many self-employed businesses with turnover above the VAT threshold but with low profits who will come within the scope of Making Tax Digital, for both VAT and income tax, in due course. 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 this submission we refer to HMRC's programme 'Making Tax Digital' by its acronym of 'MTD'.

2 Timetable

2.1 We welcome the Ministerial statement on 13 July, announcing changes to the timetable for implementation of the MTD for Business programme. The deferral should allow sufficient time for the full cycle of quarterly updates and end of year declarations required under the MTD for Business regime to be rigorously tested, together with its interaction with the declarations in relation to other sources of income for a tax year. Any glitches can then be ironed out before mandation; though, ideally, the development of good easy-to-use systems will mean taxpayers naturally migrate to them, as happened with Self Assessment Online, and ultimately mandation may then prove to be unnecessary.

- 2.2 But pressing ahead with MTD for VAT from April 2019 now means implementing MTD from a slightly different perspective, but again on a very tight timescale. HM Revenue & Customs (HMRC) have indicated that MTD for VAT will be mandatory for around 50% of VAT registered businesses under the current proposals, as it will only apply to businesses whose turnover exceeds the VAT threshold.
- 2.3 On the face of it, MTD for VAT would appear to be little different for most VAT registered businesses who will be used to doing quarterly VAT returns, and so relatively easy to implement. But as the majority of VAT registered businesses submit their VAT returns via HMRC's online portal this would indicate that most either do not currently use software at all, or they use software which is not suitable for submitting their VAT return directly from it. (This could be due to the software's limited capability or because of the need to apply complex VAT rules, leading to separate VAT calculations being done outside of the software itself, for example using a spreadsheet.) Therefore we remain concerned that implementing MTD for VAT will be a bigger task than is perhaps being envisaged at this stage. As there are only 18 months until it is due to be introduced, we believe this is a challenging timeframe once again.
- 2.4 It should be noted that despite the deferral of MTD for Business, there has still been very little in the way of external communications from HMRC to those businesses who will need to comply in due course. This should now be a priority for HMRC and they should begin communicating with businesses as soon as possible to raise awareness of the new requirements for both income tax and VAT. Professional advisers can prepare their own clients for the change, but HMRC must take full responsibility for ensuring that unrepresented businesses are able to prepare themselves.

3 Software

- 3.1 We firmly believe HMRC should reverse their decision not to produce their own free software and agree to invest in providing a basic package that small businesses and landlords can use without having to incur extra expense or make do with an inferior commercial product. This will be even more pertinent for MTD for VAT, as many small businesses will probably need to change the existing (digital) recordkeeping processes they currently have (for example records on spreadsheets and then submission of VAT via HMRC's online portal) and will be in need of MTD compliant software. No commercial MTD for VAT software has been developed yet, and so it will need to be written, tested with pilots, problems ironed out and then made available quickly, and sufficiently in advance of April 2019 to enable traders to be able to get used to any new systems and to get fully trained in their use.
- 3.2 Although HMRC are seeking for basic (and we suspect, very limited use) software packages to be made available in relation to MTD for Business at no cost in due course, we understand that HMRC will not require a similar product be developed for MTD for VAT. We find this unacceptable, particularly where a VAT-registered business's profits are already low and any further expenditure on mandatory software might wipe out its profitability altogether.

4 Pilots of MTD for Business regime

- 4.1 The pilots for the MTD for Business income tax regime only involve very small numbers and need to be scaled up more quickly. Those involved in the pilots are mainly invited into the trials through the participating software companies – so, they are clearly those who are already ‘on board’ with digital software and are keeping digital records. (Some of the delay in scaling up the pilots would appear to be due to the delay in more MTD compliant software products coming to market.) HMRC are keen to recruit more volunteers for the pilot but keep delaying their ‘PR launch’ for this. HMRC must ensure they are trialling the process with those who have never kept digital records before and/or those who have not used accounting software before.
- 4.2 To date there has been very little feedback from HMRC as to how the pilots are going and what is being learned from them, which is very disappointing.

5 Digital assistance and digital exclusion

- 5.1 Very little progress has hitherto been made on establishing what provision will be available for those needing digital assistance and those who are digitally excluded to enable them to comply with their MTD for Business obligations. HMRC have said they will be using evidence gathered from the pilots to help them develop an appropriate strategy for these groups, and we hope the extra time available as a result of the deferral of implementation of MTD will be used to develop robust and effective digital assistance programs for those in need of support, and adequate alternatives for those who are digitally excluded.
- 5.2 We acknowledge that taxpayers can apply for exemption from MTD if they have a disability that makes it painful or difficult for them to use computers or the internet. But for certain other types of disability, the use of technology is helpful, or even essential, and it is vital that HMRC comply with their Public Sector Equality Duty in relation to those taxpayers who experience such disabilities. No additional costs should be incurred by users in circumstances where a disability requires additional support, whether technological or otherwise, over and above that required by a non-disabled person, in order for the user to comply with their tax obligations digitally.
- 5.3 It should be noted that the draft Regulations, published for consultation on 13 September, set out a procedure to apply for exemption from MTD on the grounds of being digitally excluded. As we have noted in our consultation response, we believe it is very important that this process is as simple as possible, and that very good guidance is available to assist with it. It must be possible for a claim to be made through non-digital channels.
- 5.4 The Finance Bill Sub-Committee recommended that HMRC look again at who should be included in the scheme, however there has been no indication in recent months that any further groups of taxpayers will be specifically exempt from the MTD regime. Our response to the original consultation on MTD for Business also made many recommendations for other types of exemption.¹ In particular, we suggested specific exemptions be considered for shared lives carers, those approaching

¹ see section 9, pages 20-32, <https://www.litrg.org.uk/sites/default/files/files/161107-LITRG-response-MTD-business-tax-digital-age-FINAL.pdf>

retirement and those who let their homes to pay for residential care. We are not aware of any discussions around these types of exemptions to date although some falling into these categories may be exempt by reason of being digitally excluded in any event.

6 MTD and universal credit

- 6.1 Very little consideration has been given to how the interaction between MTD reporting and reporting income for universal credit (UC) will work. This is a very big concern to us as there are a number of issues that must be addressed before MTD for Business goes live. We strongly recommend that a specific exemption should be given to those reporting self employed income under UC until such time as the rules for claiming UC and for complying with MTD for Business are aligned. It is unacceptable for HMRC and the Department for Work and Pensions (DWP) to have different rules for the calculation of business income for low-income people, together with different reporting cycles, accounting methods, IT systems and different terminology in guidance. Alignment of HMRC and DWP systems must be achieved before there is any question of UC claimants being brought into MTD; that is, we recommend that UC claimants are specifically exempt from MTD until at least the cash bases for tax and UC are fully aligned and that claimants are subject only to a single reporting requirement for both. Alternatively, HMRC should devise software that will enable data to be input once, then analysed in such a way that it automatically produces the required result for both tax and UC purposes.

7 About Us

- 7.1 The 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.
- 7.2 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.
- 7.3 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.