



HM Revenue  
& Customs

Frank Haskew  
Head of Taxation Strategy  
ICAEW

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Dear Frank,

Thank you for your letter dated 27 April 2023 in which you offered suggestions on how Making Tax Digital for Income Tax Self-Assessment (MTD for ITSA) could be recast to meet the needs of business better, to assure MTD's successful landing from April 2026.

Positive and proactive engagement between HMRC officials and representative bodies is welcome, and we very much value the ICAEW's continuing support for the digitalisation of the tax system, and the work you are doing in support of the £30-10k small business review.

I think it is worth starting with the issues we are collectively trying to address, where I think there is commonality of objective. The tax gap for Self-Assessment small businesses is around 20%, or around £4.5bn. Inevitably there are a wide variety of behaviours here but we know that poor record keeping contributes to poor compliance. We all want to address this problem. The key debate is over the best way of tackling it and specifically the role of MTD design, including quarterly updates, in achieving the aim of reducing the tax gap and thereby ensuring a level playing field between businesses.

Currently, small businesses are required to keep accurate records, but we know that not all do so. Making Tax Digital is designed to improve record keeping practice both through the mandation of digital tools but also the quarterly update process.

The change in the timing of the introduction of MTD has given us the opportunity to look again at the design of MTD for ITSA. To inform our thinking, we are capitalising on renewed engagement with your sector and with other external stakeholders through the review. As you will have seen through our work on co-creation this year, we are taking the time to work together with stakeholders to resolve priority issues. For example, considering impacts on jointly-owned property and multiple agents. We are enthusiastic to work with you and your members as the MTD for ITSA service expands its private beta and begins a larger public

beta from April 2025. We are confident that our build plan supports successful running of the beta service and mandate to schedule.

Like yourself, we are keen to ensure MTD does not unduly increase administrative burdens on businesses. Processes, touchpoints, including quarterly data uploads from software, and support needs are all being monitored as part of our private beta testing within the MTD for ITSA model office to assure this, and we are looking closely at this issue as part of the small business review.

I do not wish to prejudge the outcome of the review or wider work on the design of MTD, but there are also arguments for maintaining quarterly updates:

- Quarterly updates are, as noted above, one part of the improved record-keeping. They encourage closer to real time record keeping and provide confidence to the business and assurance to HMRC that digital records are being maintained routinely.
- Quarterly updates are not the same as making quarterly tax returns. The updates process will be light touch, with MTD-compatible software doing much of the work. There is no requirement to make any accounting or tax adjustments.
- More regular updates of data could support future policy development. During the pandemic, our ability to support small businesses was limited by lags in data arising from the current reporting patterns for Self-Assessment. Many small businesses were unable to access support because of this problem. Quarterly updates could provide more timely data and therefore provide more flexibility in the future.
- They could also support measures to reduce unexpected changes in tax payments. Quarterly updates offer the ability to better align payments on account with likely tax liabilities therefore reducing large and unexpected adjustments at the end of the year.
- Where a customer chooses to make the updates themselves and have been maintaining regular records, they require little more than a check and send. If a customer chooses to use an agent to check the update, we anticipate that if income and expenditure are better recorded, categorised and checked once a quarter, then this will improve business efficiency and reduce the agent's time needed to compile and check accounts at end year.

Updates through MTD will be more straightforward than the current Income Tax Return. They require no adjustments, as their preparation and submission will be supported by the software which businesses will use to maintain their digital records. We are listening carefully to your concerns and the agent community's views around updates and other elements of the design and delivery of MTD for ITSA. HMRC and Treasury have these policy areas under discussion, particularly over how they apply to the smallest businesses. We are also looking at what other changes to the design of MTD for ITSA could help to reduce the burdens on small businesses.

In terms of support, HMRC continues to undertake a sustained communications campaign in advance of the introduction of MTD for ITSA across a variety of channels. Those within scope will be contacted directly and provided full details of the new requirements and advice on how to obtain support and guidance.

HMRC wants to ensure that the transition to MTD is straightforward and that businesses feel supported. Those that need help moving to MTD can access the extensive support HMRC provides to taxpayers to help them digitally engage. Help and support can be found at: [www.gov.uk/guidance/help-and-support-for-making-tax-digital](http://www.gov.uk/guidance/help-and-support-for-making-tax-digital).

HMRC's customer support model also includes a multi-layered approach stretching across telephony support and webchat and for those that require additional support HMRC's Extra Support service will be prepared to help.

Again, I do not wish to prejudice final decisions but wish to assure you that this is an active area of consideration. I hope we will be able to offer a package of simplifying and burden reducing measures when the review concludes.

We appreciate you taking the time to input and to help shape the future of ITSA so we can all gain the opportunities of positive change. We would be happy to meet with you and discuss these points further.

Jo Rowland and Jonathan Athow



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