



PAC INQUIRY: PROGRESS WITH MAKING TAX DIGITAL

Issued 7 June 2023

ICAEW welcomes the opportunity to comment on the Public Accounts Committee inquiry: Progress with making tax digital published by the Public Accounts Committee on 16 May 2023, a copy of which is available from this [link](#).

For questions on this response, please contact the ICAEW Tax Faculty at taxfac@icaew.com quoting REP 54/23.

This response of 7 June 2023 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 166,000 chartered accountant members in over 146 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

© ICAEW 2023

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
icaew.com

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

Introduction

1. ICAEW is pleased to provide written evidence to the Public Accounts Committees inquiry: [Progress with making tax digital - Committees - UK Parliament](#). This evidence is being provided without having seen the report of the [National Audit Office investigation](#). That report is, we understand, due to be published on 9 June 2023, two days after the deadline for providing evidence.
2. ICAEW has been very actively engaged with the making tax digital (MTD) programme since the announcement in Spring Budget 2015. At that stage, the initiative was called making tax easier and the focus was on making it easier for taxpayers to comply with their tax obligations. It was also anticipated that through mandating timely digital record keeping by businesses and landlords, the accuracy of accounts and tax returns would be improved, and the tax gap relating to error and mistakes would be reduced by £9bn each year. The requirements published slightly later included quarterly submissions using commercial MTD compatible software.
3. MTD income tax self assessment (MTD ITSA - for trading and property income) was to be introduced first in 2018, followed by MTD VAT in 2019 and then MTD corporation tax. The Public Accounts Committee (PAC) will be aware that the original timetable has been amended several times. MTD VAT was introduced first, eventually being mandated for all VAT registered businesses from 1 April 2022 (other than those with an agreed digital exclusion exemption).
4. In December 2022, following considerable pressure from ICAEW and others, HMRC announced changes to rephase the programme. The start date for MTD ITSA was deferred for the fifth time. The start date is now April 2026 with a much-reduced population of taxpayers to be brought in from that date.

HMRC's original vision and plans

5. HMRC's original vision for MTD included
 - simple affordable record keeping software, seamlessly updated in near real time
 - minimal cost to all parties
 - prompts from HMRC where taxpayers seemed likely to have made errors in their quarterly submissions, and
 - accurate estimates of the taxpayer's likely tax liability
6. The vision was ambitious but the scale of the change was such that the original published timetable was unlikely to be achievable.
7. It was clear from the beginning that HMRC appeared to have a limited understanding of how many businesses operate, particularly larger businesses with fixed assets, stock, debtors or creditors, nor of the role of their agents in preparing and filing accurate tax returns. It has only recently begun to appreciate the complexity associated with reporting of income from jointly held property. This has led to an uncomfortable period of uncertainty.
8. ICAEW has consistently been supportive of HMRC's digital transformation and considers that for the tax system to be fit for the 21st century, a 'digital first' approach has to be the right way. However, we were then and remain today, extremely concerned about aspects of the design, particularly the proposal to make quarterly digital reporting compulsory. We have yet to be convinced that this will reduce the administrative burdens of businesses, particularly the smallest businesses.
9. Businesses and individuals should be encouraged to adopt digital record keeping and reporting as a benefit to their business rather than as a forced change. Many have started using software since 2015 where there is a business case for them doing so and we expect that trend to continue irrespective of MTD.

10. If HMRC can offer robust, reliable, cost effective and user friendly systems, businesses will be encouraged to adopt digital filing. For example, the very high levels of online self assessment (approximately 96% of the 12 million of those who do file self assessment returns) have been achieved without mandating. This successful customer centric approach should serve as a model for the current digital agenda.
11. We also believe digital transformation needs to happen in parallel with the overall simplification of tax policy. Not enough attention has been given as to how the underlying tax rules should change to support digitalisation.

Progress made before rephasing the programme at the end of 2022

12. In the period up to April 2022, almost all the focus was on introducing MTD VAT. That work continued until the end of 2022, when HMRC was eventually able to transfer those remaining businesses that had not already signed up into MTD VAT. At that point, the MTD VAT programme was wound up and the work transferred to HMRC's 'business as usual' operational teams.
13. Engagement between stakeholders and HMRC on the MTD ITSA requirements only really started in earnest in 2022. Most of that year was spent developing an agreed list of design and implementation problems that needed to be solved. It has been challenging to persuade HMRC of the importance of these issues, which include (among others):
 - The need for functionality that allows taxpayers to have more than one agent (for example, a bookkeeper that keeps the digital records and submits the quarterly updates and a tax agent that is responsible for the year end finalisation activity).
 - A solution for the reporting of jointly held property.
 - A solution for businesses that have accounting dates that do not fall between 31 March and 5 April. Basis period reform, introduced in Finance Act 2022, has significant implications for MTD ITSA which have not yet been addressed.
14. We welcome the fact that HMRC is now actively engaging with stakeholders on these problems in co-creation workshops. However, these should have been started earlier: the first was not held until the end of March 2023.
15. Although the MTD ITSA pilot started in 2018, the criteria for being able to join have remained extremely restricted. This is because the necessary functionality needed by many taxpayers has not yet been developed. Consequently, the number of taxpayers in the pilot is in the 100-200 range and no substantial testing has been possible.

Realism of HMRC's latest plans for the programme

16. We are concerned as to whether HMRC's latest plans are achievable, In our [letter](#) to HMRC dated 27 April 2023 ICAEW has called for fresh thinking on the MTD ITSA policy for all businesses and not just those with turnover of less than £30,000. The latter cohort of smaller businesses (self-employed and landlords) are the subject of the government's review of how MTD ITSA could be shaped to better suit their needs.
17. We suggest that the project be refocussed on what can realistically be delivered in 2026 and in particular on digital record keeping and filing from software. We propose that the introduction of requirements to maintain digital records be decoupled from a requirement for quarterly updates. Taxpayers could be required to submit details of income from self-employment and property directly from software with the current annual reporting cycle being maintained.
18. HMRC's own plans show that some of the functionality will not be delivered until 2025/26 and 2026/27. Since we wrote to HMRC in April, we have become even more concerned about whether the design and implementation issues mentioned above can be resolved in time for an adequate pilot in 2025/26.
19. We are also concerned about HMRC's capacity to deliver the necessary support to taxpayers and agents given current service performance and the likely continued downward pressure on HMRC's budget and headcount.

20. The uncertainty has made it very difficult for software developers to plan investment in MTD ITSA. At least two software developers have cancelled their plans to develop a solution. The government undertaking to provide a free product for taxpayers with simpler tax affairs remains, but it is unclear whether any software developer will provide a free solution (some products may be free for an introductory period and 'freemium' products may be developed). We would welcome clarity on whether free software will be provided and when it might become available. However, many of the benefits will only be available to taxpayers who use full function MTD ITSA software. It will not be mandatory for nudges and prompts (now referred to as HMRC assist) to be incorporated into software. MTD ITSA software will not be required to accommodate all types of income. This is likely to result in some taxpayers having a disjointed experience, reporting some information through their MTD ITSA software and other information via an HMRC online service.
21. We would be pleased to discuss these matters with the committee and to provide oral evidence if required.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see <https://goo.gl/x6UjJ5>).