The time for transition

Indirect Tax



01 October 2019

On 7 August, the first group of quarterly VAT filers had to submit their first return under Making Tax Digital (MTD). HMRC's *Theresa Middleton* discusses the impact

Key Points

What is the issue?

Making Tax Digital is about placing UK businesses on a more digital footing, preparing them for the future and giving them the tools they need to succeed in an

increasingly competitive and international marketplace.

What can I take away?

Over 1.1 million businesses have now signed up for MTD and over 1.2 million VAT returns have been successfully submitted through the service to date.

What does it mean to me?

The government reaffirmed its commitment not to mandate MTD for any new taxes or businesses until it has been shown to work, nor will it be extending mandation in 2020. This phased implementation of the service ensures that larger businesses have to comply with the MTD requirements first.

From the 12th century, the annual accounts of payments, receipts and debts owed to the Exchequer were kept in records known as the pipe rolls. Entries were made by hand on pieces of parchment up to 1.5m in length and then rolled up for storage in a package resembling a pipe.

Until recently, many businesses relied on a pen and paper to record their accounts, and with good reason; pen and paper has proved a durable form of record keeping.

However, manually copying data from one place to another and performing calculations in your head or by hand can result in errors. As time has moved on and technology has developed, it has become increasingly clear that there are better options available that can stop these errors from creeping in. If we add up the total cost of errors, we find that almost £10bn of tax due is not paid every year. That’s money that could have been spent on essential public services.

Businesses have also moved on. The way they carry out their activities, from banking to interacting with their customers and/or suppliers, is increasingly digital. HMRC is committed to providing services to customers in a way that makes sense for them. Against a backdrop of increasing digitisation, it’s clear that the pipe roll model no longer works for businesses, or for HMRC. Businesses want to be able to take control of their data, and to gain greater insight into their business processes, financial position and opportunities for future growth. This in turn allows the agents who represent them to shift their focus from compliance to helping businesses to maximise productivity and growth.

It’s clear that the prize for Making Tax Digital is about much more than just ensuring everyone pays the right tax. It’s about placing UK businesses on a more digital footing, preparing them for the future and giving them the tools they need to succeed in an increasingly competitive and international marketplace.

The 7 August filing deadline

On 7 August, the first group of quarterly VAT filers had to submit their first return under Making Tax Digital (MTD). The key change for businesses is that those above the VAT threshold must keep their records digitally and send their VAT returns to HMRC direct from the underlying data in those digital records. Over 1.1 million businesses have now signed up for MTD and over 1.2 million VAT returns have been successfully submitted through the service to date. This represents a significant milestone in the digitisation of the UK’s tax service.

The fact that the service managed to pass its first major test, with hundreds of thousands of customers submitting their VAT returns through MTD in time for the 7 August deadline, is testament to the hard work both by HMRC, the software industry and our stakeholders. MTD has not been free from criticism since it was first announced back in 2015 and we are grateful for the work put in by representative bodies of businesses and agents, accountants and others to help us shape the service that we now offer to our customers. We have taken on board feedback as we have progressed and have subsequently managed to roll out an ambitious new tax service which places the UK in a great position to take advantage of the opportunities presented by digitisation, automation and AI.

While we’re pleased with the number of businesses which have successfully made the transition to the new service, we recognise that this is a big change for some and our focus has been to ensure we support businesses to make a smooth transition. We were clear from an early stage that we would be taking a light touch approach to digital filing and record keeping penalties in the first year where people are doing their best to comply.

To reinforce this, as the deadline for businesses to sign up in time to make their first mandated submission approached, we put messages on the VAT helpline and through our webinars that those who did not manage to sign up in time would not receive a penalty for not filing their return using MTD software, as long as they still paid the VAT due.

This will inevitably have suppressed the total number of businesses that signed up before the deadline, but we made the conscious choice to focus on supporting businesses through the change rather than unduly punishing them.

The MTD journey

The government first laid out its vision for MTD in 2015. Since then we have consulted extensively with stakeholders to help shape a service that is fit for purpose, opens up new opportunities for businesses and makes doing tax more straightforward.

Businesses are initially only mandated to use the MTD service for their VAT obligations, and only those with turnover above the VAT threshold are required to join at this stage. Around one million VAT registered businesses have turnover below the VAT threshold, and are not required to use the service, but we have been pleased to see that many have chosen to do so.

In the Spring Statement, the government reaffirmed its commitment not to mandate MTD for any new taxes or businesses until it has been shown to work. It also announced that it would not be extending mandation in 2020. This phased implementation of the service ensures that it is larger businesses which have to comply with the MTD requirements first.

HMRC started testing the MTD VAT service on a small scale with real businesses and agents in April 2018 and opened the pilot up to public testing in October 2018. By the end of March this year, over 93,000 businesses had signed up to the service. The pilot not only tested the technical aspects of the service but also provided businesses and agents with the opportunity to trial and get used to a new way of working before they were mandated to use it. We used the pilot to ensure that the ecosystem of support offerings meets the needs of customers. That was particularly important, as it became clear early on that we needed to improve our guidance to bring out the different steps involved in preparing for MTD more explicitly.

HMRC wrote to every VAT mandated business before April 2019 to ensure they were aware of the changes and how to prepare. HMRC officials regularly attend a range of large and small events with agents to talk about preparing for MTD and listen to their views, as well as hosting regular webinars on MTD for VAT. We have also produced content for social media across a range of channels, prepared articles for the press and participated in interviews through various radio and media outlets.

Software

HMRC’s approach to the provision of MTD compatible software has been key to the service’s early success. Each business has specific needs depending on its size, sector and plans for investment. By looking to the software industry – the experts – to produce the digital record keeping software that businesses and agents need for MTD, we have ensured there is plenty of choice to meet these diverse needs, ranging from simple app-based products to the development of bespoke software and processes.

The Enterprise Research Centre (2018) found that for micro-businesses, productivity increases were delivered by customer relations management software (18.4%), cloud computing (13.5%) and web-based accounting software (11.8%).

From a very early stage, HMRC partnered closely with software developers to ensure a diverse market for software products. Software developers are able to provide innovative features, beyond just the scope of completing tax returns, which HMRC would not be able to provide if we were to produce our own, one size fits all, basic software. As more and more business processes become digital, software providers will be able to offer integration options which help businesses stay on top of their tax, finances and business activity in one place if they want to.

There have been concerns that the approach we have taken to delivering MTD will result in businesses having to pay vast sums for software, but this is proving not to be the case. There are products available at a range of price points, including free ones, offering different levels of functionality. This includes bridging software for those who want to continue to use spreadsheets or older desktop products for record keeping, as well as fully integrated accounting software that provides additional functionality to help users to better understand and plan for their business.

To help customers find suitable software, we have produced a searchable list of software products with the options to filter by functionality and/or accessibility to find suitable software. There will be further releases adding even more detailed filters.

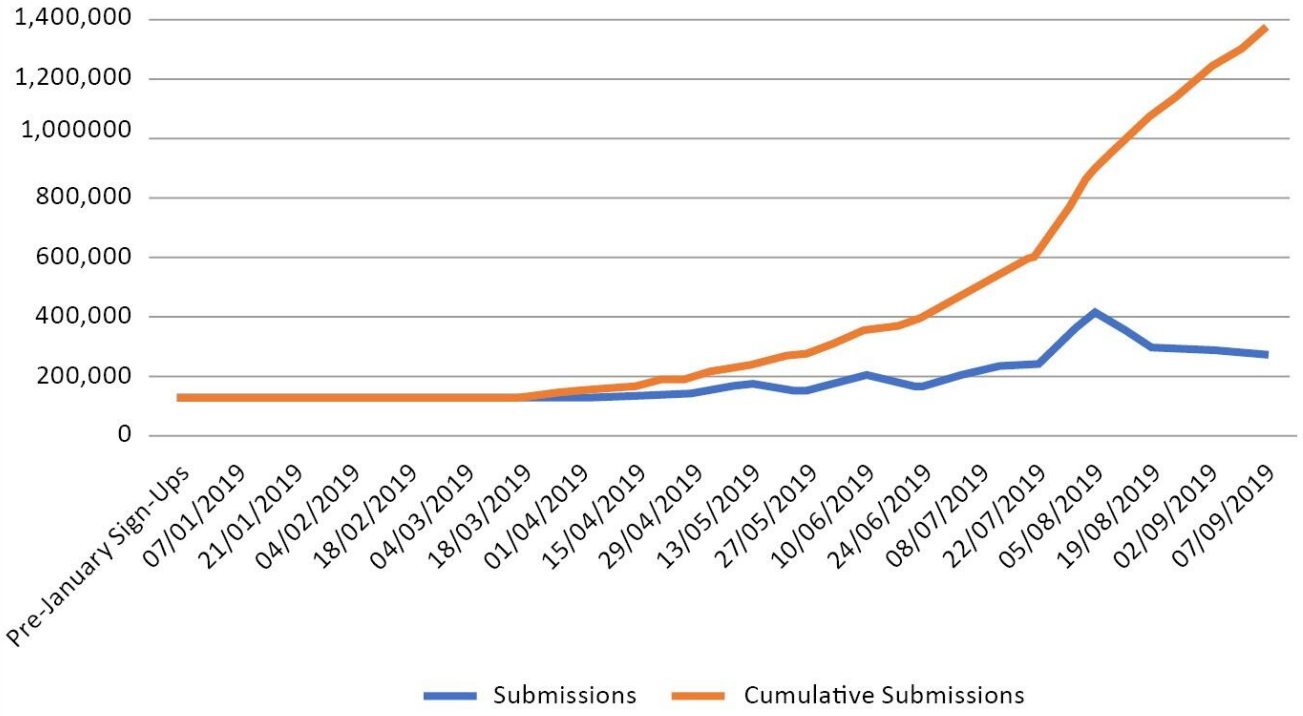
Conclusion

The integration of tax into day to day business activities and digital processes means that there has never been a better time to start a business. Digital natives will benefit from a way of doing tax which is natural to them, while HMRC, accountants and software suppliers are providing a range of support options for those who may find the transition to a more digital way of doing tax more difficult.

Every individual and every business should have the skills and confidence to seize the opportunities of digital technology. Helping businesses to manage their tax affairs digitally will be an important part of helping them to increase productivity and take advantage of all the benefits that digital integration can bring. HMRC want to ensure that the tax system continues to meet the needs of the increasingly digitally engaged business population and support the 62% (YouGov, February 2019) of businesses which are in favour of having all tax accounts administered digitally. Making Tax Digital allows UK businesses to manage their tax more easily, so they can focus on what they do best – innovating, expanding and creating jobs.

Image

MAKING TAX DIGITAL: SUBMISSIONS



MAKING TAX DIGITAL: SIGN UPS

