Welcome to the December 2019 Technical Newsdesk

Welcomes

01 December 2019

December 2019 marks four years since the announcement of Making Tax Digital in December 2015.

Having joined the CIOT just a month earlier, and having largely been a VAT specialist throughout my tax career, I had paid little attention at the Budget of March 2015 when George Osborne proclaimed the 'death of the tax return', other than to tease my personal tax colleagues. Looking back to that earlier announcement, readers may recall the launch of 'Making Tax Easier', and be particularly interested in the statement that: 'Taxpayers will be able to let agents manage their digital account on their behalf if they wish.'

But I digress. Making Tax Easier became Making Tax Digital in December 2015, though the commitment to make tax less burdensome was still (and remains) a cornerstone of the proposals. Many will feel that the 'D' more realistically stands for 'Difficult'. Perhaps mischievously, I could say that the Financial Secretary to the Treasury, Jesse Norman, agrees with that. During a recent debate in the House of Commons, when talking about MTD, he said: 'When the British people are presented with a challenge, particularly on taxation, they rise to it and overcome it'. In this context, he was highlighting the high level of sign-ups and submissions under MTD, much of which is down to the hard work of agents, but few would say that the process has become easier.

Interestingly, it would appear that many businesses did not think it would be easier either. HMRC publish quarterly VAT statistics and, in the run up to the 1 April 2019 mandation date, there is a definite increase in the number of deregistrations from VAT, which exceeded the number of registrations for five straight months between December 2018 and April 2019 inclusive. The only other time this has happened in

recent history is when the limited cost trader rules were introduced into the VAT flat rate scheme in 2017. But speculating from the published figures, there were around 40,000 more deregistrations in that five month period than there might otherwise have been in the absence of MTD.

Continuing the theme, and covered in the first article of this month's Technical Newsdesk, we are pleased to report that HMRC have provided for a process to apply for an extension of time in which to meet the digital links requirement. Clearly, this is posing quite a problem for many businesses with complex, old and incompatible systems, etc. HMRC have said that cost alone will not be sufficient grounds for an extension, which is perhaps not surprising but difficult to reconcile with the alleged average transition cost for businesses of just £109.

I do wonder whether the cost of putting in place digital links will prompt businesses to review their eligibility for exemption from MTD. The MTD requirements do not apply where 'the Commissioners are satisfied that it is not reasonably practicable to make a return using a compatible software return system for reasons of disability, age, remoteness of location or any other reason' (my emphasis). If it is going to cost tens of thousands of pounds to put in place digital links, especially where checks and balances are already in place, is that reasonably practicable? Maybe things will be clearer in another four years' time.

So, what will the next four years bring? We have always been supportive of the direction of travel towards digitalisation, and recognise that it can bring real benefits to businesses and HMRC, but we are concerned about an early mandation date before those benefits have been proven. We believe that a full review of MTD for VAT should be undertaken, including a review of the accuracy of returns submitted by businesses and the actual costs incurred by businesses and their agents, before there is a commitment to mandating MTD for other businesses or taxes. Even then, further consultation is necessary, as well as openness around likely costs and benefits, as it is widely accepted that MTD for, say, income tax, will be even more complex than for VAT. We will be engaging with HMRC and our members about this (so watch this space). Wouldn't it be great if, through collaboration and following detailed testing, the 'D' could stand for 'Delightful'?