Spring Budget 2020: Making Tax Digital – a welcome evaluation

Management of taxes

29 April 2020

At Spring Budget 2020, the government announced an evaluation of Making Tax Digital in relation to VAT and the proposed roll-out to income tax, and published a considerable amount of information.

An evaluation of the VAT Service and update on the Income Tax Service

Following an announcement at Spring Budget 2020, HMRC published 'Making Tax Digital: An evaluation of the VAT Service and update on the Income Tax Service' on 19 March 2020 (see https://tinyurl.com/tgoly3w), alongside eight related research papers (links to these are at the end of this article). A considerable amount of information has been published by HMRC. The focus of this article is the evaluation paper which reviews the Making Tax Digital (MTD) for VAT service, provides an update on MTD for income tax and offers some conclusions and next steps.

The CIOT is pleased that HMRC have undertaken a review and evaluation of the MTD for VAT service. Indeed, the results of the CIOT and ATT's recent survey of businesses and their advisers led us in January to call for a comprehensive review of MTD for VAT (see www.tax.org.uk/200128PR) before HMRC take the decision to go ahead with plans to roll out digital reporting obligations more widely.

HMRC have said that they will continue to engage with professional bodies and taxpayers to ensure that future plans for MTD reflect what has been learnt from the roll-out of MTD so far.

Evaluation of the VAT service

The government is satisfied on the evidence available that the MTD for VAT service is working but recognises that there are lessons to be learnt and taken account of in the next stages of the MTD roll-out.

Throughout their evaluation report, HMRC specifically recognise the effort that businesses and their agents have put into the move to MTD and the significant contribution of tax agents in the implementation of MTD. They also note that they have found the insight and input from professional bodies, such as the CIOT and ATT, throughout the development of the VAT service invaluable.

The report highlights that the vast majority of business and agents have met the digital record keeping requirements of MTD for VAT. By 9 March 2020, more than 1.4 million businesses had signed up to the MTD service and more than 4 million VAT returns had been submitted successfully using MTD-compatible software. This represents 83% of businesses in scope, meaning a not insignificant number have yet to sign up. HMRC are reminding those businesses of their obligations and offering further support.

HMRC say that they are monitoring the transitional administrative costs being experienced by businesses, and that experiences are varied. The CIOT/ATT member survey showed that the costs of MTD compliance had far exceeded government estimates, and that many members had spent significant unrecoverable implementation time and costs in supporting clients in making the transition to digital filing. In their evaluation, HMRC acknowledge that some businesses and agents have incurred more costs than expected, and that they will continue to support businesses in finding affordable software providers for their requirements. They have also commissioned external research to provide evidence about the ongoing costs and benefits experienced by businesses in their first year of mandation of MTD for VAT.

The report indicates that some businesses have already reported wider productivity gains and reduction in input errors from using MTD software. This may be the case; however, our survey showed that nearly 90% of respondents said that MTD for VAT has not reduced errors and just 14% of respondents said there had been an increase in productivity in their organisation as a result of MTD for VAT.

HMRC acknowledge that there have been problems with the implementation of MTD and that in considering the roll-out of the next stages, they will continue to consider and act on feedback from all sources, including recent surveys undertaken by professional bodies.

Update on the MTD for income tax service

HMRC have been running a very small scale pilot since 2017 with a handful of sole traders, landlords and agents. Over 1 million businesses are now eligible to join it. However, there are still very few MTD for ITSA-compatible software products on the market. HMRC recognise that a concrete ‘road-map’ to mandation is necessary in order to stimulate the software market. No indication is given in the evaluation report of when mandation will take place.
Following feedback that the MTD for VAT pilot was not long enough, HMRC say that the pilot for MTD for ITSA will be much longer and that they will be increasing functionality to allow more businesses to join it.

One area which caused particularly difficulty for agents during the sign-up process for MTD for VAT was the need first to set up an Agent Services Account (ASA). Whilst this was a one-off process that will not need to be repeated for MTD for ITSA, many agents encountered significant problems. HMRC have been working with the professional bodies to address concerns and identify improvements to the design of the ASA. Since the population of taxpayers that will need to be signed up for income tax is much larger than for VAT, HMRC are mindful that a solution needs to be found that limits the burdens on agents and they will continue to work closely with the agent community on the design of the ASA for the next phases of MTD.

The eight research papers that were published are:

1. Research and analysis: Exploring views of business reporting errors to support Making Tax Digital upstream compliance –see https://tinyurl.com/wz7ercg
2. Research and analysis: Making Tax Digital: letter testing – see https://tinyurl.com/yx39cu9u
3. Research and analysis: Exploring business Income Tax errors and how these can be addressed within software design – see https://tinyurl.com/udo5ysp
4. Research and analysis: Monitoring business’ awareness of Making Tax Digital – see https://tinyurl.com/rwkeaz5
5. Research and analysis: Monitoring agents’ awareness of Making Tax Digital – see https://tinyurl.com/s7mblkh
6. Research and analysis: Making Tax Digital: late submission penalty models – see https://tinyurl.com/s4cjodq
7. Research and analysis: Exploring complex businesses’ tax processes and readiness for Making Tax Digital – see https://tinyurl.com/rwnoobh
8. Research and analysis: Evaluating Making Tax Digital’s impact on record keeping behaviour and scope for error among small businesses – see

https://tinyurl.com/t5erpvr