Making Tax Digital: update on the administrative burden

General Features

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The CIOT and ATT have continued their engagement with HMRC to review their estimates of transitional and ongoing costs of compliance with Making Tax Digital.

Since its announcement in December 2015, Making Tax Digital (MTD) has been a controversial HMRC initiative which has suffered a number of criticisms and false starts (partly due to the lack of early consultation, but that is a different matter and for another day).

Whilst the use of digital tools can bring many benefits to businesses, one of the main criticisms of MTD has been in relation to the costs of compliance, and particularly the credibility of the figures published by HMRC. In March 2017 – when it was planned to implement MTD for income tax self-assessment first – HMRC's policy paper (see tinyurl.com/y8arvbbz) estimated that, on average, a business's transition costs would be around £280; although there would be ongoing savings once fully embedded.

Of course, the plans subsequently changed and VAT was the first tax mandated, for those businesses with taxable turnover above the VAT threshold. In December 2017, HMRC's technical note (see tinyurl.com/a6c8q0rb) provided revised estimates of business's costs. Transition costs were estimated to be around £109 on average, with ongoing costs of around £31 on average.

We have been concerned that the estimates of transition and ongoing costs were too low, and in late 2019/early 2020 you may recall that we undertook a member survey to obtain feedback on a number of matters, including transition costs. Less than 10% of respondents estimated their or their clients' transition costs at or below £109, with 45% of respondents estimating costs between £109 and £500, and some

12% estimating costs over £5,000.

We shared that evidence with HMRC and subsequently with other interested parties, including the Public Accounts Committee (PAC) who quoted the findings from our survey in their October 2020 report on their inquiry ‘Tackling the tax gap’ (see tinyurl.com/zinebwgh).

Prior to the PAC publishing its report, we had already started further engagement with HMRC around their cost estimates,
as HMRC were undertaking a programme of work to calculate the transition and ongoing costs for voluntary VAT registrations
(mandated from April 2022) and income tax self-assessment (to be mandated from April 2023). We are pleased to say that this engagement has been constructive and we have held a number of meetings with the HMRC team, and provided commentary and further evidence for them to take into account. HMRC have also been engaging with other professional and representative bodies.

We expect new cost estimates to be published shortly – perhaps on or around Budget Day – and we do not know the final figures. Whilst HMRC do seem to have made a genuine attempt to produce credible figures, one of the potential ‘bones of contention’ is that HMRC are basing their estimates on the minimum activity needed in order to comply with the requirements of MTD; whereas in practice businesses might go further than this (for example, to ask their agent to undertake a review of the quarterly figures before making the income tax quarterly submission). Whatever the figures are, they will no doubt raise a few eyebrows when published.