Making Tax Digital for Corporation Tax

Large Corporate **OMB**

31 March 2021

The CIOT, ATT and LITRG have responded to HMRC's consultation document on Making Tax Digital for Corporation Tax.

Last November, HMRC published their consultation (tinyurl.com/ yywfwacz) on MTD for Corporation Tax (MTD for CT). This confirmed the intention to extend MTD to corporation tax, but not before April 2026 at the earliest.

The consultation included details on the proposed scope and operation of MTD. In summary, it is proposed that companies will need to:

- maintain digital records of their income and expenditure;
- provide quarterly updates of income and expenditure to HMRC using MTD compatible software; and
- prepare and file their annual corporation tax return using MTD compatible software.

HMRC expect MTD to reduce errors, but while most mistakes are understood to occur within small businesses, the government proposes that MTD will apply to all entities within the charge to corporation tax, with only a few minor exceptions. Importantly, unlike MTD for ITSA (and MTD for VAT to date) there is no exemption for smaller businesses. Instead, the only true exemptions proposed are for the digitally excluded, and insolvent companies that would be exempt from online filing.

However, it is proposed that the requirements could be relaxed for companies in certain circumstances. In particular, those companies that fall in the quarterly instalment payments regime for very large companies (those with profits in excess of £20 million) may not be required to submit quarterly reports, though they will still be required to keep digital records in the required format and submit their annual return using MTD compatible software.

CIOT response

The potential costs and burdens on businesses from MTD for CT has led the CIOT to call for a rethink. In its response to the consultation, the CIOT says that the quarterly reporting requirement for MTD for CT should be waived where the company is already quarterly (or more frequently) reporting for VAT, as this already achieves the policy intention (of reducing the tax gap caused by taxpayer mistakes) by mandating businesses to keep and update digital records on a timely basis and to update HMRC's systems directly from a business's digital records. Quarterly reporting for CT is likely to be very costly and administratively burdensome for many companies to comply with, particularly large and medium-sized companies and groups, with no obvious benefits to either them or HMRC. In any event, most of these businesses are highly likely to have been using software and keeping digital records for many years. We recommend that more entities are exempted either from MTD for CT altogether, or at least from the obligation to submit quarterly reports to HMRC.

We also say that the rules should not be overly prescriptive in order to prevent high compliance costs and administrative burdens on businesses for no meaningful benefit to either them or HMRC. Digitalisation can give rise to benefits, but these must be compared to the costs of introducing new digital requirements before additional administrative burdens are placed on business.

We welcome the decision not to mandate MTD for CT before April 2026 but suggested that it is implemented in stages, focusing on simple businesses and basic requirements first. We also said that a detailed roadmap would be welcome so that businesses can better understand the proposals, including timings. This will help businesses plan software changes, together with appropriate procedures and processes and help avoid the risk of an unsuccessful roll-out. The roadmap should include a comprehensive plan of how MTD for CT will work for all sizes and complexity of mandated businesses, to ensure that systems will be able to cope.

The CIOT also asks for a 'soft landing' phase for the introduction of digital links as there was for MTD for VAT. This is likely to be an area of complexity for all but the smallest companies.

While the consultation promises that 'Accountants and agents will be able to provide a full service to their clients through MTD for CT', there is a remarkable lack of

explanation in HMRC's consultation document about how this will happen. 85% of businesses liable to pay corporation tax rely on agents. The HMRC Charter promises that the tax authority will 'recognise that someone can represent you'. But the consultation document fails to show how this promise will be delivered under the government's proposals. We call for a thorough review into how agents will be able to support their clients for MTD for CT.

ATT response

The ATT response also encourages HMRC to rethink the proposed scope of MTD for CT.

The ATT believes that the complexity of corporation tax will make bringing it into MTD difficult to achieve in practice, and that the benefits are unlikely to be as extensive as the consultation anticipates. In particular, it is unclear how imposing extra reporting requirements on entities that are already keeping digital records and making quarterly reports will increase their productivity or reduce errors.

The ATT therefore recommends that HMRC consider excluding those companies within MTD for VAT from the scope of MTD for CT, and focus their efforts instead on encouraging those businesses not already keeping digital records to do so.

The ATT welcomes the proposed timeline set out in the consultation for mandation of MTD for CT. However, the feasibility of this timeline will depend upon a number of factors, including the COVID-19 pandemic, speed of software development and the level of engagement with the pilot. We would therefore like to see a clear commitment from HMRC to keep the timetable under review and update or extend it as needed.

The ATT shares the CIOT's disappointment with the lack of detail in the consultation regarding how agents will factor into MTD for CT. We strongly encourage HMRC to ensure that agents are given a level of focus in the development of MTD for CT in line with their importance.

LITRG response

LITRG have also submitted a response to the consultation to provide insight to HMRC on the small company perspective. In this context, the small company will often be a sole director/shareholder company or a family company with a small number of

family members as shareholders and/or directors.

This is an area of particular interest to LITRG due to the increasing number of people trading through a company but who frequently do not understand what this entails. They often fail to appreciate the separate legal status of the company and struggle to differentiate between the company and their own personal affairs. There is also often confusion between the different roles and requirements of Companies House and HMRC.

LITRG have called for:

- an exemption from MTD for corporation tax for the smallest companies;
- extensive support and guidance for those who are less digitally capable;
- free software to be available for those with the lowest profits in the scope of MTD for corporation tax;
- bridging software to be available for those who use spreadsheets as their digital record keeping tool; and
- the free Company Accounts and Tax Online (CATO) service to be retained.

Our responses can be found on the technical pages of our respective websites.