Making tax digital: the view from HMRC

Management of taxes



01 April 2016

Theresa Middleton sets out HMRC's position on the introduction of digital tax accounts

Key Points

What is the issue?

HMRC is creating the most digitally-advanced tax system in the world

What does it mean for me?

It will mean the end of the annual tax return and the use of a digital tax account for the management of tax affairs

What can I take away?

The digital reforms will make it easier and quicker for taxpayers to keep on top of their tax

HMRC is transforming the tax system, making it easier and quicker for taxpayers to keep on top of their tax affairs. Digital tax accounts will mean the end of the annual tax return and over the next four years we will create one of the most digitally-advanced tax systems in the world.

There have been suggestions that businesses and the self-employed will need to submit four tax returns every year and that they are not ready for this digital revolution. This is not the case. What the reforms mean is that rather than sending in one large, onerous return every year, once a quarter businesses can check that the information they are recording digitally is correct and press ‘send’ to update HMRC. These quarterly updates will be a summary of incomings and outgoings and are not equivalent to completing a full tax return every quarter.

For the self-employed who are using the cash basis, our aim is that these updates will be sufficient, in their own right, to arrive at a figure of taxable profit and the amount of tax that would be owed at the year end.

By 2020 we aim to reduce the net cost to businesses of administering the tax system by £400 million a year. Making Tax Digital will contribute to that target because the new process will be quicker and easier for them, saving time and money.

The idea that businesses are not already using digital tools to make their lives easier is also a myth. Most businesses use some form of technology, be it online banking, emailing customers, marketing their services via a website, or ordering stock. When it comes to tax, millions of businesses already manage their tax affairs digitally, with

3.7 million of them using their digital tax account. For those who genuinely cannot use digital tools, we will offer alternatives, such as nominating someone else to give us their information, or contacting us by telephone.

For many businesses the transition to the new way of working will be straightforward. Many are already keeping their records digitally and for those who are not, free software and advice on how it can be used will be available. Nevertheless, we know that some people will need time to adjust to the changes and that is why we are introducing them gradually.

The self-employed will need to be using the new processes in their first accounting period starting after 6 April 2018. At that point they will give digital updates to HMRC, and be able to make in-year voluntary payments to smooth their cash flow. For businesses paying income tax, Making Tax Digital starts from April 2018, for VAT-paying businesses, VAT comes online from April 2019 and for companies paying corporation tax, Making Tax Digital starts from April 2020.

At each stage we will thoroughly test the systems with customers to ensure they work and before they are implemented more widely. We will also provide support for those who need help to get online.

By 2020, we will have moved to a fully digital system. This will eradicate bureaucratic form-filling and eliminate unnecessary time delays as the tax system operates much more closely to ‘real time’. Businesses will be able to register, file, pay and update their information at their convenience.

Many businesses and self-employed people have told us that they should not have to wait until the end of the year, or even longer, before knowing their tax bill. Providing businesses with an in-year picture of their overall tax position will give them much greater certainty about the amount of tax they owe, how it is calculated, and in turn, will facilitate more effective financial planning. For those who choose to pay as they go, it will make paying tax feel more like a regular business expense.

Digital tax accounts will mean businesses can manage everything in one place providing an improved level of customer service. They will offer taxpayers access to an expanding range of online services and a variety of ways to contact us, such as secure online messaging, as we build on the success of the services we already provide through Twitter, YouTube, webinars and web chats.
Businesses will no longer have to contact separate parts of HMRC for information on

different taxes so it will be far less burdensome to stay up to date with tax. Our future vision for businesses is that they will be able to make one payment covering all taxes. It will feel like paying a single tax.

This simplification of the tax system should reduce the scope for error. Most taxpayers want to pay the right amount but at present some fail to take reasonable care or end up making mistakes. This can be very costly to the Exchequer, with latest estimates suggesting that the government loses out to the tune of £6.5 billion in tax receipts annually as a result. The digital reforms will reduce the number of errors by making it easier for taxpayers to record and submit the correct data.

The introduction of the digital tax account is not designed to disturb the professional relationship that currently exists between a taxpayer and their agent. Agents will be able to manage their clients' tax digitally on their behalf and our research suggests that many taxpayers will continue to want to use an agent. We understand that any fundamental change of this nature may cause unease or disquiet among the agent community and that is why we are actively engaging with the representative bodies of agents throughout the process of modernising.

We are consulting with a range of stakeholders about these changes, and encouraging individuals and organisations who have an interest in our work to get involved. This includes roundtable forums with key representative groups, professional bodies and agents representing the small business community, as well as software providers with a wide customer base and small businesses themselves. We are also inviting businesses to test the new tools and give us feedback.

To provide further assistance and to explain how the new digital tax accounts work in practice, HMRC has put together an animation, available at HMRC's YouTube channel. The animation demonstrates how businesses (including self-employed people) might experience the online system. It also clarifies how the transformation of the tax system, including the changes around quarterly updates, will be beneficial to taxpayers.