# Making Tax Digital – update and current position

**Management of taxes**

01 May 2016

Update and current position

Since our last update in February 2016's Technical Newsdesk (Making tax digital and digital tax accounts), there have been several developments.

## HMRC consultation events

Several consultation events have been held around the country to discuss Making Tax Digital (MTD) for business and, in particular, options for 'simpler payment'. Three payment options were discussed:

1. Pay as you go (paying earlier but no change in payment dates)
2. Changes to payment dates
3. Alignment of income tax and corporation tax with VAT

CIOT, ATT and LITRG representatives attended a number of these events, all of which involved lively discussion. At one of the events in London in February (where some challenging questions were put to HMRC) the key points arising were:

- All businesses and landlords will be in scope, whatever their size and legal structure. Small, non VAT-registered businesses and landlords will be the first to enter the new regime (from April 2018).
- The rationale for introducing compulsory digital record-keeping and quarterly reporting is to help businesses improve their record-keeping and budget for their tax bills (although at this point not pay quarterly) which HMRC thinks will help to reduce errors and reduce the annual tax gap. The overall view of those present, however, was that they did not understand why HMRC believed so strongly that digital record keeping and more regular reporting would reduce

errors and what the benefit of MTD would be for businesses. They felt that many smaller businesses would struggle to comply.

- The level of data HMRC will want to see is still to be decided through consultation. However, HMRC will not be expecting transaction level data – just some form of summaries. Attendees pointed out that each quarter's report will have no significant bearing on the annual tax position, because of accounting and tax adjustments, as well as errors and mis-postings which would normally be corrected by the taxpayer's adviser at the year-end.
- There were also concerns as to what use HMRC might decide to make of the quarterly data later (for example, compliance action), although HMRC denied any plans or interest to use the data in this way.
- HMRC hinted that simplification of the tax system may be necessary for MTD to work successfully.
- HMRC said there would be help for taxpayers who genuinely cannot comply, but it was unclear whether they would still need to file quarterly 'with assistance' from the Revenue or whether there would be other options available.
- Attendees complained about the lack of synchronisation with agent access to the digital tax accounts, and queried what would happen with 64-8 authorisations.
- HMRC said no decision had been made on whether to introduce quarterly payment.
- Attendees supported moving to smaller, more regular payments to assist small businesses and sole traders in budgeting for tax, but on a voluntarily basis and not based on quarterly estimates of income. The point was raised that, in general, the public was unaware of the right to pay tax liabilities in smaller amounts by direct debit and ought to be better publicised.
- Penalties for non-reporting and other actions HMRC might take to ensure people comply will be consulted on.
- HMRC said it was not underestimating the challenge of introducing MTD for business.

Those who attended some of the other events reported similar comments had been raised.

HMRC has provided us with the slides from the presentations. These can be found on the CIOT and ATT websites.

## Pay-as-you-go tax payments

It was announced at the March Budget that, from April 2018, taxpayers who are keeping digital records and providing regular digital updates to HMRC will be able to adopt pay-as-you-go tax payments. The government intends to consult later this year on how best to implement this scheme.

## Other announcements

The government has said it will also explore options to simplify the tax rules for businesses, self-employed people and landlords.

These may include:

1. Reform of basis periods.
2. Extending the ‘cash basis’.
3. Simplifying rules on end-of-year adjustments.

HMRC has also confirmed to us that the self-assessment framework will not change and there will be no changes to the annual basis of taxation.

At the time of writing we understand that formal consultation documents will be released during 2016 and include:

1. Scope, software and reporting for businesses (quarterly reporting).
2. The tax administation framework.
3. Third party information (pre-population).

We will provide further details on these consultations as they become available.

## Agent access

The CIOT and ATT have raised concerns at the highest level within HMRC about the delay in agents having access to their clients’ digital tax accounts. HMRC has responded by telling us that ensuring agents have access is a key priority for 2016. We will keep up the pressure on HMRC to deliver on this commitment.

## Taxpayer access

An issue with taxpayers accessing their digital accounts has arisen. There appears to be problems getting through the ‘verify’ system if an individual does not have any income within the RTI system but do not have the standard identity document of a UK passport. This applies to some self-employed people. We have raised this with HMRC which is looking at ways to resolve the issue.