February: Technical newsdesk

Technical



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By the time you read this, especially if you have had a well-deserved break following the Self-Assessment deadline, the announcement about Making Tax Digital (MTD) for Income Tax Self-Assessment (ITSA) might feel like old news. But MTD is still a key focus for the technical teams.

Let me start with a quick recap. There was a general consensus emerging during the latter part of 2022 that a ‘big bang’ launch of MTD for ITSA in April 2024 simply wasn’t going to be successful, and some form of deferral or rethink was necessary. In an attempt to demonstrate this, during early December we ran a short member survey to gauge views – more on this in the Briefings section of the magazine.

What the responses suggested – with which we agree – is that a rethink is necessary; i.e. not just a delay to the timetable, but a critical examination of the policy itself and its key requirements.

I looked back at what was stated about MTD in the 2015 Autumn Statement documents. This was broadly:

- The introduction of simple, secure and personalised digital tax accounts, removing the need for annual tax returns.

- Investing £1.3 billion in HMRC ‘to transform HMRC into one of the most digitally advanced tax administrations in the world’.
- Require most businesses (self-employed and landlords) to keep digital records and submit quarterly updates via their digital tax account.
- Consult on options to simplify the payment of taxes.

It was also stated that these reforms are ‘a first step by HMRC towards meeting a new target to reduce the costs to business of tax administration by £400 million by the end of 2019-20’.

I have said several times before that one of the reasons (and perhaps the main reason) that much of this has not been achieved is the lack of consultation around how MTD could meet its objectives – to make it easier for individuals and businesses to get their tax right and keep on top of their affairs. In particular, the goal was to reduce the error and failure to take reasonable care elements of the tax gap which, when MTD was originally announced, stood at over £10 billion.

Over seven years later, there still seems to be a lack of appetite for consultation around how MTD can meet its objectives. The key components of MTD for ITSA remain unchanged; i.e. digital record keeping, quarterly reporting, end of period statements and final declarations. The only chink of light in the announcement by the Financial Secretary was the government’s stated intention to review the needs of smaller businesses (particularly those with turnover below £30,000) and to look in detail at whether and how MTD for ITSA can be shaped to meet their needs. We are hopeful that this is a genuine opportunity to take a fresh look at what is workable for these smaller businesses, in an open and collaborative manner, rather than simply looking for ways to justify extending MTD for ITSA to this population.

It won’t bypass readers that all this comes at a time when we are also seeing the demise of the Office of Tax Simplification (OTS), replaced by the mandate from government to HMRC and HMT to focus on simplifying tax. If the last seven years have demonstrated anything, it’s that the tax system is either too complex to digitalise, or at least that it cannot be digitalised in accordance with the current plans.

We are not alone in these views. Other representative bodies, tax and accounting professionals and bodies such as the Administrative Burdens Advisory Board and the OTS have all expressed concerns about the project. Indeed, the government seems

to be the lone voice in thinking it is right to stick to the original design.

So, this brings us round to why it's still a key focus for us. First, we need to ensure that some of the key barriers to making MTD achieve its objectives can be overcome, such as the ability for taxpayers to appoint multiple agents for ITSA, how to deal with jointly-owned property, the correction of errors, and the multiple reporting cycles for businesses. There is a long list of issues, and we will be working with HMRC to identify those which are 'mission critical', and try to resolve them. Secondly, we are working with HMRC and HMT regarding the government's commitment to embed simplification. It seems to me there is, based on the current MTD requirements, a real conflict between the two. This is an opportunity for the government to show it is really committed to simplification and think again about the core requirements of MTD. Let's hope they do that.

Find out the results of our survey of CIOT and ATT members on the proposed roll out of MTD for ITSA at: Making Tax Digital for Income Tax Self-Assessment - CIOT and ATT survey