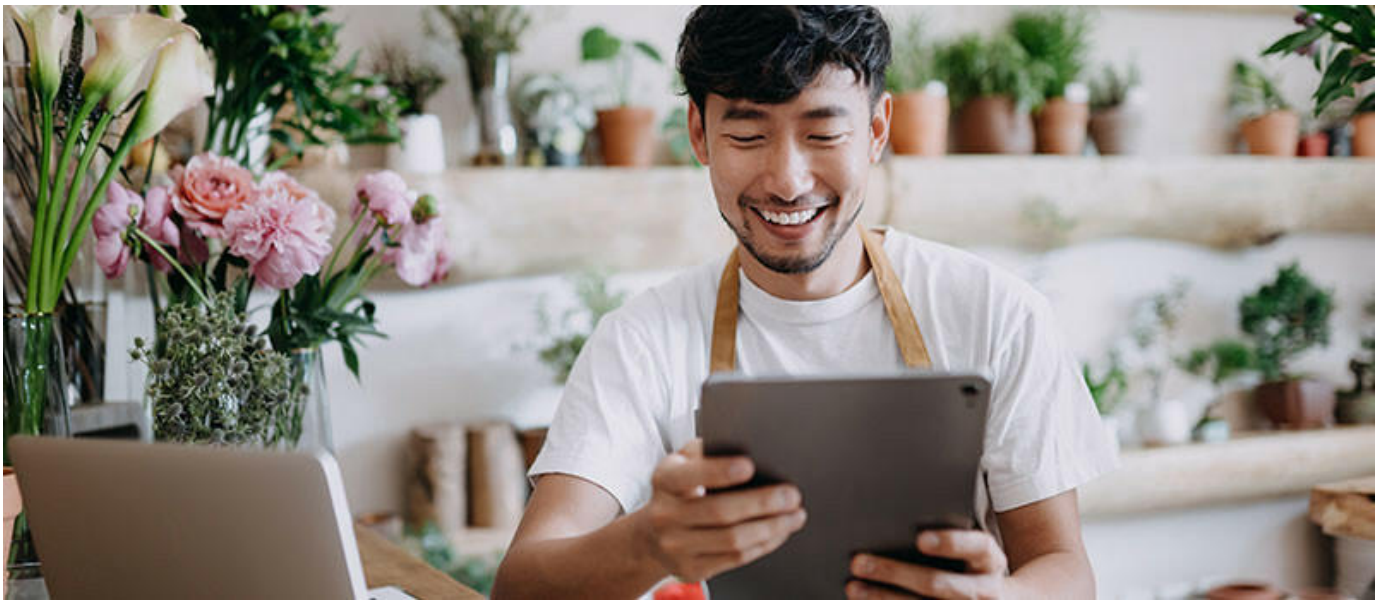
New business review of Making Tax Digital

OMB General Features



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In December, the government announced a delay to the mandation of Making Tax Digital for Income Tax. At the same time, they announced a review of the needs of smaller businesses, focusing on whether, and how, Making Tax Digital can be shaped to meet their needs and fulfil their income tax obligations. Here we summarise the key areas that the Low Incomes Tax Reform Group want to see covered by the review in due course.

Although it was widely thought that a delay to the launch of Making Tax Digital (MTD) from the planned start date of April 2024 had become inevitable, the government announcement on 19 December 2022 was more far-reaching than expected. In addition to the changes announced to the entry thresholds (see above), there will be a review looking at the needs of smaller businesses which will inform the approach for any further roll out of MTD after April 2027, with a particular focus on those with gross income under £30,000.

The Low Incomes Tax Reform Group (LITRG) welcomed the delay to MTD and the forthcoming business review (see our press release: www.litrg.org.uk/Digital-Reporting-Delay-PR). We are concerned that some low-income, unrepresented self-employed and landlords will struggle with the current MTD requirements for digital record-keeping, submitting quarterly returns, end of period statements and final declarations. The government is keen to consult with stakeholders and therefore we have urged them to think again about the following as part of their review:

- The current mandatory gross income threshold of £10,000 is far too low. It brings businesses and landlords who are not liable for income tax into the MTD regime.
- HMRC should provide free basic software that allows small businesses and landlords to comply with their tax obligations and realise some of the benefits that, HMRC say, MTD will bring them. Businesses and landlords who currently do not use commercial software to prepare their tax return may be unable to afford software and/or feel overwhelmed by choosing and learning to use the most appropriate product for their MTD requirements.
- It should not be mandatory for small businesses and landlords to follow the MTD reporting requirements; instead it should be optional. If it is beneficial, businesses will opt to join MTD as is the case with Self-Assessment online filing. There is currently a choice whether to file online or on paper; however, filing online provides advantages such as an immediate tax calculation and a later filing deadline. Over time, online filing has become by far a more popular route, with the vast majority (over 96%) of tax returns now being filed online. However, there is still an alternative through filing paper tax returns for those who cannot or do not wish to file online.
- Review of quarterly reporting requirements for the smallest businesses and landlords. We are concerned that those who currently get help from friends or family members once a year to file their tax return may feel unable to ask for similar support for the four quarterly returns, as well as the end of period statement. We also question the benefit to HMRC of quarterly updates from the smallest businesses, as they will only be providing three-line entries (sales/expenses/profit) in any event.
- Consideration should be given to the interaction of quarterly reporting for MTD and monthly reporting of business income and expenses for universal credit. The current proposed system will require universal credit claimants to report their business information five times under MTD (four quarterly reports and one

end of period statement), in addition to 12 monthly universal credit reports. This would be a significant administrative burden, especially as the reporting requirements for tax and universal credit are not fully aligned. For more on this see the 2017 LITRG report 'Self-employed claimants of universal credit- lifting the burdens': www.litrg.org.uk/Universal-Credit-for-Self-employed

- HMRC should review what data they already hold to see if the quarterly reporting requirements could be simplified so that self-employed and landlords only report information that HMRC does not already know about. This could be particularly relevant in the construction sector, which we understand is one of the largest sectors that will need to comply with MTD, as information on the income of subcontractors is already reported monthly under the Construction Industry Scheme.
- HMRC should consider what support they will provide for small businesses and landlords who have limited digital capability but are not exempt from MTD. For example, will HMRC's Extra Support Team, who currently support vulnerable customers with completing their Self-Assessment tax returns, be able to support MTD compliance? If so, will this team be adequately resourced to help these taxpayers with four quarterly returns and end of period statement which have the same fixed deadlines and will be prepared using a variety of commercial software products?

LITRG look forward to engaging further with HMRC during the business review.

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