Technical Newsdesk: July 2023

Welcomes



22 June 2023

On Monday 12 June, the National Audit Office published its report and news release on its inquiry ‘Progress with Making Tax Digital’ (see tinyurl.com/yc7xznrj). I recommend you read it in full. Like a good novel, once you start reading it you will find it difficult to put down.

As you will know, the CIOT, ATT and LITRG technical teams have been engaging with HMRC on MTD since it was announced in late 2015. You will also know that we have been skeptical about the project from its outset, in particular its ‘business case’.

Well, it seems that HMRC were not as concerned about the business case as we have been. First, the NAO found that the first business case for MTD was prepared in April 2016, four months *after* MTD was announced. To unveil a project as substantial as MTD, with significant impacts for businesses, agents, software companies and HMRC themselves, without being able to point to a proper business case beforehand, simply beggars belief. And let’s not forget that the ‘death of the annual tax return’ had been announced by the then Chancellor of the Exchequer George Osborne over a year earlier.

Secondly, it seems that when preparing their businesses cases, significant omissions were made by HMRC. Their business case in May 2022, when the mandation date was still to be April 2024, did not include in the cost/benefit analysis the transitional costs for businesses of around £1.5 billion. The business case prepared by HMRC in March 2023 – so after the December 2022 announcement to rescope and further defer MTD for ITSA until 2026 – again failed to include business's transition costs in their cost/benefit analysis. One might consider it ironic that the business case for a system that is designed to prevent error and failure to take reasonable care suffered from precisely those shortcomings!

The report also contains other interesting findings. For a while, we had been hearing of MTD for VAT creating 'unfulfilled obligations', and HMRC pursuing taxpayers for VAT returns that had already been filed and paid. The NAO identified that these amounted to some £5 billion, which exceeds HMRC's estimates of the revenue benefits of MTD of £3.9 billion by 2033-34. Of course, the VAT central assessments that had been raised by HMRC could be withdrawn or challenged, but it does not give much confidence that MTD for ITSA will run more smoothly, especially as testing can only be done with live taxpayer data.

It also appears that HMRC only intend to transfer one year's worth of taxpayer data from its existing Self Assessment system to its new IT platform for MTD for ITSA. This means that everyone will need to interact with both systems for the foreseeable future. The need to use a separate submission service where non-MTD mandated data must be reported will add further costs and complexity.

The positivity in HMRC's response to the report was also surprising. In particular they are reported as saying: 'We welcome the NAO's recognition of our progress in digitalising the tax system, and its confirmation that our plans can improve the system's efficiency and effectiveness.' The ability to find a silver lining in the report's cloud is either laudable optimism or just further evidence that HMRC are not really listening.

To bolster the evidence that we present to HMRC and ministers, as described below, CIOT and ATT have released a members survey on Making Tax Digital for Income Tax Self Assessment, and we would like to hear your views.