Small business tax compliance: insights from a roundtable

Briefings



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CIOT hosted a roundtable discussion in October to examine the challenges around tax compliance for small businesses – from both a business and a government perspective.

Chaired by CIOT's Director of Public Policy Ellen Milner, participants from the business sector, policy-makers and tax professionals discussed topics such as the administrative burden faced by small firms, the necessity for better support and the importance of simplifying tax processes.

This event took place under the Chatham House Rule so those who made particular points are not identified in this report, except where they have given permission for their remarks to be reported.

Overview of the roundtable

Opening the session, Nichola Ross Martin, CIOT's President, introduced the Institute and highlighted challenges for small business tax compliance. 'Time that small businesses spend dealing with tax compliance is time not spent on their core business,' she said. She continued that most small firms lack a tax team and 'if we want small businesses to grow and prosper, helping our economy to grow and prosper, we need to make tax rules and systems as easy and smooth as possible'. She called for the problem of small business non-compliance (both deliberate non-compliance, and errors and carelessness) to be taken seriously, stating: 'We need public confidence that the tax system works and is not being widely abused.'

Sharing findings from the Federation of Small Businesses (FSB) report, 'Taking a Toll', Rick Limentani, Senior Research Manager at the FSB, highlighted how big a concern the burden of compliance is for small businesses. Sole traders and microbusinesses were identified as being particularly affected, with FSB research showing that compliance costs can reach £4,500 a year. Participants noted that these costs are often disproportionately high relative to turnover for the smallest firms. Recommendations from the discussion included ensuring that tax rules and systems are as straightforward as possible to enable small businesses to focus on growth. Participants also cautioned against lowering income thresholds for digital tax schemes if it increases burdens without adequate support.

Another recurring issue was accessibility. Many businesses rely on government information or intermediaries for advice, but satisfaction with official support was described as low. Although the phone remains the primary contact route, businesses frequently struggle to get timely responses, adding stress to already pressured workloads. Potential solutions discussed included enhancing the accessibility of tax authorities through better customer support, and HMRC's further development of digital support options (such as chat functions and AI-driven assistance).

Participants also stressed the diversity of the small business community. Needs differ significantly between sole traders and larger entities; participants cautioned against generalisations and encouraged a more segmented policy approach. Assessing compliance costs as a percentage of turnover, rather than in absolute terms, was also suggested as a more meaningful way to understand the impact across different types of businesses.

Compliance challenges – both deliberate and unintentional – were discussed. It was noted that many businesses begin informally, and tax obligations may not be front

of mind. A participant commented that there is a widespread fear of making mistakes, and the complexity of the system can be a deterrent to compliance. Encouraging good practices early, such as opening business bank accounts and using proper record-keeping systems, is important.

Technology was another major topic. Integrated accounting software and digital tax tools offer opportunities to simplify compliance, but the transition to systems like Making Tax Digital (MTD) can be difficult for businesses without reliable record-keeping or software. Participants called for ‘realistic’ expectations and greater engagement with small businesses during this process.

Education and misinformation were also highlighted. There was strong agreement on the need for improved education and training for small businesses, particularly in basic accounting and tax knowledge. Current support is often insufficient unless an adviser is involved, and misinformation – especially via social media – was identified as a growing problem. Participants urged proactive efforts to counteract misinformation and provide accessible, accurate guidance for small businesses.

Policy complexity was seen as an ongoing barrier.

The abolition of the Office of Tax Simplification was viewed by some as a step backwards, leading to increased complexity in the tax system. Schemes such as R&D tax credits were described as especially challenging for smaller firms. The simplification of schemes and systems was identified as a primary recommendation in this context.

Looking ahead

In considering the future of small business tax compliance, participants at the roundtable offered several forward-looking perspectives. There was particular interest in exploring a shift from annual tax payments to real-time or transactional tax payments. Such a change has the potential to lessen both compliance burdens and the frequency of errors encountered by small businesses, it was suggested.

The integration of tax compliance tools directly into banking and financial services was also discussed. By embedding these tools, businesses could benefit from streamlined processes, making it easier to meet tax obligations.

This article summarises the views and recommendations raised during the roundtable. Not all participants, nor CIOT, necessarily agree with every point expressed.