

7 November 2016

By email to jim.harra@hmrc.gsi.gov.uk

Dear Jim,

Consultations on Making Tax Digital

ACCA has today responded to the six HMRC “Making Tax Digital” (“MTD”) consultation documents. As we pointed out in our written evidence to the Treasury Select Committee in January 2016, MTD affects every aspect of UK system: “the legislation that imposes the charge, the forms and mechanisms that enable assessment and communication of the charge, and finally the payment processes that facilitate collection of the charge.” ACCA has engaged with HM Treasury and HMRC from an early stage on the Making Tax Digital proposals, and we have significant concerns that the transition to quarterly reporting, and potentially payment, of taxes will create difficulties for many sectors, transactions and tax rules.

MTD is the most far reaching reform to the UK tax system in this parliament and indeed for generations. The proposed changes will affect all UK businesses and a significant proportion of taxpayers. We have received an unprecedented level of input from our membership and concerns about the potential impact of mandatory integrated accounting software designed to HMRC specification for every business taxpayer have been universal. Given the impact of the project, it is vital that enough time is allowed to understand the implications and properly develop the legislation and systems required. The burdens placed on taxpayers must be proportionate to the rewards delivered to/for society, and we believe HMRC have not demonstrated a proportionate benefit to the wider UK economy. We would urge that the adoption of interim reporting for business be voluntary.

We support Government efforts to improve UK rankings in international “ease of doing business” tables, both for the domestic advantages which accrue and the incentivising of international investment into the UK. But the UK economy as a target for long term domestic and international investment faces plenty of unavoidable challenges. However resilient economic indicators have been up to now there is still an uncertainty about the future, and the risk of potential additional administrative costs and uncertainties will only exacerbate those concerns.

Even if the “steady state” of MTD represents an improvement, the learning time and disruption of adoption will impact business. The opportunity cost of administrative time in a large business is profits spent on support staff time instead of being reinvested. The opportunity cost of admin time in a smaller business is trading foregone, decisions not taken and management time absorbed. Without a dedicated finance team, any burden of MTD will fall upon the profit makers of business; a direct double cost to business and the wider economy. Figures from surveys undertaken over the summer suggest that the annual cost to business will be of the order of billions of pounds per year. We are very surprised and extremely disappointed that HMRC are not proposing to undertake their own impact assessment of the economic cost of MTD until the draft legislation is published. Tax systems exist for the benefit of society, not vice versa, and the business case for any change to the tax system should be based on the total economic impact, not just the HMRC aspects.

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Given the interactions between the many areas covered in the consultations, it is important to disaggregate the costs and impacts of each proposal. The primary goals for each aspect of the process should be:

- Tax law – should be simplified, not simply changed to fit new tools.
- Tax administration – Once a new, simpler system is bedded in, the process of delivering it can then be sensibly reformed. We should only be changing the bits of process that relate to 'legislation that's not a moving target'.
- Tax payment – the UK has already reaped most of the rewards of digital payment mechanisms, but we should still explore ways to help taxpayers understand what they owe and when it is due.

We have responded to each of the consultations on its own merits, and based upon our (considerable) member feedback. There is inevitably overlap and cross referencing involved, and in view of the limited marginal benefits set against the opportunity cost of diverting scarce resource into what is clearly a complex area we have not diverted significant energy to the voluntary PAYG consultation. We note also that recent government experience with the CAP-D programme for EU farming subsidies and the Universal Credit programme has highlighted the potential risks facing policy programmes which rely on IT implementation. It is imperative that HMRC avoid the pitfalls experienced by DWP in the Universal Credit programme and resist the temptation to try developing software in parallel with the legislative models it is supposed to reflect.

ACCA and its members would welcome the opportunity to work with HMRC to develop a coherent and sustainable model for tax in the UK in a digital age. In order to give this immense task a viable chance of success, we have the following clear recommendations:

- The timetable must be reset with more time given to developing solutions and rolling them out with deference to HMRC's own resource constraints.
- To assist with development, the programme should be voluntary, and in order to guarantee take up of the voluntary tools, any burden imposed must be proportionate to the benefits for taxpayers and society.

We look forward to working with you and your colleagues on the further development of these initiatives and the forthcoming consultations on VAT and corporate taxes.

For CC, please see overleaf.

Yours Sincerely,
On behalf of the ACCA UK Tax Committee



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Copied to:

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Rt Hon Greg Clark MP, Secretary of State for Business, Energy and Industrial Strategy
Rt Hon Margaret Hodge MP, Chair of the APPG on Responsible Taxation
Rt Hon Philip Hammond MP, Chancellor of the Exchequer
Andrew Tyrie MP, Chair, House of Commons Treasury Select Committee
Clive Lewis MP, Shadow Secretary of State for Business, Energy and Industrial Strategy
Jane Ellison MP, Financial Secretary to the Treasury
John McDonnell MP, Shadow Chancellor of the Exchequer
Jonathan Reynolds MP, Shadow Economic Secretary to the Treasury
Margot James MP, Parliamentary Under Secretary of State, Minister for Small Business, Consumers and Corporate Responsibility
Meg Hillier MP, Chair, House of Commons Public Accounts Committee
Rebecca Long-Bailey, Shadow Chief Secretary to the Treasury