

Making Tax Digital: Bringing business tax into the digital age

A public consultation issued by HM Revenue and Customs

Comments from ACCA to HMRC

November 2016

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The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; pensions; education; and corporate governance and corporate social responsibility. www.accaglobal.com

Further information about ACCA's comments on the matters discussed here can be requested from:

Jason Piper

Senior Manager, Tax and Business Law

jason.piper@accaglobal.com

+ 44 (0) 207 059 5826



ACCA welcomes the opportunity to comment on the proposals issued by HMRC. The ACCA Global Forum for Taxation and UK Tax Committee have considered the matters raised and a large number of ACCA Members and businesses have contacted us with their comments. Their views are represented in the following. This response should be read in conjunction with the comments made on the HMRC MTD consultation suite.

GENERAL COMMENTS

The proposals for Making Tax Digital (“MTD”) and the associated £1.3bn investment in HMRC systems changes are the most significant tax project of recent years, and probably the single government project with the widest and deepest short to medium term impact on the population in general. There are three principle aspects to the tax 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 – and MTD for business will affect all three.

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.

The charge to business profits taxes in the UK currently attaches on an annual basis, whether by reference to basis periods or simply for the fiscal year (as in the case of chargeable gains accruing to individuals). In both cases there is a clearly defined period of time to which the tax charge attaches, and results are compiled once the period is over. The charge to VAT arises on a fundamentally different basis, and operates under different legislation and via incompatible processes. We have commented in some detail on VAT below, but if HMRC proceed we await the formal VAT consultation documents to fully explore the implications of MTD for VAT.

While it is clear that advances in technology have improved the opportunities to communicate information to HMRC, and full advantage should be taken of the benefits of that improved communication, the tax system is about more than reporting income, and business in the UK is about more than paying tax.

Quarterly reporting will work only if the HMRC systems have all the information that is relevant to the tax charge, and nothing but the information that is relevant to the tax charge. If anything is missing, or anything spurious present, then any tax charge as

ACCA



+44 (0)20 7059 5000



info@accaglobal.com



www.accaglobal.com



The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom

calculated will inevitably be wrong, regardless of basis periods. While that may be dealt with automatically where business accounting software is involved, for many SME businesses considerable taxpayer education is likely to be needed before relevant transactions can be reliably and accurately recorded on a regular basis.

In particular, many of the adjustments currently made, or confirmed, at year-end, such as disallowances for capital expenditure or client entertaining, will need to be correctly identified at the time they are made. The development of reliable, intuitive software or processes to effectively assist with such processes is likely to be challenging.

The proposals will require major technological changes for HMRC and taxpayers which will prove challenging for both sides. ACCA is concerned that the HMRC research paper cited in support of the proposals¹ may give an unhelpful picture of readiness for quarterly reporting. The number of respondents was just 40 (out of a pool of c5m businesses potentially affected) spread across the whole SME range from sole traders to 200 employee businesses. It is not clear that the paper's methodology was directed at establishing the feasibility of quarterly reporting; rather, it appears to have been designed to assess perceptions of such a process, and how to change them.

While the MTD proposals may well go with the grain of small business owners' adoption of technological change that adoption is slow and has for the most part been voluntary. Although HMRC have imposed digital filing in some areas, they have been (successfully) challenged by a number of taxpayers where the convenience to the state was outweighed by the imposition on otherwise compliant taxpayers. Evidence from our Members suggest that given the element of reasonableness incorporated into current test for digital exemption there would be a significant increase in the number of appeals against online filing under MTD.

Because the criteria by which application of the new rules will be determined are not themselves tax rules, but based on other independent criteria, both old and new tax processes will need to exist side by side to serve the two separate communities of taxpayer. The length of time for which this duplication exists will depend not just on how attractive HMRC can make the processes, but whether the national infrastructure exists for taxpayers to take advantage of them.

These proposals go beyond simply collecting the information needed for the annual assessment of business profits, and attempt to monitor businesses' performance

¹ <https://www.gov.uk/government/publications/understanding-the-impact-of-reporting-cycles>



throughout the year in a manner which, while it may be advantageous for a few, is likely to be a burden for many, and will in some cases actively disadvantage the business by presenting an unrealistic picture to HMRC unless there are fundamental changes to the underlying primary legislation.

Taxes exist for the benefit of society, and reflect the relationship between the individual and the state. While it may be fair and sensible for certain compliance obligations to be imposed in return for specific legal privileges (for example, filing of limited liability corporations accounts in a format will allow government to aggregate data for modelling purposes, to the benefit of wider society) the administrative authority should take care not to place its own convenience or ambitions above the practical realities of what business should be expected to bear for the common good.

In the light of all the evidence on previous significant tax law changes and significant government IT projects we consider the proposed timetable to be extremely ambitious. A recent Institute for Government report on the Universal Credit programme specifically identified that attempts to develop processes and software tools before the final shape of the legislation had been confirmed as a major cause of the significant problems with that (less complex and less ambitious) programme. The order of action must be correct.

While we welcome HMRC's initiative in putting forward such bold proposals, and recognise the genuine benefits which technology can bring, it is vital that not only they but also taxpayers are in a position to take full advantage of the opportunities. IT infrastructure for the public (ie fast broadband connections) is not of a universally high enough standard to support the proposals.

Out of a population of up to 5m businesses who will be affected by these changes, just 30,000 currently use accounting apps of the sort which appear likely to be fundamental to the quarterly reporting process. Achieving universal take-up of such apps within 5 years (and the associated investment in equipment and process change for many of them) will impose a significant cost on UK business.

While there may be no good time for a change of this magnitude, there is such a thing as a good pace for it. The scope for digital processes to make administration of tax better is considerable, and all the advantages set out by HMRC may well ultimately be achievable for those taxpayers who are in a position to usefully engage with them.



As you will note our position given the current high levels of tax compliance in the UK it is questionable whether the marginal return on this investment of time is proportionate compared to alternative uses of business time

We would urge HMRC to devote more time to consultation and development of robust and secure processes, alongside the development of enabling legislation which effectively supports the desire to move from an annual assessment cycle with tax assessed and paid in arrears to an on-going process.

We would urge HMRC to reconsider its approach to the timetable in the light of other challenges currently facing both the civil service and British business. The initial take up of MTD should be voluntary.

ACCA

+44 (0)20 7059 5000



info@accaglobal.com

www.accaglobal.com

The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom

AREAS FOR SPECIFIC COMMENT:

Chapter 2. Acquiring Digital Tools

Question 1: What are the challenges for businesses that currently keep their records on paper or simple spreadsheets in moving to an integrated software package for record keeping, and what further measures or support would help businesses to meet these challenges?

This is an enormous issue, and perhaps one which might more usefully have been considered before the decision had been taken to enforce mandatory use of integrated software packages for record keeping on a significant proportion of the UK business community. We would strongly urge HMRC to reconsider this aspect, and consider in more detail at question 5 below the relative advantages and disadvantages of mandatory versus voluntary initial implementation.

“To require such businesses to conform to these proposals and to penalise them for any failures demonstrates a total ignorance of how small businesses actually work in the real world. These businesses are:-

- *usually owner managed;*
- *already working substantially longer than the “normal” working week;*
- *struggling to maintain their records to an acceptable standard;*
- *do not have the benefit of any accounting or taxation training – or (in many cases) any computer / digital training;*
- *the smallest businesses will often be preparing their records late in the evening or at weekends;*
- *already having to deal with the huge extra compliance from an inflexible RTI system (the costs of which are borne by the businesses and not HMRC);*
- *already having to deal with an equally inflexible auto-enrolment system (the costs again being borne by the employer);*
- *currently having to deal with the (unnecessary) transition to FRS 102 and the additional costs that this change is creating.*

Leaving aside the question of the massive intrusion of the state in to the lives of ordinary people, these proposals are simply one step too far.” ACCA Member feedback



Each of the categories identified in the question above covers a vast range of businesses, from those whose record keeping and tax compliance is exemplary (however carried out) through the “eager but incompetent” and the careless to those whose attitude to tax is to evade where possible. A proper decision on how business records need to be kept would consider the benefits as well as the costs.

The cost to the exchequer of having eg a well-run family furniture business maintain its accounts in paper form is nil; the cost of having them divert funds and resources into a new (unnecessary) primary record keeping system will be lost profitability, and the taxes thereon, while society as a whole loses the productivity now diverted into learning new systems. Equally, there could be an exchequer cost to having a determined evader maintain a paper trail of cash transactions. Transferring that business’s records to an integrated package which automatically reconciles to bank records could have the benefit of forcing them to record transactions completely and accurately. While there is likely to be some cost to the business of implementing the new system, the wider benefits might outweigh any lost productivity.

Moving from the tax impact to consider the wider implications of digital record keeping, HMRC have undertaken their own research into digital exclusion and the attitudes of small business towards digital record keeping. Simple arithmetic based on that research² and ONS business population statistics³ indicates that somewhere around 490,000 small businesses would rather disengage entirely from the tax system than submit information to government via a computer. A comparatively large proportion of these are likely to be within the proposed “low income exclusion” population and so will not be directly affected by the MTD interim reporting proposals (although they will of course be affected by HMRC’s aim of killing off the tax return and forcing all tax assessment to be undertaken via the BTA/PTA).

Based on the same research, another 350,000 or so businesses are currently “digitally excluded” by reason of incapacity and would so be likely to fall outside any obligation to file online. However, another 1.42m businesses fall within the “digital assist” population, and will require assistance from HMRC, professional advisers or family and friends if they are to comply with the proposed new obligation. These businesses will fall into the

² <https://www.gov.uk/government/publications/digital-exclusion-and-assisted-digital-research>

³ <https://www.gov.uk/government/statistics/business-population-estimates-2015>



Cabinet Office bandings 2-5 for digital inclusion⁴. Since the current online tax return is rated at 8, confident user, the design of any new record keeping and reporting process will clearly need to be simplified significantly if the degree of support required is not to exceed even that suggested by the “digital assist” categorisation in HMRC’s research. Such simplification would obviously be easier if the tax system itself were simplified to reduce and rationalise the number of adjustments required.

“Because of the cost and time commitment, only 2% of our clients have successfully switched to digital accounts” ACCA Member feedback

It is a matter of regret to ACCA that HMRC has not chosen to follow a time line for the project which would allow for such simplification before requiring software houses to develop the necessary tools. The failure to allow for such reform before making wholesale changes to the day-to-day running of business also increases the risk that taxpayers will make errors in recording transactions, either through unfamiliarity with the tax law or unfamiliarity with the software; either outcome will have a negative impact on public perception of the programme and HMRC generally. Forcing this level of change on business before it is ready will damage trust in HMRC and its relationships with taxpayers and advisers. In addition, the investment of so much time and capital into models based on current law will create an inertia prompting inevitable resistance to further radical change to the principles of taxation or its assessment.

Question 2: What information and guidance would you find helpful in choosing the appropriate software for your business?

There will be as many answers to this question as there are types of business taxpayer in need of advice. It is important to remember that businesses choose software that meets their current and future needs to help them manage their business. The degree of functionality that the software has to have will be dictated by the nature of the business. That will in turn drive the system requirements of the package, based on which knowledge the business will be able to assess what computing system it needs to buy, or whether it needs to upgrade existing equipment. The size of the business may affect the cost of licences, while the number and skills of the staff who will be operating

⁴ <https://www.gov.uk/government/publications/government-digital-inclusion-strategy/exemplar-services-and-identity-assurance-how-complex-they-are#digital-self-assessment-and-your-tax-account>



the software will influence the costs (in time and potentially course fees) of getting to the point where it can be used effectively.

There may be a trade-off between the flexibility of the system, the financial cost of buying/subscribing to it and the skill levels required to operate it. The relevance of each of those factors to any given business will vary. Unfortunately for those having to produce the relevant guidance, the level of IT knowledge among their audience will vary widely, as will their starting point in terms of existing skills and infrastructure.

For those already able to get online, it should be comparatively easy to create a questionnaire which responds to early answers with structured lines of future questioning, using language appropriate to the user's level of apparent IT and tax knowledge. Creating equivalent tools for those whose preferred medium of communication is paper will be more challenging.

Question 3: What types of business should a free software product cater for? What functionality would be necessary in a free software product?

It is very difficult to see how comprehensive software needed by businesses can be made available by commercial software providers free. Any free software product must incorporate sufficient failsafes and warnings to prevent taxpayers from filing an incorrect return as a consequence of weaknesses in the software design.

It must be kept up to date for all aspects of tax law which it is designed to deal with. It must either be platform agnostic, or make very clear to users the implications of attempting to use it on other than the intended device/operating system combination.

It would be particularly important for such software to incorporate the capacity to download information into common formats, such as Excel, to facilitate analysis.

Any software product must incorporate an up to date list of those tax attributes which will cause HMRC's systems to fail and require the submission of a paper tax return for the fiscal year in question⁵. (HMRC also need to address the issue of whether such

⁵https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/542922/2016-exc-indi.pdf
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/518109/2016-se-partner.pdf



taxpayers will still be required to implement digital record keeping systems to HMRC's specification). Taxpayers will need to be given suitable warning that their online filings will fail under such circumstances.

It is also important that taxpayers will have invested time and effort into any system, including time to learn the software. Changes to their eligibility may occur within the year which would have significant cost implications.

Question 4: What level of financial support might it be reasonable for the government to provide towards investing in new IT, software or training, to whom should such support be aimed, and what is the most appropriate form for delivering such support?

A range of solutions have been proposed, including direct financial assistance, tax discounts, enhanced deductions and training vouchers. Given the vast range of needs triggering the need for support, any and all of those forms would be appropriate in one situation or another.

If HMRC's goal is to improve the standard of record keeping in UK business; an objective that we feel has not yet been justified by HMRC; then the provision of vouchers which could be used against training offered by accredited professional advisers would meet that need.

Question 5: What other forms of support would help to make the transition to Making Tax Digital easier?

For those who will find the transition to digital the most difficult, the most useful forms of support will be the very local, face to face human interaction at a time of their convenience which has been cut back most severely in recent years.

Feedback from those of our members who have adopted digital filing themselves is that taxpayers often find the adoption of digital processes difficult and frustrating. A typical estimate is 50 hours of initial training time, and a further 30 hours per year of support



directed solely at the digital aspects of new processes, and this for clients who are willing to consider the switch. One member with 5,500 SA clients estimates that less than one in fifty has made the successful transition to digital record keeping; the vast majority keep paper records and leave all digital aspects to their agent. Others have trialled the use of accounting packages with select clients; success stories are few and far between, while for most there have been significant learning experiences to resolve and deal with.

One particular issue noted is that if problems arise with an integrated accounting package they can be costly or even impossible to resolve. A qualified accountant may be to identify whether the issue is with the taxpayer's inputs, the software's ability to handle them or some other technological problem. We are aware of a recent instance where a taxpayer was instructed by the automated accounts package to re-enter opening balance figures for all earlier periods on record; their qualified professional adviser identified this as a fault with the cloud based records, rather than a valid instruction, which had to be resolved by referring back to the provider. One very popular accounting package cannot properly match input and output tax on the VAT reverse charge (a requirement for any business dealing via overseas service suppliers such as Amazon or Google) requiring agents to manually check the figures. There are other instances of software which operates on "non-standard" bookkeeping bases; while the correct answer comes out there is no problem confirming the result, but if an error creeps in it can be virtually impossible for businesses to work out where the problem arose.

All these issues can be identified, and in most cases resolved, by a qualified professional with wide experience of tax filings, software packages and practices. However it is unrealistic to expect a small business owner to develop and maintain the same level of knowledge and expertise simply to support an administrative process which is not core to the success of their business.

At a more fundamental level, introducing the MTD requirements as a voluntary process improvement rather than a mandatory imposition would benefit both taxpayers and HMRC in the development and delivery of a sustainable and genuinely beneficial set of improvements to the UK tax system. Volunteers are by definition positively disposed



towards the process they are engaged in. Faced with an issue they will actively want to resolve it through cooperation with providers and policy makers.

By contrast, reluctant adopters will have no predisposition to seek solutions, but will instead identify problems and difficulties with no motivation to resolve them beyond the threat of HMRC sanction.

If HMRC's analysis is correct and interim reporting of digital tax information is indeed superior to the current annual return process then there will be no need to mandate. Once knowledge of the time and cost savings becomes widespread businesses will make the transition willingly themselves onto a platform which has been developed by engaged early adopters who have actively sought out benefits and advantages. By mandating digital record keeping HMRC will force themselves and the software developers to deal with every single issue that could arise, whether avoidable or otherwise, at the earliest stages of rollout and against the wider background of legislative change and taxpayer uncertainty. For situations where an MTD solution is currently less efficient than existing practice mandatory filing will impose an avoidable and unnecessary cost.

Question 6: What facilities would make it easier and more secure for businesses to enrol for Making Tax Digital and use software regularly?

Widespread and effective national fast broadband; simple HMRC interfaces; familiarity with the process.

However, the fact remains that many businesses have no desire to engage directly with the tax process beyond paying the correct amount of tax, and are happy to pay professional advisers to enable that. There are many motivations for such behaviour, ranging from concern about making mistakes in complying with the rapidly changing provisions of the tax code to a recognition that the business owners' skills lie in making profits elsewhere – if dealing with tax affairs was the most effective and economically efficient use of their time then they would become tax advisers instead of engaging in whatever other profitable line of business they succeed in. The invasive nature of the



interim reporting requirements will force them to spend time and money on activities which they quite legitimately delegate to others at the moment.

It is widely recognised and accepted that the tax system should not distort business choices, but that is precisely what the current obligations will do, diverting otherwise profit-generating resource into administrative record keeping. For the largest businesses this will have an opportunity cost in requiring them to spend profits on the wages of in house administrative staff rather than reinvesting those sums elsewhere in the business. For smaller businesses the time cost will fall directly on owners and management, resulting in the up-front double cost of time which should be spent trading and making profits (which could be reinvested) on administration. Time lost can never be recovered, and the compound nature of growth dictates that the burden will fall most heavily on the smallest businesses, compromising growth and productivity at the most crucial phase in a business's lifecycle.

There are additional significant issues around the engagement of agents, and HMRC's capacity to support them in providing a service which HMRC have frequently said is vital to the efficient and effective operation of the UK tax system. The difficulties range from the practical issue of authorising agents for different heads of tax (and MTD for VAT is likely to significantly increase the proportion of tax returns filed by agents) to the availability of effective and reliable software tools for agents to see accurate and up to date information in respect of their clients' affairs. If MTD is to succeed then there must be scope for properly appointed agents to remotely manage the reporting and assessment of every liability within the BTA for those clients who cannot or will not bother themselves with administrative matters not central to the success of the business. Paying the correct amount of tax is a legal requirement which they are happy to comply with; calculating and communicating details of that tax is not a part of the process that they can effectively, efficiently or usefully involve themselves in.



Chapter 3. Digital record keeping

Question 7: Do you have any comments about the practicalities of keeping evidence of transactions and trading when using digital tools?

For many taxpayers, the concept of keeping records using digital technology will be totally alien. In addition, the discipline to keep records absolutely consistently and comprehensively will require a major shift in daily practices.

HMRC give the example of scanning invoices and receipts “in the field”. This will be dependent on a number of factors, including local mobile coverage, reliable battery life for mobile devices and, at the most basic level, the availability of a time and a place to stop and carry out the recording of data. This will not always be convenient. Equally, if it becomes too much “second nature” then there will be a potential risk to the integrity of the data as taxpayers may upload all receipts and invoices as a matter of course

Question 8: Do you agree with the minimum transaction data fields proposed for trading businesses, including retailers? What other data fields might the record keeping software usefully include as a minimum?

Software should always include the option to enter transactions in a currency other than sterling.

There will inevitably be a need for a manual override function, since current OCR technology will struggle with unfamiliar layouts or handwritten documents/comments. We understand that it is not uncommon for commercial invoice scanning services to undertake a manual check themselves of every entry before uploading to a client’s record (via outsourcing services overseas, creating clear security and data protection implications).

The default position for any deducted amount or percentage should always be nil. While there are circumstances in which it may be possible to assess that amount at the point of initial data entry, there are other situations where it may not be possible to confirm either levels or status of disallowance at the time of purchase. A capital item purchased but not brought into use for the purposes of the trade before the period end will be



treated differently to one used immediately in the period, but it will not be able to assess until after the period end if it has not been brought into use.

The relaxation suggested in para 3.12 for retailers “who do not have the means to record every transaction” is of course welcome, but begs the question of what additional value HMRC will derive from the wholesale maintenance of more detailed records by other taxpayers, and how far such derogations might extend.

It is clear that the design of any legal powers model to impose these requirements on taxpayers (current s12 TMA1970 requirements will not be appropriate), the design of software products to implement them and the practical processes of implementation and embedding into taxpayer behaviours will require further detailed consideration and discussion over an extended period if all relevant issues are to be identified and addressed appropriately.

Question 9: Do you have any comments about reflecting the current VAT requirements in MTD-compatible software?

There are major differences between underlying structure of VAT as a transactions based tax and the direct profits based taxes which call into question the usefulness of MTD style reporting on a quarterly basis. For a simple business (entirely standard rated) there is no intermediate analysis level between the figures reported on the return and the full transactional data which is aggregated to support that return. Conversely, for complex businesses with Special Method calculations for partial exemption there can be significant additional analysis required, which is universally undertaken on bespoke in house systems (usually a spreadsheet) as no commercially available VAT software has been developed which can cope; development would simply be uneconomic for the software companies. We consider VAT in more detail under Question 22 below, but will look forward to the full consultations on VAT in the New Year.

However, our primary concern in respect of VAT is whether there is any genuine benefit to be derived from attempting to apply MTD principles to it in its current form. MTD is predicated on “the death of the tax return”, and yet VAT must, as long as the UK is a member of the EU, remain a return based tax. The filing and record keeping obligations



which it imposes upon taxpayers cannot be integrated with those for the fully digital profits taxes. However, any entirely domestic, non-EU based, sales tax which might supersede VAT would have no such restriction, and could sensibly be designed to align with the digital principles of MTD. The conceptual differences between the transactional basis of VAT versus the profits basis of income tax might limit the degree of alignment, but reporting obligations and penalty regimes could certainly be far more closely aligned than would ever currently be the case.

But, if MTD is already in place around the existing system then there will be a significant barrier of time and resource already invested in software and process, reducing the scope and enthusiasm for significant reform of the tax to more effectively align it with the wider policy aims of MTD. If the implementation of MTD were to be deferred at least until it is clear whether that scope to properly reform (and simplify) VAT to make it more amenable to MTD principles is available then stakeholders will be in a position to commit properly to developing a sustainable model, comfortable that it will not be subject to almost immediate revision.

Question 10: Do you have any comments on the additional data capture requirements for property income and capital gains?

It is not clear what additional value the additional administrative requirements will deliver. Apportionment of overheads by reference to individual properties is likely to be an arbitrary exercise which will not serve any useful purpose. Property income values are not currently required for the purposes of tax reporting, and may or may not feature in a landlord's normal budgeting. Depending upon the level of any overall turnover exemption, it is likely that landlords with a single property in the south-east of England will be required to report under MTD. While there may be some marginal benefit to HMRC in its risk analysis of understanding how large portfolios are managed, the generally stable nature of rental income and property business cash flow compared to a retail trading or service business does not suggest any particular additional value from detailed repetitive quarterly reporting of information.

It is not clear how HMRC intend to capture capital gains more effectively through quarterly reporting from 2019, when the deadline for tax payable on gains arising will be



reduced to 30 days after the transaction which will almost certainly be sooner than the requirement to report the transaction through MTD. HMRC already offer the “Report Capital Gains Tax” online service, together with the advice to pay the capital gains tax liability straight away. Incorporating CGT details into the MTD income tax report is likely to cause confusion for individuals (the situation will of course be radically different for incorporated businesses which pay corporation tax on chargeable gains) and involve a degree of redundant double reporting.

Question 11: What should the minimum categorisation in the software be? Would additional sub-categories be useful?

If the software is to supersede existing accounting processes then it will have to offer the full range of ledger codes and customisation available to businesses in their current packages. Any successful business which is regularly generating profits on which tax is due will almost by definition have adopted a record keeping system which is adequate, appropriate and proportionate to their needs. The tax administration should not be imposing costs and changes which reduce the underlying business efficiency or add unnecessary cost.

For some businesses, the current three line account will suffice; for others, a four digit coding allowing for up to 10,000 categories will be essential. As a matter of legal requirements, the minimum should however be the three line account. Although HMRC have not consulted directly on the legal mechanisms of establishing liability to self-assess and the related requirements and processes in order to discharge those obligations, the required additional expressions of the current s8/9/12 TMA 1970 powers should retain the flexibility and proportionate imposition of burdens on self-assessing taxpayers to be able to support their reported tax liability should HMRC enquire.



Question 12: Do you have any comments on how businesses should reflect transactions and expenditure with non-deductible elements in the software?

The range of transactions and expenditure which software might be called upon to distinguish is too wide to give a comprehensive answer. It seems unlikely that any software package will genuinely be able to screen for all non-allowable expenses. In smaller businesses, issues are likely to arise where invoices from the same supplier might cover both business and personal costs on a regular basis.

Unless HMRC intend to require all taxpayers to maintain entirely separate payment methods for business and personal expenses, and never to mix use of the two, then there will be occasions where identical items will have different tax treatments on different occasions. Take for example a lightbulb picked up in the weekly grocery shop by a small builder. Is it to be installed in a client's outbuilding as a part of a wider sale, the builder's own office, or in the reading lamp on her daughter's bedside table? Equally, travel expenses are likely to prove problematic for any software package to "learn".

In a larger business, although there will be a presumption that all items charged to company accounts are trade related, there will nevertheless be elements whose categorisation will need to be manually confirmed. There may also be other tax implications – for example the purchase of flat screen televisions as an "in kind" bonus for staff which will trigger PAYE effects.

Requiring all such items to be identified at the time of expenditure, rather than by subsequent analysis, will require the data inputter to themselves be aware of the appropriate tax treatment in order that they can confirm or if necessary override the software's initial assessment of whether the expense is allowable or not. The assessment of tax will become inextricably intertwined with the practice of bookkeeping, and bookkeepers (whatever their official title, whether SME trader, in-house ledger clerk or external service provider) will need to have an understanding and awareness of tax law far in excess of their current needs. Given the current high levels of tax compliance in the UK it is questionable whether the marginal return on this investment of time is proportionate compared to alternative uses of business time.



Question 13: What prompts and nudges would be most useful to businesses?

This is a constructive question and one we are glad to see HMRC ask. There are clearly certain problem areas which cause widespread problems for taxpayers in general, while there are other specific items which cause difficulties in particular sectors.

However, as noted above, the majority of UK businesses are compliant, and wish to remain so. There is a very real risk that if prompts and nudges are displayed too liberally then they will be ignored by users. Some users will need reminding every quarter of how to account for eg the VAT on the non-business element of their home telephone bill, others will remember and be able to account effectively for it.

We are concerned that ill-informed ‘nudges’ may impact on HMRC’s trusted arm of government status. Again, this is an area where significant levels of research will be needed before it is possible to establish which messages might be the most useful. Considerable further work will then need to be undertaken by software companies to work out how they can effectively target those messages at the taxpayers who need them.

Chapter 4. Establishing taxable profit**Question 14: Do you agree that businesses should have the choice as to when to record accounting adjustments?**

Yes. In many cases, especially for larger businesses, it is not the business but an external adviser who is responsible for identifying or agreeing accounting adjustments. Forcing business to make adjustments quarterly would in many cases force them to take quarterly advice which is currently required (and paid for) only annually.

Question 15: Do you agree that business should have the flexibility to reflect reliefs and allowances when they choose?

Yes, although this does raise a fundamental point about the position for businesses or taxpayers with multiple trades or sources of income where accounting periods may not



finish together, or in line with the fiscal year. Depending upon the aggregated totals of taxable income combined with other requirements the taxpayer may not be in a position to confirm what reliefs and allowances they wish to take during the accounting period which falls to be taxed within the relevant fiscal year.

We are also keen to understand how HMRC intend to reflect the current treatment of post-period claims and election reviews, and the interaction that these mechanisms will have with the “death of the tax return”. How will these be built into software, and what steps will be taken to ensure that if taxpayers move from one supplier to another the records of available claims and elections are retained – or is this to be built into the digital tax account and available directly from HMRC?

While flexibility is welcome, it inevitably comes with a level of inherent complexity. It is not immediately clear what additional advantages would accrue through allowing for transaction level recognition of possible claims and elections which is not currently possible through voluntary supplementary analysis. The vast majority of taxpayers would be unlikely to take advantage of such functionality as they rely upon professional advice at the year end to confirm the correct application of tax law to their affairs in respect of such detailed aspects of tax law; developing and maintaining the skills and knowledge to be able to take that operation “in house” is unlikely to be an economically efficient or attractive prospect.

Allocation of loss relief, and its interaction with other available claims and allowances and aspects such as the timing of significant transaction, is a complex area and one which even professional advisers will approach with caution. Currently available commercial software cannot calculate the most tax-efficient approach to loss utilisation, especially in the context of an individual’s potentially complex multi-year position. While HMRC may be able to present the options for use of a particular loss, it seems unlikely that its software will be able to present any helpful information about which option might be most sensible for the taxpayer.



Question 16: What do you consider is the most appropriate approach to reflecting the effect of the personal allowance on an individual's taxable business profit?

The personal allowance should not be reflected in the calculation of taxable business profit. The personal allowance is set against an individual's taxable income, which may include other sources pushing the total beyond the personal allowance withdrawal level. Unless the software is able to accurately predict the sum total of all other sources of income for the fiscal year it cannot be sure of properly reflecting the interaction of the individual's total taxable income for the year with the personal allowance.

Question 17: Is this the right treatment of partnerships? Are there any additional partnership issues that need to be considered?

The proposals for taxation of a partner via MTD need to be reconsidered. The timing of reporting will be a significant issue for those partnerships where the profit share is not determined until after the period end. Any figures reported in year for an individual partner will almost certainly be incorrect and therefore valueless. They will in addition therefore cause problems in respect of other aspects of that individual's tax position for the year.

Even where the partnership's affairs are simple enough that in year reporting will not be materially misleading, the proposals seems to impose an additional burden on the nominated partner which is not necessarily reflected in partnership law and will almost certainly not be reflected in the existing partnership agreement.

How will MTD reflect capital gains and partner contributions? These are aspects which cause significant difficulties even where addressed only at the year end and with the benefit of hindsight and all available information. Accounting for them on an in year basis seems to introduce complexity for no benefit.



Question 18: Is this the right treatment of individuals who receive income from property, let jointly?

From a tax perspective and in the case of eg a simple husband and wife owned property then treatment on the same basis as a simple partnership with a nominated person might be appropriate. However, HMRC need to consider the wider legislative landscape and the commercial pressures on larger joint ownership models.

Under the selective licensing scheme for landlords, it can be an offence for an unlicensed landlord to be involved in the management of rental properties in many parts of the country. Accordingly, the day to day operation of, and accounting for, rental properties, is typically delegated to agents with the owners regarding them simply as an investment. Accordingly, it would be more appropriate to allow the owners to nominate an agent to submit the returns, potentially retaining responsibility where required on a joint and several basis.

Question 19: Is this the right treatment of subcontractors within the Construction Industry Scheme? Are there any other CIS issues that need to be considered?

Many of the issues that subcontractors face at the moment will remain under MTD, such as difficulties where contractors fail to properly update records, with the consequence that HMRC perceive a mismatch. Nevertheless, we welcome the long called for transfer of CIS to fully digital operation.

Chapter 5. Providing HMRC with updates

Question 20: Do you have views on how detailed the summary data in the updates should be, and whether the level of summary data should be different depending on the size of the business?

It is not entirely clear what value the data would hold for HMRC if supplied on an inconsistent basis across different business sizes. Equally inconsistent presentation or “tagging” of data would reduce the value of the data for comparison purposes.



Accordingly, the summary data for profits based taxes would need to be at a high level and organised in categories appropriate for a small business owner to understand without the need for extensive training or education in accounting or tax law principles. For VAT, there is more of a cliff edge, since there is little in the way of intermediate analysis between the VAT return totals and the underlying transactional records. According the data summary should correspond to the existing tax return information. We note also that there may be significant data protection and legal powers issues around HMRC requiring submission of information which is not necessary to support the particular assessment of tax (currently of course the computation supporting the return, though that will need to be replaced for MTD).

Question 21: Do you have any comments on the categorisation of summary data in the updates?

The current “three line accounts” categorisation would be appropriate, since it will be common to all businesses.

Question 22: Do you have any views on what VAT data the updates should contain? Do you have any views on the advantages or disadvantages of including VAT scheme data in the updates? If so, which schemes and which data should be included in the updates?

We understand that there are to be further consultations on VAT ahead of the proposed 2019 rollout date. Given uncertainties over the likely form of VAT, and the considerable complexity involved, we will respond in detail to those consultations. However, we do have the following observations at this time:

Areas which are likely to cause significant difficulty for VAT reporting are:

- VAT groups when in some cases large numbers of businesses operate under a single VAT registration



- Partial Exemption - particularly where a special method is in place where there will be large numbers of sectors within a VAT registration each with its own approach to VAT recovery and any number of different methodologies to split costs (head counts, transaction counts, floor area apportionments, time sheet records)
- Business / Non Business apportionments - similar issues to partial exemption
- Clauses in the law that direct "use based" outcomes with no statutory basis for defining use. For example, place of supply rules that require UK VAT to be charged "to the extent" that a service is used in the UK or the partial exemption standard-method override
- Deemed supplies - e.g. if a business gift is given or assets are transferred from one member state to another there may be a VAT liability based on a deemed supply. How will VAT liabilities be computed on "transactions" that are not really transactions?
- Supplies that are recognised in the normal world that are not supplies for VAT? For example transactions that arise within a VAT group or are outside the scope of VAT for other reasons (business transfers and TOGC rules, intra branch transactions).
- What data will HMRC seek to uplift for multinational businesses? For example ACME Inc US buys and sells some goods that are located in the UK and as a result has to register for VAT. Will the rules:
 - exempt overseas businesses from MTD , if so when (e.g. distinguish between a registration by a non-established business or a business that has a UK branch)
 - exempt part of the data of an overseas business, and if so how? (It is hard to see HMRC having the legal power to insist on a upload of worldwide



- transactional data if for example a US business is forced to register as a result of £10 of UK taxable supplies)
- create distortions (for example could businesses elect to operate via a non-UK establishment to side step obligations)
- How will special schemes be accommodated (cash accounting, flat rate scheme, annual accounting)
- How will the reverse charge operate?

It is important that these areas can be considered ahead of any proposed implementation. At the moment businesses already make quarterly or monthly returns and advise the figures electronically filling in 9 boxes on a VAT return. HMRC wants quick data and payment and is getting it. If HMRC is to calculate correct VAT liabilities from raw data uploaded then the business will need to capture every single transaction in its records correctly and the system put in place will need to accommodate all of the issues raised above, and no doubt many more. There could be millions of individual purchase and sales transactions that need to be addressed in this context. It is worth noting that no commercially available software package has yet been developed which can accommodate this.

The suggestion is that the data will be uploaded and the VAT return pre-populated but that businesses will be given an opportunity to check the figures and amend them. So essentially in a very short period of time a business will need to carry out an enormous reconciliation exercise. Of course in most cases (and in theory perhaps) this will be straightforward because HMRC figures will reflect the businesses own coding of transactions (the data produced will simply agree). However, in other cases the taxpayer will be faced with a situation in which for example HMRC's Box 1 figure is £X and the business' Box 1 figure is £Y. The options in this situation will be to "simply trust HMRC's figures" "simply trust the business' own figures" or "try to find the difference". However, unless HMRC is prepared to provide a full systems audit trail back to its own figures reconciliation will often be next to impossible. In practice, there is a risk that businesses will simply as a matter of course overtype whatever results HMRC propose with the details created on their own in house system (as now).



Since HMRC already has the power to request, and compliant businesses will be happy to supply, details of Special Method calculations etc there is clear unease among larger businesses at being asked to develop new software and filing processes which will not offer any better outcome for HMRC or the wider economy than can currently be achieved. Given the cost of amending bespoke VAT accounting packages, and the competing pressure for business resources and finance staff in the face of significant commercial and legal uncertainty there must be a question mark over the appetite of business to undertake such an exercise when the benefits have yet to be clearly articulated.

Question 23: What flexibility around update cycles would be useful?

Businesses will need the flexibility to align VAT reporting with any other reports required. To the extent that “quarterly” reporting would involve 4 reports, but more frequent submissions early in the year might result in having to submit 5 or more interim reports, some clarity around the definition of “quarter” and the treatment of leap years will be needed.

Question 24: Do you agree businesses should be allowed one month to submit their update? Would any problems be caused for VAT registered businesses by standardising the time limit for updates for all taxes?

Most VAT registered businesses find the existing 5 weeks to be a tight (if manageable) deadline. Reducing it to 4 weeks without significantly simplifying the operation of the VAT system so as to make the quarterly calculations simpler would be an intolerable burden.

“A one month submission timeframe is not realistic because there will be reconciliations to do, late invoices/credit notes and advice on business matters. There are also things such as holidays/time out and diary dates to consider. At least 2 months is needed and that would be tight.” ACCA Member feedback

In any event, given the likelihood of businesses to align their quarterly reporting to the traditional calendar quarter days, a one month submission period would leave businesses and their the tax agents who are apparently expected to provide significant



levels of support to MTD reporters with a “one on, two off” working pattern which would stress all involved unnecessarily.

Question 25: What method of deriving a business’s start date for providing updates under Making Tax Digital would be most straightforward for businesses?

The start date should be based upon the accounting period date, but with sufficient flexibility in reporting deadlines for it to align with VAT dates where different.

Question 26: Do you wish to make any comments about the operation of ‘in-year’ amendments to updates for the purposes of profits taxes or VAT?

What will be the difference between an in-year amendment to an update and a revision to the ongoing estimate of the full year position for profits taxes? Clearly, for VAT (which does need to be correct on a quarterly basis) there will be a need to retain scope for amendments. Whether it is sensible to integrate this into the same reporting process as the annual taxes is less clear.

If businesses start making in year adjustments to earlier quarters at the same time as making post year adjustments for the fifth return a large proportion will simply get confused; a small minority will doubtless try to turn the complexity to their advantage. Where an individual’s tax account is giving them details of sole trader and partnership income, dividends, interest and VAT (which may have different reporting deadlines depending on source) the scope for confusion will be almost unlimited.

Chapter 6. ‘End of Year’ Activity

Question 27: Do you agree that the process of finalising the regular updates should be separate to the regular updates?

ACCA responds in more detail on this point in the “tax administration” document, but the answer is yes, as a matter of basic law. The UK penalty regime hangs off the concept of a finalised set of information, and the related declaration to the effect that the entries in that set of information are complete and correct. Even if the finalisation is simply a



confirmation that the aggregate of the interim updates for the year needs no amendment, that confirmation must be separate to the interim update machinery.

Question 28: Do you agree that businesses should have nine months to complete any End of Year activity?

As HMRC is by now well aware from engagement with stakeholders, 9 months would be an unpopular choice as for the vast majority of sole traders, with a March/April year end, that will put the finalisation window across the traditional Christmas holiday period.

There is a very good argument for sticking to the existing 10 month window for income tax. Sole traders and small businesses will be confused enough by the changes to their relationship with their accountant/adviser/HMRC. Adding in a date change would necessitate another set of messages to disseminate.

Of more importance is the interaction between non-coterminous period ends and income sources which are assessed on the fiscal year basis. An individual with trading income based on a 30 April year end and partnership income and a second trade both based on a 31 January year end will be expected to finalise the tax position for the first trade before the results of either the second trade or the partnership are available, and before they necessarily have details of interest or dividend income for the year. How does HMRC propose to accommodate any necessary adjustments to allow the taxpayer to arrange their tax affairs with full knowledge of all relevant factors?

Chapter 7. Exemptions

Question 29: What criteria should be applied in determining whether to exempt a particular business or business type from the requirements of MTD?

While not the most accurate proxy for either tax complexity or administrative capacity, turnover will be the simplest factor to act as a substitute for detailed cost benefit analysis for those who might otherwise have the available infrastructure to be able to comply.



In conducting ability analysis, HMRC should consider broadband access, mobile coverage and the taxpayer's personal factors. HMRC are keen to make the point that age is not necessarily a restricting factor, and indeed many older people are perfectly computer literate and would be offended by an automatic exemption. However, it is equally the case that many other older people will struggle with the proposed changes at potentially a very late stage in their business's life. It is important that the tax system does not effectively exclude whole sections of society from participation in economic activity, and any exemption criteria must be sensitive to those wider concerns.

"Our area (Pembrokeshire) has many wi fi and mobile signal 'dead spots'. In addition, outside the main towns, broadband is poor and unreliable." ACCA member feedback

Question 30: Should charities be exempt from the requirements to maintain digital records and to update HMRC at least quarterly?

Yes.

Question 31: Should trading subsidiaries of charities be exempt from the requirement to maintain digital records and to update HMRC at least quarterly?

Yes but research should be undertaken to ensure that a competitive advantage is not given to trading subsidiaries over other commercial businesses

Question 32: Should CASCs be exempt from the requirement to maintain digital records and to update HMRC at least quarterly?

Yes



Question 33: Should businesses within the insolvency process be included within the scope of the requirement to maintain digital records and to update HMRC at least quarterly; and are any special arrangements required for this group?

Yes but research should be undertaken to ensure that a competitive advantage is not given to these companies over their competitors. The complexities and legal difficulties of accounting for tax in insolvency would only be aggravated by requiring MTD filing during the process.

Question 34: Which businesses should be included within a consistent definition of persons ‘unable to engage digitally’?

MTD should be voluntary and not mandatory.

HMRC assert that “MTD will be the default method by which businesses manage their tax affairs.” However it is quite clear that MTD will impose upon businesses the default method by which they have to manage all their affairs.

Any business which is unable to access consistent and reliable fast broadband (for interim reports to HMRC) at a commercially and economically viable cost at its main premises should be considered “unable to engage digitally”. Any business which conducts a significant proportion of its transactions at remote locations where a reliable mobile data connection (for uploading of transaction information) cannot be guaranteed should be considered “unable to engage digitally”.

Given the wider implications of MTD, there are other specific sectors for whom the costs of the proposals are unlikely to be outweighed by any possible benefit. ACCA is aware that farmers, construction industry subcontractors and travel and ticket agencies are likely to face particular challenges which do not appear to be readily amenable to resolution in the foreseeable future. Given that MTD record keeping will potentially affect every business transaction undertaken, rather than just a quarterly or annual filing requirement, the daily cost implications suggest that the number of businesses “for whom online filing is not reasonably practicable for reasons of disability, age, remoteness of location, or any other reason” will potentially be considerable if the



exemption thresholds are not set at a level where businesses are sufficiently profitable to absorb the extra costs without trading at a loss.

Question 35: Do you agree that £10,000 annual income is an appropriate threshold for exempting businesses from Making Tax Digital? Do you have any other comments on how the exemption should operate?

Question 36: Should the smallest unincorporated businesses that are not exempt have an extra year to prepare for Making Tax Digital? How should eligibility for this group be defined?

Question 37: Do you agree that the principles set out in Fig. 7.3 are the right ones to use in determining eligibility for an exemption? Are there any additional principles which should apply?

Arbitrary figures can be discussed and pros and cons highlighted. We believe that MTD should be voluntary but have highlighted comments on alternatives.

£10,000 is an arbitrary figure, set far too low for any meaningful impact. There are strong arguments in favour of setting the initial MTD threshold at the VAT registration threshold, although maintaining it at this level in the long term would create a significant artificial cliff edge which would operate to distort business behaviour. Setting the threshold at an even higher level initially, and slowly reducing it over time, is another area for discussion..

The resource implications for HMRC of attempting to onboard the entire small business population in one year would be potentially catastrophic. The loss of taxpayer goodwill which would inevitably result from the overwhelming level of taxpayer contact which MTD would generate in such a short period of time cannot be contemplated. The early handling of MTD announcements has already caused significant concern and loss of goodwill in the business and professional adviser communities. HMRC need to act swiftly to demonstrate that they have taken on board the very strong messages from the business and professional adviser community alike that the current proposed timetable is widely perceived as unrealistically ambitious.



By setting the initial rollout threshold at a suitably high level HMRC would reduce the number of businesses it would need to deal with in the first year, while at the same time ensuring that those businesses would be for the most part proportionately more successful and more likely to have existing administrative procedures and capacity to deal with the process change. They are less likely to be digitally excluded or in the digital assist population, and more likely to be able to provide meaningful and constructive feedback to HMRC on issues with software, hardware or legal process design (and to be able to distinguish between them in the first place).

Armed with the benefits of that first year of experience, HMRC staff will be better equipped to deal with the more basic issues that are more likely to arise as they move down the scale of business towards smaller and less sophisticated administrative capacity in the taxpayers. The more years over which the threshold is reduced, the lower the “new user” burden on HMRC in each year and the fewer staff they will need to allocate to dealing with them.

Wherever the final threshold for MTD reporting is set, it should be based upon a properly researched and considered analysis of the costs to business of implementing digital record keeping and the corresponding benefits to the business which might arise from such records. It is abundantly clear that a simple business such as a window cleaner or herdsman would derive absolutely no benefit whatsoever from any requirement to keep records in digital format, while the barriers to adopting such processes, and related costs to overcome them, could be very considerable. However, for a larger and more complex business, especially one with aspirations to growth, the potential benefits could be considerably greater and although there is no guarantee that the costs of adoption would be any lower in absolute terms they are likely to be a smaller proportion of overall business overhead. Establishing the point at which the benefits to society of requiring some degree of digital record keeping will outweigh the costs will be an extremely complex process, and will inevitably involve some final degree of compromise since the simplest measure for setting the threshold (turnover) is itself a fairly inconsistent indicator as between different sectors and geographical regions of likely tax complexity and propensity for growth.



Question 38: Which additional groups (if any) should be exempt from the requirements to maintain digital records and to update HMRC at least quarterly?

The exemption should apply to all Welsh language businesses. Currently HMRC has a Welsh language policy which permits businesses to communicate with HMRC in Welsh. ACCA is aware of practices with clients who run their businesses in Welsh. We understand that HMRC has no plans to force MTD software providers to supply Welsh language products. Forcing Welsh language taxpayers to use English language MTD software infringes HMRC's Welsh language policy.

Chapter 8. Initial Assessment of Impacts

Question 39: Do you believe that there is the opportunity for MTD to create savings for your business? What percentage time reductions would you see from the following?

- a) Targeted software tax guidance (prompts and nudges to get information right first time).**
- b) Gathering, collating and inputting data.**
- c) Reporting obligations through providing regular updates.**
- d) Any other potential savings not covered above.**

Feedback from our Members has not identified any savings or time reductions from MTD. One Member, who already operates an entirely in the cloud, indicated that there could be a number of opportunities once the systems are fully in place but did not specifically identify any direct savings in either time or costs. Overall our members have indicated increased costs to businesses from MTD



Question 40: Do you think there are different business sectors or sizes likely to benefit more from MTD? If so, what would these be?

Software providers may benefit from MTD, at least to the extent it applies to larger, more profitable customers. Likewise accountancy practices could benefit from access to reliable digital records, although in practice it is likely that they will have to offer so much support to clients before they are in position to generate such records that any net benefit would be some years away, and costs in the interim would be considerable.

Question 41: What costs might you expect your business to incur in moving to the new regime? Please provide details of the costs for:

- a) Time spent in your business familiarising with the new processes and conversion to these new processes.**
- b) Software expenditure costs (new or upgrading software).**
- c) Hardware expenditure costs (purchase of a computer, tablet device, etc).**
- d) Any other costs which are not covered above.**

Question 42: Do you expect that your business will incur additional on-going costs as a result of these changes? Please provide the details of the additional costs or time for:

- a) Additional support from your accountant or tax agent.**
- b) Additional time spent gathering, collating and inputting data.**
- c) Additional time reporting obligations through providing regular updates and any end of year activity.**
- d) Any other costs or time spent not covered above.**

A number of our Members have attempted to quantify more or less sophisticated estimates of the likely additional costs and time spent in helping clients move to the new regime. Typical estimates range from 50-100 hours of initial familiarisation time, with ongoing support in the range from 30-50 hours per year. Cost estimates range from £1,250 per year to around £3,000, with most around the £2,000 mark. It is quite clear



that in the case of smaller businesses these costs will come directly from owners and will directly impact their capacity to operate and grow their businesses, as they have no capacity in time or savings from which to fund the costs of change.

Question 43: Will particular businesses (e.g. partnerships) experience more difficulty in adapting to the changes? If so, please provide details, including any additional oneoff costs or ongoing costs.

As discussed above, MTD is likely to be wholly unsuitable for complex partnerships and to reflect nothing but an unnecessary cost. Other examples of sectors for which MTD is likely to pose particular problems have already been identified in the section covering exemptions.

Question 44: If you are an agent, please provide details of how these changes will impact on your own business, including details of any one-off and ongoing costs or savings. How do you perceive that these changes might affect your clients?

While many Members have observed that MTD is likely to reflect a significant increase in the amount of work they will be expected to do, from practitioners there is far less optimism about whether any of that additional work will be profitable (or even chargeable). They and our members in other businesses will also suffer with their own training time and additional ongoing costs. Software companies are, faced with their own commercial pressures, increasingly moving to monthly per user licenses. For many this is likely to result in some increase in cost; one practice has initially calculated a rise in costs from £500 to £1.3m per year if standard rates were to be extrapolated. Clearly such an outcome would be unsustainable, and they will either switch provider (a cost in itself) or negotiate a mutually acceptable rate.

Even once clients are on digital software, many accountants are concerned that they will become the taxpayer's preferred source of support. Unless the practice can somehow require all clients to use the same software package, staff will need to be sufficiently familiar with all the combinations of hardware and software in use by their



clients and able to diagnose issues remotely, identifying whether the issue is rooted in client error, software shortcoming or hardware related.

No Member who has contacted us has identified any significant savings which might result from MTD; the overwhelming majority are concerned that MTD will result in significant short term costs, and ongoing long term costs related to client support.

“We are very proactive with IT having been filing SA 100% online since 1998 and adopted online filing of VAT, PAYE and CT at the earliest opportunity. We participated in the RTI pilot. However our attempts to convert clients on digital have failed. We find we need to support a typical client for about 50 hours before they are reasonably competent to avoid fundamental errors such as posting personal expenditure as business expenditure. Ongoing, we need to support these clients for about 30 hours a year eg how to deal with unusual transactions, problems balancing the bank etc. Because of the cost and time commitment, only 2% of our clients have successfully switched to digital accounts.” ACCA Member feedback

“The changes that are being suggested would be wonderful in a perfect world, but unfortunately we don't live in such a world.” ACCA Member feedback





ACCA



+44 (0)20 7059 5000



info@accaglobal.com



www.accaglobal.com



The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom