



HMRC
Making Tax Digital
Bringing business tax into the digital age

3 November 2016

About ICAS

1. The following submission has been prepared by the ICAS Tax Committee. The ICAS Tax Committee, with its five technical sub-Committees, is responsible for putting forward the views of the ICAS tax community, which consists of Chartered Accountants and ICAS Tax Professionals working across the UK and beyond, and it does this with the active input and support of over 60 committee members. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants and we represent over 21,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors.
2. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. From a public interest perspective, our role is to share insights from ICAS members in the many complex issues and decisions involved in tax and financial system design, and to point out operational practicalities.

General comments

3. ICAS welcomes the opportunity to respond to the HMRC consultation 'Making Tax digital: Bringing business tax into the digital age', issued by HMRC on 15 August 2016.
4. ICAS supports the overall objectives of 'Making Tax Digital' (MTD), as set out by HMRC in December 2015. The four 'foundations' are laudable goals, but we have significant reservations about the timescale and the mandatory approach and particularly so for small and medium enterprises. To describe MTD as a reform of tax compliance obscures the reality that it is a colossal IT and change management project affecting some 5.4 million businesses and many more taxpayers.
5. A project on this scale needs careful risk management to maximise both its success and acceptance by users. For instance, RTI was introduced with the largest employers that had dedicated payroll staff who could identify and assist in ironing out any difficulties with the system, before it was cascaded down to smaller businesses. A similar approach is recommended here.
6. Use of MTD should be voluntary. Whenever a secure, user-friendly digital solution addresses a tedious chore, it should attract willing users among businesses and individuals alike. Also, if a voluntary approach is adopted, those creating the new system face the invigorating challenge of making it attractive and easy for users. To achieve this, they are likely to set realistic goals, aiming initially at those most likely to become enthusiastic early adopters. By trailblazing the system in this way, they should create a natural following among others eager to experience the advantages they might otherwise miss. This would also focus attention on addressing HMRC service standards for taxpayers and businesses.
7. ICAS is concerned that MTD proposes that full accounts may be dispensed with for many unincorporated businesses. Accounts are not simply about tax. They are about profitability, the need for accurate information for decision making, and lending and creditor decisions. We believe it is a mistake to view the proposed changes in tax-only terms and that whilst cash accounting should be a useful simplification for micro businesses, it is not appropriate for more substantial businesses. Without full accounts there is a danger that far too many businesses will lack understanding, and hence control, over their affairs.
8. Making Tax Digital is something of a misnomer. The key business impact is making accounting digital, within narrowly defined parameters. For business currently using accounting software and preparing quarterly management figures, the transition to quarterly digital tax submission may be relatively straightforward. The businesses primarily falling within this category would be those with a turnover of around £1.5 million or more. For small business, particularly those with a single owner manager, the challenge in terms of available time, and the costs of maintaining real-time digital records and making quarterly tax submissions is immense. Rather than tackling the tax gap,

there is a grave danger of currently compliant businesses moving into the shadow economy.

9. The cost to businesses also needs to be considered. MTD will have very different impacts on different groups of taxpayers: some will find the transition relatively straightforward, for others it will be extremely challenging. A single overall figure nets off the gains and losses, and so may not highlight adverse impacts on significant groups.
10. Where clients and agents already use cloud accounting, the costs of transition are generally estimated to be low: but not all businesses can cost-effectively use cloud. More frequent reporting and the interaction between digital tax accounts and accounting software is likely to increase costs.
11. For some small businesses and individuals non-compliance may become increasingly attractive. The 2016 Budget announced the introduction of a £1,000 allowance for property income and a £1,000 allowance for trading income from the 2017 to 2018 tax year. The new allowances will mean that individuals with property income below £1000 or trading income below £1,000 will no longer need to declare or pay tax on that income. This is clearly an administrative simplification for those who will never make more than these amounts but those who go on to establish more significant businesses will not have been encouraged into compliance from the start. At the point they realise they have exceeded the £1,000 allowances they will be confronted with a mandatory digital reporting regime, backed by penalties. This will impose significant costs and some may well be tempted to opt out.
12. We also remain very concerned about the negative messages about tax agents which are being suggested by publicity around MTD, and the exclusion of agents from viewing their clients' online accounts. Development of agent services consistently runs behind the development of the business and personal tax accounts. This is causing major problems for agents which need to be addressed urgently. We believe agents are vital to implementation and every effort should be made to work with agents and ensure that they can assist their clients in dealing with the huge challenge of MTD.
13. Most taxpayers who have agents do so because they do not want to interact directly with HMRC: yet the consultation assumes direct contact between HMRC and the taxpayer. Even to appoint an agent, taxpayers will be expected to set up their own digital tax account. We understand that HMRC's own research shows that 40% of taxpayers want to use agents, however easy it is to deal with HMRC. We note that the system has apparently been designed from a taxpayer 'customer' viewpoint: even though HMRC 'customers' may prefer not to be direct 'customers' but would prefer to have an agent take on the entire relationship.
14. Businesses with a turnover above £1.5 million, probably need regular management accounts. With in-house staff and external professional advisers, the MTD transition may be within their reach. There are also valid business reasons for quarterly figures. However, from £1.5m turnover to the VAT registration threshold, there is a diverse range of businesses using a combination of accounting packages, stand-alone, bespoke and cloud, as well as spreadsheets and paper records.
15. There is a significant distance for these businesses to travel before they have MTD compliant digital records. Within this group, there are many business sectors where quarterly figures would appear to be of very limited value, or simply an additional and unwelcome expense – both in terms of time and money.
16. In summary, we call for:
 - Stronger risk management by introducing Making Tax Digital on a phased basis
 - A non-mandatory start beginning with larger businesses.
 - A single threshold for VAT and cash accounting and MTD
 - Proposal to have 'HMRC GAAP lite' accounts to be abandoned
 - For the role of tax agents in bringing positive change to be fully recognised

Specific questions

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?

17. The key challenge is personnel. In SME businesses, the business owner may not have the time, skillset or desire to be directly involved in the book keeping. From the busy GP to the demolition contractor, they are likely to look for external help with any changes to the book keeping system. This may mean a change in the people currently undertaking book keeping.
18. Moving to an integrated accounting package may mean employing more, or different staff, or relying more heavily on their accountant.
19. For sole-trader businesses and small partnerships, it is as much the move to real-time digital book keeping as to digital book keeping alone, that is the obstacle. Time is in short supply and must be directed primarily to making money. Book keeping can be slotted in during less hectic periods. Quarterly updates impose an obligation to prioritise book keeping over vital business activities.
20. Choosing and learning how to use a new system are very time consuming. For simple businesses, there is a danger of being obliged to use a system that is more sophisticated and expensive than would strictly be necessary for business purposes.

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

21. Summaries published by HMRC, setting out details in uniform format of software solutions approved by HMRC – including details of costs, functionality, and hardware, operating system, software and internet speed requirements. Hyperlinks to the software suppliers' websites. Details of funding assistance available from HMRC – identifying in particular which software solutions are available free of charge. Genuinely independent reviews based on detailed assessments of performance.

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

22. This question seems to approach the issue back to front. As HMRC is not providing free software, the question is what will commercial providers be likely to give away free, and can this provision of free software be monitored and enforced?
23. To expect commercial software houses to provide free software is like asking a bakery to give away free bread. Commercial organisations cannot survive on free products. Unless HMRC has powers to force software suppliers to provide a basic minimum product, there can be little reason to suppose that the provision of free software, will be anything other than an illusion.
24. It seems likely that although software providers may be forced to provide a very basic free app this will contain so little functionality that many businesses will have to pay for a more sophisticated product in order to get the functionality they require.
25. Commercial software providers are also highly unlikely to allow their helpdesk time to be taken up by users of free software. Small businesses with limited technology skills will find themselves with a free app they cannot use.
26. Anecdotal evidence also indicates that software which purports to scan invoices is very difficult to use effectively and transferring the data into the quarterly updates will often be prohibitively time consuming.

27. Subject to our comments above to minimise any negative financial impact of MTD on business, the most appropriate measure to determine the need for free software would be profit. Low profit businesses will be more negatively impacted by the additional software costs associated with MTD than high profit businesses.
28. Low profit businesses can be found in many business sectors, such as farming and retail, as well as in childcare and the security industry. This is a diverse group and 'simple' software would not address all the different needs. Many low profit businesses would have significant stock levels, and may make sales both for cash and on-line for example, via PayPal.

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?

29. If the aim is to make the transition outlined in the consultation cost neutral for the business, this would be a very long list.
30. The tax status of charities entitles them to specific charitable tax reliefs meaning that they do not normally submit tax returns, although on occasion these may be necessary. Therefore, maintaining digital records should be optional and not compulsory. However, there could be some benefits arising from the digital agenda for charities in relation to the administration of Gift Aid and the Gift Aid Small Donations Scheme so it is important that suitable technology options are available to the sector.
31. It may be difficult to identify costs solely related to MTD; but 100% for costs directly related to new accounting software could be eligible along with related hardware. Training may well be provided by the businesses' accountants, but consideration should be given to free Government supported training.

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

32. There is a danger that some other forms of 'support' could be counterproductive. For example, it might be possible to have a phone line or website to assist businesses in choosing software, but where a business uses an adviser (or intends to use an adviser later) it is essential that they speak to that adviser first.
33. Accountants usually have preferred software. If a business chooses software recommended by a helpline which differs from the software used by their preferred adviser, the result could be a very expensive tangle to resolve.

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

34. Digital security is likely to be a major obstacle for many businesses. The consultation document stresses that businesses will continue to be responsible for the security of their own systems and software packages. However, many businesses may not currently use such systems and may know nothing about digital security.
35. Businesses may have some confidence in HMRC's approach to data storage (as suggested in the consultation document), but they are likely to have significant reservations about relying on third party providers of software.
36. Many small businesses are likely to rely on an agent. HMRC needs to recognise this and to ensure that the system is designed to accommodate businesses which want to use agents rather than submitting data themselves.

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

37. The backbone of SME accounting records is the bank statements. Cloud accounting with

bank data feed is efficient, and does not require scanning of invoices. Scanning invoices for purchases may be unnecessary and unwelcome for many businesses.

38. Paper copies of sales and purchase invoices should be kept to reduce the possibility of fraud. The MTD emphasis on scanning invoices as sole records is open to misuse. Purchase invoices can be scanned to support payments, but the goods purchased could be returned for credit. Without supplier statements this would be hard to trace.
39. Paper copies of records will often need to be retained for non-tax reasons (such as consumer rights). There are many reasons why paper records ought to be kept, not least that there may be a failure with the digital records, or the digital supplier goes out of business.
40. Retaining business records after a business has ceased could be problematic as cloud suppliers may require on-going payments to retain records. Accessing records for enquiry purposes may be difficult.

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?

41. Many SME businesses will purchase business goods on invoices which include private purchases or have been purchased using a private credit card or private bank account. It will be necessary to identify the source of the payment. For income, details of the account into which the funds have been paid would be needed. Sales income may have been received into a Paypal or other account.
42. It may be hard to establish percentages for expenses if there are private adjustments at point of data entry. Making record keeping digital will not necessarily improve record keeping. If someone cannot record entries in a Simplex book correctly there is no reason to imagine they will be able to do it correctly digitally either.

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

43. Currently only 12% of VAT returns are submitted directly from software. There are many aspects of VAT computations which require manual adjustments. Often these are dealt with using spreadsheets. There will therefore be difficulties incorporating these into the MTD software. Examples include: partial exemption, retailer schemes, motor dealers and some of the other VAT schemes.
44. It is difficult to understand how software can be developed to deal with these in the proposed timeframe for implementation. It would be useful for businesses to know, as soon as possible, whether in fact it will be possible to continue to use spreadsheets for some aspects of the VAT calculations and if so how this will interact with the MTD software.

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

45. This approach seems simplistic and it will actually be far more complicated than HMRC acknowledge. Calculating capital gains is complex. For example, expenses may have been incurred on a property which are no longer reflected in the state of the property at time of sale. Data on ownership and use may not be available.

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

46. Fixed categories of expenditure and income should not be imposed on businesses. Individual expense categories should be determined by the business and their adviser.

The categories of expenses needed in each business are dependent on the nature of the business and the information needed by management. There may be HMRC concerns

about claims for non-allowable expenses but it would be unhelpful if the software becomes very prescriptive.

48. HMRC might set broad categories of expenses which should be recorded, and a minimum level of detail. For example, in respect of wages, a decision could be made that a total wages figure was sufficient, or that PAYE and National Insurance should be shown separately.

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

49. This should be left to the discretion of the business. Some businesses may prefer to make an annual adjustment with the aid of their adviser. In some businesses, the amount of the deduction may not be clear until the year-end. For example, the private / business split may be based on annual mileage figures; using quarterly mileage figures would produce a different answer.

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

50. It is necessary to consider represented and unrepresented businesses separately. It is also important to consider who will be completing the records. Is the record keeper the business owner, a relative, or a paid book keeper?
51. Many business owners will not welcome the additional complication of questions when trying to complete the records. They will usually ask their adviser if unsure about how to treat an item of income or expenditure.
52. Where the book keeping is done by trained staff, they should be competent to make most decisions and know the limits of their expertise.
53. For unrepresented businesses, prompts should be confined to basic errors such as the division between private and business expenses.

Question 14: Do you agree that businesses should have the choice as to when to record accounting adjustments?

54. Accounting adjustments should be made at a time most suitable to the businesses. For SME businesses this may be a year-end adjustment.

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

55. Some of the adjustments outlined seem impracticable. Given that book keeping records are not just for tax purposes, it seems inappropriate to make all tax adjustments in the accounting records.
56. Many businesses will need to prepare accounts in line with accounting standards, such as FRS 102. The carrying amount for many expenses for accounting purposes will therefore be different from the amounts allowable for tax purposes. The consultation does not appear to address this issue of multiple uses of the accounting data.
57. Businesses are likely to need professional advice in order to claim and calculate reliefs and allowances. Adjustments for allowances and reliefs should be made as best fits the business.

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?

58. The suggestion of including the personal allowance within the book keeping records seems unsatisfactory. Any adjustment for personal allowance would appear to be best left within the digital tax account and not within the accounting software.

59. For individuals with PAYE income, savings income and other items which might go through a personal tax account, there would need to be a connection between the personal and business tax accounts to ensure that the benefit of the personal allowance was shown only once.

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

60. It is unclear how partnerships can fit easily within the system as currently outlined. To take one example, partners in medical practices often claim expenses incurred by the individual partners. Profit sharing ratios are often decided on complex criteria including allocation to salaried partners.
61. At the other end of the scale, it is unclear if the £10,000 gross income limit applies to the partnership business or to the individual partner. It would seem more reasonable to assume that it applies to the partnership business, but then a two-partner business with, say £18,000 of turnover would be included in MTD where two sole traders with £9,000 each would not.
62. The FTT case of Robert King ([2016] UKFTT 409 (TC) TC05163) suggests that the nominated partner route may not always be appropriate: the principle of self-assessment by individual partners still has a place.
63. Delays in filing the information for the partnership could create significant obstacles for the individual partners. It also needs to be recognised that quite often partners do not decide upon profit allocations until after the year end.

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

64. There are potentially a number of practical issues with this approach, such as confidentiality and sharing of information. Difficulties may also arise where individuals have multiple sources of income and joint property owners have different advisers. We also address this in the consultation on simplified cash basis for unincorporated property businesses.

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?

65. An information feed from CIS contractors to CIS subcontractors would be welcomed. Care would be needed on a variety of issues such as interim refunds and claims for additional expenses.
66. Many subcontractors have private, non-CIS work and even employment in addition to a CIS tax-deducted income stream. This potentially mean that they will need to check both personal and business digital tax accounts. This adds complexity.
67. Sometimes main contractors fail to make CIS returns accurately or on time. In extreme cases, CIS tax deducted may not have been paid across to HMRC. Subcontractors should be encouraged to maintain their own income records and not rely on HMRC data feed.

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?

68. Three-line summary data seems appropriate for smaller businesses. Overall, the level of detail could mirror that for self-assessment.

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

69. Any summary information and data categories should recognise the paramount needs of the business to classify expenses as best suits business purposes. Tax is only one use of the data. Tax categories should not adversely impinge on or restrict business classifications needed by the business for management purposes and external reporting.

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?

70. As noted in our response to Q9 above we consider that there will be considerable difficulties in incorporating VAT scheme data in the updates. We question whether it will be possible to achieve this in the timeframe for implementation.
71. There will also be particular issues for large companies. There is currently no detail available on the data which will be required for VAT quarterly reporting and the level of transaction data HMRC will require. Work on systems will be required to deliver this. It can take large companies 2 years (or more) to change their systems so if implementation is due in April 2019 the final requirements have to be available/publicised very soon or the timescale will be unrealistic.
72. Additionally, as noted in our response to Q9 above, even companies using software systems (which large companies will be) are still making manual adjustments/using spreadsheets (for example, for partial exemption calculations). They need to know, as soon as possible, whether in fact it will be possible to continue to use spreadsheets for some aspects of the VAT calculations and if so how this will interact with the MTD software.
73. We believe that more detailed consultation is required on the VAT aspects of MTD - we understand that HMRC is planning to issue some discussion papers on some aspects of this which may assist with this process.

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

74. Seasonal and small businesses should be permitted a longer reporting cycle with six monthly periods, rather than three monthly.
75. It is possible that the flexibility suggested in the consultation – that businesses could report at different intervals - might cause confusion. It would seem better to have fixed time periods for reporting periods.

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?

76. One month seems a very short timescale for small businesses. The transition proposed is a revolution for SME business. Non-VAT registered businesses with a 30 April year-end currently have 33 months between the start of the accounting period and the self-assessment submission deadline. Even with a 31 March / 5 April year-end there is 22 months.
77. The timescale for quarterly submission should give at least 3 months to non-VAT registered business in which to submit figures. This is to reflect the time demands on sole-traders and small partnerships.
78. Larger SMEs might manage a shorter timeframe. Even here, there more work to do when preparing both VAT returns and MTD quarterly updates in the same period.
79. A reduction in the time available for filing would cause problems for VAT.

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

80. Option 1, of bringing businesses into MTD following their accounting year ending in 2018-19 would give a degree of certainty.

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?

81. This question illustrates the difficulty of trying to incorporate data for VAT and profits taxes into the same MTD software. They require a different approach. As noted above we envisage considerable difficulties incorporating VAT scheme data, partial exemption etc into software. It is also hard to see how amendments to VAT could be made in the way suggested in the consultation, particularly where complex calculations, for example relating to partial exemption are involved.

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

82. It is essential that there is a year-end finalisation process separate from the cycle of quarterly updates.

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

83. Nine months seems a reasonable length of time. But given the significant number of businesses with a 31 March / 5 April year-end, it is not an ideal timescale for this group – as it results in a filing deadline of New Year's Eve.
84. Proposals for 'End of year activity' for landlords, the self-employed and businesses are likely to mean they have a deadline for the 'End of Year' declaration for these activities of 9 months after the end of their business period. If the deadline for data checking/personal tax declarations in the PTA does remain 31 January they will therefore, in many cases, have a different deadline for their business and personal 'returns'. This may be confusing and needs further consideration.

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

85. The primary considerations should be profit, complexity and a cost / benefit analysis,
86. For some businesses, quarterly reporting produces no business benefits and no certainty over tax (for example farming).

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

87. The consultation is about digital tax, rather than digital accounting. Therefore charities, where they are tax exempt bodies and do not currently submit tax returns, should not be included.

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

88. The inclusion of trading subsidiaries of charities is open to debate.

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

89. Where CASCs can be providing services which may compete with other businesses, such as pubs and restaurants they should be included in MTD.

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?

90. Special arrangements are needed for this group.

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

91. The use of the term 'unable' to engage digitally is harsh. The suggested phrase 'online filing is not reasonably practicable for reasons of disability, age, remoteness of location, or any other reason' is much to be preferred.
92. The VAT case of Bishop (LH *Bishop Electric Co Ltd* and others (TC2910) should not be used as a default standard. The requirements of MTD are far in excess of VAT; and VAT, for businesses below the turnover threshold, is optional. MTD has a far wider reach and needs wider exclusions.
93. The standards set out in Bishop should be a minimum, and it should be remembered that some disabled business owners do not want to be excluded from MTD if there are benefits to be had from it; rather they will want the software to be made to work with their assistive technology.
94. MTD imposes far wider burdens than simply the digital. A key aspect of MTD is quarterly updating. This is an immense burden and revolution in lifestyle for many micro-businesses. This aspect needs to be considered alongside 'digital exclusion'.

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?

95. As noted at Q29 above, the primary considerations should be profit, complexity and a cost benefit analysis.
96. The additional exemption of all business unincorporated businesses and landlords with gross incomes below £10,000 does not meet these criteria and is of little practical value. Many businesses in this group would have only part-time self-employment or rental income from a single property.
97. Rural businesses, including farming, seasonal tourism and low-income self-employment should not be mandated into MTD. The costs of MTD are disproportionate when compared with the benefits.
98. There should be a costs / benefit analysis of the business benefits for such businesses, before imposition of MTD. Cost savings to HMRC are insufficient as a driver. The National Audit Office review of a previous HMRC service delivery change estimated that 'for every £1 reduction in HMRC's annual telephone transaction costs there has been approximately a £4 increase in the time and money cost to customers'.
99. As regards partnerships, for small partnerships (eg two person partnerships) consideration should be given to a MTD threshold per partner. Otherwise there is an incentive operate as related sole trader businesses.
100. As mentioned in the introductory comments, the burden MTD imposes on small businesses is very significant. MTD should not be mandatory – and specifically not mandatory for businesses below the VAT registration threshold.

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?

101. One year for preparation seems too short a period. Three to five years is more realistic. The major benefits of MTD belong to cloud accounting. Of SME businesses roughly one in twenty are on cloud. The distance such businesses need to travel to become MTD compliant is vast.
102. As outlined in the introduction, even for businesses which may manage MTD, it is a significant challenge.

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?

103. It is hard to see how the principles will apply in practice. Businesses may not know that they have exceeded the threshold until they go to an accountant at the end of their accounting year. Conversely, some businesses through misunderstanding the rules, may register for MTD when they later turn out to be below the limit.
104. The model proposed seems to suggest that a business would be in or out of MTD for 12 months; but they could easily be well into the next accounting period before they find out.
105. Given the need for large scale changes to accounting software and reporting for those over the limit, the potential uncertainty seems to impose a significant burden on all businesses, as there will be few businesses which could not exceed the limits.
106. The current exemption levels are so low that a single good month could bring a business within the limits. The impact of this could be unfair as businesses with turnover over the limit could be left out, while others with anticipated higher forecast turnover would be left in, despite actual turnover being lower.
107. A cumulative rolling turnover limit would be more appropriate: using the VAT threshold.

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

108. As mentioned before, the quarterly update model as currently proposed does not fit farming, or other seasonal businesses.
109. Estates will not easily fit the model. The degree of complexity in terms of variety of activities undertaken and multiple ownership means that quarterly updates will be of negligible value and a significant burden.
110. We have no comments on questions 39-44.