



Response from ICAS

Making Tax Digital: Corporation Tax

5 March 2021

About ICAS

1. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants. We represent over 22,000 members working across the UK and internationally. Our members work in the public and not for profit sectors, business and private practice. Approximately 10,000 of our members are based in Scotland and 10,000 in England. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good.
2. The following submission has been prepared by the ICAS Tax Board. The Tax Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community; it does this with the active input and support of over 60 committee members.

General comments

3. ICAS welcomes the opportunity to respond to the consultation 'Making Tax Digital: Corporation Tax' issued by HMRC on 12 November 2020.
4. We appreciated the constructive discussion with the HMRC consultation lead at a meeting on 8 January 2021 with our International and Large Business Taxes Committee. We were also pleased to have further opportunities to discuss the consultation with HMRC at the representative bodies' stakeholder meeting on 14 January 2021 and at the Charity Tax Forum meeting on 19 January 2021.
5. The taxpayer population which will be affected by MTD for CT covers a very wide range, from significant multinational enterprises to micro-entities - and not for profit organisations. It will be very important to build flexibility into the regime – and to extend the scope of the proposed exclusions from part or all of MTD for CT – to ensure that disproportionate cost and administrative burdens are not imposed, for little benefit to taxpayers or to HMRC.

Larger and more complex entities

6. The consultation notes that despite the increasingly digital environment the amount of tax lost annually through avoidable error stands at £8.5bn, of which HMRC estimates that around £2.1bn relates to CT alone. HMRC believes that *"extending MTD to CT will help reduce the volume of errors by requiring digital records; developing the tax administration in ways which reduce opportunities for error, carelessness and deliberate non-compliance and help to tackle the tax gap"*.
7. The emphasis on reducing errors through digital records means that much of the detail in the consultation is more relevant to smaller entities. This leaves unanswered questions and gives rise to potential problems for larger entities which already keep digital records – particularly for those not quite large enough to be within the QIPs 'very large' category.
8. We believe it would be appropriate to set the threshold for quarterly updates at a lower level than currently proposed. No company which is already within the QIPs regime, or which falls within the Senior Accounting Officer regime or has an HMRC Customer Compliance Manager and is within the Business Risk Review process, should be required to file quarterly updates with HMRC; we cannot see any benefit either to HMRC or to these companies from filing raw data on a quarterly basis.
9. However, it would be helpful to set the threshold for filing quarterly updates by reference to something other than annual profits; it will not be feasible for entities to switch in and out of quarterly updates because profits fluctuate around the threshold or because a loss arises in an accounting period. Consideration should be given to setting the threshold by reference to factors such as turnover and balance sheet – but with the aim of excluding all entities in the categories mentioned above.
10. As set out in the consultation document, HMRC already has enhanced levels of tax assurance for large companies through Customer Compliance Managers and the Business Risk Review process. Additionally, many of these companies will be within the Senior Accounting Officer regime and will be filing Country by Country Reports. Other regulatory and reporting requirements are also being introduced, which may include new financial reporting controls under a "UK Sarbanes-Oxley" regime.
11. Adapting existing systems and processes for MTD, so that the year-end CT return can be generated directly from underlying accounting systems, will be costly and impose administrative burdens (and in some cases may be impossible due to the complexity of systems and tax affairs) - at a time when many of these large companies will be trying to rebuild following the pandemic. No benefits for either

HMRC or the companies themselves are set out in the consultation document to justify this; consideration should be given to excluding the largest companies from MTD altogether.

12. The consultation does not discuss linking between different software systems, although paragraph 7.18 notes that *“larger and more complex entities will need to ensure digital links exist where data flows between multiple applications or systems.”* A universal soft landing period for digital links for CT (similar to the one for MTD for VAT) would be useful but may not be essential, in view of the lead time for the introduction of MTD for CT. However, there should be a process for requesting a grace period when full digital links will not be required. This would cover entities with complex systems which need more time prior to the commencement date for MTD for CT and would also cover situations where a temporary grace period is required, for example, where a new subsidiary is acquired, and it takes time to integrate digital systems.
13. HMRC should also confirm that it will be acceptable for complex calculations and adjustments to be undertaken outside the MTD for CT software – as for MTD for VAT (see VAT Notice 700/22: Making Tax Digital for VAT, Example 7 – Adjustments, journeys and transfers outside of software).

Smaller and micro-entities

14. There should be a light touch approach to late filing penalties for the first year of implementation – to give businesses time to adapt.
15. Some businesses may wish to change their VAT stagger to align (or in some cases to avoid aligning) the filing of VAT and CT updates. It is essential that this should be possible.
16. We envisage that many small entities may wish to use spreadsheets, combined with bridging software to meet the requirements of MTD for CT. This is likely to reduce costs in some cases, compared to using a full software package. The consultation proposes to maintain the position established for Income Tax and VAT by accepting a range of software solutions – but it is not clear whether this would include using a combination of spreadsheets and bridging software. This needs to be clarified at an early stage so that preparations for MTD for CT can be undertaken with certainty.
17. If CATO (the free HMRC product for filing with HMRC and Companies House) is not retained, it should be replaced with an alternative HMRC product, designed to meet the MTD for CT requirements and continuing to allow joint filing with Companies House. Alternatively, HMRC should ensure that an equivalent free product is available from third party software providers.

Charities and not for profit organisations

18. We agree with the proposal that charitable trading subsidiaries should be within the scope of MTD for CT, to maintain parity with other trading entities with whom they may be in competition. However, we disagree with some of the other proposals for charities.
19. There should be exemptions for some charities and other not for profit organisations, particularly smaller ones. The consultation suggests that charities may miss out on the benefits of going digital, if excluded from MTD for CT, but feedback we have received indicates that there are many cases where it is difficult to identify any benefits to HMRC or charities from including them. Consideration should also be given to excluding some larger charities, which already keep digital records, from the requirement to provide quarterly updates.

Flexibility for entities of all sizes

20. There should be considerable flexibility in the approach to digital records. Entities of all sizes, which already keep digital records, using categories suitable for their tax and business requirements, should not be forced to change their systems solely to comply with an arbitrary MTD list. Charities and some other entities with non-standard requirements may be using bespoke or specialist software which it would be costly and disruptive to change.
21. Similarly, groups of companies should be able to keep records, submit quarterly updates (where relevant) and submit end of year returns in a way which reflects their group structure and requirements. We have been given examples of a range of different approaches to group record keeping and reporting. MTD for CT needs to accommodate these; a one-size fits all approach to nominated entities will not work and could impose significant cost and administrative burdens.

22. The filing dates for tax and company law purposes should not be aligned. Finalised accounts are the starting point for the tax computations; once these are available extensive additional work is often required before the tax return can be submitted. For most companies and their agents, aligning the filing dates would cause considerable difficulties, requiring additional staff resources and imposing extra costs. It is important that a gap is retained between the accounts filing date and a (later) CT filing date.

Specific Questions

Chapter 2 – The Scope of MTD for Corporation Tax

Question 1: Do you think there are any reasons why an entity within the charge to CT (or a sum assessable as though it were CT), should not fall within the overarching scope of MTD?

23. In principle we agree that most entities within the charge to CT should be within the overarching scope of MTD. However, consideration should be given to excluding the largest entities from MTD for CT altogether; the consultation proposes excluding them from filing quarterly updates – and they will already be keeping digital records.
24. No explanation is given of any benefits to be derived (for HMRC, or the entities themselves) from requiring the largest entities to generate their end of year CT returns directly from underlying accounting systems (which will require costly adaptation of systems and processes). In some cases it may not be possible, depending on the complexity of both the systems and the entity's tax affairs, or it may be possible but only at disproportionate cost.
25. There will need to be some tailoring of the detailed requirements to take account of practical difficulties for groups, UK branches of foreign companies, UK companies with stakes in partnerships, and also for dormant companies – see our responses to Question 3 and Question 12. If this tailoring is not feasible there may need to be some additional exemptions.
26. The consultation currently proposes to remove only 'very large' (for QIPs purposes) companies from the requirement to file quarterly updates. This should be extended to a wider range of companies, including all those within the QIPs regime (not just the 'very large' companies) and those with HMRC Customer Compliance Managers (and within the Business Risk Review process). We discuss this in our responses to Questions 6, 11 and 12.
27. Adjustments and exclusions will also be required for charities and similar entities – we discuss this in our response to Question 19.

Chapter 3 – Digital Record Keeping

Question 2: Do you agree that all entities should be required to record the date, amount, and category for all transactions within MTD compatible software? Where this approach differs to your current approach to record keeping, please provide details of any additional one-off and ongoing costs or savings.

28. For most entities this will be a reasonable requirement. However, clarity will need to be provided on the meaning of 'date' for this purpose to ensure that only one set of records needs to be kept for VAT and CT purposes. Determining the date and amount may also give rise to practical difficulties for certain transactions, for example multiple online transactions, particularly in foreign currencies; we assume that any reasonable approach would be acceptable (if consistently applied), but clarification is essential.
29. There are some additional practical issues which will need to be considered and addressed for some entities – or they may need to be excluded from MTD:
- UK branches of foreign companies: some may not maintain records in the UK, and it may not be easy for them to keep their own digital records because it may not be within the control of the UK branch to decide how records are kept or which records are kept.
 - A UK company with a stake in a partnership. In this case, the detailed records often belong to the partnership and records are not available on a real time basis to all of the partners.

30. The question refers to record keeping within MTD compatible software. However, paragraph 3.4 of the consultation proposes to maintain the position established for Income Tax and VAT by accepting a range of software solutions to meet the digital record keeping requirement. Does this mean that it will be acceptable for a small company to keep records in spreadsheets and use bridging software to file quarterly updates and the end of year return? We envisage that many small companies are likely to use spreadsheets, so this needs to be clarified at an early stage.

Question 3: Would group companies value the ability to keep digital records at group level? Are there any additional benefits to utilising a mixed approach?

31. Feedback from our members indicates that corporate groups adopt a number of different approaches to record keeping – and finalising returns at the end of the year. Examples include:

- Groups which keep records in a central single ledger. Later in the process, at the year end, the data will be broken down into separate company accounts. These groups would want the ability to keep records at group level but with flexibility on how to deal with finalising the CT liability.
- Groups with autonomous subgroups, where records are kept at the subgroup level. They would want the option to keep digital records centrally at the subgroup level – not at the whole group level.
- Groups which do not keep records by legal entities but by units, divisions or other business segments.
- Groups whose accounting information systems are aligned to management reporting requirements, which does not necessarily involve alignment between management reporting units and statutory entities. For example, management receives information about the entire Product X and Product Y operations, but statutorily the group has separate X and Y manufacturing companies as well as separate brand-owning and sales and marketing entities. Digital reporting requirements need to be sufficiently flexible to accommodate this - it is an end of year process to produce the statutory accounts for each entity.
- Many groups do not operate at entity level on a quarterly basis. For example, on a quarterly basis accounts are consolidated at subgroup level, but some transactions are only posted once, at the end of the year (for example, intercompany recharges).

32. Flexibility is essential and a variety of mixed approaches should be acceptable. As long as proper records are being kept groups should not be forced to change their processes for no good reason; MTD for CT should facilitate a range of approaches.

Digital record keeping for non-financial data - Paragraph 3.10:

The government would welcome the views of businesses on the type of data they currently maintain and the proposal for group structure data. Please provide details of any increased or reduced administrative burdens of recording and providing such data through MTD compatible software.

33. The proposed requirement to record non-financial data digitally in MTD compatible software would cause problems (burdensome administration and additional costs) for many companies, particularly larger ones – without offering any benefits to the companies.

- In most large groups, group structure information is held by the Company Secretary in separate digital systems. Requiring it to be included in MTD software would affect company secretaries and company administration, for no good reason.
- Companies in the financial sector may hold investments in a range of companies – which change frequently. Providing this information is not simple – it is not static.

34. It is possible that for some sectors MTD software might be developed which would enable the information to be kept more easily than at present – if so then companies who could do so would be likely to adopt it. However, this should not be made mandatory.

Question 4: Do you agree with the suggested minimum categorisation for MTD compatible software?

35. The suggested categorisation is taken from MTD for ITSA and may be suitable for small companies. It is useful to give a steer to smaller entities on the categories which would be expected, and we assume that many software providers will use these categories. However, concern has been expressed to us that HMRC may be trying to dictate how accounts are prepared, which would not be appropriate. Accounts are intended to provide useful information for business owners to assist in managing their businesses and for shareholders who provide investment; preparation of accounts should not be distorted by tax requirements.
36. Larger and more complex entities, particularly those using bespoke accounting systems, are likely to have more sophisticated categories and although they probably keep data which would fall into some of the listed categories, the categories may be designated differently. These entities will want assurance that they will not have to change their existing digital systems to match an arbitrary minimum list of categories.
37. It may be necessary to have a threshold linked to the size of the entity, above which the categorisation listing in the consultation would not be mandatory – to give those above the threshold certainty that their categorisation is acceptable. However, this would cause problems for entities below the threshold with specialised requirements, many of which may already be using bespoke or specialist software (which it would be costly and disruptive to change). Entities of all sizes which wish to use a reasonable alternative approach to categorisation should therefore have the ability to agree with HMRC that their categorisation structure is acceptable.

Question 5: Are there further categories or alternative approaches to the categorisation of records within MTD compatible software that you consider would be appropriate?

38. See our response to Question 4.

Chapter 4 – Providing Regular Updates

Question 6: Would group companies value the ability to provide regular updates through a nominated company? Please provide details of any increased or reduced administrative burdens or costs that could result from this.

39. Yes, it would be helpful for group companies to have the ability to provide regular updates through a nominated company (or several nominated companies). As set out in our response to Question 3, maximum flexibility should be allowed to reflect different group structures and approaches to record keeping.
40. The quarterly update process is clearly targeted at smaller entities. The diagram on page 9 of the consultation and paragraph 1.21 both refer to ‘nudge messaging’ intended to support ‘customers’ to avoid errors and pay tax on time. Whilst it might be helpful to very small businesses to receive a nudge indicating that an entry in the update could be incorrect (for example, claiming an apparently disallowable expense), it is difficult to see the relevance to larger entities with advisers – particularly any entities within the Quarterly Instalment Payment regime. How will larger entities be excluded from the ‘nudge’ process? Will exclusion be automatic if entities are using their own bespoke software?
41. We question the benefits to HMRC of including any entities within the QIPs regime in the quarterly update process. As the proposals stand only ‘very large’ (for QIPs purposes) entities will be excluded. However, all entities within QIPs will already be keeping records to enable them to make their payments. Payments are estimated on a forward-looking basis to take account of the expected results for the whole year (frequently on a group basis) – quarterly updates look backwards and could vary considerably from quarter to quarter. Nudges would be of no relevance to larger entities and there appears to be no expectation that HMRC would seek or expect explanations of quarterly variations (production of which would be an onerous process with no benefits to the entity or to HMRC).
42. Accounting and tax adjustments are not required in quarterly updates so it is difficult to see what HMRC thinks will be achieved by requiring larger entities to submit raw data in quarterly updates. We discuss this further in our response to Question 11.

Question 7: Do you foresee any constraints to providing updates at group level and how do you think these could be addressed?

43. As set out in our responses to Questions 3 and 6, maximum flexibility will be required to accommodate different group reporting structures.

Question 8: Which forms and processes around incentives, allowances and reliefs would you most like to see digitised? Please provide details of the guidance and/or tailored assistance that would help this process.

44. MTD will make digital filing and record keeping mandatory for entities within the scope for CT. This should be accompanied by HMRC enabling all claims for allowances and reliefs to be made digitally. Increased working in real time will be hampered if only part of the CT process is facilitated by HMRC systems. Purchasing new software or adapting existing systems is likely to involve significant costs for businesses – they should therefore be able to benefit from a streamlined digital system for claims and reliefs.
45. For complex claims the system should allow entities to upload supporting data. The present arrangements for group relief claims would also need to be supported.
46. Mandatory digital claims for allowances and reliefs will only be feasible once software packages can support them – but software providers are only likely to provide this functionality if it is clear that HMRC systems will be able to accept them.
47. Whilst HMRC's systems should enable digitised claims, we do not believe that digitised claims should be mandatory. Some claims may be complex and/or require so much supporting documentation that digitisation will be impossible.
48. The approach to electronic signatures would need to be considered when digitising claims, from the viewpoint of both HMRC and businesses; some companies do not currently permit the use of electronic signatures.

Question 9: What practical benefits do you think could result from standardising how entities submit claims and elections through software? Please provide details of any increased or reduced administrative burdens or costs that could result from this.

49. See our response to Question 8.

Question 10: Do you agree that an entity's update cycle should be based upon its expected accounting period with updates due one month after each quarter end?

50. Yes, we agree. It would be helpful to adopt a light touch approach to penalties for late filing of updates in the first year of implementation – to give businesses time to adapt.
51. Some businesses are likely to want to align their VAT quarterly filing with their CT quarterly updates. It is essential that this should be possible. Others may prefer not to align – again it should be possible to change their VAT stagger, if necessary, to achieve this.

Question 11: Do you agree with the principles for very large companies within the QIPs regime?

52. We agree that very large companies within the QIPs regime should be excluded from the requirement to file quarterly updates. As set out in the consultation these companies work with their HMRC Customer Compliance Managers and will be within the Business Risk Review process – so HMRC has adequate levels of tax assurance. However, we believe that additional entities should be excluded from quarterly filing.
53. As explained in our response to Question 6, we question the benefits to HMRC of requiring quarterly updates from any entities within the QIPs regime (ie those with annual profits broadly between £1.5m and £20m) – similarly with companies falling within the Senior Accounting Officer regime or which have HMRC Customer Compliance Managers and are within the Business Risk Review process. We cannot see any benefit arising either to HMRC or to these companies from filing raw data on a quarterly basis.

54. It would be helpful for HMRC to consider at what level of profit (or more likely turnover) it is unlikely that it would be able to make any meaningful use of quarterly reports consisting of large quantities of raw data and to set the threshold accordingly.
55. The 'very large' QIPs threshold – or using the standard QIPs threshold instead - present the difficulties set out in paragraph 4.14 of the consultation for companies whose profits fluctuate around the profits threshold or drop below it in a loss-making period. It would not be feasible for companies to switch in and out of quarterly updates from one accounting period to the next, due to the changes which would be required to complex accounting and tax reporting systems.
56. HMRC should consider an alternative approach which would provide more stability for companies – and would be less likely to require switches in and out of quarterly reporting. One possibility might be to use an approach similar to that adopted by Companies House, ie linked to turnover, number of employees and balance sheet. The overall aim should be to exclude entities in any of the categories mentioned above and to restrict quarterly updates to small companies which might benefit from receiving 'nudge' prompts and whose affairs are simple enough to mean that the quarterly updates might give some idea of the tax likely to be due at the end of the year.

Question 12: Do you consider that any of these other scenarios require a different approach to the process of updating HMRC? If so, please provide details of any barriers and how these could be addressed within the overall approach outlined in this chapter.

57. If an entity is dormant and does not file accounts, no quarterly updates should be required.
58. As set out in our response to Question 3 there are likely to be practical difficulties for the UK branches of foreign companies and for UK companies with stakes in partnerships. It is unlikely that they will be able to provide quarterly updates and should be excluded from the quarterly updating regime.
59. Paragraph 4.21 of the consultation lists a number of complex international tax provisions. It would not be feasible to deal with any of these in quarterly updates – they should only be required to be taken into account in the year end finalisation process.
60. Confirmation is also required on whether complex calculations and adjustments, such as those needed for the provisions listed in paragraph 4.21 can be undertaken outside the MTD for CT software. We assume that the rules would be similar to those in place for MTD for VAT – ie that it would be possible to deal with these outside the software and make the necessary adjustments manually. However, this not explicitly stated in the consultation and needs to be confirmed because we do not believe it will always be possible to deal with these adjustments through software.

Chapter 5 – Establishing the Final CT Liability

61. Paragraph 5.5 of the consultation states that the government “*would welcome views on the alignment of these obligations from group members who would choose to meet their individual MTD requirements through a nominated entity.*” As with other aspects of the application of MTD for groups, flexibility will be essential.
62. Our response to Question 3 gives examples of various ways in which groups of companies may keep records. Record-keeping structures will influence how groups can best provide quarterly updates (where relevant) and finalised end of year CT returns. As illustrated by the examples, some groups may wish to use a nominated company (or nominated companies) for record keeping (and potentially filing quarterly updates) – but to revert to individual entity filing of returns at the year end. MTD must be sufficiently flexible to allow groups to submit end of year returns in a way which best suits their group structure and processes.

Question 13: Do you agree it is appropriate to align the filing dates for tax and company law purposes? If not, what difficulties do you foresee?

63. No, we do not agree that it is appropriate to align the filing dates. The suggestion for alignment appears to be based on the assumption that work on the accounts and the tax computations is carried out in parallel so there should not be any reason why the filing dates could not be aligned by bringing forward the CT filing date. Whilst this might possibly be true for the smallest unrepresented companies (and some small companies where the same agent prepares accounts and tax returns) it is not generally the case.

64. Finalised accounts are the starting point for the tax computations. Company accounts take account of materiality – tax computations do not, so more analysis and details are required to meet even relatively straightforward tax requirements. More complex areas of tax – for example, capital allowances, R&D reliefs, interest restrictions, transfer pricing etc – require further additional work. Groups of companies need to have finalised accounts for all subsidiaries before producing tax computations for the entire group, to include, for example, group relief and loss restriction calculations and allocations. There may be additional complications for international groups where information/accounts needed to complete UK tax computations may be required from overseas entities within the group and not within the control of the UK entity.
65. The consultation suggests that ‘many entities’ already work on the same timeline for tax and accounts due to the CT payment date. However, this is not the position reflected in feedback from our members. Companies within the QIPs regime already need to make quarterly payments before the CT payment deadline of 9 months and one day; in the case of very large companies, the quarterly payments are made within the accounting period as noted in the consultation. Companies aim to achieve the greatest possible accuracy by the CT payment deadline, due to the interest rules – but it is not generally possible to have calculated the final tax position at that point, for the reasons outlined above.
66. The separate BEIS consultation (Corporate Transparency and Register Reform – Consultation on improving the quality and value of financial information on the UK companies register) proposes to reduce the filing deadline for accounts on the basis that *“current filing periods mean that financial information is significantly out of date at the point of receipt. Shortening the timescales will increase the value of the information and support commercial activity that relies on information on the register.”*
67. This may be a valid reason for reducing the filing deadline for accounts but as noted in the BEIS consultation the purposes behind the different types of filing are not the same. It is hard to see that the reasoning given in support of reducing the accounting filing deadlines has any relevance for tax or justifies bringing forward tax filing and aligning it with the accounts filing date. This would impose additional administrative burdens and a requirement for extra resources – and hence increase costs for companies. It is important that a gap is retained between the accounts filing date and a (later) CT filing date.
68. Feedback received from our members across a range of companies and working in practice is largely against aligning the filing dates. Examples included:
- Tax returns cannot be finalised until after the accounts are available. Irish rules do require tax before accounts. As a result, the entity files provisional Irish tax returns – which then have to be resubmitted with the correct figures after the accounts have been finalised. [member working in in-house tax function]
 - Others agreed with this – it would be a problem not to have the gap between the two and tax should be later. Also noted that if, contrary to this view, the dates were aligned it would need to be at the tax filing date, not the earlier accounting one – reducing the time available for tax computations is not feasible. [members working in-house and in practice]
 - Companies House have extended their filing deadlines due to Coronavirus. This has caused logistical difficulties for tax because of the delay in obtaining finalised, signed accounts. Would prefer to retain the 9 month accounting and 12 month tax deadlines – logistical pressure if trying to produce accounts and tax computations at the same time. [members working in practice]
 - The accounts and accounting statistics/information are required before tax computations can be prepared with any confidence. The separation of the filing dates needs to be retained so that companies can comply with the current tax regime. [member working in in-house tax function]
 - Alignment would put pressure on resources: SMEs might have even more difficulties with alignment due to limited resources to allow simultaneous work on accounts and tax computations.
69. It is possible that the smallest unrepresented companies (which use the CATO joint filing system to file their accounts with Companies House and tax returns with HMRC) might have a different approach and hence a different view on alignment of the filing dates. We have not received any

feedback from CATO users, largely because agents are excluded from using it and it is restricted to very small companies - many of our members are either agents or work in-house in companies which are too large to use CATO.

70. We have received a limited amount of feedback to the effect that for a small company where the same accountant prepares both the accounts and the tax returns, the two may be prepared together and alignment would be less problematic.

Question 14: Do you agree that amendments to an entity's Company Tax Return should be made through MTD compatible software?

71. Yes, in principle we agree that most amendments should be made via software – subject to our comments in response to Question 8 about the need to support uploading of supporting data and group relief claims. However, there may be circumstances where practical considerations make this approach impossible, for example, where a company uses different advisers for work on different aspects of its return. The detailed requirements for amendments should be considered further when it becomes clear how far MTD software will be able to deal with them.

Question 15: How can MTD for CT ensure that accounts and tax computations submitted as part of a Company Tax Return, are fully and accurately tagged in iXBRL format?

72. Feedback we have received indicates that tagging of accounts and computations at the year end is generally manageable but that tagging individual transactions, for companies of any size, would be a different matter.
73. We cannot see any benefits for companies from being required to tag data at the transactional level; even where feasible, this would increase costs solely to meet HMRC requirements. It is also unclear what HMRC would do with vast amounts of data tagged at transaction level. The focus should be on achieving accurate tagging at the current level.

Question 16: Do you think HMRC should reject returns or charge penalties where the XBRL tagging is incomplete or inaccurate?

74. If year end tagging at the current level is retained, we agree that returns should be rejected if tagging is incomplete or inaccurate – perhaps after a communications campaign to raise awareness. Rejection of a return is likely to be more effective than penalties – but if it is decided that penalties should be used, there should be an initial soft landing period.

Question 17: What hurdles do you think would need to be overcome should HMRC want businesses to tag data at a transactional level?

75. As set out in our response to Question 15 we do not believe tagging at a transactional level should be mandatory.

Question 18: What do you think are the potential impacts of HMRC withdrawing the free filing product, known as CATO? Please provide any examples or evidence held including evidence relating to the potential impact on filing accounts with Companies House.

76. When CATO was introduced agents were excluded from using it to file on behalf of clients and it is restricted to very small company users. As noted in our response to Question 13 many of our members are either agents or work in-house in companies which are too large to use CATO. We have not therefore received any feedback from CATO users and as noted in the consultation only 8% of returns are filed using CATO. However, as a matter of principle we do not believe that very small businesses should be obliged to incur software costs to meet their basic tax obligations.
77. We note the commitment to ensuring that there is a free software product available for the smallest and least complex businesses subject to Income Tax but there is no mention of any similar commitment for CT. In any case we do not believe that free software products are an adequate substitute for HMRC reporting systems for many small businesses. Commercial software providers are only likely to provide limited functionality and support for free products.
78. One of the drivers behind the implementation of MTD is HMRC's belief that this will reduce the part of the tax gap attributable to small businesses. However, HMRC has limited control over third party

software providers. It has been widely reported that some popular MTD for VAT software products encourage or permit users to treat transactions incorrectly. Agents are likely to identify and correct any problems – but unrepresented businesses are unlikely to realise returns are incorrect (particularly as many will assume that because a product appears on HMRC's list of MTD for VAT software it will meet all MTD requirements and produce correct VAT returns). CATO users are likely to be small, unrepresented businesses so similar issues will arise with MTD for CT third party software.

79. If CATO is not retained, it should be replaced with an alternative HMRC product designed to meet the MTD for CT requirements and continuing to allow joint filing with Companies House. Alternatively, HMRC should at least ensure that an equivalent free product is available from third party software providers.

Chapter 6 –Special Cases and Exemptions

Question 19: Should charities, CASCs and other not for profit organisations, be within the scope of MTD for CT where they have income within the charge to CT and required to complete a Company Tax Return? If not, please explain why you consider an alternative approach is necessary for charities and what criteria should be applied to assess eligibility for this?

Charities

80. Most charities with substantial amounts of trading income are likely to use a trading subsidiary company (which will gift aid any profit to the charity). We agree with the proposal set out in paragraph 6.4 of the consultation, that charitable trading subsidiaries should remain within the scope of MTD for CT, to maintain parity with other trading entities with whom they may be in competition. However, we disagree with the other proposals for charities.
81. Large charities (particularly those already within MTD for VAT) will already be keeping records digitally. However, many charities, even some large ones, have little or no trading income so they will frequently not be VAT registered and will have no CT liability: for many charities, the main source of income is donations or investment income. Even if they have some trading income it will in most cases be from primary purpose trading (so not liable to CT if applied for charitable purposes, as is usually the case) or will otherwise fall within charitable exemptions. No CT will therefore be payable and even some larger charities may currently only be required to file a CT return every few years.
82. Feedback we have received indicates that MTD for VAT required changes to procedures and additional costs to purchase software for filing returns – without any benefits to the charity. Filing CT returns every few years also incurs extra costs – again without any benefits to the charity. Filing a CT return every year and filing quarterly updates under MTD for CT would require expenditure on software and ongoing additional costs. This would not provide any benefits to the charity and it is difficult to see what it would offer to HMRC which would justify imposing these costs on charities.
83. We have also received feedback that MTD for VAT has created a great deal of unwarranted extra work for charities. However, MTD for VAT only affected VAT registered charities whereas MTD for CT could potentially affect a huge range of charities, regardless of income levels or whether they are trading. We understand that HMRC has also been sending CT returns to CIOs and SCIOs. Even to prepare nil returns requires a huge amount of work. There is no benefit to the CIOs/SCIOs but as many of these organisations will never have any trading income (if funded by grants, donations and investment income) it seems unlikely that there is any benefit to HMRC either. Imposing the requirement for annual returns and quarterly updates on all charities within the scope for CT would be inappropriate.
84. Small charities are unlikely to be able to comply with MTD for CT. They are often wholly or mainly staffed by volunteers – many of whom will be unwilling and/or unable to deal with the proposed requirements of MTD for CT. There will be no benefit from MTD to the organisations – but it is also difficult to see any benefit to HMRC.
85. ICAS believes that smaller charities should be excluded from the requirements of MTD for CT completely. Consultation to establish a suitable threshold for 'small' could be undertaken – but our initial suggestion would be to exclude those which are not required to register for VAT.
86. Larger charities which are required to register for VAT could be in scope for the record keeping requirements of MTD of CT, (particularly in respect of any trading income), subject to ensuring that

the data categories are sufficiently flexible to reflect charity requirements. It might also be possible for these charities to file an annual return (where they do not already do so), but we cannot see any merit in requiring mandatory quarterly updates. HMRC suggested at a discussion of the consultation that it might be possible to simplify the process for annual returns – and that potentially the annual return could ‘flow’ from quarterly updates (which would themselves require minimal additional work). If this proves to be feasible, charities would presumably be keen to adopt quarterly updates – so they should be voluntary rather than mandatory.

87. The following example from a member working for a university (a charity) illustrates some of the problems MTD will present for a large charitable entity and the lack of any benefit to the charity or to HMRC; it also illustrates that charities (if not excluded from MTD for CT), as well as other businesses, require clarification on calculations currently carried out in spreadsheets:

“[T]he principal focus of our CT Return is the disaggregation of our income ([>£200m] in our last set of signed accounts) and expenditure between PP (Primary Purpose) and NPP (Non Primary Purpose) activities. We do this by attaching relations to project codes in our Finance System (Agresso) and first of all use these to calculate the surplus/loss before overheads for both PP and NPP.

The next stage, and the one that would be the most difficult to facilitate under MTD, is the apportionment of overheads between PP and NPP, and also the allocation of income and expenditure for “mixed” activities that relate to both PP and NPP (currently calculated on a spreadsheet). Potentially a huge amount of work would be required to action this on MTD compatible software, and for no benefit to HMRC, as after the deduction of overheads we always return a deficit on our NPP activities and have a nil liability to Corporation Tax.]”

We assume that using a combination of spreadsheets and software would be acceptable for MTD for CT – as it is for MTD for VAT – but it is not clear whether (in this example) data transfer would have to be digital. Would the approach for CT be similar to that for VAT - as set out in VAT Notice 700/22: Making Tax Digital for VAT (Example 7 – Adjustments, journeys and transfers outside of software)?

Other not for profit organisations and members’ clubs

88. Other not for profit organisations, particularly some associations and members’ clubs, may have a CT liability - for example, arising from bar sales to non-members. If activities are substantial and VAT registration is required, we accept that it may be necessary for the organisation to be within the scope of MTD for CT, on the basis of parity with other organisations.
89. However, small members’ clubs will be in a similar position to small charities – and like small charities may be wholly or mainly run by volunteers, without the capacity to deal with MTD for CT. As with small charities, we cannot see any benefit to the clubs or to HMRC of requiring digital record keeping using software (it is not clear from the consultation whether excel spreadsheets would be acceptable for CT), or quarterly updates, for a small number of transactions producing minimal amounts of CT.
90. Feedback received from a retired member acting as Treasurer for a bowling club (owned by its members) illustrates this:

“We are not registered for VAT, and our income from fees, club games and surplus from our Bar etc, does not attract any tax, hence we can keep accounting records very simple and by way of excel spreadsheet.

However, we do lease an area of land to a Tennis Club, and that income is taxed under CT rules. Income is received in two half-yearly instalments. Input of these figures is directly onto the existing Govt. Site, without the need to input the remainder of club activities, although we do send a pdf copy of the annual accounts. This input calculates the CT payable. I am sure that there will be many similar instances of this throughout the country.

It would be extremely onerous on any small club, which just manages to survive from year to year for its members, to be included in the MTD regime, with the need to procure accounting software for basically two transactions per annum.”

91. If it would not be acceptable to exempt from MTD for CT all not for profit organisations which are below the VAT registration threshold, further consideration should be given to an exemption based on the annual tax liability, ie a de minimis threshold, below which exemption would be available.

Question 20: Do you agree that MTD obligations should cease where a company is exempted from mandatory online filing of CT returns due to insolvency?

92. Yes, we agree.

Chapter 7- Assessment of impacts

Question 21: What timescales and costs do you consider would be involved in acquiring, updating, replacing or adapting existing software in order to be MTD compliant? Please provide details of one-off and ongoing costs and benefits you think may arise.

93. All the requirements for MTD for CT need to be set out in legislation far enough in advance for software developers and businesses to have time to implement them in their software. HMRC should also provide the IT specifications and begin working with software providers at an early stage, to ensure that problems can be resolved before the mandatory implementation date. Large and complex entities generally require 18 months to 2 years to make changes to their systems – it is therefore essential that the late finalisation of MTD for VAT legislation and IT specifications, which caused significant problems, is not repeated.
94. For businesses which already use third-party software packages the cost of implementation will depend on whether software providers increase their prices and by how much. It seems likely that many providers will increase prices because of the work required to adapt products for MTD and increased filings – anecdotal feedback related to MTD for VAT suggests that there were some significant price increases.
95. Our responses to Question 2 and Question 19 noted that it is not clear from the consultation whether it will be acceptable for organisations to use spreadsheets combined with bridging software to meet the requirements of MTD for CT. For many small entities this would be likely to involve lower costs than the purchase of a full MTD software package. It would be helpful for HMRC to confirm at an early stage that the use of spreadsheets and bridging software will be permitted.
96. Availability of third-party software suitable for users of assistive technology proved to be a problem for MTD for VAT. Following HMRC work with software providers, there are now products available but the position when MTD was first mandated was unsatisfactory. HMRC needs to give adequate priority to ensuring that a range of reasonably priced software products suitable for assistive technology users is available in time for any CT pilot and at the date MTD for CT becomes mandatory.

Digital links between systems

97. Paragraph 7.18 of the consultation mentions the need for digital links between systems: *“We know that many different software solutions are currently employed by entities in compiling and submitting their CT returns. Depending on the size and complexity of the entity that may include multiple systems, both computerised and manual, feeding into the final figures. In addition, as they have done so for MTD for VAT, larger and more complex entities will need to ensure digital links exist where data flows between multiple applications or systems.”* There has been a soft landing period for MTD for VAT so that full digital links between systems do not need to be in place until the first VAT return period starting on or after 1 April 2021. There is also a process for requesting an extension where it is ‘unachievable and not reasonable’ to have digital links in place by the end of the soft landing period.
98. A universal soft landing period for full digital links for MTD for CT would be useful, although it may not be essential, given the lead time and that some of the work preparing for MTD for VAT may have been helpful. However, this should be kept under review as preparations proceed.
99. Regardless of whether there is a universal soft landing period for digital links for CT, there should be a process for requesting a period of grace when full digital links will not be required. This would cover entities with complex systems which cannot put full links in place in time for the commencement of MTD for CT – the grace period would vary according to circumstances (as with MTD for VAT). It should also cover situations where a temporary grace period is required, for example, where a new subsidiary is acquired, and it takes time to integrate digital systems.
100. Some very large entities with multiple systems and complex tax affairs may be unable to implement an end-to-end digital process for moving from digital records to the annual CT return. These entities are already likely to have controls in place for managing any risk. If they are not exempted from MTD

altogether, as suggested in our response to Question 2, there will need to be a process for agreeing acceptable arrangements with HMRC.

101. As set out in our response to Question 12 and the example provided in paragraph 87 above, confirmation is also required that complex calculations and adjustments can be undertaken outside the MTD for CT software – as they can for MTD for VAT.

Question 22: Apart from software costs, what timescales and costs do you consider would be involved in making the transition to MTD for CT? Please provide details of one-off and ongoing costs and benefits you think may arise.

102. There will be additional ongoing costs for many businesses arising from quarterly reviews by their accountants – amounts will vary according to the size and complexity of the business.
103. Within companies there are also likely to be additional ongoing compliance costs arising from reviewing MTD submissions and making changes – these are hard to quantify at this stage, but workloads will increase and additional staff resources may be required.