

# ICAS Making Tax Digital Strategy

October 2020



# Making Tax Digital: the objectives

The Government's July 2020 report '[Building a trusted modern tax administration system](#)', sets out a ten-year vision of reform and digitalisation for the tax system. It highlights the need for real-time information in creating an effective tax system.

It also sets out a roadmap for collaborative, incremental improvement.

ICAS supports the overall objectives, and the approach of the report. Reforms to the tax system, encompassed within Making Tax Digital, aim to transform the UK tax system to make it:

- more efficient and resilient
- easier for taxpayers to get their tax right, and
- accessible to both agents and taxpayers.

Making Tax Digital is an ambitious vision for a new digital tax administration. It includes the requirement for most businesses and individuals to interact digitally, and in real-time, with HMRC. It rests upon digital accounting records.

This bold vision envisages a revolution in the relationship between HMRC, businesses and advisers.

## **Broadly, ICAS supports the vision but with these provisos**

- We do not support mandatory digital for everything.
- Agent access should be built in from the start, with agents able to see and do all their clients can see and do.
- The process of appointing an agent should be standardised, simple, immediate and intuitive. There should be alternatives to the use of digital communication methods by the client.
- There needs to be adequate support for the digitally challenged as well as the digitally excluded.
- Digitalisation should be business-driven, not tax-driven. Software solutions should flow from the needs of the business and not be dictated by tax compliance.
- Radical simplification may be needed to enable effective tax compliance for the smallest businesses.

## **The ICAS digital policy positions**

- Digital facilities should be accessible to all, on the terms that they want.
- Digital services should be so good that everyone wants to use them.
- Tax agents should be enabled to act for their clients in all matters relating to HMRC.

## **ICAS seeks a tax system where**

- Tax administration is efficient for all stakeholders.
- Digital facilities are accessible.
- There is a 'want-to-use' system.
- The timetable for implementation takes account of the need for new systems to be robustly tested to develop a 'state-of-the-art' digital tax system before extended roll-out.
- Agent Services are made available at the same time as, or ahead of, services for individuals and businesses so that agents can properly support their clients.

# The taxpaying public

ICAS will inform the general public about Making Tax Digital. It will also represent the public interest in the transformation of tax administration.

- ICAS will support efforts to create a straightforward, simple, cost effective tax system. This should ensure that the right amount of tax for the public purse is collected at the right time, whilst minimising the costs of compliance to individual taxpayers and businesses.
- The system should be designed to ensure that taxpayers are aware of all reliefs and claims appropriate to their circumstances, and that business opportunities are not hindered through lack of access to the tax support legislated for and envisaged by Parliament.
- Public services need to be properly funded and the future tax system should support the common good.

Any modern tax system should have the trust of the public, make compliance easy, tackle evasion and be adequately resourced.

## Trust

Trust is an essential component of public services. Any tax system depends to a large extent on voluntary compliance.

ICAS will advocate greater transparency in the application of digital tax policy.

## Compliance

Making Tax Digital does not of itself combat evasion. Recognition is needed of the difference between those who deliberately break the law and those drifting into non-compliance through ignorance of the rules, or following life changing events.

Measures aimed at reducing the tax gap need to be effectively targeted to avoid burdening the compliant.

Radical simplification of the tax rules is the most effective means of encouraging cost-effective tax compliance and reducing errors, especially for the smallest businesses.

The financial and time costs of compliance for agents and businesses should be kept to a minimum. This includes consideration of the impact on agents and taxpayers of bulk data analysis by HMRC.

## Right resources in the right place

HMRC needs adequate resources to provide an appropriate level of service and support for all taxpayers. It cannot rely on the voluntary sector, paid agents, or paid-for software to provide what should be a public service.

Taxpayers should be able to deal with essential basic tax compliance without incurring additional costs.

# HMRC

ICAS will work with HMRC to assist in the effective implementation of Making Tax Digital. It will use its expertise, and that of its members, to engage in constructive challenge to develop the opportunities offered by a digital tax service, whilst recognising the broader constraints within which HMRC operates.

We will work with HMRC and Government to encourage:

- Tax simplification before widespread introduction of MTD.
- Minimisation of any adverse impact of tax changes on taxpayers and agents.
- A balance between costs for taxpayers and benefits for HMRC and the wider taxpaying community.
- Appropriate software being readily available, tested, and fit for purpose.
- An overall coherent approach.

## **Rollout of Making Tax Digital**

The timetable for implementation must take account of the need for new systems to be robustly tested.

Each part of the system should be fully tested for at least one complete reporting cycle before implementation, and taxpayer preference should be factored in.

The time available must be used to bring real simplification to the tax system and to develop a range of appropriate, inclusive, digital and non-digital solutions for businesses of different sizes and complexity.

Government should facilitate engagement with the tax system by assisting taxpayers to understand how they are being taxed.

Digital systems bring a risk of errors where deceptively simple online administration masks a system that taxpayers do not understand. Instead, wherever possible, the system should be simplified and intuitive.

## **Tax compliance and business accounts**

With mandation of quarterly reporting for income tax by April 2023 tax compliance can no longer be a footnote to annual business accounts preparation.

This has significant implications for all parties. Quarterly tax reporting requirements may be most easily met for many businesses by using cash-based accounting, even if they do not formally adopt the special cash accounting rules for income tax available for unincorporated businesses and landlords with turnover of £150,000 or less.

However, it is likely that all but the smallest businesses will need accruals-based accounts to adequately assess profitability for business management purposes and to ensure long-term survival.

Quarterly reporting using accruals accounting is unlikely to be feasible or cost effective for the majority of SME business. For businesses who do not use the special cash accounting for income tax rules, additional tax adjustments are likely to be required at least annually.

Some entities may have specific reporting obligations for accounting purposes.

The result is that many entities will require more than one set of figures: one for quarterly tax compliance and another for business management and year-end reporting.

Some businesses may even use a different reporting basis under MTD for different taxes, for example cash accounting for VAT, but accruals accounting for income tax.

# HMRC continued

## **Proportionality**

Record-keeping burdens differ depending on the size of a business. Yet all information comes at a cost. Digitalisation brings the opportunity for the Government and HMRC to collect more and more data. The cost to businesses of creating this data should not be overlooked.

Record-keeping and compliance with statutory requirements present a particular challenge for small self-employed businesses. This challenge is increased when they have no professional representation.

Mandatory quarterly filing is a revolution which requires a significant change in small business attitudes. Reporting requirements should take account of different business sizes and structures, with radical simplification for the smallest entities.

Being a taxpayer is not optional. The financial and time costs of compliance should not be onerous.

## **Software**

The means of achieving basic tax compliance should be free to individual taxpayers.

Those with more sophisticated business needs should have the option of paying for more sophisticated software which interacts effectively with HMRC systems.

Agent access should allow an authorised adviser to do anything a taxpayer can do and facilitate compliance with the law.

## **Complexity**

Current tax law is very complicated and needs simplification. Where this is not possible, any digitisation must accommodate all the complexities that exist, including the consequences of devolving income tax.

## **Compliance with legislation**

Digital services should reflect the law, not simply follow HMRC administrative practices. As set out in the report '[Building a trusted, modern tax administration system](#)' the underlying tax administration legislation is in need of reform to make it effective in a digital age.

# ICAS members

ICAS will support its members, both in practice and in business, so that they can maximise the benefits of Making Tax Digital and minimise the effects of any negative aspects.

ICAS, as a professional body, will assist by:

- co-ordinating member experience and expertise;
- sharing insights with members; and
- providing support to practices.

ICAS will also represent its members' views to HMRC.

## **Coordinating member experience and expertise**

Digitalisation brings with it new reporting timeframes and processes. This may produce a challenging environment for firms and clients. It may also provide an opportunity for member firms to be more closely involved with their clients on a day-to-day basis.

While a basic objective of helping businesses to pay the correct amount of tax remains, the way in which this is achieved is likely to be subject to significant change. ICAS members will help taxpayers access appropriate tax reliefs and support for their personal and business affairs. This will enable taxpayers to budget for and pay their taxes on time.

Firms will need to take on new roles and consider new approaches both to delivery of professional services and to adding value for businesses and individuals, beyond basic compliance services.

ICAS members are both tax professionals and trusted business advisers. This provides a unique opportunity for members in practice and business to take a broader view of the changes and look for opportunities in one field to offset difficulties in another.

## **The role of agents**

Agents play a large part in enabling taxpayers to manage their tax affairs effectively. They bring advocacy, both to the disadvantaged and to the sophisticated. They articulate what clients want to say.

They understand the rules and can explain these to their clients. Similarly, they understand their clients and can help them to follow HMRC's requirements. They facilitate client engagement with the tax system.

Expertise and professional judgement are needed to get things right. ICAS members support tax compliance and compliant taxpayer behaviour, make complex tax systems workable for businesses, and reduce the risk of unexpected tax costs for taxpayers.

Agents make the system work. This is equally true in a digital environment. HMRC needs to recognise the role of agents and ensure that they have timely access to all digital services so that they can act effectively for their clients.

# The ICAS Role

ICAS (The Institute of Chartered Accountants of Scotland) is the oldest professional body of accountants. We represent over 22,000 members who advise and lead businesses. Around half our members are based in Scotland, the other half work in the rest of the UK and in almost 100 countries around the world.

ICAS regulates over 1,000 practices providing tax, accountancy and business services across the UK and beyond.

ICAS has a public interest remit – a duty to act not only for its members but for the wider public good. Our technical experts work in a positive and constructive manner to advise policy makers on legislation and to raise issues of importance to our members, individual taxpayers and businesses alike.

Taxation is one such area of importance and ICAS has contributed, and will continue to contribute, to tax policy in Scotland, the UK and beyond.

The Tax Board's objectives in establishing its policy positions are to:

- act in the public interest
- provide constructive input to the authorities, and
- represent the interests of ICAS members, affiliates and students.

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