

Association of Accounting Technicians (AAT) response to the HMRC consultation on Making Tax Digital (MTD) for Corporation Tax

1. Introduction

- 1.1. AAT notes with interest that 2.8 million businesses and other taxpayers are within the charge to Corporation Tax (CT) and approximately 1.5m incur a CT liability every year.
- 1.2. Furthermore, AAT notes that the consultation document suggests approximately 85% of entities within the charge to CT rely on accountants and tax agents to help fulfil their tax obligations. This naturally highlights the importance of the work being undertaken by AAT's 4,250 licensed accountants in providing tax and accountancy services to approximately 500,000 British SMEs (Small and Medium sized Enterprises).
- 1.3. AAT believes that Government proposals that all entities within the charge to CT should, in principle, be within the scope of Making Tax Digital (MTD) as this appears to be a logical next step for the wider MTD programme.
- 1.4. AAT is always keen to ensure its members views are accurately represented in consultation responses and with this in mind, undertook a specific MTD for Corporation Tax survey of its licensed member cohort in December 2020. These survey responses have played a key role in influencing the below response.
- 1.5. With five years until MTD for CT becomes compulsory, our licensed member feedback suggests that - when taking into account costs, productivity increases and reduced mistakes - approximately a third think MTD for CT will be either positive or neutral whereas two thirds believe it will have a negative impact. This indicates there is much work to do to convince agents of the merits of this change.

2. Executive summary

- 2.1. **AAT believes that all entities within the charge of CT should fall within the scope of MTD (Making Tax Digital).**
This includes charities CASCs and other not for profit organisations.
- 2.2. **HMRC should digitise all forms and processes around CT incentives, allowances, and reliefs.**
AAT believes that rather than singling out particular areas of interaction with HMRC that would benefit from digitisation, a better starting point would be to recognise that all areas of interaction with HMRC would benefit from digitisation.
- 2.3. **There are likely to be practical benefits to MTD for CT, but these should not be overstated.**
A reduction in errors and thus a potential reduction in the tax gap is possible in the medium to long term, but errors may actually increase in the short term. Productivity gains have been reported for some businesses participating in MTD for VAT, but these are not uniform.
- 2.4. **AAT members strongly support proposals to align the filing dates for tax and company law purposes.**
More than two thirds (69%) did so, with just 7% opposing the idea (see 3.24 below).
- 2.5. **AAT would only support HMRC plans to withdraw the free filing product, known as CATO, "over time" if users are given sufficient notice of such a decision i.e. 3-5 years.**
- 2.6. **The costs of transition must not be underestimated, as was the case with MTD for VAT (Value Added Tax).**
For those not currently involved in MTD, i.e. those under the VAT threshold, an additional cost of approximately £300-£500 per annum is likely for software subscriptions. Additional one-off costs in the form of accountancy fees may be possible but given MTD for CT could theoretically make entities agents work more straightforward (in the medium to long term), there are unlikely to be any additional accountancy fees on an ongoing basis.

3. AAT response to the consultation document

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?

- 3.1. AAT agrees that the starting point should certainly be that all entities within the charge to CT should, in principle, be within the scope of MTD although accepts there may be some debate around charities, which AAT address below in response to the relevant question below.
- 3.2. AAT also agrees that whilst the scope of MTD will naturally include all companies resident in the UK, whether resident or non-resident, in the interests of equality, fairness and revenue protection, it must also include all other corporates that, under UK domestic legislation and tax treaties, are subject to a UK CT charge.

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.

- 3.3. Yes, this appears to be a perfectly reasonable approach and even where it differs from some organisations' current approach it is very unlikely that such basic minimum requirements will result in more than the most minimal of one-off costs or any ongoing costs.

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

- 3.4. AAT is probably not best placed to answer this question but as a general principle, retaining the flexibility to enable a mixed approach would appear reasonable and preventing such an approach does not appear to derive any real benefit for HMRC or companies.

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

- 3.5. AAT recognises and accepts the need to help avoid the mistakes that contribute to the tax gap and agrees with proposals to require entities to categorise income and expenses within their compatible software.
- 3.6. It appears to be both logical and beneficial that there should be some parity with the categorisation required for Income Tax under MTD for small businesses and agrees with the minimum categories set out in the consultation document.
- 3.7. In relation to unincorporated businesses, adopt the categories contained within the existing Self-Assessment forms for income and expenses again appears to be a sensible alignment.

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

- 3.8. AAT is not immediately aware of any additional categories that would be appropriate, but should such categories arise in the future it would be reassuring to know that these could be easily added and that a high degree of flexibility is maintained.

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.

- 3.9. AAT believes that rather than singling out particular areas of interaction with HMRC that would benefit from digitisation, a better approach would be to recognise that all areas of interaction with HMRC would benefit from digitisation.
- 3.10. Given there is no area that would not benefit, the timescales for implementation and the Government's often stated desire to make HMRC "the most digitally advanced tax authority in the world" – all such interactions should be digitised.

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.

- 3.11. HMRC will of course be aware that the Enterprise Research Centre found that for micro-businesses, web-based accounting software delivered productivity increases of over 10%¹. There is little reason to doubt similar outcomes through MTD for Corporation Tax
- 3.12. Likewise, the recent Office of Tax Simplification review² into claims and elections repeatedly made the case that digitising claims and elections would be a helpful simplification.
- 3.13. From an agent's perspective the digitisation of the authorisation process for Corporation Tax would be helpful too.
- 3.14. It appears incongruous, not to mention incredibly outdated, that whilst agents must pay their clients' CT and related payments electronically and file their clients' CT Returns (including supporting documentation) online, before setting up agent authorisation they must have an agent code which can only be obtained in writing.
- 3.15. The other alternative, completing a 64-8 form, whilst commenced online, must again be printed off, signed, and posted. HMRC does not even accept scanned copies of such forms.
- 3.16. Similarly, the cancellation of an agent's authorisation can only be undertaken by contacting HMRC in writing.
- 3.17. In contrast, authorisations for VAT can be done through the online VAT account.
- 3.18. Finally, standardising how entities submit claims and elections through software may help to reduce the £4.4bn Corporation Tax gap, which equates to 14% of the overall UK tax gap³.
- 3.19. This is based on HMRC statistics which suggest the proportion of small businesses submitting an incorrect return leading to a loss of tax was 20% in 2016-7, that just under 3% of large businesses make errors and that the CT gap for mid-sized businesses is estimated at 6.1%⁴. This of course assumes that standardisation through software leads to a reduction in mistakes, but it may well lead to an increase in mistakes in the short term as entities get to grips with a new system.

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?

- 3.20. AAT believes that companies must have certainty as to when updates are due and so agrees with the preferred proposal for quarterly updates linking an entity's update cycle to its accounting period.
- 3.21. Furthermore, AAT agrees with the suggestion that where an entity has an accounting period which is not divisible into quarterly periods, providing the choice of providing a separate update to conclude the period or waiting and splitting the next update between two accounting periods is a sensible way forward, not least because it mirrors the approach taken for Income Tax under MTD.

¹ Enterprise Research Centre, State of Small Business Britain report, October 2018:

<https://www.enterpriseresearch.ac.uk/wp-content/uploads/2018/06/SSBB-Report-2018-final.pdf>

² Office of Tax Simplification, Review of Claims & Elections, October 2020:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/927023/Claims_and_elections_report_Oct_2020_-_web_copy.pdf

³ HMRC, Measuring Tax Gaps, 2020 edition:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/907122/Measuring_tax_gaps_2020_edition.pdf

⁴ Ibid

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

- 3.22. As a point of principle, AAT does not believe any entities should be excluded from these requirements.
- 3.23. However, given this will only apply to very large companies with profits in excess of £20 million per annum; that already pay their CT via QIPs; that they already provide enhanced levels of tax assurance to HMRC not only through the QIPs regime but regular engagement with their Customer Compliance Managers and the Business Risk Review process; an exemption appears reasonable, and AAT therefore does not oppose it.

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

- 3.24. AAT members overwhelmingly back alignment, with 69% favouring such an approach and just 7% opposing it (the remaining 24% stated they were “unsure”).
- 3.25. However, it should be noted that AAT’s 4,250 licensed accountants provide tax and accountancy services exclusively to SMEs – almost 500,000 of them – so is very much focused on the small business community.
- 3.26. In small businesses the individual undertaking the tax details is also likely to be the same person who ensures company law requirements are met. In larger organisations this work is likely to be undertaken by different people in different teams.
- 3.27. Another group who might be negatively affected are those who leave filing until the last minute, but such arguments should not be given too much weight given alignment may encourage better time management and organisation.
- 3.28. One potential downside to such a change is the likely increase in amended returns, which would create more administrative burdens both for business and for HMRC who will be required to deal with such amendments. That said, this may reduce over time as organisations increasingly get used to being required to comply with aligned filing dates.

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

- 3.29. Almost two thirds (64%) of AAT licensed members who responded to its December 2020 survey agreed that amendments should be made through MTD compatible software. In contrast, 15% were opposed and 21% were unsure.

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?

- 3.30. Making this a compulsory requirement would seem the most obvious way forward but AAT notes this is currently unlikely given the complexities involved.
- 3.31. Rather than putting the onus on entities to do this, given the consultation document acknowledges that the cost and availability of software is the main barrier, it would seem reasonable to discuss this issue with software providers to establish why the cost is prohibitive for so many, if this can be addressed in any way and what is being done to deal with the problem of availability.

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

- 3.32. A clear majority of AAT licensed members (61%) stated that this would depend on the circumstances whereas a quarter (25%) were opposed. Just 8% believe HMRC should reject or issue penalties for incomplete or inaccurate XBRL tagging as a matter of course.

- 3.33. This appears to be in line with HMRC's current approach that they will accept returns where there has been a genuine attempt to comply with the filing requirements i.e. it is reasonable to accept returns where there is incomplete or inaccurate tagging where genuine efforts to comply have been made where as it would not be reasonable if no effort has been made.
- 3.34. The logical progression from this position would be not to accept incomplete tagging where HMRC have highlighted errors to an entity but that entity continues to make such errors in future returns.

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

- 3.35. AAT notes that there are no plans to require any entity to tag transactional level data under MTD but if it were to do so in the future then this again appears to be an issue best addressed primarily by software companies rather than agents.

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.

- 3.36. Although the consultation document states, "a small number" of entities within the charge to CT use CATO, this equates to almost 10% of those within the charge to CT and so represents approximately 120,000 entities.
- 3.37. Whilst AAT is not opposed to this HMRC product being withdrawn "over time"; this time period must be a reasonable one e.g. 3-5 years.
- 3.38. If CATO's withdrawal were to be confirmed this year, it could perhaps be withdrawn to coincide with the mandation of MTD for CT in 2026.
- 3.39. This would provide adequate notice and a high degree of certainty, enabling current users to begin to make alternative arrangements.

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?

- 3.40. Almost half of AAT licensed accountants (47%) who responded to AAT's December 2020 survey on MTD for CT, stated that these entities should be in scope. 27% said they were "unsure" and the marginally smallest group (26%) said that they should not be in scope.
- 3.41. In light of these survey results, and in the interests of equality and fairness, it seems reasonable to ensure that such organisations are in scope of MTD for CT.

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

- 3.42. Yes, there appears to be little benefit to oblige any organisation to continue with such obligations when insolvent.

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.

- 3.43. Page 34 of the consultation neatly summarises the situation, "...many of those entities within the CT population with a turnover below the VAT threshold, are likely to undertake the biggest 'journey' to achieve MTD compliance, whereas many larger entities may already operate in a way largely akin to the MTD requirements."

- 3.44. Given the HMRC estimate of additional costs for MTD for VAT was widely derided by all professional bodies in the tax and accountancy sectors, by business groups such as the FSB and by politicians across the political divide, it is essential that a more realistic figure is put on such costs if indeed a specific figure is to be provided.
- 3.45. However, it is clear that costs for those above the VAT threshold are likely to be minimal given such entities will already be compliant with MTD for VAT and will be well versed in digital compliance, especially when they will have been doing so for many years by the time MTD for CT becomes compulsory in 2026.
- 3.46. As a result, HMRC's focus must primarily be focused on those below the VAT threshold, many of whom may be digitally engaged, even more so as a result of the Coronavirus pandemic, but many of whom will not.
- 3.47. Given AAT's 4,250 licensed accountants provide tax and accountancy services exclusively to the small business community, this is an area of particular focus for AAT.
- 3.48. For those not currently involved in MTD, i.e. those under the VAT threshold, an additional cost of approximately £300-£500 per annum is likely for software subscriptions.
- 3.49. Additional fees for their accountant may be payable as one-off costs of perhaps a few hundred pounds at most but given MTD for CT could theoretically make agents work easier (in the medium to long term) there are unlikely to be any additional accountancy fees on an ongoing basis.
- 3.50. This question concentrates on "*...acquiring, updating, replacing, or adapting existing software*" but prior to any of the timescales for that to take place is the considerable amount of time often required for software developers to develop robust and effective software that meets the needs of HMRC, agents and businesses. The timescales for various other programmes, including MTD for VAT, have often failed to recognise this and led to delays and unnecessary challenges.
- 3.51. Therefore, longer pilot periods, with additional time after piloting to learn lessons and make changes, is essential – both from a developer and user perspective.
- 3.52. Likewise, sufficient lead times for changes such as the withdrawal of CATO, provides certainty for businesses and agents and sufficient time to plan thus increasing the chances of success and maintaining the general credibility and user acceptance of the changes.

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

- 3.53. As stated above, if software costs are ignored, there should be no ongoing costs incurred.
- 3.54. Regarding one-off costs, additional fees for their accountant may be payable and in relation to an AAT licensed accountant this is likely to be no more than a few hundred pounds (chartered accountants are inevitably likely to charge more, especially for larger clients).
- 3.55. As MTD for CT could theoretically make their entities' agents work easier (in the medium to long term) there should not be any additional accountancy fees on an ongoing basis or if so, they should be small.
- 3.56. Similarly, staff training, hardware purchases etc. are all likely to be short term, one-off costs rather than ongoing costs e.g. staff training on accounting processes would ordinarily take place anyway so after initial training this will most likely be rolled up into existing training packages.

- 3.57. Finally, AAT notes the firm government commitment not to mandate MTD for CT prior to 2026 and believes this five-year period is sufficient time for businesses of all sizes, together with their agents, and the software industry, to successfully make the transition to MTD for CT. However, this assertion is made on the understanding that Government publishes a full response to this consultation document by the end of this year, setting out clear answers to areas of current uncertainty including which entities fall within the scope of MTD for CT, precisely what is being digitised, whether filing dates for tax and company law purposes will be aligned and the future of CATO etc. It would also be helpful for all concerned parties if HMRC were to publish a clear cost/benefit analysis.

4. About AAT

- 4.1. AAT is a professional accountancy body with over 50,000 full and fellow members and more than 80,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to approximately 500,000 British businesses.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

- 5.1. If you have any queries, require any further information, or would like to discuss any of the above points in more detail, please contact the author, Phil Hall, AAT Head of Public Affairs & Public Policy:
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