

Dear Chancellor...

Mark Morton, a former tax inspector, recently published an open letter to the Chancellor of the Exchequer, Rachel Reeves MP. Here is that letter. Please note that the views expressed here are the author's own

Dear Chancellor

Making Tax Digital for Income Tax

Congratulations on your new appointment. We have never met, so I just thought I would briefly introduce myself. My name is Mark Morton. I originally started my career in the old Inland Revenue as a Tax Inspector and then moved into private practice and have spent the last 27 years lecturing to, and advising, SME firms of accountants which act for SME businesses.

In 2015, the document 'Making tax easier: The end of the tax return', was published. The purported aim of the project was stated as follows: "As part of the Government's vision to modernise the tax system, tax returns will be replaced by digital tax accounts for millions of individuals and businesses. They will bring together each taxpayer's details in one place, just like an online bank account, so they can register for new services, update their information, and understand quickly and easily what they need to pay – without ever having to complete a tax return again."

In essence, this was the launch of what is now referred to as the Personal Tax Account and the document suggested the following features:

- View and manage information online in one secure place.
- Pay tax without having to give HMRC information it already holds.
- Link business accounting software to the digital tax account (now known as MTD).
- Deal with tax affairs quickly and easily.
- Use simple, clear and personalised support.
- Give authorised agents access to the digital tax account.
- Access a wider range of Government services.

Any advisor who interacts with HMRC on a regular basis may have a wry smile on their face at this stage, as many of these features have not appeared. The functionality of the Personal Tax Account has not really changed since it was launched and merely leads to people having to ring HMRC to find out what is happening or resolve issues, due to this lack of functionality.

In addition, over the same period HMRC has lost the confidence of taxpayers and advisors due to the appalling service which it offers. This was summed up by the ill-fated announcement earlier this year that HMRC would be shutting down its helplines, a policy reversed within 24 hours. To even consider making such an announcement illustrates how divorced from reality the upper echelons of HMRC have become.

The main point of this letter was to focus on MTD for Income Tax. I feel that HMRC has lost track of the actual purpose of this project. MTD will require certain self-employed businesses and landlords to record their transactions in a Government-approved format and submit that data quarterly to HMRC. HMRC state that this will reduce errors and hence raise more tax BUT HMRC's own statistical analysis on the implementation of MTD for VAT stated that the best estimate of the additional VAT raised via MTD from SMEs was an average of £19 per business per quarter (<https://tinyurl.com/3tc94zjf>).

Compared with the implementation costs, most affected businesses would rather have written a cheque to HMRC for an extra £100 per annum and left it at that! Most practitioners have actually found that client record-keeping has not improved with compulsory electronic record-keeping – clients generally try hard or are poor bookkeepers and MTD has little effect.

An important point to note at this stage is that is that MTD does not require businesses to keep their primary/original records in Government-approved software. Rather, as a minimum it requires businesses to put original those transactions into that software once a quarter. That software does not allow HMRC to have any direct interaction with the original transaction. I would have more sympathy if HMRC were compelling businesses to record their original transactions in software that had direct connection to/interaction with HMRC, as happens in Columbia, Kenya, Romania, etc., but this element of the project seems ill-conceived. Then, for MTD for Income Tax, affected businesses and landlords will have to submit a summary of that data to HMRC on a quarterly basis. The information will be on a cash basis, whereas the vast majority of businesses draw up accounts on an accruals basis. The information does not have to be adjusted for tax or accounting purposes and the taxpayer concerned does not even have to declare that the information is correct, as it probably isn't!

So what is the point of this hugely onerous exercise? HMRC states that "...quarterly updates are central to the design of MTD. They help to ensure that customer records are kept closer to real-time, driving down common errors that contribute to the tax gap. They allow customers to call-up estimates of their emerging liability on-demand throughout the tax year..." (Making Tax Digital Small Business Review: outcome November 2023).

Well, to address the first point, customer records do not have to be kept anywhere close to real time. They can be kept in any old format and dumped into software to submit to HMRC once a quarter, so there will be a lot of inaccurate data in the system. What do HMRC propose to do with this data on an ongoing basis, as they don't currently have the resources to answer the phone or a letter, let alone look at millions of pieces of data which don't ultimately reconcile to the accounts submitted?

To address the second point, how can you base a tax estimate on rubbish data which is unadjusted for tax or accounting purposes?

To deal with another point, many people I have spoken to over the last nine years feel that MTD is about accelerating the payment of Income Tax. That is not part of the MTD project and does not need to be. To ensure mass compliance, increase penalties for the late filing of a tax return to something more meaningful than £100, let's say £10,000. That will ensure that 99.9% of tax returns are submitted on time. Then divide the bill by 12 and collect it by compulsory direct debit, my point being that this has nothing to do with MTD.

My plea to you is to please bring back some sanity to this project. The project has already cost £640 million (Extracts from Treasury Minutes – February 2024: Government response on Making Tax Digital) and will never do what it says on the tin. There seem to be many similarities with HS2.

I do not represent or have connections with any MTD software providers, do not sit on any Institute committees or have an axe to grind. The views expressed in this letter are purely my own. I merely hope that you can devote some of your time to this matter and stop the imposition of a massive administrative burden on SMEs, which you know are the main driver of the economy and future growth.

Many thanks for your time and I wish you all the best in your new role.

Yours faithfully,

Mark Morton BA (Hons) CTA ATT