

Public Accounts Committee

Oral evidence: Progress with Making Tax Digital, HC 1333

Monday 19 June 2023

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Members present: Dame Meg Hillier (Chair); Dan Carden; Sir Geoffrey Clifton-Brown; Mr Jonathan Djanogly; Mrs Flick Drummond; Peter Grant; Anne Marie Morris; Sarah Olney; Nick Smith.

Welsh Affairs Committee member also present: Ben Lake.

Gareth Davies, Comptroller & Auditor General, National Audit Office, Andy Morrison, Director, NAO, Adrian Jenner, Director of Parliamentary Relations, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 1 - 102

Witnesses

I: Jim Harra, First Permanent Secretary and Chief Executive, HM Revenue and Customs; Jonathan Athow, Director General of Customer Strategy and Tax Design, HM Revenue and Customs; Jo Rowland, Director General of Transformation, HM Revenue and Customs.

Report by the Comptroller and Auditor General Progress with Making Tax Digital (HC 1319)

Examination of Witnesses

Witnesses: Jim Harra, Jonathan Athow and Jo Rowland.

Chair: Welcome to the Public Accounts Committee on Monday 19 June 2023. Making Tax Digital is the subject of our inquiry today. This is HMRC's flagship transformation programme, announced in 2015. It aims to help businesses reduce errors in their tax records by using digital recordkeeping and the necessary compatible software. It has been rolled out to cover some VAT. Eventually, it will include income tax and corporation tax, but so far has only dealt with VAT for the largest VAT payers.

This Committee has previously reported on delays and problems with the programme. At the end of last year, in December, His Majesty's Revenue and Customs announced changes to rephrase this. While we recognise that HMRC has been dealing with a lot of issues around Covid and Brexit, we are still very concerned about the delays in Making Tax Digital and the potential cost to the consumer of doing this, now that we have been waiting so long for it to come.

I am really pleased to welcome witnesses from His Majesty's Revenue and Customs. We have Jim Harra, back again, the First Permanent Secretary and chief executive; Jonathan Athow, who is the director-general of customs strategy and tax design; and Jo Rowland, the director-general of transformation. Welcome particularly to Mr Athow, who is a first-time witness at the Public Accounts Committee. Welcome to you all.

Before we go into the main session, I know that a couple of members have questions to raise. In terms of declarations of interest, we are all taxpayers, but we are not declaring that separately, unless anyone suddenly wants to tell me that they are not a taxpayer. Having discussed it beforehand, no one declared anything nefarious, so we are only the same as any other citizen in that respect, whether we have business or personal interests.

Q1 Sir Geoffrey Clifton-Brown: Good afternoon, Mr Harra. You will not be surprised to learn that I will be raising the issue of the closure of the self-assessment helpline last week or the week before, just at a time when the interim July tax assessments are landing on people's desks. People are going to want to use this helpline. What do they do if they have queries and when will the helpline be reinstated?

Jim Harra: We are piloting a seasonal approach to dealing with self-assessment inquiries by closing the self-assessment telephony



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helpline from last Monday. It will reopen on 4 September. People with queries can still get them dealt with, but we want customers to go online. They can do that authenticated through their personal tax account or just by going on to GOV.UK and using our digital assistant, which is a virtual assistant. You ask it a question and it will find the answer to your question from our guidance. We expect that to deal with—we will see when we evaluate the pilot—between 30% and 60% of the queries.

At the end of that, anyone whose query has not been deal with can speak to a webchat adviser, which is a human being from HMRC. The webchat advisers are equipped to do anything that the telephony helpline was able to do. That is part and parcel of our aim to reduce unnecessary telephone calls and to encourage customers to try to get their query answered through the online service first, before speaking to an adviser.

We hope that this pilot will be successful in enabling people to get their SA queries dealt with during this period and will free up 300 to 350 colleagues, who would otherwise be dealing with those calls, to deal with other telephone calls and post. We have picked this period because it is a relatively quiet period for self-assessment. In this second quarter of the financial year, we get about 50% fewer calls than in the final quarter. There tend to be fewer queries. They also tend to be relatively simpler and less urgent than calls later in the year, which is why we intend to switch the telephony helpline back on again on 4 September.

We will be evaluating how successfully or otherwise this pilot deals with SA queries before we make any decisions about whether to repeat it. It is our aim for this to be a pilot for a seasonal basis going forward.

Q2 Sir Geoffrey Clifton-Brown: What does somebody do if they have a query on the interim assessment that has to be settled by 31 July, and they either do not use the internet or cannot use the internet because they do not have a good enough signal? What do those people do?

Jim Harra: If you cannot use the internet, you are able to go through to a telephony helpline for people who need extra support. The advisers there will check that you are eligible for that service and then you will get a telephony service. We have that in place for vulnerable customers or customers who otherwise cannot deal with things digitally.

Alternatively, if you are someone who usually deals with things digitally but you are having trouble using the online service, we also have an online service helpdesk, which can help people, for example, to authenticate themselves to get into their online personal tax account, if that is what they need to do. Last week, we saw an uptick in the number of calls to that helpdesk, but we have increased the resourcing on that helpdesk and on the webchat to deal with extra demand during this pilot period.

Q3 Sir Geoffrey Clifton-Brown: To be clear to the taxpaying public out there, you intend to reinstate it in full in September.



Jim Harra: Yes. The helpline will reopen on 4 September. Part of the evaluation of the pilot will be to look at what the behaviour of people telephoning us shortly after 4 September is. We will then consider whether this needs to become part of our seasonal pattern. It is all aimed at making this optimum use of our resources and therefore giving the best possible service that we can to everyone.

Q4 **Sir Geoffrey Clifton-Brown:** If there is a dip in demand at this time of year, surely the answer would have been to just transfer a number of those people to other services, rather than close it altogether.

Jim Harra: That would be our standard practice. The fact is that that would mean leaving advisers on the self-assessment telephone helpline to answer queries that are capable of being answered by the online service. It is not the most efficient use of our resources and it is not the deployment pattern that enables us to maximise the service we can give to all customers. We want to increasingly deploy our advisers on those who have the most urgent and complex queries, and who cannot get them dealt with online.

To give you an example beyond self-assessment, last year we had 4 million phone calls on three particular things that can all be dealt with simply online. We used about 500 staff to deal with those phone calls. Those are not all about self-assessment, but that is an example. If we can push that demand online, that frees up 500 advisers to improve the service for everybody else.

Q5 **Sir Geoffrey Clifton-Brown:** Is this just a pilot and why was so little notice given of this change?

Jim Harra: Yes, it is a pilot. By that, we mean that it is our intent, if the pilot is successful, to make it part of our seasonal pattern for how we deal with self-assessment calls. It is a pilot in the sense that we are trialling it. We are monitoring and we will evaluate before we make any decisions. Indeed, we would pull it if it was apparent that it was not giving a decent service to people.

We have discussed in general terms, including with this Committee, the types of steps that we want to take to encourage people to use our online services as the default and then our telephony service only if online does not give them the answer that they need. This is part and parcel of that. We did not see a need for people to have advance notice. We gave a little bit of advance notice, but we did not see the need for there to be a long lead-in to us doing this. Indeed, it would have skewed the evaluation of the pilot if we had given notice and people had made phone calls in advance of it starting. We want it to be as natural a period as it possibly can be.

It is a pilot specifically in relation to a seasonal model for self-assessment. It is also part and parcel of what we will be trying to do to



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maximise the use of our digital channel and to reserve our telephony channel for those who need it the most.

- Q6 **Mrs Drummond:** You partially answered this. Last night, on my way up, "Money Box" was covering it and there were a lot of people who were very concerned about it. I think that a million people used the service last summer, which is quite a significant number. I think you said that you would pull it if it was not working. How are you going to tell whether it is working? What are the criteria?

Jim Harra: It will take us time to be able to fully evaluate it. In the interim, we are looking at what the service level is on the pilot and what tweaking we need to do to improve it. The results from last week seem to have been encouraging. We could see that there was a very significant upturn in the use of online personal tax accounts and queries to GOV.UK. We could see that about 30% of queries that would otherwise have gone through to the helpline and asked to speak to an adviser got dealt with by the virtual digital assistant.

- Q7 **Chair:** When you say a virtual digital assistant, that is not a real person, to be clear.

Jim Harra: That is not a real person. You ask the digital assistant a question and it scours our guidance and gives you the answer. That reassured us last week that the pilot is meeting demand. We will keep monitoring it and trying to improve its performance. One thing we will want to test is what the optimum deployment of webchat advisers is. We have had to estimate that, but we will deploy more if that is what is required.

- Q8 **Mrs Drummond:** Will there be any leeway for people who do not have their accounts in by 31 July? Will you accept that they might not have been able to get through or something went wrong?

Jim Harra: If the pilot gave such a poor level of service that people who needed to speak to us before they could make a payment could not contact us, that is definitely something we would look at. Frankly, we would not proceed with it. The early indications are that that is not the case. The digital assistant is there to help to deal with your queries and there are webchat advisers there if that does not answer your needs.

- Q9 **Chair:** We will keep an eye on it. I am interested to know, from what you are saying, that it is quicker to have a webchat than to be on the phone.

Jim Harra: There is a shorter waiting time for webchat advisers and we get a significantly higher level of customer satisfaction with webchat than we do with telephony.

- Q10 **Chair:** Is that because they have the answers in writing?

Jim Harra: No, I think that it is because of the lower wait time.

Chair: That is interesting. We will keep an eye on that. Welcome to Mr



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Ben Lake MP, who is a guest on our Select Committee today, because he has a problem that he is going to outline to you, Mr Harra, or his constituent does. Mr Lake is a regular now, but hopefully not for much longer, on this issue anyway.

- Q11 **Ben Lake:** Mr Harra, you will recall that I attended a meeting of this Committee last month to raise the case of my constituent, who has seen many thousands of overseas companies using his address as their UK registered address. At that meeting you mentioned that it was still unclear why some of these companies were doing that, but investigations were ongoing. I wonder whether you could share with us whether the investigations have been able to get to the foot of the matter.

Jim Harra: They have made some progress. I do not think that we have got to the end of it yet. We have managed to make contact with an agent in the chain for these companies, who is not the person who varied the address but deals with the person who took that action. They have given an increased sense that this was an error and that someone did not understand what they were doing.

There is still no evidence from our investigations of any either actual or attempted fraud from this. There is mounting evidence that it was someone overseas, who is probably not familiar with our systems and did not understand what they were doing, making a mistake. I wrote to your constituent about a week or 10 days ago, giving an update on that.

- Q12 **Ben Lake:** On that matter, you are confident thus far that investigations still suggest that there has not been any fraud in the matter. I have been informed by some people that overseas advisers are offering clients the opportunity of reregistering their companies several times to fall underneath the VAT threshold. More to the point, I understand that some online marketplaces allow these companies to retain historic stock listings and feedback in such instances, and merely switch that history to their new name. You are telling me that you are confident thus far that in this case that does not seem to be happening.

Jim Harra: Yes, because in these cases what was varied was the address. We are alive to the risk that businesses, not just overseas businesses, will try to manipulate that threshold to stay below it, for example through fragmenting, or that they will try to convince the online marketplaces that they are established in the UK rather than established overseas in order to bypass the online marketplace liability. We liaise very closely with the online marketplaces to make sure that we stay in front of any of those risks.

- Q13 **Ben Lake:** You kindly wrote to the Chair of the Committee in March, detailing that you had taken action to make sure that my constituent would not be receiving any further correspondence for this matter. At the session on 18 May, you also explained, I think, that his address had been made an invalid address for VAT registration. You conceded at the time that those actions were imperfect and there was still a risk of some



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letters coming through, and said you would be looking into the matter.

I am afraid to say that I spoke to my constituent just last week and they informed me that they had received another 100 or so letters at the address just last week, including a note from the Royal Mail asking them to collect a sack of post. Do you have any idea why this is still happening? It is a matter of real concern to my constituent.

Jim Harra: I apologise. As I mentioned at the Committee last time, there is a risk, because unfortunately our systems are quite complex. They are legacy systems, so it is not a straightforward matter of just barring an address. We have to go into a whole variety of systems to suppress that. There was always a risk that some would get through. We asked your constituent if they could let us see whatever they are getting, because that will help us to determine which systems are bypassing what we have tried to do. I am sorry that that is still happening. We will quite happily go and collect the correspondence, especially if it is a sack.

Chair: I am glad that you said that.

Jim Harra: We will try to identify why that block is not working in the way that we want.

Q14 **Ben Lake:** Thank you. He is very keen to see this matter resolved. There has been somewhat of a breakdown of communications in the last month or so, so I am very heartened by your statement there, Mr Harra, that you are very keen to see these letters.

Jim Harra: He has a letter from me, so hopefully he has my telephone number and we can deal with that.

Q15 **Chair:** We know where to find you and we can help Mr Lake if he needs any help in that respect. Thank you very indeed, Mr Lake, for visiting us for that. We need to move into the main session. As I mentioned in my opening remarks, the vision for Making Tax Digital was first unveiled in 2015 and yet we had four movements on that timetable. It might be worth going back to brass tacks and asking what your vision was in 2015 for what Making Tax Digital would actually deliver for the taxpayer, the Exchequer and HMRC.

Jim Harra: If I may first describe the problem statement that Making Tax Digital is primarily aimed at addressing, it is the small business tax gap in particular. Small businesses account for about 48% of the tax gap. That was £15.6 billion in 2020-21. That is up from 32% of the tax gap in 2005-06. About £9 billion of the tax gap is down to simple errors and failure to take reasonable care. That is what Making Tax Digital is intended to address.

The traditional treatments for this problem are, first, the services of tax agents, who manage the affairs of many small businesses, but despite that many of their returns understate their profits, and, secondly, HMRC spending a large amount of money investigating small business risks and



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correcting those returns. I estimate that we spend about £550 million a year doing that. While there is a positive financial return to the Exchequer from that work, it is not changing the game. The small business tax gap is really stubborn and resistant to those treatments.

Making Tax Digital aims to make it easier for small business and landlords to get their tax right, and to reduce those simple errors and failures to take reasonable care that contribute to the tax gap, by requiring them to keep good records using software. There are two key requirements in relation to that software that we believe will foster good compliance. The first is a requirement to make light-touch quarterly updates to us, which will evidence that they are keeping those records up to date. The second is requiring that the software upload directly to our systems without the taxpayer or their agent having to intervene to transcribe that into another system, which is where some errors arise.

That is the proposition. We know it works because MTD for VAT has been in now for almost five years and we have seen early results from that, which are positive. It is obviously proving quite challenging to deliver, which no doubt we will go on to. If we do not do Making Tax Digital, there are no other serious options that we have identified or that have been put to us that would address the small business tax gap instead. One option you could look at is whether there is some way that you could improve the value add of tax agents.

Q16 **Chair:** Unless you are telling us that you are suddenly considering stopping Making Tax Digital—

Jim Harra: No. I am demonstrating that we have identified this as an option. We have a high level of confidence that it will help and we are not aware of any viable alternatives.

Q17 **Chair:** We are working on the premise that Making Tax Digital is still something that His Majesty's Revenue and Customs is pursuing. Nevertheless, you have had an awful lot of delays to this. You made that comparison with VAT, but of course VAT was always returned quarterly anyway. In retrospect, do you think that you had an unrealistic understanding of the impact that there was going to be on tax agents, small businesses and all those who need to adopt these systems. We will move on to the software specifically later. Was that a mismatch from policymaking at HMRC to the reality on the ground?

Jim Harra: Clearly, yes. There are two factors that have led to the delay and rephasing of the delivery of this. First, we initially underestimated the scale and complexity of the challenge, both for us and for taxpayers and their agents, in making the transition. Secondly, events have intervened. We have had some other large events that have definitely distracted us from this. Even if those events had not occurred, the fact is that we underestimated the complexity and nature of the task.

Q18 **Chair:** You might want to add something, but others may as well, Mr



Harra. Why did you underestimate it? What was wrong inside HMRC that you did not foresee some of these problems?

Jim Harra: Looking back, we announced this and, while the concept was good, we had not done all the work to identify the complexity of trying to deliver it on the legacy systems or, failing that, having to re-platform those systems. Also, the complexity of migrating data from old systems and the quality of that data meant that it was not a simple matter of migrating it. While we have completed the task now for migrating VAT data, that took considerably longer and more effort than we had envisaged that it would. It then distracted us away from the next phase of MTD.

Q19 **Chair:** Would that not have been predictable if you had done some testing or piloting of it beforehand?

Jim Harra: Yes. Jo might describe how we have learned lessons from that and the work that we are doing in relation to self-assessment, having learned the lessons from the VAT phase, to make sure that we have a much better understanding of the quality of the data and are doing much more cleansing of the data in advance of the mandation.

Jo Rowland: I will add a couple of things and then I will talk about that testing approach. First, there is no precedent. This is unusual. It is a significant part of the tax system. Although we do a lot of international comparisons, each tax system is unique, as is what exactly you are buying, so it was difficult to have that precedent. We had built some smaller taxes on to the particular new platform that we are delivering, Making Tax Digital, and that had probably led to us feeling more confident in the ease of it all.

Q20 **Chair:** Do you want to unpick that a bit? You say “some smaller taxes”, but which ones?

Jo Rowland: We had built some small environmental taxes into the platform previously. Our vision for the platform we are building into is to hold as many of our taxes on that single platform as possible. It is modern and resilient, et cetera, and will create a more joined-up customer experience in the long run.

Q21 **Chair:** There is a big difference between an environmental tax—I am not sure which one you are talking about, but they are all very specific and regulated, in a sense—and lots of small businesses or individuals putting their tax through the system, with all the complexities of expenses, write-offs and so on.

Jo Rowland: Absolutely, as Jim said, we underestimated the complexity in 2016. However, 2016 was a strategic outline case. The next plan after that outline case, subject to approvals, which it obviously got, was to then start piloting Making Tax Digital. In 2017, we started a pilot, but we took the decision to pilot VAT first. That is when we stopped the order and put ITSA—income tax self-assessment—further down the roadmap.



That pilot was successful. We learned a lot, but that is when we really understood the scale ahead of us.

Q22 Chair: You have acknowledged that VAT is much simpler to deal with. When you are looking at the whole programme of ITSA, as you call it— income tax self-assessment—you are dealing with much more complex matters. Are you looking at piloting areas of that at a time? How are you finding people who will do it? Will it be by postcode? Who is going to know whether they are going to be in the pilot for doing this?

Jo Rowland: We absolutely want our piloting for income tax to be thorough and we want to evaluate that pilot before mandation. Stage 1 of the pilot is very technical. As we build functionality that a customer can use and the software developers come up with new products, we have a very controlled pilot. There are currently 137 customers in that pilot and we are working with 17 software developers. That has grown since the 15 that were piloting in 2021, which I think the report references.

Those pilots will grow in number between now and 2025, but it will need to be controlled. It is really important that we are testing all elements of the customer journey, all the different income types, and that software developers get to pilot their products. In 2025, which is the year before the first cohort—those with over £50,000 income—is mandated, we will then be opening up to as near to an unrestricted pilot as possible.

Q23 Chair: That means that people volunteer.

Jo Rowland: People volunteer. Everyone is a volunteer now. Agents are putting forward volunteers. If they meet the criteria, we can accept them on to the closed pilot.

In 2025, that will be far more open to the public and their agents. We will use that time for two things. One is to make sure that everything we have tested can operate at scale, because that is an important thing when we go to mandation. The second aspect of that is that it will also act as a transition year. If customers want to try it early or if agents want to start migrating some of their client base before mandation, there is opportunity for them to do so.

Q24 Chair: A lot of the issues with this have been that you have had very short timescales and then delay in delivering things. If you go back and look at what has happened there, do you think that that has been part of the problem, in that you have not given yourself long enough to introduce some changes, and that has partly been the reason for the delay, because things did not work as quickly as you had expected?

Jo Rowland: We have definitely looked back at our approach to VAT and previous timetables. We have drawn from that the conclusion that we need some contingency in the timeline. This is why we put it to Ministers and the decision was made in December to give us a two-year delay, a far more substantive one, so that we have contingency in that delivery



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schedule. It was also to stagger the cohorts, so that we are bringing on board part of the population at any given point.

Q25 **Chair:** If you are a taxpayer and you go into one of these pilots voluntarily in 2025, and things go wrong, what is the support mechanism around individuals? By then you will be dealing with quite a lot of people, even though it is a pilot. What is it going to feel like for somebody going through that process?

Jo Rowland: We have three tiers of support for people who are piloting at that stage. First, the software products themselves will have some first line support for their customer base.

Q26 **Chair:** This is external software providers. We will come to that later.

Jo Rowland: It is external software. Secondly, we have already costed in some customer service support for that period to help customers with their early journey.

Q27 **Chair:** Is that additional funding?

Jo Rowland: No, that is within the business case for that year. Finally, as Jim says, for those who need extra support or count themselves digitally excluded, we have a way for them to contact us and we can see whether they are eligible for an exemption.

Jim Harra: I will explain the two phases of the pilot. In the initial phase, which is about testing with a controlled group of people, we have a model office that provides support to them. At the moment, we have an email address that they can write to, but we will open up a telephony line shortly for that as well. That is because we will want to handhold and take people through the testing.

Once we get into the larger pilot in 2025, we will be operating our usual customer service model that we expect to use in MTD long term. We will be increasingly using that at scale during the course of that year.

A challenge for us in the past, which is one reason for the delay, is that some key pieces of functionality not being there meant that we were going to have to deploy more operational staff than we could afford to deal with workarounds. Given everything else that we are up against on service pressures, we felt that we could not afford to divert that amount of operational resource. A key thing that the programme needs to do between now and 2024 is to make sure that there is sufficient functionality in place that the operational cost of supporting the pilot is manageable.

Q28 **Chair:** I am puzzled. You have talked now a couple of times about the legacy systems. We have looked at this across Government and every Department has real problems with legacy systems. You knew that at the beginning, so why was it not factored in? It was a reason for the delay, but you knew that you were working on old legacy systems, so I do not



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understand why you did not see that the original timetable was optimistic.

Jim Harra: Jo can give you more information on this. It was as we got deeper and deeper into the design of what was required that we realised increasingly that we were going to have to re-platform systems and develop new functionality that could not be developed on the legacy. In the case of VAT, it was always our intention to move off the old VAT mainframe, because it was extremely old.

Q29 **Chair:** That was built in, basically, from the beginning.

Jim Harra: Yes. We had to do that. In the case of income tax self-assessment, while we have a legacy system, it is not at end of life. We could continue with it. It was only as the design work developed that we concluded that you could not build MTD on that legacy system. It was better to re-platform.

We have also had to add things that we conceptually understood but we did not understand the complexity of initially, for example penalty reform, where you need a new system of penalty rules to support the new way of administering tax. That all has to be built on a new platform to make it work. With hindsight, to have had greater certainty at the start, we would have needed to do a lot of that design work up front, before we announced what we were going to do.

Q30 **Chair:** Would you employ that hindsight in future? Is that being deployed as you roll it forward in terms of the realistic nature of the timeframes?

Jim Harra: What you have seen, with the announcement in December, is that we announced a pretty long deferral and a built-in contingency within that period for the programme finding more things that it was not aware of or finding that things are tougher to deliver than we expected. Also, it allows for events, such as new policies being announced. One of the things that knocked self-assessment was when the health and social care levy was announced. There was not the contingency in the SA programme to allow for fitting in the development of that alongside the programme.

Q31 **Chair:** You did not have the capacity for decisions made by Governments at Budgets.

Jim Harra: There was no contingency in the programme. If a policy was announced that impacted on this programme, it was inevitably going to cause a delay in the programme.

Q32 **Chair:** There are lessons all round on that. We have talked about the VAT system working reasonably well, but it has not been completely smooth, has it? There was a very severe decline in the speed of processing VAT registrations. We were hitting over 90% and then, after you introduced the new system, it dropped to 69% in March 2023, but reached 75% in April, which is the last month that the NAO had figures for. What



happened there? I know that you were trying to stop fraud. You have a new system, you were trying to make it easier and yet you could not process VAT registrations as quickly as before.

Jim Harra: There is a completely different cause of that. You are right that we moved the VAT registration service. Part of the Making Tax Digital programme was to move the VAT registration service on to the new platform, which we did in August last year, and at the same time introduce additional functionality for customers, so an ability to send us attachment documents online, rather than through the post.

At the same time, around spring last year, we started to experience a significant increase in the number of VAT registration applications that we received, which we considered were probably the start of a fraudulent attack on the VAT system. Therefore, we have to introduce additional controls and checks on VAT registration at the same time. It is coincidental that the programme was re-platforming VAT registration at the same time as we were introducing more checks.

There were a couple of teething issues with the new system. While we had built functionality for applicants to send us documents online, we had not at that stage built the functionality to process them automatically. They had to be processed manually in our office and that caused about a six-week delay in processing.

Also, we learned some lessons. In the initial few weeks, some agents got confused about how they were supposed to navigate to the system. We had to introduce some guidance to people, clarifying how to navigate through our agent services on to it. Those were what I would regard as teething problems. They were not critical to VAT registration service performance.

Where we stand today, we are meeting our VAT registration service standard, which is to process 80% of applications within 40 working days. In fact, we are exceeding that at the moment, in part because we have deployed additional resources on to VAT registration, including closing the VAT registration telephone line and putting about 25 colleagues on to actually processing the applications instead.

Q33 **Chair:** The telephone line was closed.

Jim Harra: Yes. We had a separate VAT registration helpline. We found that the vast majority of calls going to it were from people progress-chasing their VAT registration application, in many cases before our service standard had expired. We were spending, I think, 25 full-time equivalent staff on just answering those calls. We took the decision to close the helpline and we have redeployed those staff on to working on the applications. We have put out guidance to say, "If your application has not been dealt with within the 40-day target, here is the process".

Q34 **Chair:** Will it reopen?



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Jim Harra: We have no plans to reopen that line. There is an email service. Given that most of the calls were chasing progress, if we can keep up to date we should not have to deal with those calls.

Q35 **Chair:** That is two hotlines closed in quick succession.

Jim Harra: I did not write to the Committee because it was a relatively small helpline and there is an alternative telephony route, but we publicised the fact that we had closed it. It was not a secret.

Chair: It is just that seeing them both at the same time in the Committee is interesting.

Q36 **Mr Djanogly:** Could I first look at how services compare with other countries? I am going to the NAO report, paragraph 3.35, which says, 'The Government's 10-year 2020 tax administration strategy states that: 'Rising public expectations of world-class customer service mean that the UK both can and must have a fully digital tax system able to support taxpayers across the full range of their needs''.

It goes on to point out, 'Most of the 15 countries of the G20 (other than the UK) that responded to a 2022 Organisation for Economic Co-operation and Development (OECD) survey reported they automatically processed tax returns for personal income and corporate tax, with a majority also reporting that they offer taxpayers digital services for handling correspondence and objections for both these taxes and VAT'. Have you ascertained as to how far behind other tax authorities HMRC is in offering up-to-date digital services?

Jim Harra: Jonathan might come in with more detail. We work very closely with other tax authorities. We have some that we partner with quite significantly. Then we have a general group, which are in the Forum on Tax Administration and the Intra-European Organisation of Tax Administrations, that we compare with.

We are ahead in some areas and behind in others. My main concern is not which services they offer that we do not. It is the velocity of change. As the Committee has seen with Making Tax Digital, it is taking us longer to implement change than we want. In order to keep up with international developments, we have to speed that up in the future.

We stand well against other tax authorities in many parts of our digital services. For example, there is almost 100% take-up of digital filing for Pay As You Earn, income tax, corporation tax and VAT. Increasingly now, where we are cutting edge compared with other tax authorities is dealing with customer inquiries online.

Q37 **Mr Djanogly:** The reason I am talking about this is to back up what the Government's 10-year strategy is, looking at expectations of world-class customer service. If we are not going to be world-class, we have a problem here. The Chair discussed reasons for the delay. Mr Harra, you have said that you underestimated the complexity. Could you go a little



bit more into what those complexities were? Specifically, in an international context, is it that our tax code is so much more complicated than other countries' tax codes that it gives us more problems in digitisation?

Jim Harra: I will pass over to Jo, who has more detail on the complexities that the programme encountered. I do not think that it is complexity of our tax policy so much as the complexity of the legacy that we are carrying. When I look at some of the most nimble countries in delivering digital tax services, they are often former Soviet countries that are not carrying this 50-year legacy behind them and have been able to leapfrog us in terms of technology.

Q38 **Chair:** I hope you are not suggesting that you would rather be working in that jurisdiction.

Jim Harra: I am talking about former ones. They started with a blank sheet in the 1990s, whereas I am carrying legacy systems from the 1970s with me. That is more the issue.

Jo Rowland: As Jim says, the other thing we found as we started delivering VAT was the recordkeeping. Old legacy systems hold records in a fundamentally different way and we expected the conversion into the new system to be simpler than it proved to be. We have realigned our assumptions as we moved into income tax. Now we are expecting that at least 30% of our records may need some kind of manual work in order to make sure that they are correctly applied into the new system. Data complexity was definitely a driver.

We have taken opportunity to improve or simplify the tax system as we are delivering Making Tax Digital. Jim has already referred to penalty reform. Penalty reform is a much fairer system. It is a points-based system and hopefully gives taxpayers fair warning and understanding of their non-compliance long before a penalty would apply. That is an example of opportunities we have taken while delivering.

The other thing, in terms of our digital journey and comparators, is that we are already a digital organisation in many ways. Between our online app, our personal tax account and our business tax account, there are nearly 22 million customers registered for those services. Last year, there were about 200 million transactions in those services, from which 97% of those customers did not go on to call us, based on our data. We are making great strides towards digitisation. Making Tax Digital is one part of our wider digital strategy, which Jonathan might want to say a little more about.

Jonathan Athow: We are looking very much at what other countries do. It is challenging sometimes to compare countries. If you go to the United States, it has 100% filing. We do not have that, so we are looking at that.



The direction of travel is quite clear. Exactly what we are trying to do is set down in international guidance and best practice, which is to build tax into other systems that are operating. We already do that for PAYE. It is built into payroll. The idea with Making Tax Digital is that you build the tax calculation, or some of the tax calculation, into software that people are already using or asking people to use.

That is very much the direction of travel internationally. We see Making Tax Digital as very much consistent with that, but different countries are in different places. If you looked at the Nordic countries, you would find a much higher degree of digitalisation, but they have a number of advantages. They have a digital identity in a way that we do not. There are a number of different ways in which it is quite difficult to compare countries.

As Jim said, if you look at our PAYE system, it is remarkably effective and efficient. That was digitised back in 2013 or 2014. I forget which year it was, but it was about 10 years ago that we already made that transition.

Q39 Mr Djanogly: Looking at figure 11 on page 53, there are a variety of services here. Some of these are ones that other countries are doing better in than we are. How do we put it in context? How would you put it all in context?

Jonathan Athow: In some cases, some countries, for example, are able to do more pre-population—that is putting other data in—because they have a data infrastructure that allows that. If you go to Denmark, for example, you would see that it has a very strong data infrastructure. Information is sent directly from the bank into your tax return. If you have a query about that, you do not query with the Danish tax authorities; you query with your bank, because the bank has that responsibility. That is an example of a country that has a slightly different institutional structure to us because of its data quality, so you can go further with, for example, pre-population.

There are examples where we do that. At the moment, your self-assessment tax return is pre-populated for employment income and pension income. We have made some steps in that, but there is certainly further that we would like to go in that idea of pre-population, which is one of the angles brought out here.

If you file your tax return online, that is processed there and then. For certain angles, we also have to do additional compliance checks. That sometimes requires human interaction. A good example would be the VAT registrations, where, again, because of the risk of fraud, we sometimes have to take longer over a VAT registration to make certain that there is no risk of fraud. We have elements of this, but we have to temper it for our own institutional setting and manage the risks around non-compliance as well.

Q40 Mr Djanogly: Let me look at self-assessment. In paragraph 18 of the



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report on page 9, it says, "Making Tax Digital for self-assessment is at least eight years behind the original timetable and HMRC has not resolved some important elements of its design". HMRC launched a pilot in April 2017. It seems that most participants who wanted to participate in the pilot were turned away, leaving only 15 out of thousands who applied. What happened?

Jonathan Athow: I might ask Jo to talk about that. With piloting in general, in the early stages we are testing very specific parts of the process, so only certain numbers of people will be eligible for that, potentially people with very straightforward affairs. That is where we want to do the first testing, but Jo will probably elaborate on that.

Jo Rowland: It has always been the plan to start piloting in small numbers and grow out. As I say, 2025 is when we want to go to a public pilot, as near unrestricted as possible. The reason we need to control it very tightly is that, as Jim says, we are putting a complete end-to-end wraparound care service around the customers, their agents and the software developers, as well as our own systems. We are taking very detailed evaluation of the performance of the new systems, as well as the customer journey. That automatically feeds into new design as we go, so that we are on a continuous improvement pathway for the services we have.

The other limiting factor is that, as we are building the capability into our new platform, that capability can then be piloted. For example, we have already built single property income into the platform, so we are now actively able to pilot some customers with that type of income source. Other types of income source are further down the line, with the most unusual the latest in the roadmap. That will allow us to, in a very controlled way, grow our numbers between now and 2025.

Q41 **Chair:** Can you give us an example of an unusual tax at the end of the roadmap?

Jo Rowland: Share fishermen.

Mr Djanogly: A letter has come in, number 15, and I am going to look at something on it.

Chair: We need to be a bit careful. It is a confidential document so we cannot identify anyone.

Q42 **Mr Djanogly:** I am not identifying the person, no. They are talking about the progress before rephrasing. They are saying that HMRC's technology did not work. Most filings had failed and there was no process to resolve the problems. They are saying that they were carrying the responsibility for supporting taxpayers in the pilot. HMRC could not give them the support that they needed. Basic processes were absent. This is a huge list of problems from someone at the coalface, seeing this on a daily basis. What sort of action are you taking to deal with these people who are trying to make their way and finding it impossible?



Jo Rowland: Pilots are not without problems. That is why we pilot. That is why it is a very controlled pilot in the early days. We have a number of ways in which we are able to quickly pick up issues, rectify them and build them back into design.

The first way is that we have a cocreation forum with our stakeholders. That will include a number of the representative bodies, so their feedback can directly reach us. We have a member of the representative bodies on our programme board, together with a member of the software development community. We also have a cocreation forum with our software developers, so that we can understand technical issues and fix them immediately. As Jim has said, we also have a model office. That model office is dedicated to the customer care.

We invite anybody who is concerned about our customer experience to get in touch. It is that feedback that we need in order to keep improving our design and the development of our products.

Q43 Mr Djanogly: I am looking here at page 33 of the NAO report. Going back to the 15 out of thousands applying, it says in paragraph 2.20, "HMRC had forecast 15,500 business taxpayers would join the pilot by 2021-22". Why did it end up as 15? I do not understand.

Jim Harra: As Jo said earlier, there are currently 237 people in the pilot, but that obviously is much fewer than we intended. That is a key reason for deferring mandation. I said earlier that, while there was technical capacity to take more people into the pilot, there were a number of functions that we had not yet built.

As the pilot went on, there was a risk that more and more customers would have circumstances where they needed to engage with that functionality. An example would be time to pay, where we had not built that into Making Tax Digital. There was obviously a possibility, if we took on 15,000 people, that a significant number of them might want to use time to pay. We did not have the functionality there.

That would have caused a large number of clunky clerical workarounds, which would have required quite a significant amount of resource from us and would have impacted on the quality of the experience for the customer. That is why we took the decision that we could not expand the numbers in the pilot in the way that we wanted in our original plan. That meant that, as we approached the original date for mandation, it was clear that we were not going to be able to run the scale of pilot that we felt that we needed to run in order to land that smoothly. That is one of the reasons why we made the decision last December to defer.

Q44 Mr Djanogly: You are saying that you cannot deliver it by 2024. Remind me; when did you say you will deliver it by?

Jim Harra: 2026 is when the first cohort are mandated. We aim to have as unrestricted and open a pilot as possible about 12 months before that to allow people to voluntarily join ahead of mandation if they wish. We



need to have built sufficient functionality by then that we are able to support that pilot with the resources that we have.

Q45 **Mr Djanogly:** Are you seeing that clear process as things stand?

Jim Harra: Yes. That is why we have the revised programme plan as well as the timeline. We understand which design issues remain to be resolved, we have a timeline for resolving those and we have that cocreation approach with stakeholders that Jo mentioned to make sure that we find the answers to those design issues with them. It was a decision on our part not to allow the pilot to increase to the size that we had originally envisaged, because we did not feel that we would be able to support the customers properly while they were in it.

Q46 **Sarah Olney:** You have talked about one of the main aims of Making Tax Digital: reducing the tax gap. Clearly, an objective is to increase the amount of tax revenue that is being collected. How confident are you that the tax revenue is going to increase as a result?

Jim Harra: We are very confident. We have both quantitative and qualitative social research findings, which make us increasingly confident of that. If you take VAT, the VAT service has been in place approaching five years on a voluntary basis and four years on a mandatory basis. We estimate that, in the first year of mandation, 2019-20, it brought in additional revenues of between £185 million and £195 million. The Office for Budget Responsibility has certified an estimate for the current year of £415 million additional revenues, which is about 40% higher than had previously been forecast.

The Office for Budget Responsibility has scored on the fiscal and economic scorecard £138 billion over the five years to 2023-24 for that first mandated cohort and a further £100 million over the first five years from the second cohort, which were much smaller businesses. When you look at social research, you also find that a significant number of users have said they consider that using Making Tax Digital-compatible software has reduced the potential for them to make errors in their tax and has increased their confidence that they are getting their tax right. We have that quantitative research and that qualitative research as well. That is from Making Tax Digital.

We have good insight into the level of error and failure to take reasonable care in self-assessment that is susceptible to the MTD approach. We have supplemented what we had in VAT. In VAT, it was primarily, "Keep your records correctly and up to date using this software. Make your software speak to our systems rather than you transcribing from your own records". That, in itself, brings down the tax gap.

We are doing that for self-assessment. In addition, we have a project within the programme called HMRC assist, which is about us putting real-time nudges and prompts in for users as they use MTD, which will also guide them if we think that they are potentially going to get something



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wrong. That contributes to the additional tax revenues that we believe we will get from self-assessment. As we get evidence that that works, we are looking at the case for going back into VAT and adding that kind of functionality in the VAT service as well.

- Q47 **Sarah Olney:** The report identifies a couple of other factors that might be contributing to those increased revenues. Are you sure that Making Tax Digital is the most effective way of collecting those additional revenues? Might some of those additional revenues be better collected through increased compliance, or increased compliance officers?

Jim Harra: We are only trying to treat here one particular part of the tax gap, which is simple error and failure to take reasonable care. It is not addressing more deliberate evasion, for example.

Yes, an alternative option to Making Tax Digital would have been to increase the resources of HMRC to do more investigations of small businesses. As I said earlier in the hearing, we currently spend about £550 million a year on investigating small businesses and correcting errors in their returns. While we make a positive financial return on that, the indications are that it is not sufficient to change the game in terms of the ongoing level of non-compliance by small businesses.

That is for two reasons. With the resources we have, we can cover only a relatively small proportion of small businesses. Also, there is a churn in the small business population that limits the future revenue benefits of your compliance work. It would have been an alternative option; it would have been very costly. If you doubled the size of my investigation team, that is another £550 million. Also, I would argue, in terms of burdens on customers, that being investigated by HMRC and getting an unexpected tax bill for back years is more burdensome than helping everyone to get it right in the first place.

- Q48 **Sarah Olney:** Talking about burdens on customers, taxpayers are going to be required to obtain the necessary software and make seven submissions every year rather than one. Mr Athow, why will this be better for them?

Jonathan Athow: The process we are aiming for is that we want people to be keeping records in near real time. At the moment, part of the reason for the tax gap is that there can be up to 21 months between a transaction occurring and you needing to report that to HMRC as part of your self-assessment return. The aim is that we want people to be keeping near real-time records. That is what a lot of the software is providing.

The process then is that, when it comes to your quarterly updates, you would then just press a button to confirm that the information you have on your software is up to date. Some software providers are going to make that automatic. It will automatically update our systems so you will



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not have to take any action, if you do not want to. You can have it all happening in the background.

That is the aim for the system. We are looking at the design of that at the moment. In particular, we have been looking at something called an end-of-period statement, which is one of those things you have to look at under the current design. We are looking at where we can take out steps that may be disproportionate, but the aim is to have those contemporaneous records and then almost have an in-the-background update to HMRC.

It is not like doing four tax returns a year. This should all be happening in the background for lots of people, if you keep those records up to date. Going back to the strategic reason why we want that, if you keep your records up to date, the evidence is that you are less likely to make mistakes or forget things, so they are likely to be more accurate. That is the theory behind it; that is what we are looking for. When you think about the updates in a year, you have to bear in mind how they will work through the software.

Q49 Sarah Olney: What sort of relationship do you have with the software developers? We are hearing some reports that, due to the delays, it is quite hard now for private sector software developers to build a customer base for their software because it keeps getting pushed back and back. People are not going to be investing in it, and that is going to create issues in the market for software. In your experience, is that creating issues for taxpayers?

Jonathan Athow: If you are a software provider, you want the largest market and you want the most certainty about when things are going to happen. The announcement in December reduced the size of that market because those under £30,000 were taken out of the immediate scope of MTD, but it also put it back two years. That has been a challenge for the software industry. We have heard that from many in the software industry.

We want to provide as much certainty as possible as soon as we can. The sooner we can get the design agreed, the easier it will be for them. Then they will be able to start building the software. They are not going to build the software until there is more progress with the design. From our point of view, we want to provide as much certainty as we can to allow the software industry to start building those products and thinking about how it wants to market them. Again, we know the industry is waiting on some of those decisions.

Q50 Sarah Olney: Do you accept that the changing of the deadline has already been quite undermining for people who might have been developing a business around these requirements?

Jonathan Athow: As I said, we have heard from the software industry that both the smaller market—those under £30,000 are no longer within



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the immediate scope—and the extra time were things it did not welcome. Again, a lot of this comes back to certainty. Businesses want certainty on which to plan, design and launch their software products. Undoubtedly, adding delay and having uncertainty around some parameters of it is going to be unwelcome for software.

Jim Harra: I do not underestimate that the announcement in December has knocked confidence among those in the software industry. We are working closely with them to give them as much certainty as we can and to help them because we want there to be a healthy software market.

However, we do know from our experience with VAT, where there were 2 million customers involved, that we were able to foster a very healthy market. There are over 500 products out there, including some free ones, to enable people to use Making Tax Digital for VAT. In fact, there are so many products that I would expect that there will be a consolidation of that at some point. We have both a strong record and quite a hopeful precedent there.

In the case of self-assessment, yes, there is no doubt that the extra time that has been created and the uncertainty around the size of the population, while we review what to do with the customers who have income between £10,000 and £30,000, means that that has knocked confidence.

Q51 **Peter Grant:** Mr Harra, have you estimated what the loss of benefit or additional cost to the public purse has been from the delays to Making Tax Digital?

Jim Harra: Yes. In the longer term, we expect it to bring in its full benefits. In the short term, up to 2027-28, the loss is about £1.7 billion.

Jo Rowland: It is £1.75 billion.

Jim Harra: That has been certified by the Office for Budget Responsibility. That is caused by both the deferral of mandation and the fact that, while we review what we need to do for customers with a turnover between £10,000 and £30,000, we have removed all the benefits from that part of the population from the scorecard.

Q52 **Peter Grant:** In answer to one of Ms Olney's questions when she asked what other ways you had looked at to reduce the tax gap, you mentioned the possibility of just bringing in more staff to HMRC. Earlier work the Committee has done, backed up by figures from the National Audit Office, has indicated that for self-assessment you can get back about £10 for every £1 you spend on additional enforcement. For other forms of tax, it is different. The highest rate of return from Making Tax Digital that I can see, in figure 7 on page 42, is about two to one.

I know the numbers are not exactly comparable for a number of reasons, but does it not suggest that, either instead of or certainly alongside doing something that has been delayed and is not working anything like as well



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as it should be, if you had brought in additional people to HMRC last year, the year before and the year before that, you would have got in increased tax revenue? By getting that tax in from people who legally owe it to the public purse, you would have seen a scale of benefits that is possibly as big as or even bigger than anything you are going to get from Making Tax Digital.

Jim Harra: We have discussed in front of the Committee before that we estimate we will get about an 18 to one return on our customer compliance staff, but that is across all taxes. I would not expect it to be as high for this population. Of course, the impact on the population as we administer the tax system in that way can be quite tough. If you are subject to investigation, it can be very disruptive and intrusive. It is much better to help people get things right.

We expect the financial return to the public purse of Making Tax Digital to be about three to one overall and, for self-assessment, about 2.3 to one overall. That is based on the latest business case in March and the Office for Budget Responsibility's latest fiscal forecast at the spring Budget, which we are yet to adjust our business case to reflect. I do not recognise the figure of 10 to one for small business self-assessment investigation work.

Peter Grant: That was for self-assessment generally.

Jonathan Athow: One of the challenges with the self-assessment tax gap for small businesses is that often it is a lot of small mistakes. When we look at the amounts for the self-assessment tax gap for businesses—I may be misremembering here—around a third of the amounts are for under £1,000. Those are areas where, if we had a full investigation, you could easily expend that much resource investigating that. Sometimes it is a large number of small errors.

Q53 **Chair:** What you seem to be repeatedly saying, Mr Athow, is that you are trying to get people who want to pay their tax to do it well by not making those little errors along the way.

Jonathan Athow: Indeed, so, as Mr Harra said, this is targeted at error and failure to take reasonable care, which, in this case, is often connected with not keeping good records.

Q54 **Chair:** You are trying to get rid of the bag of receipts at the end of the year.

Jonathan Athow: Yes.

Jim Harra: Yes, precisely.

Chair: Not that I would recognise that at all.

Jim Harra: At the moment, you can keep your receipts in a carrier bag. You can bring them along 21 months after the end of the year. Hopefully you still have them all, and you can pay an agent to convert that into a



perfectly good filing. The chances are that you will not have kept them all. What we want is at least quarterly—ideally it would be in real time—people keeping those records up to date and keeping good-quality data.

The other issue is that we are trying to lift a whole population of people's compliance up, not just a very targeted group of people. If you take VAT, we have discussed how this year we expected to bring in £415 million in additional revenues, but the average increase in VAT declared by these taxpayers is £57 per quarter for those with a turnover above the VAT threshold and something like £19 a quarter for the smaller businesses. Clearly, we cannot deploy our resources over that population to get that kind of recovery and make it financially positive.

Q55 Peter Grant: Are you concerned that, even though this looks like a fairly modest additional financial burden on small businesses now, some of them will just decide they are not going to co-operate and you will end up seeing a fall in compliance rather than an increase?

Jim Harra: We are not worried about that. It was not our experience with VAT. What we have not quite landed yet—it is starting to emerge from the experience of VAT—is the extent to which we are adding an unwelcome burden to businesses versus the extent to which we are mandating businesses to do something that, in the end, will not be a burden to them.

If you take our experience with VAT, ahead of the mandation of VAT we had exactly the same concerns as we have now with self-assessment about the cost burdens on small businesses of requiring them to transition to the new way of working and to pay for software. By 2021, when we surveyed those same taxpayers, 80% of them say it is easy to use; 30% of them believe there has been a net financial benefit to them; 25% believe it is cost neutral to them; and only 14% believe the costs have outweighed the benefits to them, quite apart from the benefits to us. That was our experience a few years earlier with real time information for Pay As You Earn as well. The prospect of it is quite concerning to people, but afterwards they see benefit.

In our business case, we have not yet quantified what we think the benefits to businesses will be from encouraging them to digitalise the way they keep their records. There is some research evidence, not focused on MTD, suggesting that you can get a 10% productivity boost in businesses if they embrace digital accounting software, for example. We are conducting that research and we hope to build it into the economic business case. We could well find that the net cost to businesses tips.

Chair: We look forward to that day.

Q56 Peter Grant: We are going to come back and look at the business cases in more detail later. The final area for me is going back to the question of quarterly updates. If somebody, as a lot of small businesses and small traders do, uses a competent but not necessarily professionally qualified



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bookkeeper for all of their in-year stuff and then goes to a high street chartered accountant for their annual accounts, how much more complicated does it become for them because they are going to two different businesses to do two different parts of the work?

Jonathan Athow: That is one of the elements of the design that we know we need to get right for Making Tax Digital. It is the problem of multiple agents; that is the language we use. You might have a bookkeeper and an accountant. That was one of the bits of work. We are trying to design how you get that to work because, again, if people are using that approach of a bookkeeper and accountant, we want to facilitate that.

We need to make certain it is done in the right way. For example, people should potentially only have access to the information or the parts of the tax return or tax calculation that they need to see. We are looking to facilitate exactly that sort of model, but it is a complicated part of the build. You are not just allowing the taxpayer access to the software. You need to allow two different people to have access to the software and understand who is allowed to do what in the different parts of the process.

That is something we are trying to work out in the design. It is one of the outstanding issues we are working on.

Q57 Peter Grant: If we get to the position HMRC expected when it decided not to produce its own software, in that there will be a vibrant market and a number of viable options for software for people to purchase, it also means you are going to have a lot of circumstances where the bookkeeper uses one software package and the accountant uses another. Who is going to pay the cost of making sure those two software packages talk to each other?

Jonathan Athow: All MTD software is certified and must meet our standards. A lot of the issue here is with how we authenticate agents to allow them to make changes in our system. That is part of the complication here. It is not just the software packages but how we say to somebody, "Yes, you are an agent of this person. You can access their online account", and to somebody else, "You are also an agent of this person. You can also access their online account".

The issue is often with the design of this authentication process, which is really an HMRC issue rather than an issue with the software. The software is designed to meet minimum standards so it should all hang together. Jo, I do not know whether you want to say anything.

Q58 Chair: Can I just check whether that authentication would be traceable? If there is someone who is an agent or maybe two partners in the business, you will be able to see who had put the change in.

Jonathan Athow: Yes. Those are the issues we are working through to make certain we can understand.



Q59 **Chair:** It could even be within a business, if you fell out with your business partner and they decided to go in and fiddle with your tax return. It could be quite interesting.

Jim Harra: First of all, there is a choice to be made whether we authenticate at firm level. If a firm wants to have division of responsibilities within it, it is the responsibility of its software to do that.

What we are talking about here is where a taxpayer says, "This person is going to file my quarterly updates and this person is going to file my end-of-period statement". Our systems need to be able to identify them and give them different levels of access to that taxpayer's record. That is a design feature we still have to build.

Jonathan Athow: Again, if you are partners in a business, that will have to be dealt with according to how partners are taxed. Another example of a difficult scenario we are working through is where two people might jointly own a property. They might have to account for the profits on that property differently. There are a number of these scenarios that we are working through at the moment.

I would also say that some of these processes are not particularly straightforward in our current way of operating. In some ways Making Tax Digital does not make that harder. It just sometimes puts these challenges into extra relief. Multiple agents and allowing agents access are wider issues than just Making Tax Digital.

Q60 **Peter Grant:** How many of your service users or taxpayers are in the position of using a bookkeeper for some stuff and an accountant for others?

Jonathan Athow: I do not have that information to hand.

Chair: Do you have a ballpark percentage?

Q61 **Peter Grant:** Does that mean you do not know or you just do not have it now?

Jonathan Athow: I do not know whether we have it and I do not have it to hand. It is not a number I have seen.

Q62 **Peter Grant:** Would it not have been a good idea to have an idea of the scale of the issue you are dealing with before you try to find a solution?

Jonathan Athow: Again, this has been raised by our stakeholders as something we need to address. We know we need to address this. We are not considering a scenario in which we do not make this happen, because we know there will be people in that circumstance who we need to cater for.

It is almost like we are doing it the other way around here. What do we need to do to make this work? There are going to be some choices about how much functionality we offer. Do we do registration, as Jim said, per



firm or per person? There are lots of angles to this, but the idea is that we will need to design something for that multiple agent scenario.

To be fair, whether it is a relatively small number or a relatively large number, we know there is a need, which we have to meet. The question is, "What is the best way of designing a process that works with our software and also with our own internal processes?"

Q63 Sarah Olney: Mr Harra, when I was questioning you earlier, you said that what you are after is a wholesale change in taxpayer behaviour away from receipts in carrier bags and towards perhaps, dare I say it, better record-keeping behaviour. We have also discussed how HMRC's change in deadlines has made it quite difficult for the software companies to plan and deliver.

It seems to me that that is going to have an impact on how many software developers are going to be keen to come to market and the range of solutions available to taxpayers. Is that not going to have an impact on accessibility for taxpayers, particularly the ones who are keeping their receipts in a carrier bag, for whom this is a much bigger change than perhaps the people who had better tax record-keeping behaviours to start with? Do you not worry that perhaps the impact on the software firms is going to create a barrier for some of those people?

Jim Harra: Jo can give you a bit more information about what we are doing about that. Yes, we do worry about that. We have clearly added to the risk as a result of the announcements in December. The sooner we can get certainty about the size of the population and the requirements, the sooner we can mend the fences and make progress on that.

It will be critical to our decision-making that there is a healthy range of products that meets everyone's needs. Clearly, we are not going to mandate people to do something they cannot do because they do not have the software to do it. On the other hand, we have a very positive precedent with VAT. While I do not expect we will see the same scale of products for self-assessment, because it is just a more complex market for software developers to play into, we nevertheless know that we have already had 15 developers with products in our pilot. We have two new ones coming into the pilot for this year.

In particular, while the big players are having to review their investment profiles and everything, they know what they need to do. They know this will be a market of, at a minimum, 1.6 million new customers and potentially significantly more than that. Yes, it is something I worry about. Clearly, it is a critical success factor for the programme.

Jo Rowland: There are already 30 listed on our software choices page. We are also being far more transparent with the software developers than we were previously regarding the wider roadmap of Making Tax Digital. What they will see is our development of what we call APIs



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because those are what they build their products around and what we consume their data from.

We are now being even more transparent about our own internal re-platforming as well because we understand the timing of that will impact their investment timing. They will definitely want to see us make progress on all elements of the programme, but I am confident that we have a range of suppliers interested and looking to invest when the time is right.

Q64 Sarah Olney: I want to move on to upfront costs for businesses. In your May 2022 business case, you forecast that the ongoing cost to taxpayers would be around £900 million over five years. The report highlights that this figure of £900 million has not previously been included in the business case for Making Tax Digital. Ms Rowland, could you tell me why you have not included that in the business case?

Jo Rowland: We did make a technical interpretation error in how to apply customer costs and transition costs into the business case. We were applying to the financial case, whereas, as the NAO highlighted to us, the Green Book directs that they should be involved in the economic case.

Part of the confusion is that, as we have already established, one of the main drivers for Making Tax Digital is the additional tax revenue it brings in. The economic case does not recognise additional tax revenue. The calculation of something called net present value, which comes from the economic case, does not give an accurate figure for us. We have always used a financial case to calculate our return on investment.

As Jim says, we corrected that in the business case after the NAO highlighted it to us, and our latest business case is showing a very healthy return on investment of three to one, which is high by Treasury standards.

Q65 Sarah Olney: This is a question for Mr Harra. Would the decisions have been the same if that £900 million had been included in the original business case?

Jim Harra: Yes. I want to stress that, while we did not carry the figure through to the right analytical tables in the business case, in accordance with the Green Book, we have throughout estimated customer costs. We did include them in the business case in the narrative and in an annexe. We have published a tax impact information note in the past.

We also, as we demonstrated with evidence to the National Audit Office, reflected it in advice to Ministers when decisions were made. You can see that the decisions that have been taken, for example, around the £10,000 turnover limit and, last December, the £30,000 turnover limit have been motivated by concerns about managing customer costs and customer burden. I am very confident that it was carried through in all of



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the decision-making and that the decisions would not have been different.

If you take the economic business case, as Jo said and as the National Audit Office says in its report, it is really not possible to use the Green Book economic case to make decisions in this programme because it ignores additional tax revenues. The National Audit Office devised its own methodology for including that, which Treasury may or may not adopt in the Green Book in the future. We shall see.

Even on that basis, for the most recent business case, it is a two to one return in economic terms, taking into account customer costs. Excluding them, which is the case in the financial business case, it is three to one in the most recent financial business case. Those are very positive rates of return. They are regarded by Cabinet Office and Treasury as high-value returns. Therefore, I am confident that the decision-making was correct throughout and took account of all the relevant information.

Q66 Peter Grant: I want to come back to the question of the software issues, if you have a client who is using two different agents. When do you expect to know the scale of what you are dealing with? Never mind finding a solution. When do you expect to know exactly what it is you need to put into your specification in order to get around that difficulty?

Jo Rowland: Regarding multiple agents, Jonathan chairs the strategic oversight board that has been specially set up and reports to executive committee to make sure we resolve these design issues within the coming months. We recognise that we need to give both ourselves and the software industry certainty.

We are not going to overlook the need to involve our stakeholders fully so we have full understanding of the issues. Quality and the right design will drive the timeline rather than an arbitrary deadline on Jonathan. We do recognise that these are urgent matters to resolve and we have the right mechanisms in place to bring those designs to fruition as soon as possible.

Q67 Peter Grant: Who else sits on the strategic oversight board? Is it entirely internal? Do you have external people on it as well?

Jonathan Athow: I chair it. Recently, for example, it has had Bill Dodwell, who is the outgoing chair of the Office of Tax Simplification, sitting on it. We also bring in external views through reports back from the groups that Jo oversees, such as those looking at software or those looking at designing particular features of this. This is co-creation where we sit down with taxpayers and ask them how best to design a process. We get inputs in that way.

The other members are then internal members of staff from HMRC and the Treasury. They bring their expertise in particular areas. How do we measure business profits? We have a small team that looks at business profits. They come along to make certain that the design we are



considering around how business profits are recognised in Making Tax Digital is consistent with the overall tax design. It is very much a collaborative approach.

We have a list of issues we are working through at the moment. We are trying to work out which ones are most urgent. Some of them can be left later in the design process because they are not critical for software providers or they are not critical for our own design. We are trying to prioritise the ones that are absolutely upfront or issues that are quite complex.

Multiple agents, as I said, is one we are definitely on the case of. It is quite a complex thing to do because of all the requirements I set out about different people interacting with HMRC systems and the need to maintain security.

Q68 Peter Grant: Do you have people who are involved in designing the software and people who are involved in using it, tax agents for example, represented on this strategic oversight board? If they are not there, how do you make sure the essential technical advice they feed into one part of the system does not get lost before the final decisions are made?

Jonathan Athow: We have a number of external forums, and Jo can probably talk a bit more about them. On particular issues, if we have had a particular issue for the board, often that has been sent to what we call a co-creation group, where we sit down with taxpayers, their agents or representatives and design through the system.

That is one way of doing it, but that will be on a specific issue. For example, there is a question about whether we should do these end-of-period statements that I mentioned. That has been to a co-creation board. We have asked people, "Does that really help you? Is that the sort of thing we should be considering?" Those are things where we have looked at very specific things, but then Jo will also have access to other groups where we bring in other stakeholders.

Jo Rowland: Yes. Just quickly on that, the strategic software forum has our most invested software leaders. That is where we consult. However, Making Tax Digital is also in partnership with a range of suppliers that we have commissioned to help digitise the tax system. That gives us access to the very latest digital skills the market has to offer.

Q69 Chair: When you say these are "strategic" digital suppliers, are they over a set size?

Jo Rowland: We have had a technology sourcing programme. That has moved HMRC away from some legacy monolith suppliers and is now giving us market choice. We call them strategic suppliers because we will then use them for all our HMRC projects, for example, that we have awarded our digital to. We are still free to go out to market if we want to, but, for speed and quality, all our programmes at the moment, more or less, are calling from that one strategic supplier.



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Q70 **Chair:** This is someone who will be supplying to HMRC. What about the software developers?

Jo Rowland: As I say, we have the strategic software forum, which is where we—

Q71 **Chair:** When you use the word “strategic”, I am reading into that large corporations. Are you looking at smaller organisations?

Jo Rowland: No, there is deliberately a range of corporations, including some smaller software providers, so we get that diversity there. We have regular co-creation sessions with them as well.

Q72 **Chair:** These are hackathons, are they?

Jo Rowland: Yes, we enjoy those days.

Q73 **Peter Grant:** Mr Harra, when asked about the software development process before, you said that any software that is going to be authorised for use in Making Tax Digital would have to be certified. Is that certified by HMRC or will you be bringing in an external firm to do that on your behalf?

Jim Harra: I do not think it was me who said it before, but that is the case. We accredit Making Tax Digital software products so that someone selecting that product knows it has been tested against our systems and, therefore, if they use it correctly, it will successfully submit what they need to submit. That is all online. There is also information on there about costs and the functionality within those products to try to help businesses make the best decision for them about which product to select.

We are keen that businesses ask not just, “What is the minimum to enable me to comply with Making Tax Digital?”, but, “What is the best product that can add value for me as a business as well as enable me to comply with HMRC’s requirements?” That is what we have built. We do not recommend any products, but we provide that information to our customers. We then scrub through that periodically.

First of all, if a provider was to come to us and say, “I no longer offer this product” or, “This no longer meets MTD’s requirements”, we take it off. We also watch for which products are not actually touching our services periodically. If that is the case, we will go out and inquire whether it is still there. We try to keep that list current. That is for VAT.

As I said, there are over 500 products there, which we expect over time will probably shrink. With 2 million customers, I suspect the software industry is going to find it difficult to maintain that number of products over a long time. Some of them are very basic. They are what we call bridging products.

Where a customer already keeps what they regard as digital records—they have spreadsheets and they keep them up to date—we have said,



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"Fine, we do not expect you to throw that away". There are these bridging products that will take the data from your spreadsheets and put them into HMRC's systems without you having to transcribe them. A number of those are provided free of charge by the software industry for VAT.

Again, I would encourage businesses to make sure that is the right choice for them because there is very limited functionality in those products, but they do meet our minimum requirements.

Q74 Peter Grant: If you are checking out these systems and giving them some kind of seal of approval, do you take liability if something goes wrong with any of the systems? If people's returns are not submitted correctly or the wrong information is submitted and the customer then comes back and says, "You told me this system was okay and it has cost me £20,000", do you have any liability for that?

Jim Harra: That is a very good question. Certainly, with accredited software, if it turned out that that software, for reasons we should have spotted during the accreditation, does not do what it needs to do, we certainly would not be penalising any taxpayers for the impact of that.

We expect everybody to pay the tax they owe, but, yes, if the software did not in fact meet the accreditation standards that we said it did and that had an adverse impact on anyone, we would not be penalising them for that.

Q75 Peter Grant: Have you factored into the longer-term risks and benefits of the whole system the fact that at some point you may face quite a significant liability?

Jim Harra: I would not expect us to face a financial liability. I can envisage circumstances where someone has got something wrong and we would say, "Alright, we are not going to charge you a penalty because it was the product that got it wrong, and that is something we could have seen". I do not think I would envisage that we would end up with the liability.

Chair: It would be hard for you to take on the liability of 500 software providers, potentially, but you sound like you might be sympathetic if there were some disastrous product that fell over in the middle of the year.

Jim Harra: Yes, correct. We have been careful in what we are doing in the software pages and giving taxpayers information so they can make informed choices, but we are not championing or recommending any particular product.

Chair: The only software that has ever failed on me was HMRC's own. I had to switch mid-year, which was an interesting data inputting exercise. That was many years ago.



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Jim Harra: We have pulled back from providing products ourselves because that damages the market.

Chair: That is right. The market was well ahead of you. You were right to withdraw.

Jim Harra: We made the right choice there.

Q76 **Sir Geoffrey Clifton-Brown:** Ms Rowland, in paragraph 3.26 it says that you will need to train up 20,000 staff. It does not give a period. Is that a realistic number with new AI techniques coming along?

Jo Rowland: Sorry, I am just finding that.

Chair: It is page 47.

Jo Rowland: First of all, as we have already highlighted, making sure that we are prepared to give the right level of service to our customer is a priority. You are absolutely right. As we have already discussed today, digitisation will bring new opportunities and possibly in future allow us to reduce the direct one-to-one support we need to give our customers. For now, we are working on the basis of today's understanding of customer support, the ratio.

In terms of the numbers that need training to support, we have seen that precedent in Covid where in a matter of less than a week we trained over 10,500 customer services assistants to support Covid schemes. We are more than able to operate training of that scale. For now I would rather base our customer service stats on known numbers. If there any opportunities to get more efficiency into that, we would look to those in the future.

Q77 **Sir Geoffrey Clifton-Brown:** Is your BCR case of three to one, which you were outlining earlier, worked out on those numbers?

Jo Rowland: At the moment, although we do factor in the full lifecycle costs, our current business case has a detailed cost for the next two years because that is what we are seeking funding for. Not all those customer service costs are in the business case because they are costs we already incur. They are not new to Making Tax Digital. They are a diversion from support we would already be giving self-assessment customers that are currently filing through the traditional route.

Q78 **Sir Geoffrey Clifton-Brown:** Mr Harra—I cannot find the paragraph; it does not really matter—you are going from phase 1, which is self-employed taxpayers with an income of over £50,000 in 2027, to phase 2, which is taxpayers with an income over £30,000. You have about 700,000 people in phase 1 and another 800,000 in phase 2. Given the complexity of self-employed tax calculations—the number of costs, allowances and everything else is on a different order of magnitude to VAT—are those timetables and numbers realistic?



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Jim Harra: First of all, if I can clarify, taxpayers with an income over £50,000 will be mandated from 2026, and those with an income between £30,000 and £50,000 in 2027. From our point of view, in effect, all the functionality has to be there to support the first cohort. For the second cohort, we will use exactly the same functionality. There is no advantage to us in build terms from phasing in this way. We have done that to assist taxpayers and agents with the onboarding. If you are an agent, for example, you can bring part of your client base on ahead of the rest.

Thinking about our experience in VAT, we originally mandated only those who were registered and had turnover above the registration threshold. At that stage there was no certainty that we were going to mandate the rest. In practice, about 30% of the rest voluntarily joined MTD. By the time we came to mandate the rest in 2022, 30% of them were already on board.

I would expect the same to happen with self-assessment. In particular, I suspect there will be agents who will say to their client base, "I expect all of my client base to do things one way", but we shall see. In any event, it is about spreading the task of onboarding people rather than spreading the functional build for HMRC.

Q79 **Sir Geoffrey Clifton-Brown:** Going down the income scale—£30,000 is quite well down the income scale—those types of businesses may be sole traders that are likely to have much less resource. They might use a bookkeeper and a tax adviser, as Mr Grant has been describing, but many of those businesses may well do it all themselves or with minimal help. This is going to be much more of a burden, the further down the income scale you go, is it not?

Jim Harra: Yes, potentially. At the moment, when it comes to burdens, we have one assessment for the whole of what I would call the pre-December 2022 population, so for everyone with a turnover over £10,000. We will now need to stratify that into three populations. That is what we are working on at the moment.

We are trying to come up with assessments of the cost and burden, and the nature of the task, for cohort 1 and cohort 2. We are also looking, as part of the review of the £10,000 to £30,000 cases, at what the impact on them is and the different choices we might want to make for them.

Q80 **Chair:** Presumably, that phasing is also helpful because you have to manage a number of staff doing all of the data transfer. You are continually testing how that is going.

Jim Harra: Jo can give you more information, but we currently have a migration plan for the first 1.6 million people, which is the two cohorts for 2026 and 2027. We still envisage that we want to migrate the rest of the data on to this platform because it will make life simpler for us and enable us to decommission legacy systems in due course, but at the moment our data migration plan is focused on those 1.6 million.



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Jo Rowland: Yes, that is absolutely right. Ultimately, whether they are in a mandated income tax population or whether it is a self-assessment payer like me, we want to put all of our taxpayers on to this new system and decommission the legacy system. That is a population of about 12.7 million over the course.

You are right. The staged migration does give us contingency, should the migration of the mandated population run into any risks or difficulties.

Q81 **Chair:** You say it gives you contingency. If you hit a problem with the data—we talked about legacy systems earlier—in the data migration with cohort 1, can they bleed into cohort 2? Have you allowed the capacity for that to happen or would that mean a deadline slipping at the end?

Jo Rowland: It is the other way around. We would like to make sure that everybody in the scope of mandation is migrated as soon as we can. If cohort 2 needs to slip to that latter year, we have that latter year to be able to accommodate it.

Q82 **Chair:** Just talk me through it. I am in cohort 1. You will test, with my cohort, what needs to happen. If it goes well, you will bring cohort 2 in earlier. They will not expect to be migrated earlier, so would it be voluntary?

Jo Rowland: There are two ways we can approach migration. There is the point you are mandated and sign up to MTD, and that is what triggers the record to move. The other way is a behind-the-scenes migration, but we would not yet be applying MTD obligations on somebody. For cohort 2, we could start a behind-the-scenes migration early and not put them into mandated status.

Q83 **Chair:** Effectively, you will be piloting the system with cohort 2.

Jo Rowland: Yes, but we will have already completed a substantial pilot.

Q84 **Chair:** What if it is the other way around and there is a delay? You have had four delays now. Are you confident that there will be no more delays and that you will not be having to move people? It is a complex project. There is still a long way to go.

Jo Rowland: I am confident that all the lessons learned from VAT have now been accommodated into the new roadmap.

Chair: That is an answer to a different question.

Jo Rowland: We have had some big unforeseen risks in the delivery of this programme to date. There could be some big unforeseen risks in the delivery—

Q85 **Chair:** It is wretched known unknowns, is it not? Surely there are still some known unknowns in the system, things that could be risky because of the ageing systems.



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Jim Harra: There are. However, in the case of self-assessment data, we have taken 200,000 records and looked in depth at what the issues are with migrating them. One of the lessons we have learned is not to have an iterative approach where we find these problems as we find them. Actually, we get advance notice of what they are and we plan for them.

Q86 **Chair:** Would that not have been a good thing to do first time around?

Jim Harra: Yes, with hindsight. I have to say that we have had to learn lessons from what has happened. If I sat here and said, "We are just going to carry on trying to do this in the same way we have", that would not be credible.

Chair: No, definitely. We get that bit.

Jim Harra: In relation to the two cohorts, it is our aim, for example, in 2025 to open this up on a voluntary basis to both cohorts. We would expect a lot of the people who are going to be mandated in 2027 to have voluntarily joined well in advance of that.

As I say, it is exactly the same build and the same software products they will be using. Yes, there will be differences in the population in terms of the proportion who are unrepresented versus represented and in their resources and capabilities. While we have a phased mandation, we still want to encourage people to come on board as early as we can.

Q87 **Chair:** There are no additional resource issues for you if more people volunteer to go early.

Jim Harra: Regardless of which service they go through, we have to support them. One of the things we are currently testing in the very small pilot is that customer support model. What volumes do we think will arise on a transitional basis and an ongoing basis? We need to test that and learn from the pilot what the outcome of that is.

Q88 **Chair:** You have set a very firm deadline rather than a range. Is that partly because of tax year-end?

Jim Harra: Yes. Unlike VAT, where people could be onboarded during the course of the year, with income tax, if you miss the start of one tax year, you have to wait until the next.

Q89 **Chair:** Your contingency, again, Ms Rowland, is bringing people forward. There is no contingency at the other end.

Jo Rowland: The published dates are the published dates. They are our deadlines to make sure that we have a fully operating service, that we have a good software market that is giving our customers choice, that our records are either able to be mandated upon trigger or are already migrated into the system and that we are operationally geared up to support.



They will be our success criteria to say, "Yes, we are ready to mandate by these dates". The current roadmap does have contingency in it to meet those dates. It is not a programme without risks. We have been open about those risks today. We are doing all we can to make sure each risk has strong mitigation and controls around it, many of which, as Jim says, we have learned from VAT.

Q90 Chair: We will not go through the figures, but at earlier stages the figure for individuals with tax agents and businesses who knew what was coming was quite low in many cases. What are you doing to communicate this? One of the interesting things in the debate that Mr Grant was having with you was this average figure of £330 for all taxpayers affected by Making Tax Digital. For the cohort that are filing for between £10,000 and £30,000 of income, that is £460.

If your turnover is £10,000 or your tax return covers £10,000, £460 is quite a chunk compared with other people. That is something that people need to plan for and be aware of. Are you communicating this clearly to people out there?

Jo Rowland: Jim has touched on this. The costs we publish and put in our tax impact and information notice tend to be upper-range costs because we want to make sure we are as transparent about the costs as possible.

Of course, we have a very strong communications plan. We are currently working with the software industry itself because we think there is a strength in some joint marketing, with Government leading on the policy but then, as appropriate, industry marketing following that up. Between us we have quite a reach to the customer base.

Q91 Chair: Is it being put in letters we are getting? I am not sure I have seen anything yet.

Jo Rowland: At the moment, we are making sure we are very clear on this. As Jim says, we now have to stratify the cost across the populations. We want to make sure we are really clear on our messaging, having now undertaken this thorough re-baselining and got the co-creation sessions with our stakeholders in. Very soon we will be ready to be coming out with those messages, and there will be a very firm warming-up campaign so customers are aware.

We did see the same with VAT. We saw low awareness at first. We now have, depending on whether they are under or over the VAT threshold, between 98% and 99% sign-up compliance.

Q92 Chair: Having seen that trajectory, do you have a plan and a trajectory for how much you want to ramp up awareness over a period of time?

Jo Rowland: We do.

Chair: You have milestones.



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Jo Rowland: Yes.

Chair: Those will presumably be targeted around particular advertising campaigns or letter writing.

Jo Rowland: Yes, but the thing I am highlighting is that there is still a lot of co-development to be done in that plan with the software industry.

Chair: You do not have it yet, but you are building that.

Jo Rowland: Absolutely, yes.

Jim Harra: One of our insights from the communications plan for VAT was that, when you are trying to raise awareness, a lot of small businesses say, "Come back and tell me when I need to do something". While we want to build up awareness in advance, among agents in particular, for small businesses we have to time this ahead of, say, 2025, when we will be inviting people to take part in the pilot, in order to give them the notice they want, which is, "I now need to do something. Thank you for telling me".

Chair: Yes, and notice in the period of time they need it.

Jim Harra: Yes, exactly.

Chair: There is so much still to do.

Q93 **Sir Geoffrey Clifton-Brown:** Ms Rowland, we have talked about cohorts A, B and C or 1, 2 and 3. I cannot remember which it is. Is it the case that, once you are mandated, there is no escape from Making Tax Digital irrespective of any income differences from year to year?

Jo Rowland: If your income were to dip below the mandated threshold, you are in Making Tax Digital for three years, and then you can elect to come out.

The other route, as I have mentioned previously, is that you have an opportunity to apply for an exemption if your circumstances change or you are no longer able to self-serve digitally.

Q94 **Sir Geoffrey Clifton-Brown:** What is the ambition and timeline for the 12 million taxpayers, the whole lot, going to Making Tax Digital?

Jim Harra: Just to be clear, we do not have an ambition. We have about 12 million people in self-assessment, many of whom, like me, are not in business and there is no plan to require them to use Making Tax Digital, but at some point we want to migrate their records on to the new platform and close the old system.

At the moment, our ambition for Making Tax Digital is restricted to businesses and landlords. The key group we still need to make decisions about are those with a turnover between £10,000 and £30,000.



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Q95 **Chair:** What about people who know they are going to close down their business or, indeed, cease being a landlord or whatever it may be? I should declare an interest: I am a landlord. I am not asking for direct advice, but I should be clear for the record. If somebody has decided to exit their business at the point they would be transitioning, would you give them a free pass and say, "No, it is not worth you going over to Making Tax Digital, if your business is going to close within a year"?

Jo Rowland: This is some of the detailed customer journey work we are now undertaking. The general principle and the general rule we have applied to VAT is that, once you are in, you are in for the complete three years. If your circumstances change, you can elect to come out. It will be interesting to see how many people do elect to do that.

Q96 **Chair:** I know you have said this, but that is completely free. People can make that choice.

Jo Rowland: After three years, yes.

Q97 **Chair:** It is only because their circumstances have changed, it is not worth their while or they no longer qualify under the MTD banner.

Jim Harra: From the point of view of our objectives, it is not really in our interests to push someone into MTD who has only six months to go before they sell their property or whatever. It is not going to help us achieve the benefits we are looking for here. We have not made decisions about what we will do in those cases, but it is the ongoing businesses and landlords we want to keep in MTD.

Q98 **Chair:** What about people who are recalcitrant? "Recalcitrant" is a bit unfair, but I have had people write to me about this. One person wrote to me saying, "I am a creative person. I do not do the maths and the numbers. It is unreasonable to expect me to do this". You may have a different opinion, but that was their view.

They are not keen. Should I put it that way? They are not going to jump on board straightaway. They are not very enthusiastic. They are not going to embrace it. They are not going to be early adopters. If someone is being recalcitrant and saying, "I do not want to join", how are you going to manage that? How are you going to enforce it?

Jim Harra: Maybe a lot of taxpayers are in that category, but we expect everyone to comply with their tax obligations. As boring as it may be for some people, it is a chore you do have to do. If you are above the turnover threshold, it will be mandatory for you to do it.

You will either have to grin and bear it, and do it yourself, or you will have to pay someone else to do it. We do hope that the software products will make this much easier for people than it would otherwise have been.

Chair: That is your pitch to me.



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Q99 **Sir Geoffrey Clifton-Brown:** Again, I should declare an interest, which is an agricultural business in Norfolk. Will all the costs incurred in Making Tax Digital be fully tax deductible?

Jonathan Athow: I do not know the answer off the top of my head.

Chair: You had better not give us an answer off the top of your head because it might count as tax advice.

Jonathan Athow: Indeed, so let me just confirm my understanding on that.

Sir Geoffrey Clifton-Brown: Let us have a note.

Chair: We are not making special pleading.

Q100 **Sir Geoffrey Clifton-Brown:** People want to know, basically. Finally, Mr Harra, every financial statement alters the basis of virtually every business. Bearing in mind Peter Grant's questions on software and bearing in mind you are not able to tell software manufacturers, presumably, in advance what those changes are going to be, how quickly would you expect the software manufacturers to be able to keep up with those changes?

Jim Harra: First of all, there are now lots of software products that people use to file their self-assessment returns. We are very familiar with that. In our policymaking cycle, we ensure that, to the extent that taxpayers are reliant on external software, that is built into our advice to Ministers about how quickly we can do things. It is in the nature of the digitalisation of the tax system. Starting with Pay As You Earn and payroll, and now increasingly with businesses, we have to accommodate that lead-in time.

Jonathan Athow: If I could just elaborate, last year we made two in-year changes to national insurance. That built our understanding of what the lead times were. Again, a lot of payroll software is up to date. There is also quite a lot of older software. We understood that. When we are talking about self-assessment, we are really talking about income over the year. Making certain that the calculation is right over the year will be the priority for us.

That is a bit different from when we are making in-year changes to, say, national insurance, where you have to do it and it is done on a weekly or monthly basis. There are some elements to self-assessment that give us a little more time and flexibility. Again, as you have said, sometimes the self-assessment calculation can be a bit more complex than, say, national insurance. There are competing issues there.

Q101 **Chair:** It used to be that it took about 18 months. Over a decade ago, anyway, if you changed tax at a Budget, you had to plan it a long time in advance. When we were discussing CDS and customs with you, you said you can do this much more quickly now. How quickly can you make a



change go through?

Jonathan Athrow: A lot of that will not necessarily depend on us. When we were making the changes to national insurance, the constraint was not HMRC's systems. Some people have their payroll software in the cloud. That can be done virtually instantly. At the other end, other people have on-premises IT systems where somebody literally has to come in and install a new system.

Again, this will not always depend on us; it will depend on other people's systems. That is just about understanding that complexity and those sorts of issues. In the future, when we have more of these systems, we will have to be more of a steward of different IT systems. We will not always be completely in control of the end-to-end process ourselves.

Q102 **Sir Geoffrey Clifton-Brown:** Mr Harra, I suppose this is what was behind my question. In future financial statements, can we expect the implementation period to be more dependent on the practicality of introducing it? We are not going to get big changes and then suddenly it is going to be introduced there and then on Budget day.

Jim Harra: We already do that. I am not sure whether there is anything in MTD that will extend those timelines. In our advice to Ministers, we already advise how quickly we think customers and the people who support them will be able to respond to policy change and the kind of bumpiness there might be in the customer journey if you implement policy too quickly. Ministers have to make those trade-offs between what they want to achieve quickly and how smooth the customer journey can be made.

When we were advising on the changes to national insurance, for example, that was very much in the nature of the dialogue with Ministers about what we thought payroll software could do and how quickly it could adapt. As Jonathan said, there is no one-size-fits-all because some employers can adapt very quickly and some cannot. We had to build that into the advice.

Chair: I am sure all Chancellors and shadow Chancellors are listening to that. Thank you very much indeed for your time. The transcript of this session will be published uncorrected on the website in the next couple of days. Thank you to our colleagues at Hansard for that. We will be producing a report, which might now tip into the autumn just because of our timeframes. Can I thank you very much indeed?