

Treasury Committee

Oral evidence: [Shifting Sands: an inquiry into UK tax policy and the tax base](#), HC 314.

Tuesday 25 October 2016

Ordered by the House of Commons to be published on 25 October 2016.

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Members present: Mr Andrew Tyrie (Chair); Mr Steve Baker; Helen Goodman; George Kerevan; Mr Jacob Rees-Mogg; and Wes Streeting.

Questions 295-356

Witnesses

I: Chas Roy-Chowdhury, Head of Taxation, Association of Chartered Certified Accountants; Frank Haskew, Head of the Tax Faculty, Institute of Chartered Accountants in England and Wales; Mike Cherry, Policy Director, Federation of Small Businesses; and Rebecca Benneyworth, Tax Practitioner and Chair of HMRC's Digital Advisory Group.



Examination of witnesses

Witnesses: Chas Roy-Chowdhury, Frank Haskew, Mike Cherry, and Rebecca Benneyworth.

Q295 **Chair:** Good morning. Thank you very much for coming in. This seemingly rather abstruse issue, the digitalisation of tax, has very considerable and possibly adverse implications for hundreds of thousands of small businesses and sole traders—possibly even more than that. This is why we are calling a hearing on it. We want to make sure this is done properly, and we want to know from you this morning whether the Government are on the right track. Why don't I start with Mr Roy-Chowdhury and just ask: do you think the consultation exercise has been handled properly?

Chas Roy-Chowdhury: I have to say, I have not seen this level of detailed consultation from HMRC before. The documentation has been very good and there have been a lot of meetings, but the whole idea of a consultation is that you have an open slate where you can change the policy. I just feel that, while the constitution process has been good, something has been set in motion, which is going to happen, and there may be changes around the edges, rather than the actual nub of the issue itself.

Q296 **Chair:** Are businesses aware of what is going on?

Chas Roy-Chowdhury: From our members, it seems it depends on the size of the business. If they have agents, then they probably are aware. Certainly, our members are aware, and they are businesses themselves. At the smaller end, the one-man-band type businesses probably have no idea whatsoever what is going to come down the track.

Q297 **Chair:** Is it going to impose a cost? Or, in the long run, as we are being told and have been told by Treasury Ministers, although these businesses do not yet know it, is this going to be of benefit to them?

Chas Roy-Chowdhury: I question where the benefit is going to be, purely because there will be requirements to keep records and make returns on a quarterly basis, with a fifth return at the end. There will be a requirement to ask your agent to perform work five times a year, instead of once a year. Other than the digitalisation, which obviously businesses will undertake anyway over time, as they become more digital-savvy, I just do not see where the cost savings are necessarily going to fall.

Q298 **Chair:** Why don't I just ask the four key questions, as I see it, to open up the main areas that we are going to look at in more detail? Do you think that the concessions that the Government announced were substantive, Mr Roy-Chowdhury, or flattered to deceive? Do you think the Government are right to press ahead with this, given the dispute about the amount of revenue that may in any case be available as a consequence? Then I am



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going to ask each of the remaining three witnesses to pick up on parts or all of the questions that I have just asked and give their view.

Chas Roy-Chowdhury: I will be succinct, so I will take the back end of your questions first. The way that this is going to happen will be problematic. We want to help HMRC, because in terms of the additional funding it got from the Government—nearly £1 billion—this is part of the package that it agreed. It is going to be doing something, so we want to help it; we want to be constructive, but we see that there are going to be issues.

I will focus on two of the concessions that you talk about, Chair: the timing and the £10,000. I am not sure where the £10,000 comes from. That is even below the personal allowance threshold. What was the thinking behind that? If there was something around the VAT threshold, £83,000, it might be different. In terms of timing, where the smaller businesses—and it is yet to be defined what they are—will be in the MTD system later, that is probably worthwhile, but where is that level going to be? They are the areas I would focus on, in terms of concessions and implementation.

Frank Haskew: I would very much concur with everything that my esteemed colleague Chas has said.

Chair: You are allowed to disagree with your colleagues, if you want to.

Frank Haskew: Chas has identified most of the key issues, and they are common across most of the professional bodies. I would just reiterate the point that we, as professional bodies, want to support the move to digitalisation. Our members are extremely used to being at the forefront of change, so there is nothing inherently that our members would not be supporting here, in terms of digitalisation. But the way that it is being framed at the moment and the terms of the consultation are such that it is very difficult for our members to give this their support.

From our point of view, our members should be powerful advocates of change here, but it is very difficult for them, as it is currently framed, to actually give it that support. I would agree with what Chas has said: at the moment, there are some fundamental roadblocks with it. They include the mandatory aspect and the quarterly reporting. The timing is clearly a challenge as well. We have a number of fundamental difficulties, I think, in actually helping to support this in its current form.

Q299 **Chair:** Sorry, can you just translate that? “We have a number of fundamental difficulties in helping to support this in its current form.” Does that mean you are against it?

Frank Haskew: We support the principle of what the Government are trying to do but, picking up on what Chas said, the fundamental parameters of all this have already been set, it seems. We are really consulting on the detail; that would be the general view. We have already decided that the Government are going to implement this with a certain



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timetable and that most businesses will be within this. That has already been set. That is our challenge. We should actually be helping achieve the change.

Q300 Chair: Mr Cherry, from where I sit, having looked at this and exchanged letters with HMRC about it on a number of occasions, which have been put in the public domain, my primary concern is that a large additional compliance cost is going to appear for small businesses and sole traders, which they had not, up until now, experienced. Have I got that right, or have I misunderstood something?

Mike Cherry: That is part of the problem. FSB has estimated that the actual cost of this is likely to be around £2,770 per year. This ignores a fundamental—

Chair: Per?

Mike Cherry: Per business.

Q301 Chair: That is a huge sum. That is a massive cost. How robust is that number? We are going to get into this in more detail.

Mike Cherry: That is a huge sum. That is a fairly valid estimate, even though we do not at the moment know the full detail of what quarterly reporting is going to mean in practice. My colleagues have highlighted some of the major points. We are bringing this in on sole traders and landlords as a first tranche, before testing it properly. On every previous occasion, HMRC has started with larger businesses, made sure that it has something that business understands and can work with, and reviewed due process. We hope this will happen with auto-enrolment, although there we have seen a much more significant administrative burden in time being placed on small businesses than was ever envisaged at the start, with the rather silly impact assessment. Let's not forget we have had no impact assessment assigned to this at the present time.

Chair: We are going to come on to that shortly.

Mike Cherry: The idea that you should mandate before you have something that businesses even know about, let alone can understand and adopt, comes alongside other issues around cyber-security, what software may be available and the fact that, at the moment, 75% of businesses do not maintain their accounts electronically in full detail. We are going about this in completely the wrong way. The implementation timing, when we look at other overseas administrations, is not aligned to what they have found in practice. In Denmark, they found that it took about three to three and a half years, I believe.

There are many, many issues around this. Coming back to one of your first questions, many small businesses are certainly not aware that this is coming down the track. It is creating a perfect storm. We have had national living wage and dividends changes. We have had auto-enrolment, which is still ongoing for the small listed businesses.



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Now, as Frank has said very well, we seem to be tinkering around at the edges.

While we welcomed the concessions, they were only, for goodness' sake, a start, to make sure that we have fundamental change and that it works not just for HMRC, which should be secondary, but for businesses in the first place. That is certainly not our view of it at the moment. Mandating should not be happening at this present time. On making tax digital, and moving into the digital side of things, I absolutely agree with the pathway, but over a much longer period of time that businesses can understand and get to grips with.

Q302 **Chair:** That is a very helpful summary. Before I move on to Ms Benneyworth, can I just ask: do you think that HMRC is pressing ahead just because it does not fully appreciate some of the points you have made, because it takes issue with some of those points, or because someone is sitting there thinking, "We just have to get the money in"?

Mike Cherry: I believe that it is the monetary aspect that is skewing this. We have had roundtables and have tried to be as constructive as we can.

Q303 **Chair:** So it is the deficit, really.

Mike Cherry: It is the amount of money HMRC has been able to attract from the Treasury that is driving this, and not something that will help businesses to comply. One of the fundamentals that are being missed is that our members want to comply. They want to make tax simpler, and that needs to be going alongside this. They want to get it right first time. At the moment, they cannot see how they can even get anywhere near that.

Q304 **Chair:** When you say "the monetary aspect", you mean getting the money in.

Mike Cherry: The Treasury has stipulated that, we believe, and therefore that is the agenda that has been set, which is wrong.

Q305 **Chair:** As the title of our inquiry suggests, the tax system consists of shifting sands and it is getting more and more difficult to protect the tax yield each year. Ms Benneyworth, you have been very patient, but you have the floor for as long as you like, within reason, to comment on or challenge everything you have heard.

Rebecca Benneyworth: I broadly agree with the previous comments. You will know that I am also an accountant in practice with small clients, but the Digital Advisory Group was formed, largely at my suggestion, to support HMRC by feeding in information from very small businesses, the self-employed and the agents who act for them. Our role is to help HMRC understand the needs of those businesses. Digital Advisory Group and members personally are very supportive of modernising the tax authority. The goal of having the most digital and efficient tax authority in the world



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we think is a laudable one. However, inflicting the pain on the smallest of businesses to get there is part of what is proposed.

We are, alongside my colleagues at the table here, recommending at least the VAT threshold as an exemption, mainly because those businesses are used to having to keep their records more frequently. They are likely to be a little more digitally engaged, although a recent Lloyds Bank report said that 1.4 million small businesses have no digital skills whatsoever.

Q306 Chair: Didn't you use one of those small businesses only this morning?

Rebecca Benneyworth: Yes, I did. I sat in the back of a taxi on the way here, and I talked to the taxi driver, as I do. The minute they know I have anything to do with tax, they always want to know something about it. I told him what I was coming here to talk about and he was absolutely horrified. He knew nothing about it. He pointed to his mobile phone on the dashboard and said that his son had persuaded him to buy it, but that he had no idea how it worked and would be absolutely stumped. He did say that his wife was quite capable and he would be talking to her this evening about what she would have to learn.

It is very clear, from my direct experience with my own clients, that many of them do not use computers. They might well use a mobile phone to make phone calls, but I have had experience of one individual with a super-duper mobile phone, which I think his grandson persuaded him to get, and a bit of paper in his other pocket with his telephone numbers written on it. He is not even able to save a number in his phone. That is the level of digital exclusion that happens, I think predominantly outside London. London taxi drivers, for example, all have these wonderful machines. Taxi drivers where I come from in Stroud, in Gloucestershire, do not have contactless. Many of their customers do not use contactless and have not heard of it.

Chair: I thought you were going to say "and have straw in their hair" or something.

Rebecca Benneyworth: While we broadly agree with the end result, which is that getting businesses on to digital records may well reduce the agony of bookkeeping for them, we differ from HMRC in setting a much higher exemption threshold. Then those smaller businesses that are digitally enabled—and there are plenty of them around—would do it voluntarily; if it is so good, why are they being forced to? As the Government claim, there would be benefits for them, and I can see some of those.

Chair: On the digital threshold and the digital awareness questions, you will have seen the exchange of correspondence I have had with the Minister, which I have published. That is pointing in the same direction.

Q307 Wes Streeting: Good morning. Paragraph 2.4 of HMRC's consultation paper sets out certainty, a level playing field for businesses, and a



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reduction in the tax gap and in the administrative burden of dealing with HMRC as the outcomes that it is trying to achieve with making tax digital. To what extent do you think those outcomes will be achieved, based on HMRC's proposal?

Rebecca Benneyworth: Let's start with the ease of administration and dealing with HMRC. I think the reason HMRC makes that statement is very easy to discern from its little video of John the plumber—if members have not seen it I recommend to you; it is only a couple of minutes long. It explains that John puts all his papers in a box and then, at the end of the year, or maybe in December, just before his tax return is due, he has a lot of papers to sort through and it is really very challenging. I would agree with that.

However, moving John over to a scenario where he photographs each receipt as he has it and records those transactions as he goes along assumes quite a high level of digital engagement and an understanding of double-entry bookkeeping—well, hopefully an understanding of double-entry bookkeeping, otherwise his figures will not be very helpful. I can see why HMRC believes that it will reduce the burden. Ultimately, in a steady state, it might—I would not go so far as to say it will—but then there is the amount of disruption.

Turning to the tax gap issue, my other concern is that people who have chosen a career as a hairdresser, a baker or a taxi driver do not necessarily have bookkeeping skills. My actual direct experience on the ground is that if you give them a piece of paper and they make a mess, you can sort it out quite quickly. You can tick across and find out what has been missed and or written down incorrectly. Give them a computer programme and most small accountants will agree with you that the mess they can make is beyond sorting out, and the only thing you can do is throw the whole lot away, start again and reproduce the records.

We are helping to sight them on that, but HMRC has probably underestimated that element of difficulty. While keeping contemporaneous records leads to more accurate records—I would not disagree with that—I would disagree that requiring business to do that themselves is the right way forward.

Mike Cherry: On the administrative burden, I have already given the FSB's estimate of the costs, but I will reiterate the point. Costs, very often, you can in some way recover or you can perhaps cover by taking lower margins. Your time can never be recovered. Quite frankly, are we doing HMRC's work for it? The cost-benefit analysis of the actual benefit has not been made yet. We still do not know the detail of that quarterly reporting. Is it going to be prepopulating, every single quarter, all your details, or is it going to be a résumé that is similar to a VAT return? Businesses are just not geared up for doing that, and we really need to make sure.



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It is quite astonishing. FSB has offered to hold roundtables, to find members across the whole spectrum of businesses, both digitally enabled and not digitally enabled, to help HMRC go through the testing on this. We were not even going to be allowed to participate until we made the point to the Minister in the first tranche, and that, surely, is wrong. We have 170,000-odd members across the UK, in all the countries, both digitally enabled and non-digitally enabled. I am pleased to say that the Minister took that on board and we should be getting some of our members genuinely, rather than the software provider just finding names, to facilitate that testing. We do not believe that the implementation time is correct.

Coming back to the tax gap, it was interesting to see the figures out last week from HMRC, where it had not split out the figures, as far as I am aware, between SMEs. It did not know what the tax gap was for micros, micros and smalls, or small and medium-sized businesses. It really needs to be drilling into that. Yes, of course, sole traders and craftsmen may be the worst, but that is because our tax system is so complicated and, as I said earlier, we need tax simplification to be very much aligned with this whole process.

Make it work for businesses. They will automatically engage with this and want to take it on board. If you force them down the track, they will disengage, unfortunately; they will not see any benefits, and neither will HMRC. Mandating, at this moment in time, and starting with the smallest businesses, is the wrong way around. Coming back to the point, if I may, just to echo colleagues, we agree with the threshold at £83,000, because at least that is a known threshold that businesses work with. As to the detail, that is unknown.

Frank Haskew: I would certainly agree with what Mike has just said. Your figures there on the cost, Mike, intuitively sound right. If I can give an example, one of the members on our practice committee went through his client base, had a look and went through what it would probably involve, in terms of cost, to do quarterly digital reporting for his clients. The figure he was coming out with was double. The average for most of his clients was under £1,000; he thought that the costs would be more like £2,000.

Instinctively, if you are doing quarterly returns, when currently you are only doing one, and then you have a year-end sweep-up of some description, it must be more expensive to do that. The figures that he did chimed with what Mike has said, although your figures were slightly higher than that, but you are getting an idea of the cost here. We come out with the fact that it is going to cost particularly smaller businesses significant amounts more in compliance costs.

You also need to remember that, particularly these days, people have to pay monthly for software; that is generally the way you pay now for software. There will be a significant transitional cost here particularly in



getting smaller businesses up to speed with this, but there will be a significant ongoing cost. All the emerging evidence we are seeing is that that will be significant. It is very difficult to reconcile that with businesses actually saving money here. At the moment, as Mike said, we have not seen an impact assessment. It will be very interesting to see how any benefits to businesses are going to be costed here. The jury is still out on the costs and benefits of this to businesses.

Picking up on what Mike said, it is very difficult to get underneath the tax gap figures. You have a figure at the top of £945 million, but when you try to drill down to what is actually causing that it is very much, "Well, we cannot break it down any further than that. It is based on lots of assumptions."

It is very difficult, from our side, to build a whole case on reducing error, when you have a very large figure that, it seems, is difficult to analyse as to where those tax gap figures are coming from. At the moment, the case for making tax digital has not been made.

Chas Roy-Chowdhury: I will not repeat what my colleagues have said; I agree with them entirely. Before HMRC can make the conclusion that it would be easier for the taxpayer, I cannot see what it has actually based that on. It does not seem to have done any control testing, and I would have thought that would be at least the right thing to do, as happened with RTI, real time information, which came in for PAYE. There needs to be that sort of testing done before you implement this new system for small businesses.

It is very much for small businesses. As Mike said, 51% of the tax gap is made up of small and medium-sized enterprises; this is from the tax gap that was published last Thursday. But there is no breakdown of "small businesses". As I said in the beginning, HMRC is aware that 30% of taxpayers do not have agents, and their compliance is a lot worse. I just wonder why we do not look at that and try to remedy the situation there.

We are talking about additional costs in terms of agent costs, but many small businesses do not even have the luxury of an agent, so the costs they incur would be entirely their own. The consultation document gives warm words about how the businesses could go and update the records in their own time, but "in their own time" is when they are very tired, at the end of the day, after probably working 12 or 14-hour days. There is no Working Time Directive that applies to sole traders. They are then supposed to update their records.

In the current climate, it is very tough for small businesses. We need them to survive. We have seen that the number of self-employed has been going up. Is this really something we should be implementing on a mandatory basis for them to undertake, as a benefit for Government? Let's introduce it, but let's not have the mandation and introduce it with a longer tail as well. We can come on to that later on, perhaps.



Frank Haskew: To follow up Chas's comment there, there was a survey done last year by HMRC into the digital capabilities of taxpayers. There was a particular problem identified with the self-employed. The figures it came up with were that 18% of the self-employed were not digitally enabled at all and that a further 38% required help. In other words, over half the self-employed population last year, according to HMRC's own survey, either were not digitally enabled or were going to need help. That is a mountain to climb.

Q308 **Wes Streeting:** It is. It is a pretty damning response from all of you, and reinforces concerns I have particularly about SMEs in my own constituency. Just before we move on to questions from colleagues, Frank Haskew, you said in February that data integrity would be a critical factor for HMRC. To what extent have you been reassured that HMRC will be able to maintain the integrity of data, particularly as it is making more use of third-party information?

Frank Haskew: The trouble we have at the moment is that we do not really know exactly how this is all going to work. We are still very much at the consultation stage. It is very difficult to be specific about how this might work, when we do not really have the details and the software has not yet been issued.

First of all, these days, HMRC has a pretty good record in data security, by and large. In terms of security, HMRC will certainly work to make sure the system is as secure as possible, but security is certainly an issue. In terms of data integrity, the jury is probably out on that, it is fair to say, if past experience is a guide to the future. We see constant problems with, say, P800s and the self-assessment system not marrying up with details that HMRC has.

Only last week, we suddenly saw problems with HMRC's RTI data. Even though it was submitted correctly in previous years, it seems as though something has now gone wrong with HMRC's information, and payroll agents are being asked to resubmit previous years' information, we understand, without the figures to make HMRC's records work. Now, we are still trying to drill down to what the problem is there, but we have seen, in the last week, a lot of reports about this. On RTI and data integrity, we are not convinced that the data is necessarily quite as good as it should be, and this will be in a whole league higher than real time information. The fact is that, from our side, the jury is out on whether we can deliver data integrity to the level necessary to avoid lots of problems arising.

Q309 **George Kerevan:** Good morning. I would like to test some of the alleged benefits that HMRC suggests would accrue from the project. Mr Cherry, you gave us a figure for extra costs that would ensue. What was it—£2,770? Is that on an annualised basis? Does that continue every year?

Mike Cherry: It is.



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Q310 George Kerevan: Mr Haskew, you suggested you had done some research into the possible savings there might be from the scheme. Do we have any evidence on that to test cost against savings?

Frank Haskew: I do not think we have actually done any survey about savings. At the moment, the focus is very much on the extra costs. It is very difficult to see what the savings for businesses will actually be. Only time will tell whether they will come through.

Q311 George Kerevan: HMRC has given some global figures for savings, which would be £85 million or £250 million for smaller firms, which does not seem a great deal to me, particularly if you divide it between your 170,000 members. Does any of the panel have any sense of what the potential savings might be, if any?

Mike Cherry: I honestly do not know where these savings are coming from, because we do not know the detail of what quarterly returns are actually going to mean and then how you reconcile that, if you do reconcile it, at the year-end. The fact that you may be prepopulating with third parties will also add a significant burden because, as I mentioned earlier, our members want to comply with a simple tax system that they can understand. That is not the case at the moment, so they use third parties.

The average cost, according to our surveys, is £3,600 per business. It is also the largest regulatory burden our members are faced with at the moment. When we look at productivity, where the Government are pushing back on businesses to close the gap, there is a duty on Government, quite frankly, to stop imposing more regulatory burdens that are not enabling that to happen.

Rebecca Benneyworth: We have struggled. I have genuinely tried to identify some savings and, certainly in the short to medium term, we cannot identify any at all. I have looked at individual, specific businesses and the savings that might accrue to them. We have had the point about monthly payment for software, and I think that is worth raising. The Minister and HMRC have promised free software for the smallest businesses. There is a challenge to deliver that. Although some software companies are interested, the business case for that is quite a challenge. If businesses are bigger than this free software proviso, you are looking immediately at £20 to £30 pounds a month, which for some of these businesses is just not justified. Whatever time saving they could make, that immediately outweighs the benefit. No, I am afraid I cannot support HMRC in finding cost savings.

George Kerevan: Mr Roy-Chowdhury, do you have anything on savings, to help rescue HMRC?

Chas Roy-Chowdhury: We had a meeting in January with David Gauke, who was in charge of this initially. We went with two of our practitioners. January is obviously self-assessment deadline time, but they felt strongly



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enough that they wanted to go and have the meeting. One of them took along samples of the type of papers they get from their clients, some of whom they said were illiterate. Therefore, they would have to undertake more work, in terms of these so-called "updates", which are basically returns, four times a year, with a fifth one to finalise at the end of the period, and they would just have to write off the cost. Maybe there would be savings for the client, in that they would not pay that much more, but in terms of the individual, the practitioner, the accountant, there would be a huge amount more work.

I do not understand where the savings would come from, unless HMRC is saying that, as things evolve, it will prepopulate the returns so that all the taxpayer has to do is sign them off at the end of each period. As things stand, I just do not understand where the savings are meant to be coming from.

Q312 George Kerevan: Well, it goes against the grain, but let's try to be fair to HMRC. Suppose we say that, over the medium to long term, the business community and the small-business community become more computer-literate and we have this system in place. Are there potential long-term gains? I notice the phraseology HMRC uses, which is that, ultimately, making tax digital will help businesses gain "greater control, certainty, and confidence over their tax affairs". Is that realisable in the long term?

Rebecca Benneyworth: Yes, I think there are some benefits there for businesses. Businesses probably would not monetise those benefits, but, as a practitioner dealing with the very smallest businesses, from my experience, I would quite like not to have carrier bags turning up over Christmas with bits of paper in for me to sort out. My colleagues have referred to doing things four times a year. I see it on a much more practical level. If those transactions have to be recorded, they still only have to be recorded once. Therefore, if they are done more regularly, there should not be, in essence, any time difference to doing it after the year-end. There is an advantage that you might still remember what things mean or were expended on.

The financial control that agents in particular can offer to small businesses, with insight into their businesses and ideas about where more profitable avenues might be, is quite important. I do not disagree with HMRC on that. For me, it is not so much extra time by doing it four times a year, but it is the extra cost of using the technology.

To be fair, as technology matures and businesses adapt their processes, there is an element of taking a direct stream from your bank account and being able to send that into your accounting records, and therefore doing a lot less of the day-to-day typing things in. But, for a lot of businesses, that is a long way away. I do not have a single client, not one, who could download a CSV document and upload it into the software.

George Kerevan: I see nodding heads. Would anyone else care to



comment?

Mike Cherry: I made the point earlier that making tax digital is a great aspiration. Our indicative timescale would be something like 2025, which would enable businesses to latch on to something perhaps that does work, after being properly tested. If it works, they will see some benefits coming through for it, but it will also require the software developers to have the software fully available for how the business needs to operate its accounting system. It will also make sure that businesses can comply simply, alongside tax simplification. If you make the process easy, businesses want to comply. They want to get it right.

Coming back, though, to third-party prepopulation, that will add a significant extra administrative burden, because a business, or its third-party accountancy or tax advisors, will need to check that, because it does not want to submit something that it feels is not correct.

Q313 **George Kerevan:** Just to pursue the point you made a minute ago, a more reasonable timeframe to implement making tax digital would be up to a decade.

Mike Cherry: Up to a decade—and, if you bring in tax simplification alongside that, along with actual help for businesses to migrate into something that is workable, it would be a much more beneficial way of doing it. Mandating it at this moment in time is fundamentally wrong, and starting with the smallest businesses on an unproven system, with unproven software, with an issue of digital security, is not right.

George Kerevan: Can I tempt anyone else to give me a timeframe that might be more realistic?

Chas Roy-Chowdhury: Mike is absolutely right. I do not know about 2025. There is nothing wrong with introducing a system that is digital. If HMRC thinks there are such huge benefits for businesses from their making four returns, and then making a fifth return, some businesses will do that. Let's just start implementing it in a way that is reasonable and proportionate. Then we can see how things work out. Then we can decide what the timeframe is, rather than just going into it in 2018, then another wave in 2019. We just do not know.

In some ways, if that technology is going to change anyway—and we can always say that technology is going to change, so we never do anything—I just wonder whether what HMRC is trying to do to fill the tax gap is really proportionate to the costs that businesses are going to incur. The small businesses are at the bottom of the pyramid. That is what MTD is all about. I just wonder if the costs they will incur are as much as the tax gap that HMRC is trying to fill and which it claims they are creating.

Frank Haskew: I would certainly agree with everything that has just been said. We have heard this already, but no mandation is hugely important here. If the system is going to be so good, then, as you said, why would people not want to do it? Surely the starting point with any



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large project where you are going to spend £1.3 billion is to do a pilot, effectively test it, see if it works, start with the most natural people who are the most digitally enabled and then move it out from there. It takes time. This is a huge project, and we just seem to be going about it the wrong way.

Q314 Chair: This brings in two points, which were the first points I mentioned off the top of my head when this was first raised with me by the Treasury. One is that this is a much larger project than is being presented and will be very disruptive, so pilot it. The other is that, if these businesses are all going to benefit, as you are telling me, then you are saying that they do not know what is good for them and that this is a rare case in which the taxman is coming by to say, "Hello, I am here from the Revenue; I am here to help you", which strikes us as unlikely.

Frank Haskew: It seems wrong in principle that HMRC is dictating how businesses should be keeping their records. They should be ultimately driven by business need and business want. That should be the starting point.

Q315 Chair: It has a very difficult job and is under intense pressure from the Treasury. It gets the yield, and it protects the yield well in difficult circumstances, but it strikes me that this is being pushed at the political level.

Frank Haskew: Just to reiterate, we support HMRC in the direction of travel. I should also say that, if there are problems with business records and the tax gap, then that is a problem as it is today. Whether we go down a digital system or not, that is a problem we need to deal with, as the UK. As a professional body, we should be helping HMRC get to the bottom of the current problems with business records, if they are causing the problem of the tax gap, and seeing what we can do to improve them.

Q316 Helen Goodman: In my constituency, I have 400 hill farmers; they are sheep farmers, and the average income is about £14,000 a year, so some of them are claiming tax credits. I am quite concerned at the FSB's estimate of the cost, that it might be £2,770. I am not saying I think this is unrealistic, because if they spend £500 a quarter on the accountant, they have software, they have to get a broadband connection and so on and so forth, I can see that that is in the right zone. Has any estimate been made of the number of businesses that would be put out of business by the costs they would incur going along with this?

Mike Cherry: FSB has certainly had members who have said, "Well, if this is what is going to come in, it will not be worth our while to continue in business." Now, that is direct from the horse's mouth, but I would imagine that that is going to be very few.

Q317 Helen Goodman: You think it would be very few. Why do you think it would be very few? Do you think, if your income is £14,000 a year, you can take a hit of £2,500?



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Mike Cherry: No, I do not. That is one of the fundamental issues here. If we look back at auto-enrolment, and that is probably one of the better examples, the impact assessment for that, I believe, was £46. FSB's estimate at that time was £2,550, which has proven to be an under-estimation, particularly when you look at the additional time that has been involved. I must ask the Committee to come back to this time element. Time can never be replaced. You are there to do your business, in whatever form or sector that may be in. Costs can, to some extent, be recovered, but when you are talking about your hill farmers, they have no ability to recover those types of costs, if they are being imposed on them.

Q318 **Helen Goodman:** They certainly have not, because the meat market is international. They do not control the price they sell the lambs for in the market.

Mike Cherry: I would also question how many of your hill farmers have effective connectivity at the moment. I would suspect very few.

Q319 **Helen Goodman:** That was the second thing I was going to come on to: this definition of what is "digitally excluded". Would you agree that the Government's proposals for broadband rollout and the Revenue's proposals for making tax digital just do not match up? Will we have 100% broadband in this country by 2018?

Mike Cherry: The FSB has long championed the advancement of full and effective coverage of the country by a much earlier date. We welcomed the universal service obligation that was announced earlier this year, but that must specifically include small businesses within it. There are some huge problems there, just on connectivity, whether that be mobile or, indeed, broadband connectivity, even now. Quite frankly, the 2018 date, I suspect, is going to slip even more.

Q320 **Helen Goodman:** Ms Benneyworth, you talked about people's digital skills. The average age of a hill farmer is, I think, 64 or 65. I am 58, so I know I am not so quick at learning things, and I do not think they are particularly either, with this. Do you have any sense of whether the Revenue is going to invest in any programmes to up-skill people digitally?

Rebecca Benneyworth: It is certainly mentioned in the consultation document that comments would be welcome on what other forms of support might be needed to help people with their digital skills. It has encouraged respondents to be innovative, in terms of whether it should provide training. The problem is that some of that training would be online, so if you cannot get online you will not be able to access it.

Helen Goodman: That sounds like a really good idea.

Rebecca Benneyworth: It is, in part, but that is a cheap way to deliver it. We have to be realistic as to why that is suggested. I was talking to an accountant yesterday, and he was talking about recruiting a trainer within a firm of accountants to go out and train clients. In my own practice, I



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am fortunate. I am similar age to you. I sort of cope with technology, but I have a 25-year-old daughter who works for me, and she is going to be working very, very closely with my clients, on a one-to-one basis, to help them access the internet if they need to, and so on. One of my criticisms of HMRC is that its view is "bring everyone in and then take out the ones who are digitally excluded, who are not able to engage with this technology". I would come at it from the other end and say, "Let's set a much higher bar. Those below that bar, who are digitally enabled, will come along with it."

Accountants will help, as they have with online filing of tax returns. We must not forget: we are at well north of 90% of online tax return filing, a lot of which has been by agents encouraging people to do things online and doing it online for them. That has quite an important role to play. This individual idea of, "Well, you find it difficult, so we had better exempt you" is unreasonable.

Q321 Helen Goodman: Is this an area where there is a conflict of interest between the small business and the accountants? The accountants are going to get more work, and so they will get more income, but the small businesses are going to have higher costs.

Rebecca Benneyworth: For my own clients, I would hope that I can get them to a place, given the right software is available, where I am not charging any more. That would be my objective, and I think that should be HMRC's objective: to ensure that very small businesses—my clients are of a similar income level to yours—are not spending more money to comply with their tax obligations, because anything else is wrong.

Chas Roy-Chowdhury: I do not think it is going to be a business opportunity for accountants, because, as I mentioned at the meeting we had with David Gauke earlier this year, many of our small practitioners have clients whom they only just manage to get fees out of and are setting the fees at a very low level. I imagine the sheep farmers you mentioned, if they have accountants at all, would not be able to suffer a fee increase for the additional filings.

Q322 Helen Goodman: Sorry, how can that possibly be the case? If at the moment your data are submitted to the Revenue once, and now they are going to be submitted four or five times, there must be a cost to that.

Chas Roy-Chowdhury: Absolutely, that is right. That is why I wonder how it can be anything else than the accountant incurring costs that it cannot pass on or having to drop clients because it cannot pass those costs on. I do not think there is a business opportunity. There will be a probability of small businesses not having qualified practitioners who can look after their business for them, as they do at the moment. That is the way it will probably work, because you cannot get blood out of a stone. The sole, one-man-band business cannot possibly pay any more in terms of fees.



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As I was saying, I hope they would see sense and the type of people you were mentioning would be excluded from MTD, because, if there is a VAT threshold level at which you come in, they would be excluded. But I also question if they would have accountants doing the work for them. They would have to wade through this themselves.

Q323 Helen Goodman: They have bookkeepers and the bookkeeper has to be paid. Some of them have accountants and some have bookkeepers. The bookkeepers are not going to do this work just as a favour, and why should they?

That brings me on to this issue about what the threshold should be. The Revenue has suggested £10,000. Now, Mr Cherry, you seem to have welcomed that, but it is completely inadequate, isn't it?

Mike Cherry: No, with respect, we welcomed the limited concessions as a very first starting point of further concessions and changes that need to be made, which we were engaging and continue to engage HMRC on. We have said all along that the VAT threshold should be the one that is set, because that is something that businesses recognise already and they already provide quarterly VAT returns.

Again, I come back to the point: we still do not know the actual detail that will be required of businesses by HMRC to put that information forward. We do not know whether our existing software can cope with that or whether add-ons and extra costs will be required. We do not see that it should be up to HMRC to predetermine either the software that businesses need or, indeed, how they keep their records. What we need is a voluntary scheme that is properly piloted and tested before we bring mandating in. If we can bring in tax simplification alongside this, then businesses ultimately will be able to morph, over an acceptable, proportionate period of time, and get it right for both sides.

Q324 Helen Goodman: That sounds eminently reasonable to me. I just want to ask you about whether this £83,000 VAT threshold is adequate, or whether it should be something like £200,000, in the long run. Do you think it is better just to align it with the VAT threshold, because that is simple and straightforward; or do you think there would be an extra regulatory burden lifted by having it at, say, £200,000?

Mike Cherry: According to our figures, you would have about a third of businesses excluded below the £83,000 VAT threshold at the moment, which would cover my colleague's comments about the smallest businesses being excluded automatically from the start. I think businesses know that; they understand it. There is a debate, in any case, around whether the VAT threshold itself should be increased or lowered, and if you have something that is simple and already understood then businesses have a better chance of being able to at least understand it.

Frank Haskew: We have had a number of consultation events with our own members, and we have had a wide range of views as to what an appropriate limit should be. There seemed to be a general morphing



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around the VAT threshold as being a sensible one, for all the reasons that Mike has just given. But quite a number of members thought it should be higher than that, in some cases significantly higher. That could then lead you on to the proposition that, if we are going to start this, we should start this with the much larger businesses, which will be more digitally savvy, and then, once it is up and running, we might look to lower it.

Q325 Helen Goodman: Sure, I completely accept that. Can we just talk about sanctions for a minute? I am not quite clear. Is it the case that the penalties for late submission would apply to every quarter, Mr Roy-Chowdhury?

Chas Roy-Chowdhury: The way it is going to work is that, if you submit, then you do not have a penalty; and, if you have to change the contents, that does not matter. You can correct those later on. But there will be a points-based system—well, this is the proposal—where you would clock up points and you would be subject to a penalty at the end, if you were late for a particular quarter, depending on how the points-based system worked.

Q326 Helen Goodman: That might be reasonable in a business that is steady-state, not seasonal, but if you are a shopkeeper and you do most of your business in the second half of December, or if you are a farmer and you have lambing in the spring, wouldn't having the peak of this administrative work for the Revenue at the same moment as your busiest time also be a problem?

Mike Cherry: For seasonal businesses, it is certainly going to be a problem. We do not know how that seasonality is going to work through—again, on the detail that HMRC is going to be asking for. I come back, though, to the fact that there is currently no impact assessment. There is no pilot, so at the moment we do not have anything at all that is tested or proven on what will be required; yet we have a consultation out on what the penalty regime will be. Quite frankly, that seems a bit perverse.

Q327 Helen Goodman: We do not have an estimate from the Revenue of how much income it expects to get from the penalties.

Frank Haskew: No. To be fair to HMRC, its line on penalties has always been: "We do not want to charge them", for instance on self-assessment; "We want the returns in."

Helen Goodman: It did not tell me that when I had to pay 100 quid last year.

Frank Haskew: From HMRC's point of view, it wants taxpayers to submit things on time. It is not actually in it, ostensibly, for the penalties. As Mike said, and I would certainly agree, it seems very premature to be talking about penalties when we do not even have a clear idea of what the system might be and what, for instance, the quarterly returns will actually consist of. How complicated those quarterly returns might be will



significantly affect the amount of work and effort that has to go into them. We should be deciding all those details first, and then any penalty regime should naturally fall out of that.

Q328 Helen Goodman: Did your costing of £2,770 include any penalty money?

Mike Cherry: No, because we do not have the full details of that. Again, there is a question in this consultation about the interest that is likely to be chargeable, so further detail and discussion around that is required.

Chas Roy-Chowdhury: There needs to be a soft landing on penalties. Yes, we have the 12 months in which HMRC is saying there will not be any penalties when the MTD starts, but we need a longer period. We just need to see how the system works, if we are going into it the way it is planned at the moment, without exempting large swathes at the smaller end. We need to see how the system lands before we start thinking about penalties.

Q329 Mr Baker: I would like to ask you some questions about implementation, but some of the criticisms you have raised so far have been so profound they have perhaps made these questions a bit secondary. First, what do we think is the fundamental factor driving the project itself and the timetable? Mr Roy-Chowdhury, I think you answered it in passing earlier. I wonder if you would like to make it explicit.

Chas Roy-Chowdhury: As we know, HMRC has gained additional funding to close the tax gap and close tax avoidance, and it is around that. The nearly £1 billion it received was because it promised it would bring in MTD, the mirror image of RTI for PAYE, so it has to endeavour to do that. We are saying that we will work with HMRC to try to close the tax gap and to ensure those who do not have agents have them; we have members who would help taxpayers get it right. We will help simplify the tax system.

But it seems very much like the tail is wagging the dog, in that the tax system is going to be simplified after or during MTD. We have been looking at trying to simplify the tax system for as long as I can remember, so I just do not know what is suddenly going to happen now to drive that simplification. Basically, as I said, they are going into the bottom of the pyramid. That is where small businesses operate. It is about this 51% of the tax gap being attributable to SMEs, according to the figures published last Thursday.

We need to look in much greater granularity at how those figures come about, because, as Mike has said, we do not have the breakdown. The SME definition they have is the company law definition, which is into the millions. We just need to have greater understanding of how that figure comes about and how we can help very precisely fix the problem that they are trying to solve, I suggest, in a very blanket way that affects so many businesses, without taking account of the fact that the businesses



actually need to stay in business, instead of just recordkeeping and doing work for HMRC.

Q330 Mr Baker: Mr Cherry, you made a very significant criticism of the whole programme earlier and proposed an alternative with tax simplification. Do you recognise this motivation of closing the tax gap? If so, to what extent is HMRC right to try to close the tax gap by squeezing smaller firms?

Mike Cherry: As for closing the tax gap, that can only be right. Most of our members, certainly, will want to comply with simple tax requirements, to get it right and to get it right first time, as I have already indicated. At the moment, though, this is predicated on the savings that HMRC has been able to get to bring the system in from the Treasury. You only have to look at the OBR report to see that that is the case.

We have said for a long time that we need to be making tax simpler in any case. You have all the issues around IR35 and other bits that keep being tinkered with, rather than changing some of the fundamentals. This is a problem. We again seem to be adding additional cost and administrative burdens to something that will be mandated, on an unproven system, without even looking at tax simplification alongside this and bringing that in in a constructive way that will help businesses to get it right, to comply and to make sure that whatever system comes in works, certainly, for the business, but also gives benefits to HMRC itself.

Q331 Mr Baker: Ms Benneyworth, you are advising HMRC. What comment would you make about its motivations for the timescale? Is it that it needs to close the tax gap and close it quickly?

Rebecca Benneyworth: The starting point is that HMRC badly needed the investment of £1.3 billion in its own computer systems. Like many, many large businesses, it is a victim of being an early adopter of computerisation, which now needs quite a lot of money spent on it. That is probably the driver, and I think that is right and proper. In making a business case for that, HMRC has then identified savings internally but also some tax gap capture, which probably sold it to whichever Minister had to sign on the dotted line.

Its consultation document says that mandation was based on the fact that it would not get the return on investment it needed if it did not mandate. Those businesses that were already compliant would join, and those that were not would not, so it would not get that tax gap closure. This needs to happen anyway, and I think that is HMRC's view. I think it is right, for the efficiency of tax collection. But part of the package to sell it was that, in part, it would be paid for by tax gap closure. As we have already discussed, there is some doubt as to whether that will be achieved.

Mr Baker: Before we move on, Mr Haskew, would you like to add a few words on motivations?



Frank Haskew: Yes. You have heard it already, in many ways. Rebecca is entirely right. HMRC has lots of legacy systems, so I think it sees this as a once-in-a-generation opportunity to make a step change in its digital capability. In principle, that is something we would want to support. The problem is coming where it is effectively linking it to mandation, to come up with benefits of this that will pay for it, which are not being proven. On the face of it, for instance on improving the tax gap, I do not think it necessarily follows that a digital tax system will improve the tax gap. The two are not necessarily linked. That, in principle, does not seem the right approach, because, as we said earlier on, if you have a problem with the tax gap, that is a problem now. We should be dealing with it now. Digital will not necessary solve that problem.

Our initial reaction to it is that one problem people have, which might be improved by digital recordkeeping, is better tracking of their expenses. From our perspective and from what our members have been telling us, it is more likely that their expenses would be improved by recordkeeping, so you would be reducing the tax. This can work either way. Our view is that, generally, recording of income, for instance, is not that problematic. Most businesses will be recording income correctly. The jury is out as to whether the tax gap figures would go the right way under a digital system.

Q332 **Mr Baker:** A few moments ago, Ms Benneyworth, you mentioned HMRC being an early technology adopter, but I understand the payments system is developing, as I would expect it to, so that it can convey more information with every payment. Do you think HMRC is adopting these proposals, these moves, at the right stage, or do you think it ought to be deferring what it is doing until the payments system is more capable of facilitating what it is trying to do?

Rebecca Benneyworth: My view in summary is that this is something that needs to be done and needs to be done fairly urgently, in terms of modernising their own back-end. If they are modernising their own internal systems, it leads to a much more digital interface with taxpayers. I think the payments developments will simplify, for taxpayers, the digital reporting structure and possibly make it more accurate.

I am of the view that forcing people who are not represented to use digital tools is initially likely to lead to more error, and that is certainly the experience of accountants I meet around the country, where clients have used some software for the first time. One practitioner told me a very able client had gone out and got himself some software, phoned his accountant and said, "I am getting on really well with this new software I bought, but my VAT has gone up." When the accountant looked at it, he had reported all of his sales twice, which no doubt HMRC would welcome, but it is introducing additional error. That would be one of my concerns. As always in technology, you can wait for the next thing to come along. I think they need to get on and do it now, but perhaps not in the timeframe that they have identified.



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Mr Baker: I am very conscious, given what you have just said, of your previous remarks about digital exclusion and people's lack of technological capacity.

Chas Roy-Chowdhury: I want to say one more thing about the tax gap, given what Rebecca has said about mistakes, which contribute to the tax gap. I question whether some small businesses may just drop off the radar, because it just gets too much, and stop complying. We need to be very careful about where this is going, with such small businesses being brought in, as things currently stand, and whether they will just not comply.

Chair: They will disappear into the black economy, effectively.

Chas Roy-Chowdhury: That is right. We have a very compliant tax system. People in this country comply far better than in other jurisdictions, and we need to make sure we do not drive that away.

Q333 **Helen Goodman:** I have a follow-up point on that. If you are a business that has to meet other Government Departments' requirements in order to do your business—so, for example, the farmers have to be registered with the RPA in order to sell their animals in the market—then you cannot disappear. You close down altogether and we lose that economic activity. The option of carrying on and just not paying your tax is not really open. I guess farmers are not the only people in that situation.

Chas Roy-Chowdhury: Yes, that is right. With HMRC's big data, where it has tools to check, that is more and more the case, which it should be. I just wonder how many people may just not report and then find out down the track when they get hit for interest and penalties, and taken to court. It could lead to less compliance. We need to be very careful of that, because it is going to be very difficult where, say, your tax adviser cuts you loose because they cannot afford to keep charging you, because you cannot pay. These sorts of people may just decide, "Well, we are just going to carry on, but under the radar of HMRC."

We should not have that sort of regime. I suggest we want an economy where businesses flourish, they are happy to report their income and expenditure correctly, and we work harmoniously between business and HMRC. At the moment, we have a pretty good relationship with HMRC, in terms of the business community and the agent community. We engage people at the highest possible level, and we have very good debates and discussions. But this whole thing came out of the blue, initially, and we need to row back on where we are going with this. We are not saying they should not be doing it, but it should be done in a non-mandated way. We need to row back and look at the exemptions as well.

Q334 **Mr Baker:** Moving across to the scale of technological complexity, do you think the plans for pilots, both of APIs and the overall process, are going to be adequate? If I could put it another way, what has been your previous experience of pilots and trials of APIs and processes, and how



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do you think it will translate to what they are doing now?

Frank Haskew: It is fair to say that piloting has to be, from our point view, the right way forward. It is a massive project. So much will depend on the APIs and working with the software industry. The fact is that there is a tripartite relationship here, and agents need to work with software companies and HMRC to make this work. Any one of those links is potentially going to break this. We need proper piloting over a reasonable period of time, for the results to be assessed and for people to then scale it up. That is the way that large IT projects like this should work. I think the principle of that has to be the right way forward.

Mike Cherry: Another factor that needs to be recognised here is that a business will not change its software or accounting system mid-year. It will only try to do it, if it has to do it, at the beginning of a financial year. We understand that the 2018 timeline is the start of the process, but that a business can still align it with its financial year. Now, I hope that is the case, because if you ever tried to migrate your sales and purchase ledgers, even, onto a different system, that takes a much longer time than you ever anticipated, let alone all the other details around nominal ledgers, bank accounts and everything else.

Q335 **Mr Baker:** About 10 years ago, I confess, I was a software engineer, working for a start-up providing services to HMRC and competing with its usual much bigger suppliers. I suppose the kindest way I can put it would be to say that we found it very, very easy to compete. Do you think that, over the course of those 10 years, HMRC's software delivery capacity has dramatically improved? It would be great if you were able to tell me "yes".

Rebecca Benneyworth: I am probably the person best sighted on that, because I attend some of HMRC's internal boards on this. It has a lot of people of your ilk—in your past—fully engaged on this. With the agile process, I am quite impressed by how it works, what I see and what is coming out. At meetings, when I have expressed concern about a particular area, I have found that the people have been very willing to listen, take on board our comments and come back a couple of meetings later to say, "This is what we have done, as a result of your concerns." I would say, if that was 10 years ago, they have moved on a lot, to be fair.

Q336 **Mr Baker:** Well, that is exciting. To be clear, in your experience, do you see them working to short development cycles and getting direct user feedback on what they are doing?

Rebecca Benneyworth: Yes, I do. All the technological terms are a bit unfamiliar to me, but they will do something called a "sprint". They have a "scrum team", they do a "sprint" and then they expose that to real people, real businesses, and say, "How do you feel about it?" They will also, as they have been doing with the digital tax account, collect data about where people make mistakes. Where people are making a mistake on a form, they will go in overnight and make a change to try to weed



out those mistakes. I was not around 10 years ago in that field, but I would imagine it has moved on a lot.

Q337 **Mr Baker:** It sounds like it has. That is marvellous. Can I turn to the deferred implementation? If businesses are not benefiting from deferred implementation, they will be obliged to adhere to making tax digital for their income tax from April 2018, but will wait until 2019 before doing so for VAT. What kinds of issues do you think that that might cause?

Chas Roy-Chowdhury: In 2019, with the Brexit situation, if we have left the EU, the VAT system in the European Union is predicated on the Sixth VAT Directive, and if we choose to move away from VAT we just do not know what the system might be, what we might choose to have or what the threshold would be. We could have a much higher threshold for registration. We could change the rules. We do not have to stay with the Sixth VAT Directive rules, so it will be entirely down to us. I imagine 2019 might be too soon—it might be 2020, or whatever—for people to think about what the new tax system could be. We just wonder if it is the right time to marry the two things together and bring VAT within MTD, or for MTD to come in, before we actually know what the full holistic tax regime is going to be.

Q338 **Mr Baker:** I am sure we can all think of ways that VAT might usefully be reformed. Several present themselves immediately to me, but why would you now think that VAT was going to be suddenly, dramatically changed, just because we have left the EU? Why would you not look at the Prime Minister's great repeal Bill, transposing EU law into UK law, and just expect continuity in the short term?

Chas Roy-Chowdhury: That would probably be the case initially, but, even within the EU, countries like Austria and the Czech Republic are looking at basically having a reverse charge completely within their borders. They would have effectively a sales tax. Could we be looking at something like that for simplification of VAT, where we effectively introduce a sales tax-type system and maybe have cross-border VAT or some other form of tax? There could be changes or reforms that help businesses, or there could be other changes in direct tax. Where are we going now, when there is so much up in the air?

I come back to what I said earlier. With a business climate where we want to really encourage enterprise, especially in small businesses, wealth creation and job creation, is this really the right time to be introducing a system like this, which will add to their burdens, from our discussions? We genuinely want to help HMRC and to help it close the tax gap, but we just think this will potentially not be helpful for businesses, so there needs to be a balance.

Q339 **Mr Baker:** I must yield, but I would observe that you are identifying that there are opportunities to improve the tax system, rather than any concrete proposals from this Government to do so in 2019, as we leave. Isn't that right?



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Chas Roy-Chowdhury: Yes. It is unknown territory. We just do not know yet how things may pan out or play out.

Q340 **Mr Baker:** But there is no reason to believe that the Government propose dramatic changes.

Chas Roy-Chowdhury: There may not be, but it is purely because we are seeing at a European level that there are changes already, which could then be imported much more easily into the UK.

Q341 **Chair:** I am surprised that you appear to be suggesting a sales tax might be a good idea, bearing in mind all the problems we had with the cascade effect of sales tax before we switched to VAT. It was held to be a great improvement.

Chas Roy-Chowdhury: I am not saying it is a good idea at all. I am just saying it is one of the opportunities.

Q342 **Chair:** From an analytical point of view, VAT is supposed to be one of the better structured taxes and the yield that comes from it is among the most reliable.

Chas Roy-Chowdhury: Yes, the self-auditing part of it. But there has been great complexity introduced into the VAT system. When VAT was first introduced, a Minister of ours called it a "simple tax". I do not think it now is, Chair. There are opportunities to engineer the tax differently. I am just putting that on the table. I am seeing it from a totally down-the-middle point of view. That is one of the options that may be looked at.

Chair: It was the words "sales tax" that I was responding to.

Q343 **Mr Rees-Mogg:** Before I begin, can I draw people's attention to the declaration of Members' interests? I have business interests that will inevitably be affected by this, if it comes along. Can I follow up from what has been asked before on the tax gap? Do we basically think the reason for doing this is the £945 million that HMRC thinks can be brought in in addition? Is that really the driving force behind it?

Mike Cherry: I have already said that I believe this is predicated on the business case that HMRC put to the Treasury, to get the money to update its systems. But I thought it was £640 million that would be the benefit, not necessarily that £945 million tax gap. That is our understanding of it.

Q344 **Mr Rees-Mogg:** We have got £945 million in the notes, so I have not come up with the figure personally. On your £2,770 figure, is this a figure for every business that goes to making tax digital?

Mike Cherry: That is based on cost and administrative time that it is foreseen to be taking, even though we still do not know the detail.

Q345 **Mr Rees-Mogg:** Most of that would be tax-deductible.



Mike Cherry: “Tax-deductible” presupposes that you make a profit in the first place. We see this as a pure cost, which is primarily administrative time that cannot be recovered in the first place. I liken it, again, to what we have seen with auto-enrolment, where the impact assessment that was then done—and we still wait to see the impact assessment associated with mandating and making tax digital—was grossly underestimated. That did not allow for systems updates that businesses have had to make. It has not allowed for the extra cost of the add-on for software modules that you have had to have. It has not allowed for the additional cost of using third parties.

Coming back to third parties, again, one of my concerns is, and it is for the professions to better answer this one, whether there is capacity there, and if they will be true quarterly returns, with all the detail that will be required, with a further reconciliation at the year-end. I would doubt whether there is that capacity.

Q346 **Mr Rees-Mogg:** The costs that are additional advice and software will come off the profit that businesses are making. What I am trying to get at is that, in this figure, in the tax gap, it is not including the tax that would be lost, because every business has a £2,770-a-year cost. On a very rough calculation, assuming a 20% tax rate, that is going to be £2.8 billion of loss, against, at the higher figure, £945 million of gain, or £640 million on your figure. I just wonder whether this is in HMRC’s calculations or whether it is assuming the tax gap narrows, and that is wonderful, but ignoring the fact that, if business cost goes up, corporation tax receipts are lower, with 5.2 million small businesses in the country having this extra charge. Is what I am saying plausible?

Mike Cherry: I can understand where you are coming from. You would have to ask HMRC as to the breakdown of the detail of their costings. I would also question the comment around corporation tax, because, of course corporation tax is only paid by larger limited or public companies. It does not apply to the smallest businesses and the self-employed in particular. Their earnings are much less than the average earnings across the UK in any case in the first place, particularly your hill farmers.

Q347 **Mr Rees-Mogg:** It may simply come out of their untaxed earnings, because they are not at the threshold values anyway. But then that is a really high cost for people who are below the tax threshold in the first place, and it would have to be made up probably in benefits of some kind. If people are earning under £11,500 a year, you cannot take £2,770 out of their earnings.

Frank Haskew: As Mike said, one of the difficulties we have with this at the moment is that we have not seen any detailed figures on costings. We really need a properly considered impact assessment, based on realistic estimates of both the time and the monetary cost of complying with these rules. Without that, it is very difficult to make a clear case for this. It is incumbent on HMRC to produce that. The tax gap will come into



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it, but, as you rightly say, there needs to be a holistic look at putting this together.

Q348 Mr Rees-Mogg: In terms of the tax gap, we have had forecasts of tax gaps that are going to be closed by shutting down Swiss bank accounts and all that. Can you remind us of how accurate those have tended to be, just in broad terms, and whether the Revenue has ended up getting all this money that it thought it would get?

Mike Cherry: I refer to what I made mention of earlier, which is that the figures that came out last week grouped SMEs all together, without splitting out the micro, small and medium elements. Until we have a much greater breakdown and understanding of how HMRC arrives at these figures, it is very difficult to analyse them or to help support it.

Q349 Mr Rees-Mogg: Its previous record is not invariably accurate.

Chas Roy-Chowdhury: Yes. It adjusted 2013-2014 in last Thursday's numbers by £2.8 billion upwards, so the tax gap was £2.8 billion higher in 2013-2014 than the initial estimate. You are right. You are also right about the way that the £945 million yield has been worked out. It probably does not include the additional costs that businesses would suffer. I do not think it would have had any chance to have the kinds of numbers that Mike or Frank have come up with. It cannot have been included. If you include those with what I was saying earlier, I wonder which way the tax gap really has gone by introducing this.

Rebecca Benneyworth: Can I add a little more colour to that? One of the things that HMRC has asked in the consultation exercise, rightly so, is for businesses and any other respondents to give it an idea of what those extra costs might be, in terms of the nature and size of the costs. I was speaking to a member of HMRC staff yesterday about the consultation results. She said that they are not getting a good deal of granular data back. They are getting quite a lot of, "It is going to be very difficult", and "It is going to be hard for businesses", but not a lot on actual costs. The point I have made to HMRC is that it is very difficult to estimate, when people do not know precisely what they are going to have to do. How much longer will it take them? What software will they need to buy? How much will it cost?

I will add one other thing on your logic of tax gap increase as a result of deductible costs. I do not know how much of Mike's figure is actual cost and how much is time cost, but to the extent that businesses spend, say, another £500 on software you have an equal and opposite, in that the software companies will be paying tax on that. To be fair to HMRC, I think that might cancel out.

Q350 Mr Rees-Mogg: But a lot of software companies are not UK-resident for tax purposes, so it could well be going to the foreign companies. In terms of the concessions so far, one is to allow people to use their own accounting periods. In the overall scheme of things, is that going to be



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helpful or unhelpful? Does anyone have a view on that?

Rebecca Benneyworth: I can come back on that as well. It is in the second consultation document on simplification. It is a novel suggestion, probably long overdue, but I think digital has encouraged HMRC to focus its mind on simplification. It might help with your hill farmers, in that you have to submit an update at least once every three months, but they could get it so that lambing fell in the middle. They would be free to do that. They would be free to choose any accounting periods that suit them and make up dates for those periods. The flexibility that the new proposals offer is very welcome.

HMRC's example gives us a teacher who reports half-termly. I am not too sure how many businesses would want to do that, but it is a useful development. Once businesses understand that they can be more flexible and do not have to comply to calendar quarters, I think it could be quite useful.

Q351 **Mr Rees-Mogg:** But does that mean that you could report in the first week of one quarter and the last week of the next quarter?

Rebecca Benneyworth: So long as they were not more than three months apart. That would make them six months apart, so that would not be permitted. It has to be at least every three months.

Q352 **Mr Rees-Mogg:** But that does not particularly help you, because you can only do it more. You cannot spread it out.

Rebecca Benneyworth: Yes. You will do a minimum of four reports a year, but you might do more. If a business works on a termly basis, then it might suit them. That is not a huge number, but it might help with lambing.

Q353 **Helen Goodman:** But then you would have to do a reconciliation at the end of the year, because your quarters would not align with the financial year.

Rebecca Benneyworth: No, the way it will work is that, if you report more periods in a tax year, you will tax all the periods ending in that year. You will not have to adjust to the tax year. The way it works at the moment is that, if I prepare accounts for the year ended 30 June, then that does not fit the tax year, but those accounts are taxed in the tax year in which they end. If you have multiple periods, you will just take all the ones that end in your tax year.

Q354 **Chair:** It will be the same method that we currently use.

Rebecca Benneyworth: It is similar to what we currently use, yes. There are no changes there.

Chair: I understand.

Q355 **Mr Rees-Mogg:** But you could have your year running into two tax years. Sorry, I did not quite understand. You would be taxed as you are



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now, at the end period over the tax year. That simply would not change.

Rebecca Benneyworth: Yes. If you have five or six periods, should you so choose, then you would report the periods, all of which end within that tax year. You would not have to do something to align you with the tax year. You would just report the periods that end in that tax year. It is not a huge difference; there are subtle differences.

Q356 **Mr Rees-Mogg:** How do you think it will affect partnerships? The idea is to have a single partner who will be responsible for it. Will this be an added chore for partnerships, against sole traders or limited companies, or is it broadly similar?

Rebecca Benneyworth: It is the same as it is now. I do not know whether my colleagues have any comments on that.

Chas Roy-Chowdhury: You are right, yes.

Chair: It is very difficult to sum up the depth and clarity of evidence. First of all, it would be helpful, Mr Cherry, possibly in collaboration with your witness colleagues, if you could draw up a list of the headings of the figures that would be required to make sense of a compliance impact assessment, which is what I think you are saying we now need from the Revenue, in order to make our own assessment, as Parliament, about whether we should allow these proposals to go ahead.

The second is the messages that are coming out of this hearing. We need a properly costed impact assessment, which we certainly are not capable of putting together now. We probably need to consider pilots and pilot schemes, which, for reasons I have not understood, the Government have resisted. They have been suggested by me at an early stage, as I mentioned to you, and by others, pretty persistently, and ignored. This is a point that at least three of you made: once it has been decided to go ahead, if we do go ahead, do not rush it. What is the rush? All four heads are nodding at that point.

Those are some of the main points that we are taking from this hearing. We look forward to receiving some further information. Thank you very much for coming to give evidence to us this morning.