



Select Committee on Economic Affairs

Finance Bill Sub-Committee

Uncorrected oral evidence: Draft Finance Bill 2017

Monday 20 February 2017

2.05 pm

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Members present: Lord Hollick (The Chairman); Lord Bilimoria; Lord Flight; Lord Tugendhat; Lord Turnbull; Lord Wrigglesworth.

Evidence Session No. 3

Heard in Public

Questions 35 - 46

Witnesses

I: Michael Parker, Head of Tax, National Farmers' Union; Roger Southam, member of the Administrative Burdens Advisory Board; Edward Woodall, Head of Policy and Public Affairs, Association of Convenience Stores.

II: Douglas Haig, Vice-Chairman and Director for Wales of the Residential Landlords Association.

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Examination of witnesses

Michael Parker, Roger Southam and Edward Woodall.

Q35 **The Chairman:** Gentlemen, good afternoon. I am starting before you have even sat down, because we need to be on our best behaviour to get through this rather quickly. The proceedings on the European Union (Notification of Withdrawal) Bill, known as Article 50, commence just after 3 o'clock, so we want to move through this quite quickly because we have another witness joining us.

The Administrative Burdens Advisory Board, represented by Mr Southam, has commented that it is "fully supportive of the principles of moving to an enhanced digital tax system" but has concerns, mainly about the implementation proposals. Can you tell us, first, what the benefits are to business of doing this; secondly, what should be done to encourage businesses to adopt more digital ways of working; and, thirdly, your concerns about the implementation proposals?

Roger Southam: The overriding point to emphasise is that we are fully supportive of making tax digital. We are a critical friend in trying to make HMRC deliver the best possible outcome on making tax digital and remove the burdens that undoubtedly will be there for all businesses that are nowhere near being on a digital framework or using Excel spreadsheets.

As to the benefits, I suppose one would ask why a business that was not digital would want to go digital if it did not have to. That is a hard question to answer. One would almost have to demonstrate and sell to businesses that a technological solution would avoid having to keep the same quantity of paper and chits—the plastic bag syndrome that we have had previously, whereby suddenly, at the end of the year, people give plastic bags with all their vouchers to their agents.

As to selling it, we have a fundamental problem with the way the responses to consultation came out. We feel it is incumbent on HMRC to acknowledge that a burden is being imposed on businesses by making tax digital. It is no good saying, "We are doing this for your own good", because I do not think many small businesses would recognise that it is for their own good. That is the starting point for us: we have to get a transition period whereby people do not face a cliff edge of being either fully compliant or not. For a lot of small businesses that is a scary prospect. They do not know the available software systems; they will have to research those to know which one suits their business best. For a lot of businesses, there will not be a perfect solution in the software arena and they will compromise on what they take on. To go through that learning curve at the same time as having to deliver HMRC's requirements is a very big ask.

One of our suggestions was that the VAT online return, where people can type in the information, works very well. If that was taken across to corporation tax and self-assessment, it would be a good stepping stone. Over a five-year view, it would let smaller businesses engage and start

on a journey, as opposed to facing the precipice of being either compliant or not.

The Chairman: How does the NFU feel about it?

Michael Parker: The first thing is to deliver the universal service obligation so that businesses are in a position where they can engage digitally. That is a key concern for many of our members.

The Chairman: What percentage of your members are not connected to broadband?

Michael Parker: About 4% have no connection and about 80% have upload speeds of less than 2 megabytes per second. That is a key concern for us. This is not just about submitting eight figures, as you do with a VAT return; for lots of our members it is also about sharing data, not just summary data, with their accountant to make lots of the adjustments that are necessary, or even accessing cloud-based software, where perhaps they will need faster speeds.

The Chairman: What about retail?

Edward Woodall: I simply echo the points colleagues have already made. Long term, we are very supportive of the approach, but it has to be a bit longer term than the current proposed timeframes for people to be aware of it. Access to broadband is an issue too; 40% of our members said that they do not have access to high-speed broadband at the moment, and the 19,000 rural shops have big challenges in relation to mobile data as well.

The Chairman: The fundamental concern is speed of implementation. Both of you are saying you would like it to be spread over a number of years.

Edward Woodall: Yes. From what we have seen, other measures such as automatic enrolment and real-time information were introduced at a far slower rate than making tax digital. They took into account the size of PAYE and the size of the business in some way. Under the current proposals, we do not see the same sort of approach.

Lord Turnbull: Starting with that point, it is precisely the opposite, is it not? This is a start at the bottom process. RTI and auto-enrolment started with bigger people and then came down. Why do you think HMRC is doing it in this way? It seems completely ridiculous.

Roger Southam: We certainly echo that. Larger firms are the ones most likely to have digital solutions. They have all the records and ability to meet the needs and necessities, because they keep monthly records, let alone quarterly ones. For small businesses, it seems crazy to put them at the front. The majority of those guys will not be in a position to meet the deadline currently envisaged.

Lord Turnbull: Some figures in the submission by the Federation of

Small Businesses—I do not know whether you have seen it—indicate that the savings are proportional to turnover. The bigger you are, the more savings you make, but the costs seem to be inversely related to turnover; in other words, a very small business is probably running pretty basic methods and therefore has more ground to cover. The costs per unit for small businesses are probably higher in absolute terms, and certainly higher as a proportion of the business. Is that how you see it?

Roger Southam: One of the figures that came through was a standard cost model, which seems to suggest there is almost a 10 or 12-year payback. Savings will come 10 or 12 years down the line, but the burden and the sheer cost of getting there is huge. Smaller businesses will not only be buying the software—I do not think the free software will do what they need it to do in order to comply; it will get them only so far—but they will need to buy in some services. Some will not even have the equipment to start with, so they will be buying hardware as well as software.

Lord Turnbull: There is a 10-year payback.

Roger Southam: No one in their right mind would do it.

Lord Turnbull: The figures HMRC has shown us indicate that for three years it costs the sector money, up to about £1 billion, and then produces savings of about £10 million a year. In other words, well into the Parliament beyond the present Parliament, it will still be in deficit. There is no kind of discounting or anything. No one would invest in a business on that basis, would they?

Roger Southam: No.

Q36 **Lord Turnbull:** Looking at farming, you mentioned one area of differentiation: it is geographically very distributed and has poor broadband feeds. It is a funny business in all sorts of other ways. It is highly seasonal and variable, with lots of other non-farming businesses tacked on. How do they cope with all this? Is it the kind of business where, even if you put in four returns a year, the one that would matter would be the fifth one that tried to sort it all out?

Michael Parker: Other than access to digital, there is a range of things. Farmers work over an annual cycle or longer, so the final return will still be the one where all the adjustments go through, both in valuations and in allocation of costs and income. We see very little point in the quarterly ones, because they will just show cash flow. Most of them are already VAT-registered, so if they are making a quarterly submission now, we do not understand the point of requiring them also to make a digital tax update that would have no reflection of what their profitability might be, or their tax.

Farm businesses are capital intensive; they have large amounts of equipment, so there are all sorts of adjustments to be made; there is income recognition on things like grant income and expenditure, and they cannot really access cash reporting either. It is one of the suggested

changes to facilitate making tax digital, but I am not sure that it is particularly appropriate, because if users have a production herd and are on what is known as a herd basis, or they claim farmer's averaging to mitigate the volatility of their profits, all those things preclude them from using cash reporting. A mixture of factors makes this more difficult for them.

As we touched on, they have diversifications. Some of those will be property business, essentially the letting of some cottages or land, and other things they may have done, such as renewable energy that is exported to the grid. For VAT purposes, that is one business; they operate it as one business, but for income tax purposes and MTD they have to separate income and expenditure. It seems to me that if they cannot align year ends—a property business has to be to 5 April—they could have multiple making tax digital quarterly updates. We could quite easily go from one annual self-assessment to perhaps 15 updates, which does not seem more efficient or simpler to me.

Lord Turnbull: You have detected no sign that HMRC recognises that.

Michael Parker: It has listened, but it is about the timetable. We could work on an alternative solution for VAT-registered businesses, or look at how we align reporting, but we need time to develop that.

Lord Flight: Given that in some parts of the country facilities for high-speed broadband do not exist, there will have to be an exemption for that. If there is to be an exemption, why not have an option as to whether or not to move to digital? It strikes me that the complexities of farming do not lend themselves to a standard system of digital reporting. Would you like to sum up what in particular makes farm businesses different, and the difficulties they have over and above other businesses?

Michael Parker: It is all those factors. There is a lack of digital infrastructure to deal with this system, even though the majority keep records as they go along. Given those complexities, it will be extremely difficult to adjust within the timescales. We have suggested an exclusion based on lack of high-speed broadband, or at least a deferral until it is available. I think that is entirely reasonable. The proposed digital exclusion exemptions are very narrow. Indeed, for a partnership it appears that each partner must be digitally excluded, despite the fact that the records will be kept on the business premises and probably dealt with by one farmer or one department.

Lord Flight: In practice, most small farmers are bound to outsource reporting to their accountants, but will that not be quite expensive? It is not an easy standard model; there are all those different varieties.

Michael Parker: That is right. There is also the frequency with which some, if not all, of the adjustments will still have to be made. They will still have to allocate costs, and some adjustments will have to be made quarterly. It is a question of probably a lot of members sharing data with their accountants. Coming from an accounting background in the past, I

am aware that picking up records four times a year is probably more expensive than doing it once a year.

Lord Flight: It is ridiculous.

Q37 **Lord Tugendhat:** Do you think that the costs to businesses of implementing MTD have been fairly reflected in the HMRC assessments?

Edward Woodall: It is challenging to do it at the moment, because we do not have firm proposals around free software and where that goes. It has been a challenge for us in our consultation response and our submissions to the Committee. We have a sector that is quite diverse in how it approaches its accounting procedures. Businesses that have a central administrative function for HR will obviously have a different approach from those that do it themselves.

The average of £280 per business for the convenience sector significantly underestimates the cost. That is probably a minimum for accountancy fees, because, like farming, our sector largely outsources to accountants. Having spoken to a few accountants who work for people in our sector, they have not said it will quadruple costs, but certainly they see a 25% increase in accountancy fees. That is compounded by investment in software. As mentioned before, 16% of our sector employs only family members; they might be operating the businesses themselves. To do this, they might have to invest in hardware they do not have already. I do not think the impact assessment fully accounts for all the costs so far.

Roger Southam: There is another fundamental problem sitting in there. For different types of businesses there will be different cost burdens, and at the moment it is just a blanket assessment. One of the elements we were trying to get HMRC to look at was to break it down by business types, using the SIC codes at Companies House to analyse by business type and get a better figure for each grouping. This comes back to the messaging we started with. If you go out to 50% or 60% of businesses and say their costs will be £280, and actually their costs are £2,000, £3,000 or £4,000, you immediately put yourself on the back foot with a presentation that is blatantly unfair. There needs to be more work and more division on that, but speed of delivery is dictating where we are coming from and what is being done at the moment, and that is the unhelpful part.

Lord Tugendhat: Do you imagine that this would push up prices in the shops and—a different question—do you imagine that it will be blamed for pushing up prices in the shops?

Edward Woodall: I do not know whether people will directly attribute to it increased prices in the shops. Obviously, it is much more complex than that when there are increases in fixed costs generally.

Roger Southam: If people can get away with increasing prices to cover the cost, they will. That is the essence of it.

Lord Tugendhat: It will certainly be blamed for price increases.

Roger Southam: For sure, and that is why we come at it as a critical friend, on the basis of wanting it to succeed and that HMRC comes out of it looking as good as it possibly can. I come back to the core message. Everything you can do to ease the burden has to be beneficial, because the messaging and delivery will eliminate the ability for people to cast blame that is not fair. Some businesses will start using an agent when hitherto they have not. Equally, if agents are quadrupling their workload, that will increase their costs. We saw it with RTI. The messaging and the timescale sit at the core of it.

Q38 **Lord Bilimoria:** I declare my interests, including fellowship of the Institute of Chartered Accountants in England and Wales. For nine years, until July, I was senior independent director of Booker, Britain's largest wholesaler, so I have had some dealings with retailers over the years, quite apart from the business I founded, Cobra Beer, which supplies tens of thousands of retailers.

The Institute of Chartered Accountants of Scotland in its evidence quoted one of its practitioners, who said that making tax digital "will only stifle small business with more red tape and more cost—possibly considerable cost—which some micro-businesses will not be able to afford or survive". The Federation of Small Businesses in its evidence prepared a schedule that indicated that for businesses with a turnover threshold of £10,000 the average cost to the SME would be £2,770; with a threshold of £43,000 it would be £1,960; and with a threshold of £83,000—the VAT threshold—it would be £1,050. Yet it estimated that the savings per business across all SMEs would be only £250 for the £10,000 threshold; £1,070 for the £43,000 threshold; and £1,970 for the £83,000 threshold. Most businesses would lose money. What are your views on that? Would you agree with those statements?

Roger Southam: I fully agree. That is one of the elements we saw from the standard cost model I referred to earlier in relation to payback. Given the length of time it will take to get a return on what they have to pay out, some businesses will never get a return.

Looking at it from the other side, the question is whether a digital solution is a good idea to make businesses more efficient and get away from carrier bags of receipts. Undoubtedly, that is a good idea. How you get there and over what length of time you let businesses go through that journey is the question. Just forcing them off a cliff is not the most sensible way to do it.

Edward Woodall: If there were huge cost savings associated with the digitalisation of tax, businesses would already be doing it. They would have some model for doing it already, but they are not doing it and they use the tax system quite well.

Lord Wrigglesworth: I am somewhat confused by the picture you are painting of your members. I declare my interest as landlord of a number of convenience stores and various other small businesses; indeed, I have small businesses in the family. My experience of them is that they are

pretty digital in various parts of their activities. On the other hand, one can see that getting the software, having the training and implementing all this is going to take time. I would be grateful if you could explain to me and the Committee just how many members still have plastic bags containing receipts. How many have accountants to whom they pass on all the work if they do not have the digital means of doing it? If they are doing it with plastic bags full of receipts, are they aware of all this coming down the track to hit them? Obviously, you as their representatives are, but these businesses need to be aware of what is coming down the track. How aware are they of it, and how many of them still have plastic bags with receipts in them?

Roger Southam: First, the Administrative Burdens Advisory Board is not representing anybody. We sit within HMRC as an advisory board. One member of the board, Rebecca Benneyworth, spends her whole time dealing with small and micro-businesses. From anecdotal conversation with her—I do not have specific numbers—there are a lot of businesses that will be impacted and affected and are not digital.

In your opening sentence, you said that to a certain extent they are digitally enabled. That is the interesting point. A lot will appear to be digital but are not actually digital, in that they use Excel. While they can keep their records on Excel, as proposed at the moment they would not be able to file from the Excel record. That is where they face a precipice. I used the carrier bag almost as a metaphor. It is a question of how people organise their work. Some people are incredibly disciplined and file their invoices and expenditure the day it happens; if you gave others 12 years to do it, they would do it on the last day of the 12th year.

Lord Wrigglesworth: Shoeboxes.

Roger Southam: Exactly. It is a question of organisation. If you force people on to a journey, you have to help them along it, and at the moment what is missing is the transitional bit.

Michael Parker: You have to give them time to adapt. For the majority of our VAT-registered businesses, even if they do not keep their records digitally, they keep them as they go through the year. Probably of more concern to us are the costs of engaging with their accountants and using digital means to do so, and the complexities I alluded to in finding suitable software to allow them to do it within the timescales.

Edward Woodall: There is a point about interaction with accountants. The majority of our members are VAT-registered businesses with an accountant in place, but there will be a change in the process they have in the store; 53% of independent retailers do not currently have electronic point of sale. They do not have a till that scans. They might appear to be digital, but they cannot match that up with their accounting procedures. There is still a gap and that has to be taken into account in the timetable we are working to.

Q39 **Lord Turnbull:** My question is to Edward Woodall in the first instance.

Small businesses may not know that this is coming down the track, but they certainly know that changes in business rates are. What is the overlap between the winners, or more particularly the losers from that, and the losers from this proposal? Is the Inland Revenue not seeing a kind of conflagration being created as those two forces meet?

Edward Woodall: A business with a rateable value below £12,000 is exempt from business rates altogether, so for the smallest businesses there is quite a significant amount of support on business rates. For the smallest businesses there is not the same protection in making tax digital, but I do not know whether we can quite equate the two.

Lord Turnbull: What would be the size of a business with a £12,000 rateable value?

Edward Woodall: It would be a small independent, probably below 1,000 square feet, on a suburban parade.

Roger Southam: For 90% of businesses in this country, turnover is below £15,000, or something crazy like that. It is a ridiculous statistic in relation to the number of companies. Some of those will be SPBs in which people hold property and do not have turnover, and that will distort the numbers, but the level of turnover that sits in some small businesses is extraordinary. That is where we have to look at proportionality and timescale to make it work.

Michael Parker: Some of the reports have been about shifting the business rate burden more on rural areas in the 2017 list.

Lord Turnbull: If you go down a typical depressed high street in London, how many of those businesses will be affected by business rates and this proposal?

Edward Woodall: It is quite significant.

Roger Southam: I have not thought about correlating it, but it will be.

The Chairman: When you responded to HMRC's consultation, did you suggest any increase in the size of business; in other words, instead of £10,000 did you feel it should be at a higher level? Some have suggested it should be £83,000, which is the level for VAT. If you suggested that, how many of your members would fall below the threshold?

Michael Parker: We have not particularly suggested a figure. We suggested that there was a need for a general delay to allow time for this to be developed so that it succeeds. We were just as concerned about the impact on VAT-registered businesses, and the complexity in how that relates to making tax digital, and all the factors I have set out.

The Chairman: You were not pressing for an increase in the level.

Michael Parker: Not a specific increase. We were pressing for complexity within small businesses to be recognised. That does not necessarily conflate with turnover. For example, HMRC has exempted

partnerships with a turnover of more than £10 million, or at least deferred them to the same point as when limited companies come in. We think farmers are every bit as complex as some of those businesses for the reasons I outlined.

The Chairman: Did either of you suggest a higher level?

Roger Southam: We did not suggest an increase in the threshold. I am not sure the threshold is the problem; it is the timetable and the cliff edge being faced. If there is a transition over five or six years that lets people get to being digital, and a journey can be undertaken that eases that burden and lets businesses grow up to it, it makes it more palatable, easier to transition and more workable for the whole heap of reasons we discussed.

One element I have found concerning is that a trial is going on in which it is hoped to get 400,000 businesses voluntarily to sign up. The trial finishes in April as the real thing comes on stream, so there is no time to assess how the trial has gone; there is no measure of what happens if the trial does not get 400,000 businesses. If it ends up with only 1,000 businesses signed up, is that of any value or not? How do you monitor that over 12 months, particularly if it is only in the last three months that the businesses have signed up to it? I do not think HMRC is driving the timetable; we have politicians driving it, for whatever reason. That is where we need a meeting of minds.

Michael Parker: On evaluating the pilot, it seems that you will be evaluating whether someone can make a making tax digital update submission and HMRC will receive that uncorrupted at the other end. There does not seem to be enough time for people to make a final end-of-year reconciliation submission, so that they can see whether they have the whole year and whether this system is more efficient and simpler for businesses, compared with self-assessment where they make one.

Roger Southam: There is the ability to file a VAT return automatically, but the majority of businesses still use the online typing input. Some use it as a check and balance for other workings to go through. The fact that that happens and they do not take the automatic route tells you something about how businesses interact on a digital front.

Edward Woodall: We did not make any specific recommendations about a threshold but merely commented that most of our members would be above the £83,000 threshold.

The Chairman: I go back to the point Lord Turnbull made, which is that the cost of implementing this for a small business with a £10,000 turnover is probably not very different from a business with a £30,000 or £50,000 turnover. Therefore, it represents a very penal cost on small businesses, which they will struggle to recover. Did you come up with any suggestions, for instance that they should be able to write this off 100% against their tax bill, rather than their marginal tax rate, to assist them?

Roger Southam: ABAB has variously been told it must not stray into policy, but that is a very sensible idea.

The Chairman: In other words, there has to be some encouragement for them to do so, because, frankly, looked at from a straightforward business point of view, it may not make sense at all.

Roger Southam: Absolutely. Equally, if people have the ability to input in the online platform in the same way as VAT, they can keep records as they want to and they are not facing an uphill burden on day one.

Michael Parker: Because HMRC was talking about assistance with costs, we suggested that it should bear those costs. For example, if our members do not have the digital infrastructure that allows them to engage, HMRC would pay for that to be installed.

The Chairman: Was that received enthusiastically?

Michael Parker: HMRC has not made an announcement about costs yet, but I have had no feedback.

Q40 **Lord Bilimoria:** We have received submissions from various people. One individual, referring to the impact on landlords and small businesses, said that a brief review of their client portfolio revealed that 100% had mobile phones; 93% had a PC, tablet or laptop; 78% had Microsoft Word; 56% had Microsoft Excel; and—wait for this—only 22% had accounts software. The UK200Group, a membership association representing independent chartered accountants and law firms, looked at the overall pattern of their clients across firms. That showed one in six used the shoebox method; one in four had manual records; one in four used spreadsheets; and one in three used software. How prepared are businesses in our country for this?

Roger Southam: The simple answer is that they are not.

Lord Bilimoria: It is completely unrealistic, is it not?

Roger Southam: Yes.

Q41 **Lord Flight:** Do you think that extending the cash basis to more businesses represents a simplification? Are other items that are claimed as simplifications for real? Every time I am told that simplification is coming, my experience is the reverse.

Roger Southam: The answer is no. I do not think that changing to a cash basis actually helps. You have just heard from the figures given by Lord Bilimoria that the problem is not about how people are accounting; it is the fact that they are not on a digital platform in the first place, so changing it to cash does not mean it will suddenly be sitting on a laptop for someone.

The Chairman: Gentlemen, thank you very much for an expedited session. As I said, we are under a slight time constraint. If there are any questions that we did not ask, or you want to make some points that we

have not covered, please feel free to send us a note.

Examination of witness

Douglas Haig.

Q42 **The Chairman:** Thank you for joining us. I do not think you expected a solo spot, but that is what you have. It is worth recording that the reason you were unable to be joined by representatives from the construction sector is that none of the representatives we contacted was au fait with making tax digital.

Douglas Haig: That is quite indicative, is it not?

The Chairman: It suggests that 20% of the businesses in the small or SME sector in the construction industry might be described as laggards in this.

We are under a time constraint because of the Article 50 debate, so I will start. The making tax digital proposals will introduce radical changes. The goal is to be "more effective, more efficient and simpler for taxpayers". Would your members agree with that description and what, in their view and in your view, are the main benefits of making tax digital?

Douglas Haig: Certainly, the concept of going digital was quite well received as an overall concept. There were quite positive comments about the idea of being able to tie everything together, bringing in things such as interest statements from bank accounts and being able to feed in other general information about tax returns. The third-party ideas about bringing it together and making it more real time for people to assess things were all fairly well received. Overall, our members were not particularly positive about the proposals and the change, but they can certainly see a long-term benefit as long as it is phased in over time.

The Chairman: When you say that they can see a long-term benefit, is that something they have considered? Have they looked at the costs of doing it and thought, "I will get a return on that investment"?

Douglas Haig: It is not so much about the return on investment. There is a balance between the concept of going digital entirely and the slightly onerous approach of quarterly submission. I know it is not a quarterly return, but a quarterly submission. On the cost savings for individual landlords, to put it in the context of our membership size, five to eight properties is about our average, although we have an awful lot of one-property or two-property landlords. We are talking about a range from the possibly accidental landlord to the ones who have actively made choices to continue to grow their portfolio and invest. We are talking about a small turnover.

I can see that as the number gets larger, with 15 to 20 properties or that sort of thing, it will create some cost saving because people can analyse their costs much better if they are bringing their tax situation up to date, and they can do better planning overall. Those are all positive things, but

they are benefits that people will only start to get once they have multiple properties. It is not something they can actively do much about if they have one or two properties, when there is not much planning they can do or many changes they can make by knowing that their tax situation is up to date.

Lord Turnbull: There is something strange that I do not understand about opting in and opting out. Can you explain what is going on and why the rules for your sector seem to be the opposite of the rules for other people?

Douglas Haig: I am afraid I cannot answer that question entirely. In terms of where we are going—no, I am afraid I cannot answer that question, I am very sorry. I am not familiar with the opting-in and opting-out rules.

Lord Turnbull: It says in our briefing that the RLA supported the extension of the cash basis to small property businesses. Will your members be confused by the requirement to opt out of the cash basis if they do not wish to use it, rather than opting in as is the case for other qualifying businesses?

Douglas Haig: My apologies. As regards the cash basis?

Lord Turnbull: Yes.

Douglas Haig: That is fine. Apologies. I know where you are coming from now. I briefly heard the previous panel talk about the cash basis. For RLA members and landlords, the cash basis is really quite important and is quite a strong aspect of what we need to consider for smaller landlords, mainly because the vast majority of small landlords are possibly not self-employed, so they will probably never have done a tax return, other than the land side of the tax return that they have to do.

When it comes to doing general accountancy, they are not used to the idea of the accruals basis. It is a concept that not many people necessarily know about unless they have been in business. They operate on a cash basis. When they receive the cash, it is not when the rent was due, for instance. Unfortunately, we have regular occurrences of tenants being in arrears, so paying tax on that basis would be quite detrimental to a number of our members, and that is why we strongly support the cash basis.

Lord Turnbull: Do you think that most people would go for staying where they are—opting in?

Douglas Haig: Most of our landlords would opt to stay on a cash basis, as opposed to an accruals basis.

Q43 **Lord Flight:** Do you think it is wise to bring in the change to digital at the same time as hitting the residential landlord sector with a significant increase in taxation? The way it is calculated is not exactly obvious, so I can see property taxation getting into a muddle.

Douglas Haig: It is certainly an increasingly complex area of taxation. We are being partially taxed on our turnover now, as opposed to our profit. That is on top of a number of other things that are happening, with legislation for the private rented sector and continued divergence between the devolved Governments. When we look at the direction that Wales is going in and the direction that England is going in, small private landlords are having to undertake an awful lot of changes at this point in time.

I do not think it is particularly helpful to add this change on top at this time. I am sure there will be questions about timescales later, but that is something we would very much look to change, to slow down the timescales, especially for those at the smaller end, not just because they are smaller but because private landlords have so much other stuff to deal with at the moment.

Q44 **Lord Tugendhat:** A number of concerns have been raised about the pace at which MTD is being done and about the readiness of taxpayers themselves to deal with it. From your discussions with your members, what is your assessment of their awareness of the changes and the impact on them from April 2018?

Douglas Haig: There is an incredibly low awareness level among our members at this point, partly because most small landlords do not consider themselves as being in business, so it is not necessarily something that is on their radar. Many small landlords with one or two properties do not necessarily go directly through an accountant. Accountants are probably highly aware of the coming situation, and they are the ones informing their clients of the forthcoming changes. Obviously we, as a landlord body, are doing all we can to make our members aware, along with everything else that is going on. From an awareness point of view alone, we need to alter our approach over time.

Ultimately, an approach to a digital taxation structure is a positive thing. We are not saying that we do not want it to happen at all. We should consider exemptions below certain levels, and we should certainly look at stretching out the timescale in which we are going to implement it. Some landlords will look at it and say, "This is a positive thing. I am more digitally connected. I already use software. It is an approach I like. I like cloud-based stuff". You will probably find that some landlords prefer to do it and adopt it very quickly.

It is not exclusively the case, but the average age of a landlord is around 55. Not exclusively but generally, older people are less digitally connected and therefore struggle with this sort of change to things. I had a fantastic opportunity this weekend to spend a couple of hours having a coffee with a 91-year-old landlord, who is as sharp as anything and meticulous with his records, but I cannot really see getting him online any time soon to file his tax returns. He does a fantastic job—he really does.

Lord Tugendhat: What sort of information programme do you think

would be appropriate in this area?

Douglas Haig: We did a survey of our members beforehand, and 48% of them were using spreadsheets. Only 13% of our members were using some sort of software, and the rest were not using anything at all—or books. I think I heard “shoebox” earlier—they were taking that approach. I would imagine that the 13% are either those who enjoy using cloud-type software or the larger landlords, for whom it makes sense to invest time in setting it up. It takes a reasonable amount of set-up.

Being able to upload things through spreadsheets is key. There was talk about connecting it with the software, but if there is a template that people can fill into a spreadsheet, such as a CSV file, and they can upload that, it will certainly help many of our landlords to do that. Personally I am all for the more fancy software and so on, but I am here representing our members, and I do not think that the vast majority of our members are in a position to adopt that sort of thing.

Q45 **Lord Bilimoria:** You have answered a question that I was going to ask, so thank you for that. Some witnesses have argued that the added burden of MTD will lead to some small businesses migrating to the shadow economy. How likely is that to happen in the rental property and construction sectors? Building from the earlier discussion, where do your businesses get their external advice? According to the Federation of Small Businesses, 95% use an external accountant, tax adviser or bookkeeper; 18% use HMRC online services; 18% seek advice from HMRC via the phone; 10% use a tax or payroll software provider; 4% seek advice from online sources; 3% from other sources; 3% from someone else; and 2% from tax guidebooks. Does that tally with what you experience in your sector?

Douglas Haig: I do not have that information. It is a very good point, and it is something that we can survey our members on and come back to you, to see exactly where they get their tax advice and information. We had some information on how many landlords use an accountant directly. I do not have it with me, but I can feed it back to the Committee if that is okay. It was lower than I expected; around 60%, I think, used an accountant. We provide training on tax, which has increased interest, and there has been more uptake of the online advice pages and so on.

On your question about the shadow economy, my concern at the moment—it refers to something Lord Flight said earlier—is about the fundamental tax changes that are going on in the private rented sector, which are exclusive to that sector at this time: taxation on turnover rather than on profit. That is having a huge impact on some of our members. About 60% of members said either that they are no longer looking to grow their portfolios or that they are looking to exit the market altogether. Not to labour the point, but as I mentioned, when you include that on top of all the other changes that are going on, it makes the cost of doing business a lot higher in our sector.

There are those who are not doing business in a correct way, let us say some of the criminal landlords that we very much want to get out of the market, and the more we make changes and increase costs for the good landlords, the greater the difference in profitability between the one and the other. On the shadow economy, I do not know—I could not say—but I would certainly be concerned. This would not be the nail in the coffin at all, but it is another piece of legislation and another level of cost that is being added to what our members have to deal with.

Q46 Lord Wrigglesworth: You have made some very effective points in the evidence you have given, but how much do you think HMRC has taken any notice of what you have been saying? Have you been consulted on the changes, and do you think that your views have been carefully addressed and noted?

Douglas Haig: In this area, we have been to some of the consultation sessions, and some of our landlords went to some of the other consultation sessions when we were not able to go directly. Obviously, we responded to this consultation, and we have been fortunate to be invited here today. I thank you for the invitation and the opportunity.

I would not say that it was down to us, but changes in the cash basis seem to have been adopted. It may not seem important to other sectors and other industries, but the cash basis is very important to our sector. I would very much like to see an increase in the exemption threshold to try to bring many smaller landlords out of the requirement to be in the regime. When somebody has one flat or they have bought something for their son or daughter to rent out at university, they are not really making any money from it. In fact, 22% of landlords do not make any money out of it, and that is before the tax changes that will be implemented come April. I am concerned that this is another cost for smaller landlords. Certainly, bring it in for higher-level landlords, or even have a higher exemption level, and perhaps, over the years, start to bring that down so that you start to incorporate more landlords over time.

The way it is proposed to introduce it is kind of backwards. VAT-registered companies are used to submitting quarterly, and we should probably focus on them and learn from their experiences, get that bit right and then go down the ladder. Set the threshold high to begin with and then, in 2020, drop it down slightly or not at all.

Lord Wrigglesworth: You have something like 20,000 members. How many of them would be exempt if you had the £83,000 exemption level that you have suggested?

Douglas Haig: I would need to clarify that. We have not done a survey based on their turnover; we have done surveys based on numbers of properties. Obviously, numbers of properties vary wildly in the turnover they generate—depending on whether they are in London, the north-east or my beloved south Wales. It is difficult to say, but an average of seven or eight properties would perhaps get you towards that turnover, depending on where you are. I imagine that would exempt between 65%

and 70% of our members, bearing in mind that our members are probably slightly larger landlords, because they are actively involved in our organisation; but I notify the Committee that that is an estimate, not a surveyed figure.

The Chairman: Understood. Thank you very much indeed. I am sorry that we have had to rush you through this.

Douglas Haig: That is fine. I understand.

The Chairman: If you feel that there is anything we have not covered that you want to draw to our attention, please send us a note.

Douglas Haig: Certainly.

The Chairman: Thank you very much for joining us today.

Douglas Haig: Thank you for your time. I appreciate the opportunity.