

Treasury Committee

Oral evidence: Securing the Tax Base, HC 911

Wednesday 6 February 2019

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Members present: Wes Streeting (Chair); Rushanara Ali; Mr Simon Clarke; Charlie Elphicke; Stewart Hosie; Catherine McKinnell.

Questions 97 - 153

Witnesses

I: Anita Monteith, Technical Lead and Senior Policy Adviser, Tax Faculty, Institute of Chartered Accountants in England and Wales; Chris Duncan, Managing Director, Times Newspapers Ltd; Angus McBride, General Counsel, News UK; Martin McTague, Policy and Advocacy Chairman, Federation of Small Businesses.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]

Examination of Witnesses

Witnesses: Anita Monteith, Chris Duncan, Angus McBride and Martin McTague.

Q97 **Chair:** Good afternoon, everyone. It will not have escaped your notice that I am not Nicky Morgan. I am Wes Streeting and I am standing in for the Chair this afternoon, who, unfortunately and very rarely, is unable to make the session, so I hope you will accept her apologies. I know other Members will be joining us throughout the afternoon as well. For the benefit of probably the millions of people watching live online right now on the Parliament TV feed, perhaps you would like to begin by introducing yourself and the organisation you are here representing.

Chris Duncan: I am Chris Duncan. I am the managing director of Times Newspapers Ltd.

Angus McBride: I am Angus McBride, general counsel of News UK.

Martin McTague: I am Martin McTague, policy and advocacy chair for the Federation of Small Businesses.

Anita Monteith: I am Anita Monteith. I look after tax policy for the Institute of Chartered Accountants in England and Wales.

Q98 **Chair:** Good afternoon and thank you to all of you for giving up your time to give evidence to us this afternoon as part of this inquiry. If I could just begin with a general question for every member of the panel to answer in turn, thinking about the increasing digitalisation of the UK tax system, what gives you greatest cause for optimism and what gives you greatest cause for pessimism?

Anita Monteith: What gives me greatest cause for optimism is the way that the population is embracing the opportunities from digitalisation. It is a very exciting time to be living in the UK and to be doing business here. Where I am most concerned is that people are being left behind and, in many cases, it is not through any fault of their own. It is because they are excluded, perhaps because of their education, background or financial circumstances; it can be because of where they live, and there still is not enough fast broadband; or it may be that they are just getting on a bit and really cannot face making the big leap.

Martin McTague: In terms of optimism, I am scraping the barrel a little but I will go for it. A lot of big-data opportunities come out of this project. I would like to see HMRC really grasp that opportunity and provide better feedback to taxpayers, so that they are more aware of the kind of allowances they could be entitled to and more aware of different early warnings of problems that could be happening. That is probably for stage two of this process, where you start to get into maybe using digital tax for income tax. At the moment, the largest issues are mainly negatives. I would repeat a lot of what Anita said.



There is a group of people, who it is well documented are generally people who run small businesses, whose digital skills are low. They are struggling to adapt to fairly basic digital upgrades. Layered on top of all the distraction about Brexit, they get this new complication to their lives. They are really struggling to adapt to this because they are not reacting to it quickly enough and they are not going to be trained quickly enough.

The other group, which is perhaps sometimes missed, are those people who currently have fairly simple tax affairs and are storing all their data on spreadsheets. They think they can just quickly make a transfer to whatever the Government propose as the new digital platform. We are finding that the interfaces have not been properly developed and have not been accepted so far, so they have a misplaced sense of optimism, which could end up backfiring.

Chair: We will come back to some of those issues shortly.

Angus McBride: My role here is somewhat single issue in terms of newspapers and VAT. News UK has been in proceedings with HMRC in relation to the way in which VAT is applied differently to the print editions of our titles and the digital, online edition. We have been involved both in the proceedings before the First-tier Tribunal and in speaking to people generally about the lack of parity in the way that is dealt with.

We have a situation where the online edition of the *Times* newspaper is not subject to zero-rated VAT, whereas the print edition of the *Times* is subject to a zero rate, in circumstances where, at the tribunal and as is obvious to anyone who looks at both, they are ostensibly the same, with some small differences. We have a situation where the VAT regime that was brought in some years ago to deal with print and the situation as it was in the 1970s, 1980s and 1990s has not caught up with the way in which publishers are delivering services and delivering their editions now. That is something that Chris and I are here to talk about today as much as you would wish.

Q99 **Chair:** On that point, where there is litigation with HMRC, we will not be able this afternoon to discuss the merits of the arguments in that case, which you are waiting for resolution on, but I will certainly return to the theme later in the session. I am particularly interested in your experience of encountering or enduring—whichever word you would like to use—HMRC's disputes mechanisms. We will come back to that. Chris, is there anything further you wanted add?

Chris Duncan: I would echo a lot of those points. I suppose the optimism is that this is being recognised as a sea change. Consumer behaviour has changed; publisher behaviour has changed, and the tax code needs to reflect that, so it is optimistic that it is being seen as a wider issue than single-issue tax changes. I guess the pessimism is as to whether that can happen at the speed at which our industries are being disrupted. We first had paid digital subscriptions in 2010. It is 2019 and this discussion has been running through all that time, during which we



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have seen huge amounts of disruption in our industry. It is whether legislation can keep pace with that change.

Q100 **Chair:** Thank you. I guess it fits in the context of HMRC's plans for digital transformation generally, and I would be interested in your general views about that. Thinking about the proximity to the start date for Making Tax Digital for VAT, at this stage how do you think that is going to go? We will pick up some of the specific issues from other Members of the Committee shortly but, broadly speaking, do you think businesses and HMRC are ready for a successful launch? Martin, you hinted at this already: this is taking place in the context of wider uncertainty around Brexit. Do you think the readiness is there, but also do you think the timeliness of these changes is appropriate in that context?

Martin McTague: There is a real problem. A lot of businesses are being distracted. You only have to look at newspaper coverage of business issues. They are dominated by Brexit issues. It is very hard for HMRC to get any kind of bandwidth on this. It is difficult to get small business owners to react in a timely way to changes in tax regulations, let alone have it happening at a time when there are so many distractions going on. For some businesses, there are significant impacts from Brexit, and they are clearly more focused on what those could be than digitalisation, which seems a bit of an obscure possibility or risk.

Q101 **Chair:** Nonetheless, the Making Tax Digital plans for VAT are well afoot and we know when it is due to start. You are telling us that, because of the lack of bandwidth, we are not ready.

Martin McTague: Yes. It is not going to come as a surprise to anybody that most small businesspeople only really react at the very last minute to any of these kinds of changes, and they will leave it to the very last minute. We have done our very best. We have had roadshows going on for the last few months now. They are well attended, but they tend to be people who are already aware of the issue and are just trying to find the best way through it. There is a big group out there who do not even recognise this as an issue for them right now.

Q102 **Chair:** Does that chime with your experience, Anita?

Anita Monteith: Totally. To be very clear, HMRC has had a pilot running now for a number of months on MTD for VAT. As you know, it is mandatory, starting 1 April this year, for businesses that have taxable turnover over £85,000. They are expecting just over a million businesses to be mandated. At the moment, only 10,000 businesses are signed up to the pilot. It is possible for everybody to join, should they want to and should they be able to, but, as Martin has just said, the comms around this has been negligible from HMRC.

I got very excited at Christmas because I heard an advert for MTD on the television, and then I found it was QuickBooks. Similarly, there are zero radio adverts. From HMRC, there has been nothing. ICAEW has been running webinars. We have a very active website hub for agents and for



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our business members, and we are getting a lot of engagement. However, for agents to join up to the process, there are also problems. There is a new agent services account that you need to set up if you are acting for a number of VAT-registered businesses. Although it is ready, it is not clear to businesses how, as an accountant, you would join up to that for your members. The guidance is just not good enough.

HMRC is writing to all businesses but it is writing a hard-copy letter. It has not finished sending out those letters yet and, as we are sitting here now in February, with this to go live from April, we are told that it does not really matter so much because they will not need to put their first MTD VAT return in until August. Of course, the principle of MTD is about making your accounting digital and, therefore, you should be doing that throughout the quarter leading up to that moment, so those are just a few of our concerns.

Chair: Just a few. Chris, without wanting to put you on the spot, from your perspective, are you guys ready to make your VAT returns digital? Do you think you are well informed as an organisation about what is involved? What is your state of readiness?

Chris Duncan: I would hope so but we are a larger organisation. It would be a different thing for News UK than it would be for a small business.

Chair: Let us move on to some of these specifics.

Q103 **Mr Clarke:** In terms of making sure that Making Tax Digital achieves its stated aim, which is to make sure that we reduce the error rate that businesses are facing, Anita and Martin, from the pilots that have been conducted so far, are there any indications that businesses are, in fact, making fewer errors than they were previously?

Martin McTague: I do not know whether the pilots are finding that but when we did some research on VAT we found that, as far as business owners were concerned, it was very difficult for them to just pass this responsibility down to their accountant, because a lot of the identification, especially with input tax, meant that they had to identify what that tax rate should be, check it and make sure it was entered correctly into the software. There is an old adage, certainly from my era, about rubbish in, rubbish out. There is nothing to suggest that, just because you digitise the process, you are going to reduce the number of errors. In fact, if you look at some of the online software packages, they like to set up rules, so that, once you have adapted a rule that says "invoice from Bloggs and Co is zero rated", you will keep making that mistake consistently. If anything, it just reinforces and increases the error.

Mr Clarke: There is a different type of error.

Martin McTague: Yes. That would be the experience we are getting from a lot of our members.



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Q104 **Mr Clarke:** Anita, in your written evidence from ICAEW, you say that there is this danger that increased administrative burdens and costs outweigh any reduction in the tax gap. Is that also a concern?

Anita Monteith: It is very difficult to see how the tax gap could be closed. You talked about errors just now. Of course, errors go both ways, and the emphasis has always been, in the numbers we have been presented with, that the errors are going to lead to fewer expenses and perhaps more income being reported. But I think that is attributable to that black economy, and that is a completely different problem.

To return to your question about the cost of this, the cost is huge. Various people have attempted to attach numbers to it. I do not think anybody knows for certain; it is always going to be an estimate.

Q105 **Mr Clarke:** What are those estimates at present, range-wise?

Anita Monteith: I spoke to a software company this morning. We have a lot of meetings on the development of MTD at the moment. He said that, in their case, they were looking at millions of pounds having been spent to develop software. Sticking with the software industry, there are now around 100 products listed on HMRC's website, and I find it difficult to see how that many products can be sustainable. There are not that many VAT-registered businesses in the UK, so somebody somewhere may find that they do not make as much money as they thought.

Q106 **Mr Clarke:** Or that people are stuck with potentially redundant or non-supported software.

Anita Monteith: That would be another problem. For businesses themselves and for agents of those businesses, this is taking hours of time. I do not wish to make it sound as though we do not support the move to digitalisation—there are a lot of benefits—but I come back to the issue of mandation. Making it compulsory at a time when it is clearly not ready and where businesses have Brexit, whatever that might involve, at the same time just seems to be unwelcome.

Q107 **Mr Clarke:** Is that amounting to a formal request for it to be deferred? Have you communicated that to HMRC?

Anita Monteith: We have been of the opinion that it should not be mandated, which is not quite the same thing as deferring. Many people are already using MTD software and are digitalised, and they do see the benefits, but you should not make people. Martin was talking about the small businesses themselves and the more complex businesses. I have spoken to many of those, and they will be using much more complex products, Microsoft Dynamics or whatever, but they have issues as well. It is almost as hard for them to file their VAT returns this way as for smaller businesses.

Q108 **Mr Clarke:** Martin, is that a position you echo from the FSB point of view?



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Martin McTague: Yes. There is a slight difference insomuch as we are seeing that it depends on what kind of software businesses are running currently. Some businesses are running very old legacy software. They are quite happy with that software. It performs a function month in, month out for them, but it is not compatible with the proposed MTD regime, so they are now being forced to make quite expensive upgrades or change to a brand new piece of software that they are unfamiliar with and, therefore, will require a lot of extra training. They see hours of extra work and potential for mistakes and cost. Our position slightly differs from Anita's in that we are not against mandation; we are saying, "You need to treat this process as a trial period, where you are not going to start wielding the big stick at companies that are clearly doing their best to confirm and are not able to do that adequately".

Q109 **Mr Clarke:** On that point, have you received any assurances that that will indeed be the approach taken by the authorities?

Martin McTague: No, I have not. This seems to be an attempt to break the logjam on MTD, so they are driving it really hard to try to get it through. We are not receiving many assurances that this will not be treated rigidly.

Q110 **Mr Clarke:** Turning to transposition errors, which are a key aspect of VAT returns, do you have any sense of the quantum, in terms of how many VAT returns are challenged on that basis?

Anita Monteith: You would have to ask HMRC that question. But a transposition error simply means switching two numbers round. It may be a small one and a big one, and you could have increases as well as decreases in your expense claims.

Q111 **Mr Clarke:** Thinking more laterally, then, if MTD is not the be-all and end-all, or at least not the only element in helping to make sure we get VAT right first time as far as possible, are there other things that HMRC could and should be doing to support traders?

Anita Monteith: They could certainly help traders by making sure that agents can see and do all that a business can see and do. At the moment, many businesses will believe that, having given authority to somebody to deal with all their tax affairs, they can just sit back and get on with making a profit from their business, but that is not the case. For example, the personal tax account that all of you will have, on which you can see your salary and tax deducted, and so on, is not accessible to your agent, which may be a surprise.

Mr Clarke: It is a surprise that agents have no ability to see that.

Anita Monteith: They cannot see your personal tax account. Many enhancements have been promised and are in the pipeline but, of course, these cost money. I suspect they are the bits that may happen one day but not immediately.



Q112 **Mr Clarke:** Ironically, therefore, the bigger-ticket item is being pushed through before some of the supporting changes that would be helpful.

Anita Monteith: Quite, and there are problems associated with that. For example, if you assume that a business is signing up to Making Tax Digital, it will need to have a business tax account in order to receive all the paperless communications that it would automatically be signed up to receive in future from HMRC. It may not realise that it needs to have one of these accounts, so these communications will not be visible to it. That is linked to payment of your VAT by direct debit, which is another issue.

Q113 **Mr Clarke:** Angus and Chris, to bring you in on this, if Making Tax Digital is not, in effect, about reducing error or is not succeeding in that purpose, what is its purpose, do you think?

Chris Duncan: Do you mean as a wider framework?

Q114 **Mr Clarke:** Yes. It is almost a philosophical question, but what are we trying to achieve here, if we are not achieving this goal?

Chris Duncan: It is updating the way that tax thinks about the way the economy works. The economy has been hugely changed and transformed over the past 10 to 20 years. The internet has enabled different types of commerce, different business models and different ways of charging. In many cases, we are governed by the same regulatory and tax code that we were 20 years ago, so Making Tax Digital is about reflecting the changes in the wider economy and making sure that we are all competitive and that we encourage the right kind of competition in this country and with entrants from abroad.

Q115 **Mr Clarke:** From the perspective of bigger business, as it were, presumably you do not struggle in the same way as many of the smaller traders with this kind of change mindset. All of your work has already been switched to this long ago, in practice.

Chris Duncan: We would have more attention on things like changes to the way that our finances were processed than small traders would. At the same time, we have a business that we run every day through 37,000 independent newsagents who stock our products and who probably have quite a different attention span for it. At a corporate-finance level, yes, but in our supply chain, no.

Mr Clarke: That is really helpful. Thank you all very much.

Q116 **Rushanara Ali:** I wanted to start off with VAT and Brexit, and to just pick up on some of the issues around HMRC guidance. They published material about what businesses should do to be readying themselves for leaving the EU with or without a deal, including what action they would need to take around their VAT processes. In your view, how helpful has that been?

Martin McTague: One helpful piece was on dealing with VAT payments for EU transactions. They came out with a very clear statement saying



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that they would treat it on a cash basis; in other words, traders would not be in a position where they were trying to pay out VAT before they had collected it, which was going to be a serious cash problem. That is quite a rare example in this Brexit world of a Department taking a proactive position on that. We are finding, on the negative side of the ledger, that there is so much distraction, and so many Departments are distracted by the process that is going on, that the white noise in the background due to Brexit means a lot of traders are not really hearing what they need to hear from HMRC.

To pick up the point that Simon asked earlier, HMRC has a lousy reputation for how it deals with phone calls in particular. If you have a large chunk of people who, as they acknowledge, are digitally excluded and who fall into this category, whose only real way of getting advice and guidance is to come by phone, and the phone system is way below par, they are already setting themselves up for a fall.

Q117 Rushanara Ali: Would you say that that is an area where they could do more or have more people with expertise?

Martin McTague: They have acknowledged in the past that that is an area where they are falling short. It seems to me that, if there was a really big missed opportunity, and if there was one area where they could improve—they love to call us their customers—their performance for customers, it would be how they treated inquiries. If you are going to digitalise this tax process, they could go a lot further in trying to make the interface between HMRC and the taxpayer digitalised.

Rushanara Ali: Did anyone else want to come in on this point? Otherwise, I will move on.

Anita Monteith: I could just add that HMRC has introduced some alternatives. There is a little thing that pops up on the side of the page, asking if you want to ask a question.

Martin McTague: It is a bit like the paperclip of years gone by.

Anita Monteith: That is a welcome improvement. One thing I would take issue with is that, on the bottom of the pages of GOV.UK, there is a little phrase that says, "Are you having trouble with this page?" I think that is the wording, or something like that. People misunderstand that and assume that maybe there is a problem with the page loading or something like that but, if you use that facility, you can get technical inquiries through. It logs to HMRC that there is something to do with that particular area on which people need more help. Just looking for one thing that could be done, more use of that would highlight problem areas, and then you could get more guidance published. It is difficult.

Q118 Rushanara Ali: Is there a gap in any other information? Is there satisfactory material available from HMRC?



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Martin McTague: It is pretty thin on the ground. Part of the problem is that they are battling for attention, but it does not sound like this has a massive budget either. They are relying on a lot of software companies to make the difference and to fill the gap. As we heard earlier, some of these software companies are falling out of love with this project, because they are pouring millions into it and not really seeing much in the way of returns.

Q119 **Rushanara Ali:** Moving on to the VAT issue, the European Commission has plans to put a cap on the VAT threshold at £75,000. Again, depending on the terms on which the UK leaves the EU, the UK could have to implement that cap within a transitional period, if there is one. Is that causing concern among FSB members and other small traders? What are you picking up?

Martin McTague: We are picking up that the chances of that making it to a point where it influences our tax laws is pretty slim. We are not, at this stage, panicking any of our members that this is on the horizon. With such a volatile state of affairs, who knows whether that could change? At the moment, it looks like a bit of an outside chance that it would come into effect.

Rushanara Ali: Does anyone else want to contribute?

Anita Monteith: The other point to add here is that our current VAT-registration threshold of £85,000 has been frozen for the next few years. There are a lot of businesses hovering just below that threshold and, in any case, we are going to see a lot more businesses being forced to register for VAT.

Q120 **Rushanara Ali:** Thank you. I just have a few more questions, unless either of you have any further points. In that case, to all of you, we have heard evidence in an earlier Committee session that traders find it hard, and you mentioned the fact that people do not have access to phone-based information at HMRC. I suppose it would be helpful to get a bit more on what kind of input would be needed quickly, given all the challenges that are coming up. Is there a case for more staff being recruited quickly? You are saying that people are relatively calm at the moment, given everything else that is going on, but should HMRC be doing more quickly to prepare for a potential onslaught of people panicking and making calls, and it being unable to cope with that, given everything else that is going on within HMRC?

Martin McTague: I would certainly welcome the chance to have more resource for people to deal with on a day-to-day basis, because it is clear that they have underestimated the likely reaction they are going to get in the spring of this year. I do not see any moves within HMRC to do that; in fact, when I look around, a lot of resource is being poured into no-deal preparations, but precious little into other projects.

Anita Monteith: The obvious thing is to not make the changes that they do not have to make at this time. Coming back to Making Tax Digital, if



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you do not mandate it, you will not force the other 980,000-odd businesses to make the change until they are ready.

- Q121 **Rushanara Ali:** We received evidence from one of the Big Four accountancy firms that said taxpayers are increasingly finding themselves having to submit appeals to the First-tier Tribunal in VAT disputes. They also told us that HMRC's internal review process has changed and now looks at the HMRC officer's behaviour rather than whether their interpretation of VAT law is correct. Is this also an issue for small businesses?

Anita Monteith: It is not something that I have had reported to me.

Martin McTague: No, it is not something I have come across. I do not think HMRC is known for its customer-friendly approach, so it is not something we have had a lot of positive feedback on.

Chris Duncan: I am not sure that our experience of the tribunal is particularly helpful. It started back in 2014 as a back-and-forward of appeals and argument over the way in which the rules should be interpreted. It took a fairly long time to get to a conclusion. It was a couple of years before we had the final decision, and then that was taken to the First-tier Tribunal, but I do not know whether that is typical. It is a fairly lengthy process.

- Q122 **Stewart Hosie:** Martin and Anita, the FSB has its own Making Tax Digital hub. ICAEW has been doing extensive outreach to members. From your experience, how responsive is HMRC to the information you are picking up from your members and from your outreach sessions? How could they improve the way in which they respond to you as organisations and to individual businesses and agents?

Martin McTague: We have been talking to them for the best part of two years about this project. It would be fair to characterise it that, initially, we were very hostile because they seemed to want to ram through a very ambitious project very quickly. Initially, this was going to be for all taxpayers, regardless of size. We lobbied very hard that they restricted it to businesses above the VAT threshold, which they have conceded on, and we have, therefore, responded by being much more constructive about how we dealt with those businesses that are above the VAT threshold. We have tried to provide advice and support to those businesses, but I have to say we get very little in the way of support from HMRC. It is something that we are doing because we feel it is necessary to support small businesses, but it is not a joint effort.

Stewart Hosie: So the communication is not really a two-way process.

Martin McTague: No. We know what they want to achieve. They believe that they can reduce errors by going down this route. It seems to be a lot about how they close the tax gap and very little about how they deal with individual taxpayers. If there was less emphasis on the stick and more on the carrot, they may get a better response.



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Q123 **Stewart Hosie:** I presume the best way to close the tax gap is to keep the tax offices open, and to let people go in and make sure their tax returns are correct before they submit them.

Martin McTague: It would be a good idea.

Stewart Hosie: That is jolly good. I am glad you agree.

Anita Monteith: We have had very good engagement on an individual level with HMRC during the last couple of years. They have been very good at coming to talk to us about problems but the difficulty is getting the problems fixed. They just do not seem to have the money to get those problems fixed. It is very disappointing that they are relying on us to do the communications and on the software industry to do the communications, for example. You almost feel that, if it all goes wrong, the business would be able to say, "I never realised this was a requirement of HMRC. I thought it was my accountant making me do it", because they have never put their head above the parapet. Contrast that with when self-assessment was introduced and we had a huge campaign with the black and white flower man on the television. I realise times are different and they just do not have the money for that. However, I feel that we are telling them about problems that they probably already know are there, but they just cannot fix them.

Q124 **Stewart Hosie:** I was disturbed by what you said earlier: that an agent cannot see a personal tax account. For 97% of businesses in Scotland—and I think the number is similar in England—they are sole-trader operations. The personal tax account is the business account. It is quite extraordinary.

Anita Monteith: The personal tax account and the business tax account are separate accounts. The original plan, if you go back to the roadmap that was published in a Budget of about four or five years ago, it showed you the digital future of the UK, in which you would have your business tax account with your business income in it, and your personal tax account that would be fed through with your employment income, your bank interest and your dividend income.

Q125 **Stewart Hosie:** I take it that that was designed by someone who has never seen a small business operating.

Anita Monteith: Possibly. It looked very effective anyway.

Q126 **Stewart Hosie:** This is a serious question for both of you: it strikes me, having listened to all you have said, that the Revenue is trying to stop businesses growing beyond the VAT threshold, because businesses are petrified to do that.

Martin McTague: There is a lot of gaming around the £85,000 threshold, and I just think this situation makes it worse. If there were real benefits to be gained from being within this threshold, and real benefits coming out of digitalisation, there would not be the same resistance. There would be a lot more that businesses would consider as



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being upsides as well as downsides. I get the sense—and I completely endorse what Anita said—that it is not that they do not recognise these problems; they just do not have the resources to fix them.

- Q127 **Stewart Hosie:** Martin, the Revenue says that awareness of Making Tax Digital within small businesses that do not have tax representatives is higher than in the general population. They also say that there is no real problem with digital capability in that sector. Does that reflect the views of your members?

Martin McTague: No.

- Q128 **Stewart Hosie:** Where do you think that has come from? Who do you think they have spoken to?

Martin McTague: I really do not know. I do not know where they would have picked that advice up.

- Q129 **Stewart Hosie:** I wish we had the Revenue here at the same time. It would be helpful.

Martin McTague: It would have been helpful, yes.

- Q130 **Stewart Hosie:** Anita, I take my tax return in every year. It is very simple. I take it in, I give them the P60, the P11D and a couple of other bits of paper, and it gets sent away. When I go to the accountants, particularly towards the end of the tax year, there are piles of tea chests and file boxes with receipts, invoices and bank statements that someone has handed over to their agent to do. Your agents will be seeing this, so how frustrated are they, given what you were telling us earlier about what they do not have access to, that they can no longer provide a service for people for whom they have probably been doing this for 20 or 30 years?

Anita Monteith: Let me take those piles of paper to begin with. The process of taking your carrier bag in once a quarter to your accountant could still happen. The new rules do not prevent it. It is not desirable, because you do not particularly want to spend all weekend typing up somebody's three months' worth of expense receipts, but you could do it that way.

Early on in the process, we discussed with HMRC the way that businesses keep their accounting records, and it became very clear to HMRC that it had to accept spreadsheets, so the digitalisation process is that you take your three months' worth and you put them into a spreadsheet. Then you use an API-enabled spreadsheet to suck the information out and put it into the electronic back end of the VAT system. That would still be possible, so, at the end of the year, you would not expect to see a year's worth of receipts, just the most recent quarter's worth.

That is not going to do anything other than tidy up the office, really. The real prize, ultimately, will be when HMRC is able to provide an unrepresented business in particular with the prompts and nudges that



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we were promised at the beginning. A prompt would be where they would look at the figures you had submitted and say, "Last quarter, you had some income in this box and you do not have any this time". A nudge would be where they had a better idea of what it was you were reporting and could make a suggestion for something that you have included or not. At the moment, with the way the system will begin to be implemented, I just cannot see how that can happen.

Q131 Stewart Hosie: If they do what you have just suggested, and you have had a really good quarter and then an average quarter, they are automatically populating these boxes with big numbers. You are then due a rebate from the taxman, and you are not going to get that back.

Anita Monteith: I think you would. You are giving them the information. Clearly, if you did something very strange, it would probably be helpful for HMRC to inquire, before giving you back £50,000.

Stewart Hosie: That online prompting, nudging or auto-populating is not there.

Anita Monteith: It is not there and it cannot be, under the system as it is being started with.

Q132 Stewart Hosie: For clarity, then, how long a delay or deferral do we need before they rush headlong with any more of this nonsense—one year, two years or five years? What are we talking about?

Anita Monteith: We need to wait until the business case is proven. Again, look at self-assessment: I forget the stats, but this January a huge proportion of self-assessment tax returns were done online, and very few people would wish to go back to the old paper process now. It was left to individuals to decide when they would take that jump, and it has worked because, now that you know it is more efficient do it online, you will choose that way. That is what they should do for MTD.

Stewart Hosie: In a shorter version, wait until the business case is made, and you do not think that is done yet.

Anita Monteith: No.

Stewart Hosie: Thank you.

Chair: I am going to give Martin and Anita a bit of a rest now and go over to Charlie Elphicke with some questions on VAT on digital publications.

Q133 Charlie Elphicke: Good afternoon. Research commissioned by the publishing industry suggests that zero rating digital publications would save universities, libraries, Government Departments and the NHS up to £55 million per year. If the UK did zero rate digital publications, would the saving really be passed on to consumers?

Chris Duncan: I can answer that. I cannot speak for universities; I can only speak, really, for the publishing industry. To the question of whether



they would be passed on, they would certainly be invested in our businesses, whether that is in hiring journalists, in building the technology that we need to compete digitally, in pricing or in discounting our pricing for students and younger readers. It would certainly be reinvented; whether it is directly into prices is a more complicated question.

Q134 Charlie Elphicke: Were you guys always concerned that the European Union might come along one day and get rid of zero rating on your newspaper publications? Was the industry really concerned or did the industry always think, "No, they will never do that"?

Angus McBride: They have done the opposite. Recently, they have clarified the position, as we say it is in this country anyway, that digital editions should be treated in the same way as the print media. In the directive in December, they said that European countries should fall in line with that and that any of the member countries can bring in zero rating or reduced rating for their digital editions. In that sense, the European Union has gone in the same direction as we say we should be going here with digital editions.

Q135 Charlie Elphicke: With traditional hard-copy print, the European Union has always found our zero rating slightly unusual, has it not? For newspapers, it has always been a battle because, traditionally, you were worried that they would get rid of zero rating and charge VAT on newspapers. Was that a real concern or is it just something that used to come up occasionally?

Angus McBride: I have not seen it as a real concern. As I say, the way in which they have moved now suggests that, if there were concerns, they were not ones that needed to be worried about too much. It has been very central to the way in which VAT has been viewed, as far as newspapers are concerned, and the social policy behind it has been very clear. In the tribunal proceedings we dealt with recently, the judge made it very clear that he saw that this should remain in place, and it was still good law and good social policy, in terms of print editions being there for the promotion of literacy, dissemination of knowledge and democratic accountability. There was good reason why VAT should be zero rated as far as the print editions were concerned. Our argument has been that, where the digital editions are effectively the same, as per the *Times*, that should be applied to the digital edition as well.

Chris Duncan: It was an explicit derogation in something like 1973. It was a carve-out for the UK to run its policy. We were always hopeful that we would eventually be able to bring them in line.

Angus McBride: It was upheld again in 2006, so article 110 said the same thing: this should remain. Whether there was a concern after 2006 that they may go back on that, I do not know. It is not one that I was aware of.



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Q136 **Charlie Elphicke:** What would the wider impacts or spillover effects be for the UK from changing the current VAT treatment on digital publications? What could they potentially be, in your view?

Chris Duncan: Specific numbers are hard to get because we cannot speak for the rest of the industry. If you look at the direction of travel of the publishing industry, most of our national press and our local press are looking at ways that they can make sure that they can keep a revenue model going, as the advertising model changes. More and more publications will look at whether they can charge readers directly, as well as advertisers. It will encourage that innovation if that is held at the same tax treatment as they currently get for their print publications. We see it as incentivising digital innovation and digital competitiveness across the national and local media.

Q137 **Charlie Elphicke:** Do you think the VAT issue is pretty much a sideshow to the reality that you are trying to keep a business model going with a print publication, while the internet is coming along and tearing it all to shreds, and then you have Google coming along and, frankly, eating your business model and stealing your news? Is VAT the biggest challenge or are there rather more severe things out there in the corporate jungle?

Chris Duncan: It is the issue we are here to talk about today. There are a number of moving parts but this is a clear example of where our industry, by doing the thing that it has done for centuries—in the case of the *Times*, over two centuries—is suddenly penalised by moving to digital, where it is competing with platforms that are not. We talk a lot about a level playing field for publishing. This is just another example, if you like, of where that level playing field is difficult to maintain.

Q138 **Charlie Elphicke:** How have other countries reacted to the Commission announcement that states can reduce VAT for digital publications?

Angus McBride: A large number of them have already made the move. I have the list somewhere here but it is about 10 or 12.

Chris Duncan: A few have already made the move. A lot of them have scheduled it for July, probably for their own calendar reasons. The majority have moved to say, "We will now apply them". Ireland has already applied parity across its rates.

Q139 **Charlie Elphicke:** Were you guys involved in the discussions with the European Commission on this particularly?

Chris Duncan: No, not personally. I do not believe so.

Charlie Elphicke: I mean corporately, News UK-wise.

Angus McBride: No, not that I am aware of. We have been making the case but how far that has spread, as far as that was concerned, I am not sure.

Q140 **Charlie Elphicke:** Is it more likely that it is not just you guys but, across



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the whole piece, the entire newspaper and, indeed, hard-copy publication industry across the whole of Europe is massively affected by the, frankly, unfair competition of tax-dodging, big digital corporates?

Chris Duncan: We would go back to the level playing field view. Yes, we would say that, at a European publishing level, every publisher across Europe is very keen to make sure that its digital future is as secure as it can be, and this is helping. There is a European lobbying body whose name I am struggling to remember, but I can send that back in writing.

Angus McBride: You raise a number of major issues there in terms of our advertising revenues and how they are being eaten up by Google and the other major organisations. We see this VAT matter as something that is almost isolatable. It is a quick gain that we can make. We have much bigger issues that we need to take on but, if we can get that parity quickly, it helps us in terms of investment and it helps us, in the shorter term, to make a small gain or a gain that would be helpful to us. Yes, I agree that there are big issues for us in the publishing industry, some of which you allude to, but this is one where Europe has already moved and where, in terms of UK law, there is a clear interpretation that shows that these two things are the same, and it is something that can be quickly achieved.

Q141 **Charlie Elphicke:** Angus, can I be devil's advocate and put the question out there: are you looking through the telescope from the wrong end on this? Is the issue with the likes of Amazon and Google not that, when they eat up all your revenue, they do not pay any traditional profit taxes because they say, "We are not here", and that one of the only ways you can get them to pay a fair share of tax is through indirect or turnover-type taxes? Should you maybe, at some point in time, rethink the entire business model and model for taxation, so that, in order to get the level playing field, you shove it all on to turnover rather than traditional corporate profits and traditional taxation?

Angus McBride: It is not a debate that I have come here necessarily particularly well prepared to enter into. Yes, there are all sorts of arguments about how you deal with these enormous companies now—even News Corporation and News UK are looking at them as being dominating companies within our space—and how you categorise them: in the case of Google, whether you categorise it as a publisher or a platform. All of these issues are immense, and the issue as to how tax is treated for these organisations is the same. For us, our purpose here today is along the lines that our digital edition, as far as the *Times* is concerned, is the same as our print edition, and it is treated differently as far as VAT is concerned, which we pay ourselves, rather than turning it to the customer. That is something that we are looking to change quickly and we will continue with our troubles in terms of the other organisations.

Q142 **Charlie Elphicke:** My thinking about this is that it is almost like the entire system has been shattered by the innovation that is the internet—the rise of digital publications and the rise of digital enterprises—and the



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travails that you are suffering, as almost a physical business, are not a million miles away from the travails that the high street is suffering and so much traditional enterprise is suffering. The question is how you get that level playing field. I appreciate that I slightly digress from the topic but it is one that causes quite a lot of us concern because of the upheaval it causes to so many lives.

Chris Duncan: In terms of the parallel to the high street, the small business editors at the *Times* and the *Sunday Times* would say they get most questions about a level playing field on business rates, and it is not dissimilar. Digitalisation of businesses has left a different tax treatment in the digital, growing side of the economy than it has in the traditional side of the economy. That is probably the parallel here.

Q143 **Charlie Elphicke:** You are currently challenging HMRC's view of the correct VAT treatment of digital subscriptions. Without going into the complete details, what has your experience been of getting a dispute to the tax tribunal, and do you feel that your arguments were given a fair hearing by HMRC before you got that far? The reason I ask that is that we are looking at tax disputes as well in a wider sense, so it would be interesting to get your take on that.

Angus McBride: A fair hearing, yes. I do not think one could say that they did not consider it carefully. Bearing in mind that the tribunal has reached the decision that it has, it would be difficult at this stage to criticise their process. We do not agree with that decision but they have brought a case, which we have challenged, and they have made a finding, which we have challenged. The judgment is an interesting judgment. There are a lot of issues in there and there are ones that we will take to the next tier. I do not think that one could say that they have not dealt with it fairly. It has been an argument around interpretation of law and a number of broader jurisprudence issues that the First-tier Tribunal dealt with carefully. It reached the wrong conclusion, in our view, but I do not think one could criticise HMRC for the way in which it dealt with this.

Charlie Elphicke: It is your opinion, I guess.

Angus McBride: In terms of the decision that has been reached, yes, it is my opinion. Others have a different view. You asked whether they have dealt with it properly and in a professional way. In terms of the way in which proceedings went, the way in which they dealt with our initial challenge and the arguments that developed through the course of the early part of the proceedings and then into the proceedings, they have all been dealt with sensibly and professionally.

Chris Duncan: I would probably have a slightly less patient view, from the business side rather than from the technical side. Although they will have acted professionally, it is nine years since we began paying VAT on digital subscriptions, and nine years in the modern economy is a very long time. Whether steps have been taken professionally and



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methodically, I do not disagree with Angus, but is it fast enough for British businesses to get resolution on these issues as the economy develops? Possibly not.

Q144 Catherine McKinnell: We are back to Martin and Anita for these ones. I wanted to ask about Making Tax Digital and its impact on the relationship between traders and their advisers. Do you think it will change that relationship and, if so, in what ways?

Anita Monteith: That is a very good question. At the moment, the relationship has changed because advisers have to be quite hands on with teaching businesses, particularly smaller businesses that do not have digital skills, how to change their recordkeeping techniques to bring them into line with the MTD requirements. They are teaching them, in a lot of cases, how to use new functions from bank accounts, so that they can download their transactions into, perhaps, a spreadsheet for the first time. Of course, banks themselves are now doing deals on special business bank accounts that give software to the traders themselves. That bit is perhaps where we will see a change in the future and our members will be able to spend more time doing what they really want to do, which is to help people grow their businesses and be more business-like, perhaps not doing the things that do not make so much money and focusing on areas where they can be profitable. I think we will see more changes in that relationship.

Q145 Catherine McKinnell: Do you think there is a danger as well in that, though, for the tax adviser community, in the sense that some advise very small businesses that perhaps do not need that level of support but just need their tax returns completed, and the digitalisation of that will fundamentally shift particularly that end of the market?

Anita Monteith: The straightforward bookkeeping end of the market, which probably is less where our members do most of their work, will change, but it is changing anyway. It is not just the Making Tax Digital piece that is affecting that. I really do not think that there are very many people who want to spend hours and hours with big ledgers any more. I am more concerned about taking everybody on this journey.

I have one member who has rung me several times now, who is in his mid-70s. He is still in practice and still has about 40 clients, people he has acted for over many years. He said that he just did not feel he could engage with this new digital requirement and so, rather than carrying on for another two or three years, which had been his intention, he is now thinking of giving up early and retiring. Some of the businesses he represents will go to another accountant but a number of them will retire early too, so I am really concerned about digital exclusion here, about people who could have made some money for themselves in retirement by running a small business, and people who could have kept farming for a little bit longer but who have just suddenly decided, "This is too much. I just do not want to make the digital jump, so I am out". That is a great loss.



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Q146 **Catherine McKinnell:** One of the concerns potentially for small businesses is that that shift in the market, which is happening anyway and will be accelerated by Making Tax Digital, may well put quite a few of those smaller practices out of business and, therefore, those small businesses that rely on them may well need to go and find an alternative adviser, which may well become more expensive for them. Is that a concern that you have picked up? Is that a shift that you can see?

Martin McTague: From the small business perspective, there is a shift in professional services right across the board, where the more mechanical processing of data is being replaced by advice and quality or added-value services. It is inevitable that it is going to drift that way. At the moment, we do not see much evidence of fees going up but it is like all situations where, if there are fewer people competing for that sector of the market, prices will go up. At the moment, it is in a transition period, where those prices are not going up.

Q147 **Catherine McKinnell:** Do you think there is enough information out there to support small businesses and, indeed, advisers on this digitalisation process or are people having to pay in order to engage in and catch up with the transition that is underway?

Martin McTague: Every time there is a big change, it spawns a lot of advisers who want to charge you to get you out of what they would rapidly encourage you to believe is a disastrous situation. We are trying to provide information free to small businesses. The big gap in all this is the response from HMRC, which seems very inadequate. We mentioned earlier that they are relying on software companies in particular and their marketing budgets to bail them out.

Anita Monteith: Yes, I would support that. We have a very big website that is used a lot by our members. We have an MTD hub on there. That is completely open to anybody to use. There are sections for agents and there are also sections for businesses. Many of our members are businesspeople rather than tax specialists. We have webinars, which are free. We have one next week and we have nearly 2,000 agents signed up to watch it. Of course, the multiplier effect of that is that those agents each have however many clients and will be going out and delivering that message. There is a huge amount available for free.

Q148 **Chair:** Just give the bell a moment. We are so busy we have cancelled our February recess but not so busy that we cannot adjourn at 3.30. Sorry, Catherine, over to you.

Anita Monteith: So you do not need to pay; it is all there for free.

Q149 **Catherine McKinnell:** This digitalisation has been looked at as one way of improving SME productivity, and the ability to adapt to these new technologies will, hopefully, add to our finding a solution to what is often described as a productivity puzzle in the UK. What role do you think HMRC in particular could play in supporting this better? Is there more that Government could do to support small businesses and advisers, and



that relationship?

Martin McTague: There is an irony in this, in that most people acknowledge that one of the big problems with poor productivity in small businesses is that their digital skills are weak. It seems bizarre that, at a time when you are acknowledging that that is a problem, you pile another problem on top of those same companies and expect them to respond. The only way they can respond is to try to find greater digital skills, but that process is being accelerated at a pace that they could not possibly respond to.

Q150 **Catherine McKinnell:** Are you concerned that some businesses might just fall by the wayside as a result of this?

Martin McTague: Absolutely. They are struggling now to adapt to a rapidly changing world, and this is just one more problem to pile on top.

Catherine McKinnell: It is the survival of the digitally fittest.

Martin McTague: Yes.

Q151 **Catherine McKinnell:** Do you have anything to add, Anita?

Anita Monteith: No, I am nodding along. I agree totally.

Q152 **Chair:** There are a couple of final questions from me, just to pick up the last remaining issues. Picking back up on this issue of software, we have already touched on the fact that HMRC has published a list of MTD-compatible products on its website. We have already addressed the issue of range. I just wanted to get your views, really, on the sustainability of some of these products and how businesses will navigate their way through what is quite a variety of choice, but not necessarily products that will equip them for the long term. What is the risk of people taking an eye-catching offer and finding, within a year or two, or perhaps even sooner, that they have to look for another provider?

Anita Monteith: It is quite high. We have a very long list. HMRC has been promising a tool to help businesses sort their way through it. For example, I am not aware that there is anything yet that copes with the tour operators' margin scheme on there. There would be no way of working out whether there was anything to suit that. Our members are generally not well equipped to give people advice on their choice of software, because, unless you are a software expert and you know a business inside out, those two facts would be needed. They just would not have that information. The best way people can choose software is through word of mouth, finding businesses that are like theirs, and asking them what they use and whether it works. I am not sure that forcing people to do that at great speed, with so many new products, is a great idea.

Martin McTague: A lot of software companies thought that this was going to be a bonanza. They thought there was going to be a massive boom in digitalisation. The process has been a lot longer than they



anticipated. A few of them are not going to survive this process. Even the largest companies are running out of patience. Some of the biggest companies that have invested enormous amounts of money in this are finding it difficult to sustain their investment. I heard, only the other day, that one of the largest suppliers still has not notified all its customers that it has MTD-compliant software and how they can go about using it for the MTD process. With only literally weeks to go, we are very close to a really serious problem for a lot of companies.

Q153 Chair: I am not sure that the next question will elicit more positive answers to end on, but honesty is the best policy, I suppose. We have heard business concerns expressed to us about the potential adverse impact on their cash flow of changes to VAT accounting treatment post-Brexit that would change the point at which import VAT is paid. We have raised these concerns with the Financial Secretary and received an assurance from HMRC that it is engaging with stakeholders and looking at the best way to mitigate this risk. I suppose the proof of the pudding is in the eating. Do you think businesses are comfortable now that their concerns have been resolved and that there is a system in place to deal with this issue?

Anita Monteith: It depends what Brexit looks like. We do not yet know whether the new rules are going to be needed, because we do not know whether we will have a deal. I would be very surprised if many small businesses had been reading all the notices that have been published over the last couple of weeks. I accept that the information is there and is available but I could not say whether businesses are really focused on the detail of what might happen.

Martin McTague: Despite what you said in your opening remarks, this is an area where HMRC or the Inland Revenue has done a lot better, in that it has reassured people in a concrete way that it is going to deal with it. It has given specifics about how it is going to deal with it. To give praise where it is due, it has acted responsibly in this case, and let us hope that it is not needed on 30 March.

Chair: Good, that is what we want to hear. It sounds like HMRC has done its job. Parliament now needs to just do our job and make sure that this whole risk is completely offset by decisions we take. On that happy note, thank you all for your time and for giving us evidence this afternoon, and particularly thanks to you guys, Chris and Angus, for your patience throughout Making Tax Digital. We certainly felt it was very important and worth while to address some of the issues we discussed in relation to the publishing industry, so it has certainly been time well spent from our point of view and I hope it has been useful for you too. On that, we will allow you to leave. Thank you very much.