



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Lord Bridges of Headley MBE
Chair, Economic Affairs Committee
House of Lords
London
SW1A 0PW

20 July 2023

Dear George,

In the government response to your Committee's 2018 report 'Making Tax Digital for VAT: Treating Small Businesses Fairly' (House of Lords Paper 229) the government undertook to provide you with an update every 6 months until the full MTD programme had been implemented. I am writing with the latest update on our progress with Making Tax Digital (MTD).

I wrote to you in December 2022 to outline the changes that were made to the mandation timetable on MTD for Income Tax Self-Assessment (ITSA), and to inform you of the review into the needs of smaller businesses, and particularly those under the £30,000 income threshold. HMRC continues to work towards this new timetable, putting in place new delivery plans, updated governance structures, and refocussing our approach to work more collaboratively in partnership with stakeholders to tackle remaining design issues.

The review of MTD's impact on small businesses is making good progress. Through the review HMRC has directly engaged with a wide range of stakeholder representatives, including accountancy bodies, business representatives and software providers, and commissioned research to hear the views of self-employed customers and landlords directly. Any decision made on further mandation of MTD beyond that announced in December will reflect a thorough understanding of the needs of those in scope, that reflects on not only the opportunities that MTD and digitalisation brings, but also potential burdens both in cost and time.

On 12 June, the National Audit Office (NAO) published its report on Making Tax Digital. Having worked closely with the NAO throughout the study, HMRC welcomes the scrutiny and perspective that their report offers on the programme. The NAO recognise HMRC's progress in digitalising the tax system and make clear that our plans can bring a step-change in its efficiency and effectiveness. The report highlights

the scale, complexity, and significance of what is HMRC is delivering through MTD; their findings span the entire duration of the programme, and HMRC will look carefully at their findings and recommendations and how they can inform future work.

Following the report's publication, on 19 June the Public Accounts Committee invited HMRC Officials to give evidence. As Jim Harra laid out at the hearing, reduction of the tax gap is at the core of what MTD aims to achieve. The share of the tax gap attributed to small businesses has increased over the last 5 years, from 40% of the overall tax gap in 2017 to 2018 to 56% in 2021 to 2022.

Mr Harra also made clear that MTD is central to our approach to tackling small business error and carelessness; and we remain confident that it delivers a strong return on investment for HMRC and the taxpayer. This is being borne out by MTD for VAT which is working well. In 2022 to 2023, taxpayers successfully submitted more than 8 million VAT returns using MTD principles, and our published research found that most businesses surveyed (80%) found the process of filing through MTD easy.

I look forward to writing to you again in six months to provide further details on the outcome of the review and progress towards delivering MTD for ITSA.

Yours sincerely,

A handwritten signature in blue ink that reads "Victoria Atkins". The signature is fluid and cursive, with the first name "Victoria" and the last name "Atkins" clearly legible.

VICTORIA ATKINS MP