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

16 February 2024

Dear Lord Bridges

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 committed to provide you with an update every 6 months until the full Making Tax Digital (MTD) programme had been implemented. My predecessor wrote to you on 20 July 2023 and I am now writing to update you on the latest progress.

Following dialogue with your Committee Clerks earlier in January, my officials received confirmation that you are content to receive this update later than the planned date of 18 January. This is to allow inclusion of the government's response to the Public Accounts Committee's report on Progress with Making Tax Digital, which has been published in a Treasury Minute (detailed further below). I am grateful to you for accommodating this request and I hope that you find this approach helpful.

In December 2022, the Government announced a review into how MTD for Income Tax Self Assessment (MTD for ITSA) could best address the needs of smaller businesses, particularly those under the £30,000 income threshold.

At the Autumn Statement on 22 November 2023, the Government announced the outcome of that review. This identified several practical changes to the design of the MTD for ITSA service. Responding directly to stakeholder feedback, the changes simplify and improve MTD for ITSA's design, providing a strong basis to proceed towards introduction of the new rules in 2026. Design changes the Government announced as part of the review outcome included:

- Improvements to the design of quarterly updates making error correction easier
- The removal of End of Period Statements as a formal requirement within MTD for ITSA, reducing administrative burden
- Easements to simplify processes for landlords with jointly-owned property
- Exemptions from MTD requirements for specific taxpayer groups (including foster carers and customers who are unable to obtain a National Insurance Number).
- Confirmation that the government will develop a solution enabling customers to be represented by more than one tax agent within MTD for ITSA

The Government also confirmed that the income threshold for MTD for ITSA will remain at £30,000 at this time, although it will be kept under review. The full document outlining the findings of HMRC's MTD small business review can be found at: https://www.gov.uk/government/publications/outcome-of-the-making-tax-digital-small-business-review

HMRC is continuing to work with external partners, to ensure the design of MTD meets the needs of the users. The BETA testing phase is crucial to this objective. Taxpayers with most income types are already eligible to join the BETA testing, with volunteers having exclusive access to a dedicated customer support team. The focus for the 24/25 tax year will be on agents and testing a variety of income types. From 2025/26, we will scale up the numbers involved in testing ahead of mandating MTD in 2026.

Following the small business review announcement, HMRC published a consultation on draft regulations, which ran from December 2023 to January 2024, reflecting the outcome of the review and implementing the changes to the mandation timetable announced by the government in December 2022. Regulations will be laid in February 2024.

Separately, the Public Accounts Committee (PAC) released their report titled 'Progress with Making Tax Digital' on 24 November 2023. This report concludes the PAC's inquiry into the National Audit Office (NAO)'s most recent study into MTD.

The Government welcomes the scrutiny and perspective provided by both the NAO and PAC's reports. Several recommendations made by the PAC reflect work that HMRC is already doing, such as through closer working with stakeholders on the design of MTD for ITSA. The Government has carefully considered the PAC's recommendations and has responded formally through a Treasury Minute which was published on 15th February 2024.

The Government's full response can be viewed at CP 1029 – Treasury Minutes – Government Response to the Committee of Public Accounts on the Eightieth report from Session 2022-23 and the First to the Sixth reports from Session 2023-24 (publishing.service.gov.uk)

I look forward to writing to you again in six months to provide a further update on the progress towards delivering MTD for ITSA.

Yours sincerely,

NIGEL HUDDLESTON MP

FINANCIAL SECRETARY TO THE TREASURY