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The Rt Hon Lord Forsyth of Drumlean
Chair, Economic Affairs Committee
House of Lords
London
SW1A 0PW

The Lord Bridges of Headley
Chair, Economic Affairs Finance Bill Sub-Committee
House of Lords
London
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19 April 2021

Dear Lord Forsyth and 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 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), and the government's wider progress toward our vision for creating a trusted, modern tax administration system. I also include some information in the Budget 2021 and the 'Tax Policies and Consultations (Spring 21) command paper' to set out in further detail the next steps the government is taking in delivering the Tax Administration Strategy.

Since HMRC introduced MTD for VAT registered businesses with taxable turnover above the VAT threshold (£85,000) in April 2019, over 1.5 million businesses have joined the MTD service and over 9 million returns have been successfully submitted. Many MTD for VAT customers have reported experiencing benefits through using MTD, including reductions in input errors and less time spent on tax. Independent research, commissioned by HMRC into the experiences of smaller businesses within MTD for VAT, supports this – see for example the recently published [Exploring voluntary sign-up to Making Tax Digital for VAT](#) and [Exploring the costs and benefits of Making Tax Digital for VAT experienced by small businesses](#). HMRC have, and continue, to work closely with service users and business and agent representative organisations to better understand user experience in MTD, including through our engagement and research activities. HMRC continue to explore the ways in which MTD is securing wider benefits it has been designed to offer – including reducing the tax gap and improving government's capability to support businesses and individuals should

it be needed in the future through enhanced data. We are also seeking ways to capture the wider productivity benefits business anecdotally report which arise from businesses moving to more digital ways of working, for which MTD has been a catalyst. We have seen growing support for MTD from a range of stakeholders and particularly since the autumn, following extensive engagement with industry.

The government is committed to extending MTD to other businesses and taxes in light of the benefits it can offer MTD taxpayers and the government. HMRC and HMT are progressing with the implementation of plans to extend MTD for VAT, to apply to VAT registered businesses with a taxable turnover below the VAT threshold (£85,000) from April 2022, in line with your committee's call for no further mandation before April 2022. We estimate that around 290,000 of these businesses have already joined MTD voluntarily, almost 30% of this population. Legislation to enable the extension of MTD to these businesses was introduced in the Finance Bill 2021. There is an extensive range of software products available for MTD for VAT, including free products. We appreciate that some businesses may face transitional challenges, and we are committed to supporting them in that transition, using the experience of supporting businesses we have now gained.

The government also continues to take steps toward the introduction of MTD for Income Tax Self-Assessment (ITSA) for self-employed businesses and landlords with annual business and / or property income above £10,000 from April 2023, for which we intend to legislate later this year. As we move towards the extension of MTD into these next phases, we will continue to work closely with stakeholders, including businesses and their agents, to fully understand the impacts, minimise costs and ensure effective support is in place. There are already 7 MTD for ITSA products listed on the HMRC software choices page and we continue to work with developers to ensure that free products are available for those with the simplest tax affairs, expecting to see this number grow significantly once legislation is in place. We are gradually extending eligibility for the ITSA pilot to ensure that it will work for all mandated taxpayers, including those with more complex affairs, and will be testing larger volumes in 2022-23 ahead of mandation. The first businesses in the service have met their tax obligations entirely through MTD, meaning as per the intended design, they have not needed to complete a separate tax return. The experiences of users in the pilot will continue to inform the ongoing design of the MTD for ITSA service.

In November, the Financial Secretary to the Treasury wrote to you with an update on the government's plans to consult on the design of MTD for Corporation Tax (CT). That consultation ran from November 2020 to March 2021. HMRC held a series of virtual events to discuss MTD for CT over this time, which were well attended by a range of different stakeholder groups. HMRC also received 142 responses to the main consultation via GOV.UK, and 65 responses to the shortened online consultation. HMRC are analysing the feedback and evidence from that consultation currently and will be publishing a consultation response on GOV.UK in due course.

As announced at Budget in March, a new penalties regime will be introduced for VAT and Income Tax Self-Assessment, making it fairer and more consistent. This followed a substantial period of consultation and co-design with stakeholders that commenced initially in 2015. The new approach to late submission penalties will be points-based, and a financial

penalty will only be issued when the relevant threshold is reached. New late payment penalties will be proportionate to the amount of tax owed and how late the tax due is. To help customers adjust to the new late payment approach, we are taking a light-touch approach for the first year of the new regime. Where a customer makes reasonable efforts to get in touch with HMRC, we will not charge late payment penalties on tax paid up to 30 days late in the first year of operation for both VAT and ITSA. We are also introducing a new approach to interest charges and repayment interest to align VAT with other taxes. These reforms will come into effect for VAT taxpayers for their first VAT return period starting on or after 1 April 2022, and for ITSA taxpayers required to submit their returns via MTD for their first tax year or accounting period starting on or after 6 April 2023. For those ITSA taxpayers not mandated to submit their returns via MTD, the new penalties will apply for their first tax year or accounting period starting on or after 6 April 2024.

I would also like to inform you that HMRC have recently appointed a new Director for the MTD Programme, Giles McCallum. From May, Giles will replace Roy Wallace who retired at the end of March. Giles will lead the next stages of MTD and penalty reform, supported by his considerable experience in managing complex programmes at scale across both the public and private sectors. Giles joins me, the Senior Responsible Officer for the Programme and the Department's senior project delivery lead.

At Budget 2021, the government announced investment of over £200 million in HMRC, including £95m to deliver new digital technology needed to help build a trusted, modern tax administration system. This funding will allow development of a single digital account and single customer record. These integrated accounts will be available to everyone, allowing them to view and engage with all their tax affairs in one place. This follows the £500 million the government announced last summer to expand the Making Tax Digital package.

At Budget 2021, the government also published a series of consultations that provide stakeholders with an important opportunity to inform and shape the future of the UK tax system. This includes the publication of a call for evidence on the Tax Administration Framework, covering the core legislation, processes and guidance which underpin obligations for HMRC, taxpayers, agents and third parties. The call for evidence will explore how to make tax more straightforward to pay and harder to get wrong, improve people's experience of the tax system, and build and maintain trust between HMRC and taxpayers.

We look forward to continuing to work with you and your Committees.



Joanna Rowland