

Press release: Digital tax revolution moves a step closer

Following extensive consultation, with more than 3,000 responses over the last eight months, HMRC has issued in-depth details on how digitising the tax system through its flagship Making Tax Digital project will help millions of businesses to get their tax bills right first time, without the need for an annual tax return.

Alongside draft legislation, HMRC has also published its responses to the six consultation documents issued in August 2016. After listening to the concerns of businesses and agents, HMRC can now confirm that under Making Tax Digital:

- businesses will now be able to continue to use spreadsheets to record receipts and expenditure, which they can then link to software to automatically generate and send their updates to HMRC – this was requested by a wide range of stakeholders, particularly small businesses and the Treasury Select Committee
- free software will be available to the majority of the smallest businesses
- businesses that cannot go digital will not be required to do so
- all self-employed businesses and landlords with a turnover under £10,000 a year will not have to keep their records digitally or make quarterly updates, but can do so if they wish
- the option to account for income and expenditure on a simple ‘cash in, cash out’ basis will be extended, helping an extra 2.5 million self-employed businesses and unincorporated landlords
- charities will not have to keep their records digitally or make quarterly updates
- customers will have at least 12 months to become familiar with the changes before any late submission penalties will be applied; following feedback from respondents, HMRC will also consult again in the spring on a new penalty model
- HMRC will pilot these digital systems with hundreds of thousands of businesses before rolling them out to ensure the software is user friendly, and to give businesses and landlords time to prepare and adapt

HMRC also confirmed that the government will need to consider further issues, such as the initial exemption threshold and deferring the changes for some small businesses alongside their cost, with final decisions to be made before legislation is introduced later this year.

During the consultation period, HMRC ran a series of public events across the country and online to hear views direct from businesses and agents. It also ran a short online survey for small businesses on some of the key questions from the consultations, which received over 1,200 responses.

Under HMRC’s plans to move recording and paying your tax online, most businesses, self-employed people and landlords will be able to keep track of

their tax affairs digitally and update HMRC quarterly by 2020. This is part of the government's commitment to make the annual tax return a thing of the past for millions of people and businesses.

With millions of businesses already banking, paying bills, shopping and interacting online, integrating tax with the day-to-day running of a business is a natural next step.

This will help businesses steer clear of errors – reducing the £8 billion a year cost to the public purse, get their tax bills right first time, and give them a clearer view of their tax position as they go through the year. Reducing the amount of avoidable errors will also reduce the cost, uncertainty and worry that businesses face when HMRC is forced to investigate them.

Director General, Customer Strategy & Tax Design, HMRC, Jim Harra said:

We know that the majority of businesses want to get their tax right first time, but the latest tax gap figures show that too many find this hard, with more than £8 billion a year lost in tax as a result of avoidable taxpayer error by small businesses.

Making Tax Digital will help businesses to get their tax right first time; it will help reduce the likelihood of errors, lower the chance of unwelcome compliance checks and give them greater certainty that they are getting things right.

There were more than 3,000 responses to the consultations and I'd like to thank everyone for their time and effort. We are pleased that there was a broad welcome for the principle of Making Tax Digital and HMRC developing a transparent and accessible tax system fit for the digital age. The appetite for digital services is growing and traditional paper-based processes make no sense in the 21st century where the vast majority use digital services.

HMRC will continue to work closely with stakeholders, including small businesses and agents, to ensure their views are reflected in the development of making tax digital.