



Ref:

16 August 2021

Rt Hon Jesse Norman MP
Financial Secretary
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Via email: Action.FST@hmtreasury.gov.uk

Dear Minister

Interaction of basis period reforms and Making Tax Digital for Income Tax Self-Assessment

We support tax simplification and the modernisation of the tax system through a further move to digital, but sufficient time must be allowed for this to happen at a manageable pace. The timetable being proposed will place enormous pressure on businesses and their advisers as well as on HMRC. Mistakes will be costly and this risks undermining trust in the tax system.

It is the view of the professional bodies representing a large proportion of the UK tax profession that these reforms are being implemented too quickly. We are greatly concerned that the current timetable puts the integrity of the tax system at risk.

The changes to basis periods come on top of the changes required by MTD for ITSA and bringing more small businesses into MTD for VAT (noting that separate filings are required for VAT and income tax), changing penalty regimes, and other standalone digital process changes (eg CGT30 day reporting). We have set out more information on some of these key changes, with estimates of their magnitude, in the attached appendix.

Basis period reform will bring simplification for some businesses, which is welcome, but will add complexity for others, particularly those with international connections who cannot change their accounting year end to 31 March/5 April. It will also result in earlier payment of tax by many, which needs to be explained and budgeted for, particularly in the post covid environment when many self-employed individuals may still be finding their business incomes are fragile.

Furthermore, basis period reform and MTD for ITSA will affect many small and unrepresented businesses. While tax professionals will understand the technical aspects of the changes, many of those affected will not and will need help – either from an agent, HMRC or other voluntary sector organisations such as the tax charities which will put an enormous strain on them.

Taken together, these are major changes to the tax system and require an extensive public education exercise to be undertaken similar to that which was undertaken when we moved to self-assessment in the 1990s.

Businesses in the UK have risen to the combined challenge of Brexit and the global pandemic and the tax profession continues to support them. At this time, we do not need the added complication of a multiplicity of fundamental changes to the tax rules in consecutive years.

We urge the Government to reconsider urgently the timetable for the basis period and MTD ITSA proposals.

We would be happy to meet with you to discuss our concerns further.

Yours sincerely

[by email]

John Cullinane

Director of Public Policy, Chartered Institute of Taxation, and on behalf of the Low Incomes Tax Reform Group

Frank Haskew

Head of Tax, Institute of Chartered Accountants in England and Wales

Charlotte Barbour

Director of Taxation, ICAS

Jane Ashton

Chief Executive, Association of Taxation Technicians

Schedule of key changes and their estimated impact

April / October 2019

Around 1,300,000 businesses were in the scope of MTD for VAT from April or October 2019 and around 1,160,000 are currently signed up.

Per recent research¹:

- 65% of businesses discussed the changes with an accountant / bookkeeper (extrapolating the research results = 754,000 businesses who took advice from an agent).
- 41% of self-employed (ie those within the scope of MTD for ITSA) increased their use of agents since the introduction of MTD. So, MTD is already taking up additional agent time.

HMRC call volumes increased, and waiting times doubled from March 2019 (05:21) to May 2019 (10:48)².

April 2022

Around 1,100,000 voluntarily VAT registered businesses are to be brought into the scope of MTD for VAT³. Around 350,000 businesses are signed up already, leaving around 750,000 businesses still to convert.

The remaining 140,000 businesses mandated from April / October 2019 who haven't yet signed up will also need to be converted.

Extrapolating the above findings, nearly 580,000 businesses may need to take advice from an agent prior to April 2022.

Also from April 2022, the new MTD for VAT penalty regime is being introduced, affecting an estimated 2.5 million businesses⁴.

2022/23 is also the transition period for the basis period reforms, affecting 7% of sole traders (approximately 230,000) and 33% of partnerships (circa 130,000)⁵, many of whom will need advice from their agent.

April 2023

Up to 4,300,000 individuals and businesses are to be brought into the scope of MTD for ITSA, representing around 3,300,000 self-employed individuals, 400,000 ordinary partnerships, and 600,000 businesses with income from different sources⁶.

¹ https://www.gov.uk/government/publications/impact-of-making-tax-digital-for-vat?utm_medium=email&utm_campaign=govuk-notifications&utm_source=aa8776d6-4ac8-41c5-bde9-39a9fb65d75b&utm_content=daily

² <https://www.gov.uk/government/publications/hmrc-monthly-performance-report-may-2019>

³ <https://www.gov.uk/government/publications/extension-of-making-tax-digital-for-vat/extension-of-making-tax-digital-for-vat>

⁴ [Interest harmonisation and penalties for late payment and late submission - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/interest-harmonisation-and-penalties-for-late-payment-and-late-submission)

⁵ <https://www.gov.uk/government/consultations/basis-period-reform/basis-period-reform-consultation>

⁶ <https://www.gov.uk/government/publications/making-tax-digital-for-business/making-tax-digital-for-business>

It is widely accepted, including by HMRC, that MTD for ITSA will be far more difficult to implement than MTD for VAT. But simply extrapolating the above, potentially 2,800,000 businesses might need to take advice from an agent. MTD has already increased the incidence of agent interaction more generally (see the 41% above).

Also from April 2023, the new MTD for ITSA penalty regime is being introduced, affecting an estimated 7 million businesses⁷.

⁷ <https://www.gov.uk/government/publications/interest-harmonisation-and-penalties-for-late-submission-and-late-payment-of-tax/interest-harmonisation-and-penalties-for-late-payment-and-late-submission#monitoring-and-evaluation>