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## **Making Tax Digital: Corporation Tax**

### **Response by the Chartered Institute of Taxation**

#### **1 Executive Summary**

- 1.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 19,000 members, and extensive volunteer network, in providing our response.
- 1.2 We believe that the quarterly reporting requirement for Corporation Tax (CT) should be waived where the company is already quarterly (or more frequently) reporting for VAT, as this already achieves the policy intention of more timely digital record keeping and submitting periodic data to HMRC.
- 1.3 Quarterly reporting for CT is likely to be very costly and administratively burdensome for many companies to comply with, particularly large and medium-sized companies and groups, with no obvious benefits to either them or HMRC. In any event, most of these businesses are highly likely to have been using software and keeping digital records for many years.
- 1.4 It does not make sense to impose a 'one size fits all' solution on all entities within the charge to CT (apart from the small number that HMRC are proposing to exempt). We recommend that more entities are exempted either from Making Tax Digital for Corporation Tax (MTD for CT) altogether or at least from the obligation to submit quarterly reports to HMRC.
- 1.5 The government should be willing to implement MTD for CT in stages. This should involve bringing in the simplest cases first, rather than trying to bring in everyone including the more difficult complicated cases from the start, which will simply intensify the risk of an unsuccessful roll-out and increase compliance costs for those in scope.
- 1.6 A more detailed road map than that set out after paragraph 1.25 of the consultation document is required, in order that businesses can understand the proposals, including timings, so that they can better plan to set up appropriate procedures and processes. We suggest it should include a

comprehensive plan of how MTD for CT will work for all sizes and complexity of mandated businesses, to ensure that systems will be able to cope.

- 1.7 There should be a 'soft landing' phase for the introduction of digital links as there was for MTD for VAT. This is likely to be a key area of complexity for all but the smallest companies. Indeed, we believe that the consultation should have been clearer about:
- a) the need to digitally link software from the transaction level data, through various other software (potentially including statutory accounts software, CT software and tagging software) to the submission of the return; and
  - b) the acceptability of bridging software to allow this.

Further consultation and detailed guidance will be necessary in these areas.

- 1.8 While promising that *'Accountants and agents will be able to provide a full service to their clients through MTD for CT'*, considering that 85% of entities within the charge to CT rely on agents, there is a remarkable lack of explanation about how this might work. The consultation document fails to adequately recognise how agents represent their corporate clients in their interactions with HMRC to the extent envisaged by the Charter promise<sup>1</sup> that HMRC will *'recognise that someone can represent you'*. This area needs to be reviewed in much greater detail.
- 1.9 It would be desirable to simplify the CT system before MTD for CT is introduced and we would support such efforts. The Office for Tax Simplification's 2017 Review on Simplifying the CT Computation is referred to, but we are not aware that any of the recommendations have been progressed.

## 2 About us

- 2.1 The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.
- 2.2 The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 2.3 The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.
- 2.4 Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

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<sup>1</sup> <https://www.gov.uk/government/publications/hmrc-charter/the-hmrc-charter>

2.5 Our stated objectives for the tax system relevant to this consultation include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

### 3 Achieving the policy intention for MTD

3.1 This consultation considers how the principles established for MTD could be implemented for those entities within the charge to CT. Our response is framed in terms of whether the rules being proposed for MTD for CT will achieve the policy intentions of the measure, and whether the policy intentions can be achieved by implementing MTD for CT in a different way.

3.2 The key policy intentions are<sup>2</sup>:

1. to deliver a reduction in the tax gap caused by taxpayer error by mandating businesses to keep digital records (to ensure more timely and accurate record-keeping) and the electronic (quarterly and year end) updating of HMRC's system directly from a business' digital records.
2. to promote wider digital integration, particularly with smaller, less digitally engaged entities with the aim of cutting costs and helping them to maximise business opportunities, encouraging growth and fostering good financial planning.

3.3 If the principles and design proposed in the consultation are adopted, entities within the charge to CT would need to:

- a) maintain their records (eg records of income and expenditure) digitally;
- b) use MTD compatible software to provide regular (quarterly) summary updates of their income and expenditure to HMRC; and
- c) provide an annual CT return using their MTD compatible software.

3.4 It is our view, for the reasons we discuss in this response, that to achieve the policy objective, it is not necessary to require all entities within the charge to CT (apart from the small number that HMRC are proposing to exempt) to submit quarterly updates to HMRC. Indeed, we would like to see more entities either exempted from MTD for CT completely, or exempted from the obligation to submit quarterly updates to HMRC.

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<sup>2</sup> See Summary of Impacts (Exchequer Impact and Economic Impact) – consultation document pages 36 & 37.

- 3.5 In considering how the policy objectives can best be met, the government should ensure that the rules are not overly prescriptive, otherwise the costs and administrative burdens on businesses from implementing and complying with MTD for CT could become excessive and disproportionate to any benefits to businesses or HMRC.

#### 4 The Scope of MTD for Corporation Tax

- 4.1 When considering the scope of MTD for CT and what exemptions should be provided, regard should be given to the policy objectives for mandating digital record keeping and quarterly reporting ie reducing the tax gap.
- 4.2 Considering that less than 25% of the relevant tax gap comes from CT<sup>3</sup> and the lion's share of the tax gap due to error and failing to take reasonable care is mainly from very small businesses, it does not make sense to impose a 'one size fits all' solution on all entities within the charge to CT (apart from the small number that HMRC are proposing to exempt). The measures adopted should be targeted against the actual problem.
- 4.3 We recognise the benefits of digitalisation, but the costs of further changes must be taken into account before additional administrative burdens are placed on business. The complexity of large companies and groups means that MTD as currently proposed will add significant burdens for this population and will be very expensive for them to implement; yet will not fulfil the policy objective of improving compliance generally and removing errors.
- 4.4 **Question 1: Do you think there are any reasons why an entity within the charge to CT (or a sum assessable as though it were CT), should not fall within the overarching scope of MTD?**
- 4.5 We consider that UK branches and activities of overseas companies and/or groups should not be included within the scope of MTD for the foreseeable future. The record-keeping and accounting functions of the UK branch or activity are often done by the overseas company, and extraction of the data for say, preparation of a UK VAT return, is often done manually. While this is feasible for VAT, it would be hugely problematic for quarterly reporting for CT because of the greater variety and number of transactions involved.
- 4.6 HMRC should consider exempting corporate partners, if not completely from MTD for CT, at least from the obligation to file quarterly updates to HMRC (so only a year-end submission under MTD may be required). Companies that are partners or members of partnerships will often only have one transaction a year, that is, the receipt of their profit share from the partnership once the partnership's profit share allocation has been worked out after the end of the accounting period. Therefore, there seems to be no benefit in them being within MTD for CT, because there will be nothing to report most quarters. Requiring corporate partners to file updates will not help meet the policy objective.
- 4.7 We suggest HMRC consider exempting companies without trading and property income from the scope of MTD for CT, in the same way that only trading and property income is within the scope of MTD for ITSA. This is because MTD does not seem to work well for non-transactional based businesses. We make

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<sup>3</sup> At para 1.19 HMRC state that 'the amount of tax lost annually through avoidable error stands at £8.5bn; HMRC estimates that around £2.1bn of this relates to CT alone'.

some further points about how other types of income chargeable to CT are going to be dealt with under MTD for CT in our answer to Q2.

- 4.8 We would recommend that an exemption is provided for dormant companies. As mentioned in para 4.16 of the consultation document, there is no benefit to requiring dormant companies to provide quarterly updates and it will not help meet the policy objective. It would be unnecessarily burdensome to have to prepare and file such updates.
- 4.9 Organisations within the charge to CT that pay very low amounts of tax (eg because they are charities, CASCs or another not for profit organisation) should not be mandated into the regime. [See also our response to question 19 below].
- 4.10 There will be some public bodies, and charities, who are only in scope of CT on the basis that a trading subsidiary or a joint venture is caught. It could be disruptive to require those subsidiaries or joint ventures to use MTD software if the main organisation does not use MTD software.
- 4.11 There is a case for exempting those entities that already have a high level of statutory governance, such as those within the Senior Accounting Officer (SAO) regime, and those subject to external audit, or at least for them to have fewer obligations. This high level of third-party assurance for larger companies and groups should also provide HMRC with sufficient comfort that these entities are keeping records to a high standard. Requiring them to have to submit quarterly updates to HMRC does not appear to us to meet MTD's policy objectives. We recognise that there is a case for requiring them to submit their end of year return through MTD software but think that it would be sensible if such large companies are exempted from MTD for CT altogether [see also our answer to Q11 below].

## 5 Digital Record Keeping

- 5.1 We note the references to 'nudges' in the future customer journey diagram on page 9 and at para 1.21 of the consultation document where it says, "*Nudge messaging' will support customers, ensuring that errors are avoided and that businesses pay the right tax at the right time'*". We would like to understand better what sort of 'nudges' will be incorporated into MTD software, and what work is being done with the software industry to achieve this. We note that the promise of prompts and nudges was a cornerstone of the original MTD proposals, yet to date have not materialised anywhere near the extent envisaged. We would therefore caution against relying on prompts and nudges to deliver a meaningful reduction in the tax gap, at least in the short term, and therefore as being part of the rationale for further roll-out of MTD.
- 5.2 **Question 2: Do you agree that all entities should be required to record the date, amount, and category for all transactions within MTD compatible software? Where this approach differs to your current approach to record keeping, please provide details of any additional one-off and ongoing costs or savings.**
- 5.3 Yes, we agree with this. HMRC will need to make it clear what they mean by 'date' (is this the invoice date, payment date etc), 'amount' (net of VAT, including VAT etc), and 'category' (capital v revenue, description of the income or expense etc, covering both sides of the transaction).

- 5.4 VAT registered companies are already (or will shortly be) required to capture the date and amounts of transactions digitally, including what is required in relation to each 'supply' (a VAT term) and the record keeping requirements are quite onerous (ie per supply) – save for a limited number of relaxations. Where a company is VAT registered, the rules should be consistent (not contradictory).
- 5.5 Smaller companies and those which are not VAT registered may currently record transactions in a composite way eg grouping similar transactions together, and some easements will be necessary to ensure that compliance costs can be balanced against risks of error.
- 5.6 We would also like confirmation that transactions will not need to be entered twice (ie once for VAT and once for CT), either in whole or in part, such as when the company is using cash accounting for VAT, but accruals accounting for CT. The MTD rules must reflect how accounting software works and accommodate these differences.
- 5.7 Para 3.4 of the consultation document mentions that HMRC propose that MTD for CT maintains the position established for ITSA and VAT by accepting a range of software solutions to meet the digital record keeping requirement, but it does not specifically mention bridging software. HMRC should confirm that a company using bridging software, whether this is a small company using spreadsheets or a large company with complex financial and accounting systems, will meet the digital record keeping obligation (as is the case for MTD for VAT). Some illustrative examples, akin to those in section 8 of VAT Notice 700/22, would be helpful.
- 5.8 We also note that MTD for VAT software does not seem to have been developed to deal with complex issues or niche sectors as much as HMRC originally hoped it would, presumably because it has not been cost effective for third party software providers. It needs to be clearer and better understood exactly what HMRC are hoping to stimulate the MTD for CT software market to do, and what lessons have been learnt from the implementation of MTD for VAT.
- 5.9 While the consultation states that 'the government does not propose to define 'transaction'', it will be necessary to set out what transactions and activities are in scope. CT has much more in its scope than is within the remit of ITSA; for example, CT is payable on investment income, non-trading loan relationships and chargeable gains, which are outside the scope of MTD for ITSA. As these must be reported in a company's CT return, they will presumably have to be mandated for MTD for CT, so it will be important to define what 'transactions' need be recorded digitally for MTD for CT, and those which do not. Paras 2.2 & 2.3 recognise this. Because of the likely complexities this brings, and potential availability of software, we would suggest that there should be a staged roll-out, requiring just the basics first. Once MTD for CT is 'working', less-routine transactions such as chargeable gains etc could then be included.
- 5.10 **Question 3: Would group companies value the ability to keep digital records at group level? Are there any additional benefits to utilising a mixed approach?**
- 5.11 Yes, we think that group companies would value the ability to keep digital records at group level for the following reasons, but it should not be prescriptive:
- a) There will often be a group accounting function that keeps accounts for several group companies, so being able to keep digital records at group level would need to be acceptable. In other cases, there will be divisional and local accounting teams.

- b) In some groups certain transactions may be recorded at the company level, but other transactions will be recorded at a group level, with a reallocation carried out (say) on an annual basis, depending on the results for the year.
  - c) Sometimes different software will be used by different companies in the group.
  - d) Often internal reporting is done for management (not tax) purposes.
- 5.12 Prescriptive rules (perhaps designed with simple cases in mind) may not work for more complex businesses, yet bring significant and costly changes while delivering no benefits and do not help meet the policy objectives. It should be satisfactory to record transactions somewhere in a group near to real time, providing appropriate adjustments are made for statutory accounts purposes.
- 5.13 If the entity is filing in more than one country, then streamlining records may not be easy (especially if the countries have different requirements in terms of group/single entity reporting etc). Again, avoiding having prescriptive rules will help.
- 5.14 **Paragraph 3.10: The government would welcome the views of businesses on the type of data they currently maintain and the proposal for group structure data. Please provide details of any increased or reduced administrative burdens of recording and providing such data through MTD compatible software.**
- 5.15 This question (like some others later) does not have a number and it has not been included in the summary of consultation questions in section 8 of the document. The question is difficult to answer because it is very open-ended. Businesses keep lots of data, but not all of it will be relevant to their CT position. In paragraph 3.8 the inference is that HMRC want the data to help them target their compliance activity, but it is difficult to see where to draw the line as it would be unreasonable for HMRC to demand unlimited data from companies, and not practical for companies to provide it. It will not necessarily help meet the policy objectives either.
- 5.16 The question specifically refers to 'group structure data'. The provision of a breakdown of the group structure, which identifies all group members within the charge to CT, might be onerous for a large complex group where it will not be maintained by the tax function (company secretarial perhaps), may not be updated in real time, and could come in all sorts of different formats. The more complex the group and its activities, the more difficult this might be to record and keep up to date.
- 5.17 We would also be surprised if MTD compatible software, which is predominantly designed to capture and report transactions, would be able to provide this functionality (either at all or at a reasonable cost). We think this requirement would significantly complicate the data 'journey' to HMRC.
- 5.18 **Question 4: Do you agree with the suggested minimum categorisation for MTD compatible software?**
- 5.19 As a minimum this should be aligned to the detailed profit and loss account that currently has to be submitted to HMRC alongside the company's tax return and statutory accounts. As suggested, these should be the standard minimum categories, and there should be the flexibility for software to have more complex categorisations.
- 5.20 It is unclear whether the year-end tax adjustments will need to be made within the MTD software, or whether they can be journaled in, or exported to software / bridging software for onward submission to HMRC (see examples in VAT Notice 700/22). It should also be permissible to do complicated calculations outside of the MTD functional compatible software and post the adjustment into the company tax return

without having to use digital links or go back and make adjusting entries into the underlying software (as is the case for VAT partial exemption calculations and other VAT adjustments, which can be done outside of the MTD for VAT software). The MTD for VAT notice<sup>4</sup> (700/22 see para 4.4 'Adjustments') has some helpful examples and diagrams and we recommend that a list of what HMRC will consider to be 'complicated calculations' and examples and illustrations are included in the MTD for CT rules.

5.21 Paragraph 1.20 mentions that the collection of more real time data will allow the government to assess changes to the economy. It would be helpful for this to be explored in more detail to ensure that the costs of providing this granular detail are outweighed by the benefits achievable.

5.22 **Question 5: Are there further categories or alternative approaches to the categorisation of records within MTD compatible software that you consider would be appropriate?**

5.23 A categorisation drawn up with simpler businesses in mind might be wholly unsuitable for more complex business. Therefore, flexibility is essential.

5.24 In paragraph 3.17 it is not clear whether HMRC expect companies to provide a separate list of corrections that have been made, or just to make the corrections and therefore the effect will appear in the next update. The inference seems that the software would 'provide corrections' as a separate piece of data, along with the next update. This could be very onerous and is arguably unnecessary – especially if these are the interim updates (see examples below). Having to do separate correction updates would surely put people off checking on an ongoing basis and encourage a one-off exercise at the end of the year (so only one correction notification has to be made), almost contrary to the policy intention of timely, accurate data.

## 6 Providing Regular Updates

6.1 The consultation document proposes that MTD for CT will involve quarterly reporting but does not ask whether there is a better way of achieving MTD's objectives, such as requiring all companies to maintain digital records to help reduce errors, but without them needing to submit quarterly reports to HMRC for the purposes of CT.

6.2 We believe that quarterly reporting for CT should be waived where the company is already quarterly reporting for VAT. Indeed, many companies will already be complying with the digital record-keeping obligations imposed under MTD for VAT, which has been mandatory since April 2019 for businesses over the VAT threshold, and will become mandatory for all VAT registered businesses from April 2022. It is not clear yet what effect MTD for VAT has had on reducing errors, but we would think that maximum error reduction from the digital record-keeping obligations imposed by MTD for VAT would have been achieved by the time MTD for CT is due to become compulsory in 2026 (or later), rendering the necessity to file quarterly updates for CT superfluous, at least for VAT registered businesses. It is therefore difficult to understand how quarterly reporting MTD for CT would further reduce errors.



6.3 In addition, the information in the quarterly updates will largely be unadjusted 'raw' data and consequently of little use to HMRC or business. An estimate of an entity's CT liability for the accounting period based on this data is unlikely to be reliable. For example:

- It is unlikely that every transaction will be categorised into the correct heading at the point of entry. A ledger clerk (or small business owner doing it themselves) inputting each transaction is unlikely to be able to determine with accuracy what is allowable or disallowable for tax purposes (eg legal fees) or what is capital or revenue for tax purposes.
- Identifying whether expenditure is allowable or disallowable for tax purposes or the treatment of capital expenditure for tax purposes is usually done at the year end when preparing the company's tax computations and return. Many companies will leave the calculation of depreciation, accruals and prepayments for accounting purposes etc until the year end as well. We would strongly recommend that this should be allowed to continue under MTD for CT as it is an efficient way of doing things, and we welcome the fact that in paragraph 4.6 HMRC are proposing that in-year accounting and tax adjustments should be optional. Because these adjustments are not done until the year end, this would appear to reduce the usefulness to HMRC of the data in the quarterly updates for all but the smallest companies.
- In group situations it can be even more complicated as intercompany recharges will normally only be done annually and the allocation of group relief will not be done until every group company's tax return has been finalised.

It is also unclear whether HMRC expect (or indeed whether it will be possible) to be able to reconcile the data submitted in the quarterly updates to the end of year update, without requesting further information.

6.4 Since the quarterly updates will not provide a reliable estimate of the companies CT liability, the system should allow a company to 'switch off' the tax estimates that will be produced. If not, it is likely that the estimates will simply cause confusion and a plethora of questions for the company's accountants (or HMRC) to deal with.

6.5 **Question 6: Would group companies value the ability to provide regular updates through a nominated company? Please provide details of any increased or reduced administrative burdens or costs that could result from this.**

6.6 This needs to be flexible, so it should be optional not compulsory. Groups are unlikely to choose to change the way they currently do their accounting because of MTD.

6.7 A single group submission might be beneficial in some cases, for example where group companies have coterminous year ends or there is a group VAT registration in place. However, it is very common for groups to keep separate records during the year by segment rather than business structure (eg all companies that operate in sector X separate from group companies operating in sector Y) so having to submit something for the entire group would not be helpful.

6.8 As indicated above, some expenses will often be paid at group level but will not be allocated to the specific companies to which they relate until the year end. This means that the quarterly updates will not

accurately reflect each company's expenditure, as the adjustments will not be finalised and processed until the year end.

6.9 **Question 7: Do you foresee any constraints to providing updates at group level and how do you think these could be addressed?**

6.10 There might be systems issues in providing updates at group level. It is not clear if the nominated company would have to be officially authorised to submit updates for other group companies or not. In the past we have been aware that nominated group companies have not been able to act as an authorised agent to transact with HMRC on behalf of other companies in the group because they are not registered for anti-money laundering purposes. Likewise, we recall for MTD for VAT, some Local Authorities (LA) would provide accounting etc services to other LAs. But the LA providing the service could not set itself up as an agent or get an agent services account, because it was not supervised for anti-money laundering purposes. It will be important for HMRC's systems to accommodate receipt of updates from other related companies without experiencing these sorts of barriers.

6.11 **Question 8: Which forms and processes around incentives, allowances and reliefs would you most like to see digitised? Please provide details of the guidance and/or tailored assistance that would help this process.**

**Question 9: What practical benefits do you think could result from standardising how entities submit claims and elections through software? Please provide details of any increased or reduced administrative burdens or costs that could result from this.**

6.12 We would welcome the ability for companies to claim incentives, allowances and reliefs through software. If this can be done in 'real time', meaning a company can obtain the benefit of the claim sooner (in particular for R&D tax credits and provisional loss carry back claims), this would be helpful.

6.13 We would caution that, while we would welcome the ability to do these sorts of claims etc in software, we are concerned that it could mean businesses are forced into paying for increasingly expensive software. Therefore, these forms and processes should not be prescriptive. It should be a business's choice whether to interact with HMRC digitally in respect of incentives, allowances and reliefs.

6.14 If these claims are not made in the quarterly updates, but are made in the final CT return, then these companies should not be considered to be higher risk or otherwise non-compliant for not including them in the quarterly updates. If included in the quarterly updates we have two concerns around;

- the company making a claim without being properly advised by their agent (eg if the company does its own quarterly updates, and gets a prompt from HMRC to do something); and
- HMRC losing or not adequately capturing them if HMRC are normally geared up to capture these claims etc when the CT return is filed.

6.15 We suggest that anything that is filed later than the company tax return should not be required to be submitted digitally, for example consequential claims, overpayment relief claims etc.

6.16 Agents should be able to transact digitally with HMRC on behalf of their clients with regard to the making of claims and elections through software. Most tax agents already use software to prepare these submissions.

- 6.17 **Question 10: Do you agree that an entity's update cycle should be based upon its expected accounting period with updates due one month after each quarter end?**
- 6.18 Subject to our comments elsewhere, yes, we agree with this.
- 6.19 However, until we understand what HMRC (and any other parts of government, such as HM Treasury) will do with the data in the quarterly updates, it is very difficult for businesses to know how much work to invest in them. If, as we have already established, the data is simply unadjusted 'raw' data, and will not be relied upon or otherwise inspected by HMRC, then little additional verification work should be necessary by the business and so a one month deadline seems reasonable. But if HMRC are intending to use the data to undertake compliance activity then businesses need to know this; for example it may mean that they will want to ask their accountant to review the submissions before they are submitted to HMRC and to make appropriate adjustments in year (for example on classifying capital and revenue expenditure or reviewing for disallowable items). Likewise, we need to understand whether HMRC are intending to seek a power to be able to impose Sch 24 FA 2007 error penalties if there is a mistake in any quarterly submissions.
- 6.20 HMRC are also overestimating the ease with which a business could produce quarterly reports for HMRC. There are often strict governance processes around the downloading of data and reports going outside the business, which would make these requirements a significant administrative burden for many businesses – it is not simply a case of 'pressing a button'. In such circumstances the timescales could be very disruptive.
- 6.21 Companies that are already filing VAT returns under MTD for VAT may find it helpful to align their VAT quarters with their accounting period in order to minimise the number of times they will need to transact quarterly with HMRC during their accounting period. HMRC should ensure they make this alignment option easily available to companies that request it.
- 6.22 HMRC acknowledge in paragraph 1.27 of the consultation document that 85% of businesses use agents and say that authorised agents will be enabled to provide a full service in supporting their clients to meet their obligations. What usually happens in practice is that a client will typically have its own enterprise resource planning (ERP) system (often bespoke with add-ons), or use a software product, which is where the prime digital record keeping will take place. At the end of the year these records will be transmitted (and this can be done digitally) to the agent who will use a completely different piece of software to prepare and submit the company's tax return. Businesses will need to understand how MTD will affect that process. Presumably, the quarterly returns could be sent in by the taxpayer themselves from their own MTD compliant software (although some might prefer their agents to submit for them), perhaps after doing some level of checking (which will obviously increase costs). The year-end return on the other hand will usually be submitted by the agent (where one is used) from their specialist software. Again, in terms of taxpayers being able to understand what this might mean for them it would be helpful if HMRC acknowledge this normal way of working and how MTD could affect it. Software developers need to be aware of and be able to accommodate these working practices.
- 6.23 **Question 11: Do you agree with the principles for very large companies within the QIPs regime? The government welcomes views on the additional impacts these businesses might face and how the principles proposed above could accommodate this group.**

- 6.24 We agree with the principle that very large companies should not be required to provide quarterly updates to HMRC, but we question why HMRC are proposing that this exemption should apply only to very large companies. Why not extend this to, at least, all companies within QIPs? After all, it is highly unlikely that these companies will not already be keeping digital records, plus most of them will be VAT registered and so already complying with MTD for VAT. Therefore, the main policy objective of MTD for CT (keeping digital records to reduce errors) is not relevant to these companies, so any risks to the Exchequer from not requiring them to submit quarterly updates must be extremely low.
- 6.25 In our view HMRC should identify what level of assurance they require from the largest companies and use this as the basis for an exemption or relaxations for MTD for CT, rather than just using an arbitrary measure like QIPs. QIPs does not bear any relation to the complexity of a company. An alternative option that might provide a more stable basis (see below) for identifying the cut-off for being outside MTD for CT is the audit exemption threshold for private limited companies<sup>5</sup>.
- 6.26 The interaction between the operation of QIPs and MTD needs more thought. The proposal that an entity can transition between QIPs and MTD quarterly updates sounds very complicated and is probably unworkable. A situation whereby a company finds they are no longer subject to the QIPs regime and so should have already submitted two or three quarterly MTD updates must be avoided. It seems likely that a company with profits that fluctuate year to year would decide to submit quarterly updates to HMRC just in case so this easement will not reduce the administrative burden for them.
- 6.27 One option may be to put a timeframe on how long a company stays either in or out of MTD for CT once it has transitioned in or out of it. This would help to minimise the disruption that frequent movements in and out of MTD for CT would otherwise cause. For example, perhaps there could be a rule that a company cannot move again for X years unless its turnover moves by say +/- Y% of the turnover threshold. If X and Y are appropriately fixed companies will not have to move frequently which would be very costly for both them and HMRC.
- 6.28 Another option might be for companies to opt into the QIPs regime and stay there rather than having to go in and out. MTD is likely to be most onerous for those larger companies not in QIPs for whom MTD offers no obvious benefit.
- 6.29 **Paragraph 4.16. We welcome views on whether the regular update requirements should be adapted for dormant companies and different business segments with additional statutory reporting requirements, such as those required to submit an annual country-by-country report.**
- 6.30 There does not appear to be any benefit, either for the companies and groups concerned or HMRC, in requiring dormant companies to provide quarterly updates. It would be very burdensome to have to prepare and file such updates. We would recommend that an exemption is provided for dormant companies.
- 6.31 **Paragraph 4.21. We welcome views on these and other areas of the international tax system, including how the rules for double taxation relief, hybrid entities and transactions, corporate interest restriction and transfer pricing might interact with the design of MTD for CT.**

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<sup>5</sup> <https://www.gov.uk/government/publications/hmrc-charter/the-hmrc-charter>

<sup>5</sup> At para 1.19 HMRC state that *'the amount of tax lost annually through avoidable error stands at £8.5bn; HMRC estimates that around £2.1bn of this relates to CT alone'*.

<sup>5</sup> <https://www.gov.uk/audit-exemptions-for-private-limited-companies>

- 6.32 The consultation notes that where non-resident companies are within the charge to CT on their UK activity because of a UK permanent establishment they would be within the scope of MTD. Many overseas companies manually carve out the accounts for their UK branches ie, they are not maintained separately in real time (see our comments in paragraph 4.5 above). This could therefore be a significant problem for some overseas companies. We recommend that that UK branches of overseas companies and/or groups should not be included with the scope of MTD.
- 6.33 The rules for double taxation relief, hybrid entities and transactions, corporate interest restriction and transfer pricing are all complex areas. We would recommend that they should all be outside the scope of MTD quarterly reporting and just dealt with in the end of year return.
- 6.34 **Question 12: Do you consider that any of these other scenarios require a different approach to the process of updating HMRC? If so, please provide details of any barriers and how these could be addressed within the overall approach outlined in this chapter.**
- 6.35 These matters depend on obtaining information from non-UK entities, which will be recording transactions for multiple countries in their recordkeeping software, and it is difficult to see how they can be integrated easily with a real-time approach such as MTD for just the UK transactions. If the objective of MTD is to reduce errors, requiring too much to be done in an unrealistic timescale will be counter-productive and will increase rather than decrease errors, and require reliance on estimates.

## 7 Establishing the Final CT Liability

- 7.1 **Paragraph 5.5. The government would welcome views on the alignment of these obligations from group members who would choose to meet their individual MTD requirements through a nominated entity. Please provide details of any increased or reduced administrative burdens or costs that could result from this.**
- 7.2 We found the explanation in the consultation document difficult to understand, but it seems that what is being proposed is that if a nominated entity undertakes the digital record keeping and provides quarterly updates for an individual company, then that nominated entity must also do the final submission on behalf of that individual company, too.
- 7.3 If we have understood this correctly, we would not support this level of prescription being placed on the MTD for CT requirements. There are many reasons why a nominated entity may prepare the digital records, and / or submit the quarterly updates, but the individual companies concerned finalise their end of year returns. Conversely, individual companies may do their own 'day to day' record keeping, but rely on a nominated entity to finalise the end of year returns for the group as a whole.
- 7.4 As we have explained, it is important to allow flexibility within groups of companies so as to avoid costly changes to processes that deliver no benefit to the company or HMRC.
- 8 **Question 13: Do you agree it is appropriate to align the filing dates for tax and company law purposes? If not, what difficulties do you foresee?**
- 8.1 No, we do not agree with this. We strongly believe that the filing dates for tax and company law purposes should not be aligned.

- 8.2 Preparation of the company tax return, including the iXBRL tagging of the accounts, can frequently only be done after the accounts have been finalised and filed at Companies House, which can often be on the filing date itself. Therefore, aligning the filing dates would be completely unworkable as there would not be enough time to finalise the company tax return. It would also reduce the ability of companies and their agents to spread work, and it could lead to more amendments to the company tax return being required as some tax adjustments may not be known until after a shortened (currently 9 months) filing date.
- 8.3 In addition, we note that BEIS is currently consulting<sup>6</sup> on reducing the company filing deadlines for Companies House. Our above concerns would be even greater should the proposal to reduce each Companies House deadline by three months proceed.
- 8.4 It is even more complicated in a group situation. In a group, it is necessary to finalise the accounts for all group companies and only at that stage can claims around group relief, capital allowances and R&D claims etc be finalised. This presents a real logistical challenge.
- 8.5 Many of our members have experienced corporates struggling in the COVID pandemic and just managing to file their accounts by the extended Companies House deadline but requiring an HMRC extension for the CT return finalisation. This provides strong up-to-date evidence to support the argument that the filing deadlines should not be aligned.
- 8.6 There is also the question about how the MTD system will work if a company agrees a Companies House filing extension, which will then mean that the company will not meet the filing deadline for its CT return. Will Companies House tell HMRC who will automatically change the MTD filing deadline?
- 8.7 We think that some (probably small) companies, or their tax agents, will agree with the proposal to align filing dates, as it is not unusual for such companies or their agent to deal with both submissions at the same time. However, this should not dictate whether any change should be introduced since the problems the proposal would create for larger companies and groups will be disproportionate to any benefits it might bring for smaller companies.

**9 Question 14: Do you agree that amendments to an entity's Company Tax Return should be made through MTD compatible software?**

- 9.1 We agree that in principle it should be possible to make amendments through MTD compatible software, but not that it should be mandatory (at least not at the outset).
- 9.2 However, there are a few practical points that need to be borne in mind. One of these is where the company is under enquiry by HMRC. Where a company has several years' returns under enquiry, the usual process is to reach an overall settlement with HMRC to bring the figures up to date. If there are lots of adjustments then it is usually easier to do a contract settlement for all years and agree the revised carry forward figures (losses, capital allowance pools etc) to be inserted as the starting point for the next return. This still needs to be possible under MTD. Requiring a company to do an online submission (for the one year that can be amended) is not efficient for HMRC or the taxpayer or the agent. There needs

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<sup>6</sup> [Corporate transparency and register reform: improving the quality and value of financial information on the UK companies register - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/corporate-transparency-and-register-reform-improving-the-quality-and-value-of-financial-information-on-the-uk-companies-register)

to be a flexible approach for situations where it is not practical to make amendments through MTD compatible software.

- 9.3 Other practical points include situations where there has been a change of agent or where a specialist agent is also involved, such as is common for R&D claims and capital allowance claims (see our final section below on agents, including multiple agents). In these cases, it may not be practical to make the amendments through the MTD software, so the system needs to be flexible enough for amendments to be made outside of the software as necessary.
- 9.4 It is not clear from the consultation document whether HMRC are referring here only to amendments as in Para 15 Sch 18 FA 1998 (amendment of return within 12 months of the filing date). If they intend this to include other sorts of amendments like overpayment relief claims, consequential claims etc then they will need to change the gateway as these claim deadlines are after the Para 15 amendment window.

**10 Question 15: How can MTD for CT ensure that accounts and tax computations submitted as part of a Company Tax Return, are fully and accurately tagged in iXBRL format?**

- 10.1 Before MTD for CT is introduced and any decisions made on the format of submissions, there should be a discussion about why iXBRL should be retained. This is particularly so because iXBRL tagging has created significant ongoing costs and administrative burdens for business, and we remain uncertain as to the benefits of tagging for HMRC. It is clear that the taxpayer does not see any benefits, only costs. When it was first introduced it promised so much but we have seen no evidence of the benefits. In fact, while, as paragraph 5.14 indicates, iXBRL tagging is included in much accounting or CT software, we would stress that much tagging still requires manual intervention, and hence cost, rather than being a fully automated process for many companies.

We have the following questions:

- a) Why would HMRC need iXBRL tagging if all records will have to be kept digitally under MTD and submitted electronically?
  - b) Is iXBRL still fit for purpose – is it not now old technology that has become out of date?
  - c) What do HMRC want to achieve by keeping it?
  - d) What are the benefits to HMRC of iXBRL tagging?
  - e) What would be the benefits to HMRC of iXBRL tagging of raw unadjusted quarterly data?
  - f) Have more modern methods of transferring and analysing data been considered?
- 10.2 Subject to the answers to the above questions, and if the decision is made to retain iXBRL, subject to MTD software having the tagging as part of the basic minimum requirements, then on the face of it the approach set out in paras 5.14 – 5.19 should be considered, particularly the liaison with other stakeholders.
- 10.3 We understand that iXBRL tagging is often outsourced after the company's accounts have been finalised and is not necessarily done directly from the company's accounting software, for example if the company has an agent (and we know the vast majority do have an agent) it will usually be the agent who will tag

the accounts. How will MTD for CT affect this process? Will companies be expected to do the tagging in their software? It is unclear whether this would improve accuracy.

**11 Question 16: Do you think HMRC should reject returns or charge penalties where the XBRL tagging is incomplete or inaccurate?**

11.1 Work should first be done on establishing reasons for the current gaps in tagging, before introducing penalties. It may be that software has deficiencies that need to be rectified if 100% tagging is to be required. HMRC should not reject returns or charge penalties for XBRL tagging omissions or errors in at least the first few years of MTD. There should be a 'soft landing' on all penalties.

**12 Question 17: What hurdles do you think would need to be overcome should HMRC want businesses to tag data at a transactional level?**

12.1 Feedback from our members suggests that it would be extremely difficult for all but the smallest and simplest companies to tag data at transactional level (where this could theoretically be done by software, if affordable). The level of tagging required at present is just about manageable by software, with some manual intervention, but anything more would increase complexity, costs, and administrative burdens. Incorrect tags at transaction level would presumably need correcting, therefore leading to much higher compliance costs. It is also unclear what the benefit of tagging transactions, when entering them into software during the accounting period, would be to HMRC. We are not certain how this would help meet the policy objectives. A full cost benefit analysis should be done before deciding on this policy.

**13 Question 18: What do you think are the potential impacts of HMRC withdrawing the free filing product, known as CATO? Please provide any examples or evidence held including evidence relating to the potential impact on filing accounts with Companies House.**

13.1 It is not clear from the consultation document whether there is any guarantee that there will be a free product for MTD for CT. Since 8% of company tax returns were filed using the free CATO product in 2019, one assumes that many of these small but significant number of companies will need to purchase software for the first time to meet their obligations under MTD for CT and potentially appoint an agent or increase the level of work that an agent does. This may increase costs beyond what is affordable, especially for some small new businesses, so could trigger other problems. This needs to be reflected in the impact assessment.

13.2 It will be important that HMRC provide appropriate targeted guidance and support to these companies to help them with the transition to MTD for CT. Some of them may not currently be keeping digital records. Many of them are also unlikely to be using an agent. Changing to both quarterly reporting and using new software that supports iXBRL will be a significant step – in some cases a real barrier to compliance.

13.3 Paragraph 5.21 of the consultation document notes that HMRC have committed to ensuring that there is a free product available for the smallest and least complex businesses subject to Income Tax. Some of the companies currently using CATO are likely to be very small so a similar commitment from HMRC to ensure there is a free product available for them would be welcome. A need for a free product is exacerbated by the fact that there is no threshold for MTD for CT (comparable to the £10,000 threshold for MTD for ITSA).



- 13.4 HMRC's free CATO filing product enables a small uncomplicated company to file its statutory accounts with Companies House and its company tax return with HMRC in a streamlined 'one stop shop'. We have received feedback that many businesses find this service extremely useful – it is a good aid to compliance, particularly as it ensures that both balance sheet and profit and loss account data is input to ensure the accounts balance. Often it is only by preparing a full balance sheet that errors in a profit and loss account are highlighted. It is unclear whether third party MTD for CT software will enable filing of both the statutory accounts and the CT return in the same way that CATO does. If CATO is to be withdrawn, then the software market needs to be stimulated to produce a MTD compatible (and ideally a free) replacement product for companies currently using CATO.

## 14 Special Cases and Exemptions

- 14.1 **Question 19: Should charities, CASCs and other not for profit organisations, be within the scope of MTD for CT where they have income within the charge to CT and required to complete a Company Tax Return? If not, please explain why you consider an alternative approach is necessary for charities and what criteria should be applied to assess eligibility for this?**

14.2 We believe that, at least initially, charities should be exempt from the requirements of MTD for CT. In particular, access to suitable software may be expensive for some small charities.

14.3 We also suggest that trading subsidiaries of charities should be exempt from the requirements of MTD for CT. It is our understanding that, in the majority of instances, trading subsidiaries of charities gift aid their profits to their parent charity, and do not therefore pay any tax on their profits. Therefore, there do not seem to be any benefits in them being within MTD for CT, as it will not help meet the policy objective and there will be no benefit to HMRC in receiving submissions from them more frequently than at present.

14.4 We do recognise, however, that some trading subsidiaries of charities can be in competition with commercial enterprises. These 'charitable' companies enjoy a commercial advantage because they are able to pay no CT, not because of MTD per se. We recommend that this area is kept under review to ensure that significant distortions are not created between the for-profit and not-for-profit sectors.

14.5 The results from a past survey of our membership support the above views. Nearly 75% of respondents considered that charities, charity trading subsidiaries, Community Amateur Sports Clubs, insolvent businesses and insolvency practitioners should be exempted from MTD.

## 15 Digital Exclusion

15.1 There is no specific question about digital exclusion, which is mentioned at paras 6.9 and 6.10 of the consultation document, nor about users who are digitally challenged, yet are not categorised as excluded. The CIOT endorses the comments about digital exclusion (and the digitally challenged) made by its Low Incomes Tax Reform Group (LITRG) in its response<sup>7</sup> to HMRC's consultation.

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<sup>7</sup> <https://www.litrg.org.uk/latest-news/submissions/210304-making-tax-digital-corporation-tax-consultation>

15.2 We think that it is possible that digital exclusion and challenges could be more widespread amongst the company population that might be initially thought. This is simply because of the sheer number of companies in existence - according to the Companies House website, there are more than 4 million limited companies registered in the UK, and over 500,000 new companies are incorporated each year.

**16 Question 20: Do you agree that MTD obligations should cease where a company is exempted from mandatory online filing of CT returns due to insolvency?**

16.1 Yes. Gaining full access to records of an insolvent company can be extremely difficult, especially in the short term, for anyone appointed to look after the company, whether in say administration or liquidation. Therefore, there are likely to be even more difficulties in complying with quarterly submissions than for annual reporting.

**17 Assessment of Impacts**

17.1 We welcome the fact that the government has decided not to mandate MTD for CT prior to 2026, and that a voluntary pilot will commence in April 2024. Businesses will need time to prepare and a reasonable length pilot also needs to take place before mandation. However, because of the proposed design of the scheme, which may differ in detail from individual systems already in place, companies will need to have put measures in place well before 2026 to ensure they will be compliant by then. The government should state as soon as possible when, and for which entities, MTD for CT will be mandated to provide more certainty to businesses. Large IT projects can take at least 2-3 years to complete and there is usually a long lead in for budgetary and resource requirements (at least 12 months and quite possibly up to 24 or even 36 months). In addition, the detail will need to be ironed out well in advance of the lead in period. It is currently unclear what HMRC means by digitisation, such as whether it could potentially involve transactional tagging, which would be a controversial and significant step forward.

17.2 **Question 21: What timescales and costs do you consider would be involved in acquiring, updating, replacing or adapting existing software in order to be MTD compliant? Please provide details of one-off and ongoing costs and benefits you think may arise.**

**Question 22: Apart from software costs, what timescales and costs do you consider would be involved in making the transition to MTD for CT? Please provide details of one-off and ongoing costs and benefits you think may arise.**

17.3 It is difficult for us to answer this question as we do not have any specific data or information about timescales and costs, as this varies considerably from company to company. We can make general observations however about the sort of costs likely to be incurred, which will include purchasing new software, new hardware, training costs, time costs dealing with multiple submissions, increased agent fees etc.

17.4 HMRC should provide their estimates of the likely costs. We have in the past surveyed our members on similar changes and the costs tend to vary with a variety of factors, such as: size of company, number of transactions, complexity of operations, organisation of the accounting, type and age of current software (bespoke software can be extremely expensive to change), experience of staff involved in the work, currencies used, how much is already outsourced and location of trading entities. The cost estimates from our member surveys invariably reflect much higher costs than those estimated by the government.

We are pleased that HMRC have worked closely with us around the costings for MTD for ITSA, but in our view this exercise comes too late as it is after the government committed to rolling out MTD for ITSA, rather than it being part of the decision-making process.

17.5 It will help businesses manage their costs of implementing and complying with MTD for CT if:

- a) More entities are exempted from MTD for CT altogether, or from the obligations to submit quarterly updates to HMRC (as noted above); and
- b) HMRC do not make the rules prescriptive (as noted above) and build some flexibility into the requirements.

We should not forget that MTD for VAT digitised an already-present obligation, whereas MTD for CT creates entirely new obligations – hence the need to balance the nature of the requirements with the role and benefits of the obligation.

17.6 It would also help businesses to manage their costs if they knew whether HMRC would enquire / conduct any compliance activity into the quarterly update submissions, or not. HMRC checking the quarterly updates would appear to be of limited value to them because, as already mentioned, these updates will be provisional or estimates and are very unlikely to provide much meaningful information to HMRC as they will not have been adjusted for accounting and tax adjustments typically made at the year end. It is not unusual for the adjustments to say turn a loss into a profit, or vice versa.

17.7 We would particularly highlight two areas where costs are very likely to be incurred and which should be factored into the impact assessment:

- a) Many of the 8% of companies which currently use HMRC's CATO service to file their accounts with Companies House and tax return with HMRC will have to invest in software and / or a tax agent's services for the first time (see Q18).
- b) Putting in links to ensure each piece of software is digitally linked to other pieces of software to create the MTD digital 'journey' could be very costly for businesses, particularly large businesses, which invariably will have more complex accounting systems, often including a mixture of legacy systems and some modern software. Many businesses are still to tackle digital links for VAT. The digital journey for CT could be different if their VAT reporting is not fully aligned with their CT reporting, and will give rise to significant costs and complexity.

17.8 The question also asks for '*details of one-off and ongoing.... benefits you think may arise*'. Specifically, in terms of large businesses, it is difficult to see any benefits. The majority of large businesses will already be keeping adequate digital records for the purposes they need them for, including tax compliance. MTD for VAT has given large businesses difficulties in terms of streamlining existing IT systems to work to produce the information required digitally by HMRC, and there is no reason to suspect MTD for CT will be any different. In addition, CT compliance is already one of the most IT intensive activities for accountants and agents adding to the sense that any benefits of MTD for CT will be marginal and the costs disproportionate within this population.

17.9 The impact assessment states that '*It is not anticipated that there will be an impact on individuals, households and families*' and '*HMRC does not expect this measure to have any significant or disproportionate impact on groups with legally protected characteristics, as recognised in the Equality Act 2010.*' We recommend that this is kept under review as the proposals become clearer; in particular

because individuals and businesses may be 'digitally challenged' rather than 'digitally excluded', and so may find they are still in scope but have real practical difficulties becoming compliant.

## **18 Agents**

18.1 We have included this separate section in our submission as we are concerned that the consultation pays remarkably little attention to the role of agents, even though HMRC acknowledge in para 1.27 of the consultation document that 85% of entities within the charge to CT use agents.

18.2 The work of agents was critical in ensuring compliance with MTD for VAT, and will be similarly critical for ITSA, and for CT. Agents play a key role in helping entities comply with their CT obligations. Functionality for agents should go hand in hand with functionality for taxpayers, and not be developed for companies first, and agents second.

18.3 While it is promised that '*authorised agents will be enabled to provide a full service in supporting their clients to meet their obligations*', we are concerned that a number of fundamental issues are still to be considered. These include:

- The necessary flexibility to allow the company itself and / or its agent to undertake a combination of the periodic and end of year submissions. Indeed, paragraphs 5.3 to 5.7 of the consultation document are drafted as though the company is handling all the quarterly and annual submissions itself. This is unlikely to be what will happen in practice.
- Multiple agents - a company can have multiple agents at any one time, for example, when it changes its agent, and the old agent is still dealing with earlier years. It is also very common for large companies and groups to use more than one agent for different heads of duty or for specialist areas, such as relating to R&D. HMRC's systems do not cope well with these situations and this must be satisfactorily resolved before MTD is rolled out any further.
- The voluntary sector, such as the tax charities, who help people on low incomes with their tax affairs. While TaxAid and Tax Help for Older People mostly deal with individuals, they do deal with companies. The tax charities cannot have agent services accounts as they are not regulated under the anti-money laundering rules. They are not therefore covered by the plans for other agents and an alternative solution should be made available for them and their clients.

## **19 Acknowledgement of submission**

19.1 We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation

5 March 2021