



Chartered  
Institute of  
Taxation.



Low Incomes  
Tax Reform  
Group.  
A voice for the unrepresented

30 Monck Street  
London SW1P 2AP  
T: +44 (0)20 7340 0550  
E: technical@ciot.org.uk  
atttechnical@att.org.uk  
litrg@ciot.org.uk

21 January 2025

James Murray MP  
Exchequer Secretary to the Treasury  
HM Treasury

Dear Minister,

### **Making Tax Digital for Income Tax Self Assessment (MTD ITSA) – End of Year Submission Service**

As part of our organisations' ongoing engagement with HMRC, HMRC have discussed with us their plans to pause development of their year-end 'update and submit' service for MTD ITSA. Not offering an HMRC end of year submission service would mean that all MTD ITSA taxpayers must file their self assessment tax returns via third party software. We will refer to this as a *full software journey* in this letter.

We are extremely concerned that this will increase costs to taxpayers in the scope of MTD ITSA and increase the risk of non-compliance and non-payment of taxes, with a consequential increase in penalties and contact with HMRC. We write to explain why ATT, CIOT and LITRG do not support a full software journey and believe HMRC's update and submit service should be offered as an alternative.

Whilst we very much value the opportunity to work collaboratively with HMRC, the recent co-creation session on this topic was scoped only to discuss what a full software journey may look like - there was no opportunity to discuss whether a full software journey should or should not be the only option available to MTD ITSA taxpayers to submit their tax returns. Furthermore, we understand that only nine taxpayers participated in the user research into this issue and no alternative journey was tested for comparison.

We therefore feel that it is important to raise the following points with you to help inform your decision on whether to proceed with a full software journey. We would of course be pleased to meet to discuss these points with you and HMRC.

#### **1. The timing of this decision**

At the time of writing, we understand that the decision has not yet been made on whether to proceed with a full software journey. However, taxpayers are being encouraged to join the testing phase from April 2025, with MTD ITSA becoming mandatory from April 2026. We are concerned that such a short timeframe does not provide the software industry with sufficient time to develop the necessary end of year functionality, nor develop software for all taxpayers within the scope of MTD (discussed in the next point). Taxpayers are being

encouraged to pick software now to enable them to join the testing phase in just over two months, without being aware that software may need to have the functionality they need to complete a full software journey.

## **2. Suitable software needs to be available for all MTD ITSA taxpayers**

If all taxpayers are legally required to adopt a full software journey, adequate software needs to be available to all taxpayers to facilitate this. This includes software for those with complex tax affairs, such as those needing to claim farmers' averaging, as well as specific groups of taxpayers, such as Ministers of Religion. Gaps in the software market already exist. We are concerned that software houses may not find it commercially viable to develop products to cover a relatively small population.

The decision to proceed with a full software journey, may also reduce the availability of bridging software packages in the market. Bridging software is likely to be used by those on low incomes with straightforward tax affairs to file their quarterly updates under MTD ITSA (due to its simplicity and low cost) but also by those with more complex tax affairs (perhaps as there is no suitable software available to them). We understand that the simplest and cheapest bridging products are not currently being designed to support end of year 'tax return' filing. In the absence of an HMRC submission service, a second piece of software may need to be purchased to enable this to be done. This will significantly increase both the complexity of the process and the overall cost, which will impact those on low incomes the greatest.

## **3. Increased costs – impacting those on the low incomes the greatest**

The price of software will inevitably need to increase if end of year submission functionality needs to be built in. It is unlikely that this will be a one-off price increase, instead it will become built into the annual cost of software. This will hit lower income taxpayers the hardest when obliged to comply with MTD ITSA. For lower income taxpayers, we are concerned that individuals will incur costs to comply with their tax obligations, which are disproportionate to any tax payable (and of course some may not have a tax liability at all).

If there has been an assessment of the additional cost / burden that a full software journey may bring, we would welcome transparency on such an assessment. If not, we strongly encourage preparation of a revised impact assessment for MTD ITSA which includes this. It is also important that businesses can budget for increased software costs, particularly those on low incomes. Have discussions taken place with software providers to estimate the increased cost of the inclusion of an end of year submission service to each software offering?

## **4. Additional MTD exemptions may need to be granted**

If there is no HMRC end of year filing service, HMRC and ministers need to be prepared to grant more MTD exemptions to taxpayers, for whom it is not reasonably practicable to file their tax return via third party software, for instance due to a lack of available products for complex or niche circumstances, or on the grounds of software costs for lower income taxpayers.

## **5. Free software will need to accommodate year-end filing**

Although LITRG remains of the view that HMRC should provide basic free software for those on the lowest incomes, the commitment by some software companies to develop free software is welcomed. We hope there will eventually be a wider selection of products to give some choice to those who need to use free software. Naturally, providing free software for those with the simplest tax affairs will likely mean some restriction on functionality, volume of transactions and/or support. If the Government decide to go ahead with a full software journey, free software will need to have the functionality to complete year end filing. This means free software needs to be capable of dealing with common occurrences that those with even simple tax affairs

might need to include on their tax returns each year, such as pension contributions, charitable donations, loss relief claims and capital allowances claims.

#### **6. Choosing software and being able to use software**

HMRC have acknowledged that a decision to proceed with a full software journey will make it more difficult for a taxpayer to understand which software they need to choose to meet their needs. They are working on updates to HMRC guidance on software choices but the complexity of choosing software must not be underestimated, particularly for the unrepresented taxpayer. Furthermore, just because a taxpayer chooses suitable software does not necessarily mean that they will be able to easily use and understand that software, so an easily accessible support service from the software provider becomes crucial too. The complexity of the year end submission service will vary across software packages. One advantage of a HMRC year end submission service is that it can be designed in a 'checklist' manner, asking taxpayers to think about whether they have different income types. It may be difficult to mirror this approach in software, which could lead to taxpayers failing to disclose taxable income.

#### **7. Software needs to accommodate changes in circumstances**

It is possible that, during the tax year, a taxpayer's circumstances could change (for example, they unexpectedly acquire a new source of income, become eligible for a tax relief, or make a capital disposal). If their existing software cannot report this event in their tax return, the taxpayer will need to find alternative third-party software at short notice. The taxpayer may only become aware of the need to change software when they come to file their self-assessment return and find themselves unable to. HMRC's end of year submission service would have been the default 'journey' for many taxpayers finding themselves in this situation. Even for those planning the full software journey its availability as a fall back option is vital. Without this, we fear taxpayers in this situation will have at best a very confusing journey, and at worst some will fail to file their tax return and pay the tax due on time.

If the decision is made to progress with a full software journey, the above points need to be further considered with a view to implementing appropriate additional processes and easements for lower income taxpayers and those with more complex tax affairs. We would suggest that a series of 'customer journeys' are developed, to set out how taxpayers would be expected to comply with their tax obligations if some of the events outlined above arise, as that will illustrate the likely impacts on costs and compliance.

As always, we welcome the opportunity to work collaboratively with HMRC and yourself, along with other key stakeholders and professional bodies, to determine an appropriate route forward.

Emma Rawson, The Association of Taxation Technicians

Ellen Milner, The Chartered Institute of Taxation

Victoria Todd, The Low Incomes Tax Reform Group

21 January 2025