HMRC Consultation Document - Simplifying tax for unincorporated businesses
Response by the Chartered Institute of Taxation

1 Introduction

1.1 This consultation document is proposing significant changes to the tax system for unincorporated businesses which the government hope will make the transition to Making Tax Digital (MTD) easier for them. These proposals are:

- Increasing the turnover threshold for the cash basis;
- Reforming basis periods for the self-employed;
- Simplifying reporting requirements;
- Modifying the capital / revenue divide within the cash basis.

1.2 As an educational charity, our primary purpose is to promote education in taxation. One of the key aims of the CIOT 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.

1.3 We conducted a member survey on Making Tax Digital during September 2016. We received some 1,082 responses, and we refer to the results of the survey throughout this response document. Over 90% (965) of respondents work in accountancy practices, and 61% (647) of respondents were members in small practices, including sole traders, with 22% (234) of responses from members in medium sized practices. Amongst the others, there were 36 responses from members in commerce and industry, and 5 responses from members in HMRC. In the survey we included three questions on the cash basis, and we highlight the results within our responses to the various questions below.

1.4 We have responded to the different elements of question 10 of the consultation within each of the main sections of our response, rather than in question number order.

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1.5 Our response to this consultation document should be read in conjunction with our responses to the other consultation documents on MTD in particular '*Making Tax Digital: Bringing business tax into the digital age*' and '*Simplified cash basis for unincorporated property businesses*'.

2 Key messages from the CIOT about Making Tax Digital

2.1 Whilst MTD will bring benefits to HMRC, the likely impact on most businesses and taxpayers will be an increased workload and / or increased costs. It is not at all clear that there will be commercial benefits to offset such costs, particularly for smaller businesses.

2.2 The timetable for mandation of MTD is far too optimistic and must be pushed back. The proposed deferral of MTD for certain small businesses over the proposed exemption threshold is insufficient. Effective software is not yet available and fully tested, so the substantial number of businesses that currently do not use software will inevitably have difficulties both selecting the appropriate software and getting to grips with its functionality. Businesses that currently do use software will be prejudiced if their provider cannot keep up with the demanding timescales.

2.3 Deferral of MTD will allow a smoother and more effective transition. The continued widespread use of spreadsheets, and an upload facility onto an HMRC portal, will assist businesses get used to updating HMRC more regularly, in a more digitised fashion, whilst ensuring that transition time and costs can be better managed.

2.4 The thresholds for mandation need to be increased. The £10,000 threshold for exemption is far too low. It could place the obligation on non-taxpayers and landlords with a single buy-to-let residential property.

2.5 That said, the case for mandating larger businesses into MTD has not been made out. These businesses are already likely to have comprehensive record-keeping systems, already in a digital format, and many corporates will be subject to independent external audit. Mandation of a particular method of digital record keeping, and quarterly reporting, will create significant administrative costs and burdens. The figures being submitted quarterly would still need to be adjusted at the end of the year for tax purposes, and the submission of unadjusted figures will be of little or no benefit to HMRC or to the business.

2.6 Real simplification of the tax system, particularly for small businesses, will help MTD work. For example, a simple income-minus-business expenses model would be easier for taxpayers to understand and report. The simplification proposed is inadequate and potentially detrimental to taxpayers. In any event, simplification should take place BEFORE introducing mandatory digital record keeping and reporting.

2.7 Agents will be an integral part of MTD, yet the consultations are worrying devoid of much mention of agents, and seemingly imply that businesses will wish to 'do it themselves'. Agent access and functionality needs to keep progress with taxpayer access, and consideration needs to be given to the different types of agent and the various functions that they carry out.

2.8 In any event, communication of MTD, direct to businesses and individuals, is vital. There is much work to be done to educate and inform the public about these very significant proposals, and how they change the interaction they will have with HMRC. In our view, HMRC will need to step-up its promotion of MTD. Digital communications such as YouTube and Twitter will not reach businesses that currently do not use digital tools. Traditional mechanisms such as television, radio and newsprint should be considered.

3 Executive summary

3.1 The CIOT supports measures aimed at simplifying the tax system. The UK's tax system is one of the most complex in the world and efforts to improve it through simplification are to be encouraged.

3.2 The imminent introduction of MTD has prompted the government to look at ways of simplifying tax for small businesses, and has led to the proposals contained in this consultation document. In our view, small business taxation should be simplified *BEFORE* MTD is introduced, and we could encourage HMRC to revisit the MTD timetable to allow simplification to take place first.

3.3 The government's approach means that the substantial changes to the tax administration system (record keeping and quarterly updates) being introduced by MTD will be happening at the same time as these proposals to simplify computations, if they are adopted. This means that taxpayers, advisers and HMRC will face considerable change simultaneously. Any simplifications, together with MTD, need to be widely publicised, in a manner which will reach the small businesses which are intended to benefit.

3.4 We believe that the government should consider proposals for radical changes to the tax system for small businesses. For example, consideration should be given to a single basis of taxation for (say) businesses below the VAT registration threshold, who could adopt a simple, combined income-minus-business expenditure approach to taxation – without separating trading income and property rental. We recognise that the government may wish to retain certain exceptions (for instance, on interest deduction for residential buy-to-let properties), but removing other inconsistencies between the regimes (basis periods, deductibility of expenses etc) would represent real simplification. We would be happy to work with HMRC, HMT and The Office of Tax Simplification in order to discuss and develop such proposals. A small rate change to ensure this is revenue neutral may assist.

3.5 We agree that the proposals on the capital v revenue divide within the cash basis should simplify matters for businesses. Allowing deduction unless it is specifically excluded is better than a system that specifies what it is included.

3.6 We are concerned though that the remainder of these proposals will impact negatively on unrepresented taxpayers, who will make decisions around accounting bases and periods without being aware that they will have a significant impact on their tax position. Such impacts include the loss of their personal allowance, and accelerating a substantial tax liability. We were surprised that HMRC did not echo our concerns during our meeting on 13 October 2016 to discuss these proposals. Safeguards will need to be in place to ensure that taxpayers are adequately prompted or advised of the consequences, before selecting or changing accounting bases or periods. We would not wish a 'two tier' tax system develop, with unrepresented taxpayers paying more or earlier tax than represented ones.

3.7 Our members were divided on whether the threshold for the cash basis should be increased and (if so) by how much. Even at double the current threshold, only a relatively modest number of additional businesses would be eligible. If an increased threshold leads to more complex legislation (such as anti-avoidance rules) we would recommend retaining a lower threshold.

3.8 What is not known at present is how software and apps being developed for MTD will support the different bases of accounts preparation, or a shift between them. With the proposals to increase the entry threshold for the cash basis, extend the cash basis to property businesses, as well as introduce further choice in reporting requirements and retain normal GAAP accounting, our concern is that software and apps will need to have sufficient functionality to enable taxpayers to move between different bases if they choose to do so. Similarly, the software may also need to accommodate cash accounting for VAT, but not for direct tax. If not, this will reduce flexibility and increase costs for small businesses.

3.9 It is stated that the 'the complexity and inflexibility of the basis period system is outdated'.[1] However, the condoc does not explain why partnerships, who are subject to the same basis period system, are excluded from the proposals. If the proposals remain limited to sole traders, the tax system as a whole will become increasingly complex, with different basis period rules for sole traders, partnerships, and companies.

3.10 While the proposed reforms to the basis periods will bring some simplification for the simplest of businesses, our members' experience indicates that many of the smallest sole traders tend to opt for a tax year basis period for simplicity, so the issue around basis periods is often academic.

3.11 We therefore recommend that basis periods are left unchanged until MTD has bedded in, and further research can be undertaken on the number of businesses likely to be affected, and (for simplicity and consistency) to consider extending the proposals to all unincorporated businesses.

3.12 We are not persuaded that the four 'simplified reporting' measures offer any real level of simplification, but in fact just introduce a third basis of accounting ('GAAP lite'). We do not support these measures, which in certain circumstances actually accelerate the tax payable.

3.13 We fully endorse the comments made by our Low Incomes Tax Reform Group (LITRG) in their response to this consultation document. Their focus is on unrepresented taxpayers many of who are on low incomes and may be claiming Universal Credit.

Increasing the trading cash basis entry threshold

4 General comments

4.1 Paragraph 2.2 of the consultation document says that over 1 million small businesses currently use the cash basis. The table at paragraph 2.17 indicates that the entry threshold would have to be doubled to increase the number of eligible businesses by 175,000, ie a potential increase in take up of no more than 17.5%. On

[1] Paragraph 3.2 of the condoc.

these numbers, we wonder if the proposals to increase the threshold are sufficiently worthwhile, particularly as it introduces a new, stand-alone threshold, unlike the existing threshold which is linked to the VAT registration level.

4.2 Whilst maintaining the alignment of the entry threshold with the VAT registration limit is simple to understand, we do recognise the risk of the cliff-edge effect, especially if other measures are linked to this threshold. For example (and if MTD is aligned in some way with the VAT registration threshold[2]), business growth could be stifled because not only does crossing the threshold require VAT registration, it also requires digital record keeping and accruals accounting.

4.3 Our survey identified a very wide range of views on the cash basis. A few members disagreed with it entirely and felt it should be abolished whilst others think it is useful for some clients. The fact that there are such variations in views is difficult to interpret, without further research, and will depend to a large extent on each individual members' client base.

4.4 What it does indicate is that the cash basis is not overwhelmingly popular amongst agents, although HMRC seem to think that it is amongst taxpayers. This may be because preparing accounts on a cash basis really only satisfies the need to report to HMRC, whereas reporting on an accruals basis will serve several purposes, including profitability and evidence for loan applications, which an accountant or tax adviser can explain to his clients. In paragraph 2.2 of the consultation document HMRC say that it 'has proved very popular with over 1 million small businesses choosing to report to HMRC on this basis' and in paragraph 2.3 they say that 'this popularity has led to calls from stakeholders for an increase to the turnover threshold'. It would be interesting to know which stakeholders have made this call so as to indicate which sectors they represent.

4.5 We are mindful that many unrepresented businesses who have ticked the 'cash accounting' box on the self-employment pages of their Self-Assessment Tax Return (SATR) will not necessarily understand what that means ie what the cash basis is and whether they have in fact prepared their return in conformity with it.

4.6 We would like the current restrictions on loss relief and finance costs relaxed. There seems to us to be little evidence of avoidance to justify them. If a decision is made to increase the entry threshold, removal of these restrictions becomes even more pressing as larger businesses become eligible to use the cash basis. This increases the risk that a business might enter the cash basis when it would be inappropriate to do so, because for example they have interest costs in excess of £500. The expansion of the cash basis could encourage taxpayers to handle their own tax affairs (rather than appoint an agent to help them), but this could backfire if taxpayers fail to take appropriate advice and make costly choices as a result.

4.7 If the cash basis is extended, the rules on leaving the cash basis should be revisited to ensure that they are sufficiently flexible. Currently, a business can only leave the cash basis if they are no longer eligible under ITTOIA 2005 section 31A (because their receipts have exceeded twice the VAT registration limit) or there has been a change in circumstances so that it is more appropriate for profits to be calculated in accordance with GAAP and the business elects to calculate profits in that way (ITTOIA 2005 section 31D). 'Change in circumstances' is not defined in the legislation but HMRC's *Simpler Income Tax for the Simplest Small Businesses:*

[2] For example, the extra year's deferral for the smallest of businesses discussed in the main MTD consultation.

Technical Note[3] states that examples of such changes include a business that is expanding and wishes to claim more than £500 in interest deductions, a business that wishes to claim 'sideways' loss relief and a business that decides to register for VAT. It is time to consider whether there should be any other circumstances that should be included in guidance, such as that it is more appropriate for the business to prepare accounts using a different basis, such as GAAP.

4.8 Given that the cash basis has only been in place from the tax year 2013-14 onwards, we imagine that there have not so far been a high number of businesses who have chosen to leave the cash basis. Therefore, HMRC's position on accepting or challenging a taxpayer's view that a 'change of circumstances' has occurred is unknown. There should be sufficient flexibility in HMRC's approach to make leaving the cash basis a relatively smooth process.

4.9 We would hope that software and apps that support MTD will contain appropriate nudges and prompts to assist taxpayers in understanding the implications of using different bases of accounting. Will such prompts and nudges actively suggest consideration of the different bases if they might be beneficial for the taxpayer to consider?

4.10 The timing of making a cash basis election (either to enter or to leave) needs to be considered. Currently, this is done on the self-employed pages of the SATR but once the tax return is abolished and quarterly updates and End of Year reporting are introduced, at what point will the taxpayer have to commit to using the cash basis? In our view, the choice must be available on the quarterly updates but the final decision must be left to the End of Year declaration because it may not be until then (when, say, the taxpayer or his adviser has had the opportunity to assess the appropriateness of using the cash basis) that an informed decision can be made.

4.11 We are strongly of the opinion that the cash basis should also remain optional.

4.12 We also consider that the interest restriction of £500 may be a barrier to many eligible businesses not joining the cash basis, and should be reconsidered.

5 Question 1a: What level do you consider to be an appropriate turnover entry threshold?

5.1 The first cash basis question in our survey asked what members thought the turnover entry threshold should be raised to and, for consistency, we included only the range of thresholds referred to in the consultation document at paragraph 2.17.[4]

5.2 The largest group of respondents (28.5%) felt that the threshold should stay where it is, at the VAT registration threshold (currently £83,000). Respondents were fairly evenly split between raising it to £100,000 (19.3%), £150,000 (16.4%) and £166,000 (17.1%), with very few supporting an increase to £125,000 (3.2%). A few respondents felt it should be raised even higher.

[3] Simpler Income Tax for the Simplest Small Businesses: Technical Note 28 March 2013 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207418/021_simpler_income_tax_for_simplest_small_business_mar20013.pdf

[4] See appendix one for more details.

5.3 We note for completeness that the VAT cash accounting threshold is currently £1.35m. We would not advocate increasing the cash basis threshold to such a level. Whilst it would extend the option of using the cash basis to a much larger number of businesses (making it more worthwhile to increase the threshold), larger businesses are more likely to have more complex affairs and to need to prepare GAAP accounts, for example to obtain loans, mortgages and so on, and to provide management information on profitability. There would also be need for changes to the existing rules, including additional anti-avoidance legislation, which would increase complexity.

5.4 Further, increasing the threshold to businesses with higher receipts could lead to increased burdens on businesses, at least initially. This is because it would mean that a good proportion of them would need to think about whether the system was the right one for them. This could lead to more businesses seeking professional advice, and to advisers needing to do additional calculations in order to inform the business on the impact of adopting the cash basis. Similarly, this would also be necessary to decide whether a business should leave the cash basis.

5.5 We recommend, therefore, that the cash basis threshold remains aligned with the VAT registration threshold.

5.6 The remaining comments on the cash basis are made on the basis that, contrary to our recommendations, the threshold is indeed increased.

6 Question 1b: For a threshold not linked to the VAT threshold, should it be reviewed annually in the light of inflation or less frequently (please state recommended interval)?

6.1 If a decision is taken not to continue to link it to the VAT threshold, then in our view it should be reviewed annually in light of inflation and this requirement should be provided for in statute. Even if higher than the VAT threshold, it could be linked to the VAT threshold, by being a multiple of it, rounded up to the next thousand.

7 Question 2a: If the entry threshold were to be increased, do you agree that the exit threshold should continue to be set at twice the entry threshold?

7.1 This would depend on what the entry threshold is increased to. The higher the entry threshold, the greater the differential if the exit threshold continues to be set at twice the entry threshold. This starts to bring in businesses with potentially very high receipts (possibly over £300,000 per annum), as paragraph 2.22 notes, which may not be appropriate.

8 Question 2b: If the entry threshold were to be increased, do you agree that the UC threshold should continue to be set at twice the entry threshold?

8.1 We refer you to the comments made by LITRG in their consultation document response, which we fully endorse.

8.2 With regard to the interaction with Universal Credit (UC), we think that it is important that definitions are aligned. It is worth noting that calculations under the two systems are not identical, for example no loan interest can be deducted under UC. A more comprehensive analysis of how the cash basis interacts with UC is contained in the response to these proposals made by LITRG.

9 Question 10a: If the cash basis entry threshold is raised would you consider using the cash basis, or advising your clients or members to use it? If so please provide details of anticipated impacts, including both one-off and ongoing benefits and costs.

9.1 The second question on the cash basis that we asked members in our recent survey was whether members would use it if the threshold was increased.[5]

9.2 Responses were fairly evenly split between 'Yes' (32.8%) and 'Don't know' (32.9%), with a slightly lower proportion (27.1%) answering 'No'. The number of 'Don't knows' may be explained by the respondents feeling that they would not be able to advise a client to use the cash basis without undertaking comparative calculations first.

9.3 The third question asked for comments depending on whether members would consider using the cash basis for themselves or their clients, or not. We have reproduced in full the answers to this question in Appendix Two. Some respondents cited the loss and interest relief restrictions as reasons for not recommending the cash basis.

Reforming basis periods

10 General Comments

10.1 HMRC are proposing to introduce accounting periods similar to those used within the corporation tax rules. HMRC say they favour this approach because it will lead to the elimination of overlap periods. We have reservations about whether this will work well, because, unlike income tax, corporation tax does not operate with respect to tax years. The proposal will still treat the income of an accounting period as arising in one tax year (rather than apportioned as it is for companies) and only seems to apply to self-employed income, not to the rest of a taxpayer's income and gains, which would continue to be worked out on a tax year basis.

10.2 We are not sure we agree with HMRC's comment in paragraph 3.2 of the consultation document that 'the complexity and inflexibility of the basis period system is outdated'. We have not seen any hard evidence to support this. Software tends to deal with this anyway, such as calculating any overlap profits arising in the early years of a business, or on a change of accounting date, so individuals rarely have to calculate this with pen and paper.

10.3 While the proposed approach appears simple, we are concerned that it could throw up unforeseen problems. In particular:

1. Taxpayers could lose the benefit of their personal allowance;

[5] See appendix one for more details.

2. Taxpayers could inadvertently accelerate their tax liabilities;
3. Significant tax liabilities could arise on cessation (without the benefit of overlap profits relief); and
4. Distortionary behaviour could occur.

Each of these risks are explained in more detail below. We think more research should be done before considering this option further.

10.4 In addition, providing increased flexibility over the choice of accounting period date and length could create complexity rather than simplification if a taxpayer, or their agent, has to perform comparative calculations to determine the best option.

10.5 HMRC state in paragraph 3.1 of the condoc that ‘the long term vision is for businesses to have sophisticated control of their tax affairs, enabling businesses to choose payment patterns that suit them, allow them a better understanding of their tax position and their cash flow’. We question whether this is something that businesses actually want to the extent this proposal would provide. Very many businesses choose to appoint an agent exactly because they do not want to spend time on the detail of their tax affairs. They want to spend their time running their business. Most are happy to pay their fair share of tax, but do not want to pay more than they need to, hence seeking professional advice where there is choice. We do not see this changing, particularly with the increase in reporting obligations that MTD is bringing in.

10.6 The MTD proposals include filing an End of Year (EOY) declaration within 9 months of the end of the accounting period. Taxpayers who currently have a tax year or 31 March year end will have to file their EOY declaration within 9 months (ie by 5 January or 31 December) which falls over the Christmas and New Year holiday period and before reporting of income calculated on a calendar basis is possible from overseas jurisdictions. This particular population, a large proportion of the self-employed, may seriously consider changing their year end to avoid the busy holiday period. It is also likely that agents will encourage clients to change their year ends to ease their workloads and spread them more evenly throughout the year. A nine month deadline seems quite inappropriate.[6]

10.7 HMRC say that a benefit of introducing a similar rule to Corporation Tax for Income Tax accounting periods, is that it will allow taxpayers to choose shorter tax accounting periods so that they can have the option to conclude an accounting period each time they make a report to HMRC, without undertaking an annual process. There are two examples in the consultation document (‘Bernadette’ and ‘Judith’), which seem to us to be unrealistic and overly-complicated – are these proposals based on firm evidence?

10.8 Such regular reporting may suit the very simplest small businesses using the cash basis and those taxpayers claiming UC. For them this could be very attractive, however for slightly larger businesses we think it would lead to potential problems, and are unsure whether this would be popular in practice.

10.9 This also runs the risk that a sole trader will make an uninformed decision which an agent would then need to unwind at a later date because it actually turns out to have been detrimental to the sole trader’s cash flow position. Indeed, will it be possible to revert back to a longer accounting period if shorter periods have already been chosen and submitted?

[6] We explore this further in the response to the consultation ‘Bringing business tax into the digital age’.

10.10 It is also not clear what happens if the taxpayer needs to correct an earlier report if they are concluding an accounting period each time they submit the report. Will there be an End of Year declaration/final adjustment window of nine months for each short accounting period? This seems inevitable to allow amendments to be made, but it will create a lot of deadlines for the taxpayer to comply with.

10.11 Further, how would annualised allowances, such as the annual investment allowance, interact with shorter accounting period?

11 Question 3: Do you agree with the proposed approach of following accounting periods? If not, what alternative approach would you support?

11.1 We are not persuaded that there is yet sufficient evidence to support the proposed changes to the basis period rules, especially when taking place at the same time as MTD is being introduced. The current basis period system is not inconsistent with digital reporting.

11.2 We highlight above four significant risks arising from the proposals, and we explain each below.

11.3 *Risk 1 – Loss of personal allowance:*

11.4 The example of Kyle on page 13 of the consultation document sets out how HMRC see the new rules working in the early years of trading. In this example no overlap profits are generated because Kyle is taxed only on the profits in the accounting period that ends in the tax year.

11.5 What would be the position if Kyle chooses an accounting period end that does not fall into the first tax year? The implication is that he would not be taxed on any profits in that first tax year.

Example: Kyle is a self-employed plumber. He starts to trade on 1 May 2015, making up his accounts to 30 April 2016 and then annually thereafter.

- 2015/16: No accounting period end
- 2016/17: Accounting period is 1 May 2015 to 30 April 2016
- 2017/18: Accounting period is 1 May 2016 to 30 April 2017

11.6 Nearly all of Kyle's first year of trading takes place in 2015/16, yet as a result of these new rules no tax liability arises and Kyle may not fully utilise his personal allowance for 2015/16. This could cost Kyle up to £2,120, assuming he would otherwise pay tax at the basic rate.

11.7 In addition, Kyle's first tax liability will not fall due until 31 January 2018 – nearly 33 months after starting to trade – when he will have to pay not only the tax on a full year's trading, but also his first payment on account for 2017/18. Contrary to HMRC's aims to avoid the shock of a large tax bill, these proposals actually compound that problem.

11.8 *Risk 2 – Taxpayers inadvertently accelerating tax liabilities*

11.9 HMRC suggest that taxpayers who are already trading may want to consider changing their accounting date (since a change of accounting date will no longer produce overlap profits) and perhaps want to move to quarterly accounting dates.

There is an example ('David') on page 15 of the consultation document. David decides to change his accounting date from 31 December to 31 March with the result that, if we have understood the example correctly, he will pay tax on 15 months' (rather than 12 months') worth of profits in 2019/20.

11.10 This seems to us to be an unlikely scenario since David has accelerated his tax payments and will pay more tax on 31 January 2021 than if he had left his accounting date at 31 December. We are concerned that unrepresented taxpayers may make this kind of decision without understanding the implications, until they see their tax bill is far more than they expected.

11.11 *Risk 3 – Significant tax liabilities on cessation.*

11.12 The elimination of overlap profits by adopting a corporation tax style accounting period model may lead to a very large tax bill for sole traders on cessation of trade depending on their accounting year end. Under current rules, overlap profits generated in the early years of trading are carried forward and can be relieved against profits in the final years of trading. This scenario is not dealt with by the consultation document.

Example: Fred has been trading for many years and has an accounting year end of 30 April. He has unrelieved overlap profit brought forward of £10,000. He ceases to trade on 31 December 2020.

- 2019/20 - taxed on profits for the year ended 30 April 2019
- 2020/21 - taxed on profits for the year ended 30 April 2020 and the 8 months ended 31 December 2020 (total 20 months). Fred can set his overlap profits against these profits.

11.13 A trader that commences trading after the proposed changes to basis periods have been introduced will have no overlap profits brought forward to utilise in the final period of trading. This could present the taxpayer with a very large and possibly unforeseen and unbudgeted tax liability on cessation. Have HMRC considered how this can be explained to taxpayers? Will there be an extended period in which payment may be made?

11.14 *Risk 4 – Distortionary behaviour.*

11.15 We think there is a real possibility that taxpayers will change their accounting date in order to defer payment of their tax, and we wonder if HMRC have factored this behaviour into their proposals.

Example: David is a florist. He trades on a calendar year basis, making up accounts from 1 January to 31 December each year. David decides to change his accounting date to 30 April with effect from 30 April 2019. He will be taxed as follows:

- 2018/19: year ended 31 December 2018
- 2019/20: four months ended 30 April 2019 (thus deferring tax on eight months' profits)
- 2020/21: year ended 30 April 2020

11.16 We also consider that businesses might change their accounting period dates depending upon when they will be mandated into MTD, in order to delay their entry into the new system and the start of their quarterly reporting obligations.

11.17 <u>Other alternatives</u>

11.18 For completeness, we do not support the option of removing the concept of basis periods altogether and introducing apportionment of profits between tax years. This sounds like a recipe for confusion. It will also be impractical since, depending on the business's accounting period end, it may be impossible to know what the profit for an earlier tax year is until many months after the year end.

Example: A business has an accounting year end of 31 January 2019. The first two months of the accounting period fall into the 2017/18 tax year, but the profits that need to be apportioned to that period may not be finalised until 31 October 2019 (ie nine months after the accounting period end).

11.19 Individuals will still be taxed on a tax year basis, not by reference to accounting periods. The rate of tax will depend on their total income for the tax year. Having to apportion back part of the business accounts to a tax year would in some cases make it very difficult, if not impossible, to ascertain total income for the year before the tax year has ended. Decisions on expenditure qualifying for tax relief (whether or not of a business nature eg gift aid relief) would become more difficult to make as the expenditure must be incurred at a time when the total income for the year cannot be known.

11.20 Another option explored is for HMRC to mandate the use of the tax year as the period of account for all businesses. Many businesses already use the tax year (or 31 March) as their year end date, and mandating this for unincorporated businesses would solve the problem of overlap profits etc.

11.21 However, mandating use of the tax year removes the choice of accounting year end which might be suitable to the business' own individual needs and circumstances, particularly for certain seasonal businesses. Further, in the light of our comments on partners and partnerships below, we would not recommend doing this in isolation.

<u>Partners and partnerships</u>

11.22 HMRC are consulting on changing the basis period rules for self-employed sole traders but not for partners and partnerships (paragraph 3.7). In principle, if the system really is 'outdated', there does not seem to be any reason why partners and partnerships should not be included.

11.23 We have been told that HMRC think it will be too expensive for them to adopt the new rules for partnerships, because of the way the overlap rules work when new partners are admitted to large partnerships. In our view, having separate rules for sole traders and partnerships creates unnecessary complexity. There are probably many people who are self-employed in their own sole trade, while also being a partner in a separate business. It will simply add confusion to have different rules for different types of unincorporated business.

12 Question 4a: Are there any other events or situations which would require additional rules?

12.1 Class 4 National Insurance is not mentioned in the consultation document. Consideration will need to be given to how Class 4 NIC would interact with flexible accounting periods.

12.2 If the change to basis periods is carried through, it presents some opportunities with respect to overlap profits that are already in existence and have not already been relieved.

- Would the government consider allowing full relief of all outstanding overlap on transition to the new rules to draw a line in the sand on overlap altogether? We recognise that this could be prohibitively expensive for the Exchequer.

- We think that relief for brought forward overlap should at least still be available to businesses on a change of their accounting date after the introduction of MTD, thus mitigating the criticism of the current system.[7] However, paragraph 3.34 indicates that relief would not be available to them so they will have to wait until cessation to use it. This might prompt taxpayers with overlap profits to consider changing their accounting date before these proposals are enacted in order to use the relief sooner than they might otherwise have done – otherwise a later change of date would be prohibitively expensive to taxpayers;

- Overlap profits brought forward will need to be properly recorded in the Digital Tax Account (DTA) by HMRC from their records (with the ability for the taxpayer to insert a figure if they disagree with HMRC's figure). This will prevent such amounts being 'lost' over the years through poor record keeping.

13 Question 4b: Would it be helpful to make any changes to tax accounting periods for any other types of income?

13.1 It would be helpful if taxpayers had the option to align quarterly reporting periods for different sources of reportable income. A taxpayer may have income from a sole trade and a let property both of which need to be reported quarterly under MTD. Since rental income is taxed on a tax year basis, it is likely that the quarters will not be aligned. Allowing the taxpayer to align the reporting of their rental income with the income from their sole trade would be useful.

14 Question 10b: If the proposed basis period reform is taken forward, how do you think this would impact on business admin burdens? If possible, please provide details of anticipated impacts, including both one-off and ongoing benefits and costs.

14.1 See our comments above.

[7] Paragraph 3.3 of the condoc.

Simplified reporting

15 Question 5: Are there other end of year adjustments not listed in paragraph 4.12 which could be simplified within a reduced reporting framework?

15.1 See below.

16 Question 6: Would you welcome the four relaxations proposed?

16.1 We think that introducing another alternative accounting system ('GAAP lite') will add unnecessary complexity, and should not be taken forward. As previously mentioned, we are not convinced that simplification would be achieved here by giving taxpayers more choice.

16.2 Accounts prepared under 'GAAP lite' will not show an accurate picture of a business's financial position, particularly if for example there is a significant amount of closing stock or work in progress, and will not be suitable for a business that requires accounts for other purposes, such as raising loan finance.

16.3 It is very difficult to know how many businesses would use the simpler business reporting option. It is aimed at those who only produce GAAP accounts for HMRC and for no other reason (paragraph 4.6 of the consultation document), but there is probably no reliable way of knowing how many this affects. Further research would need to be carried out into the numbers involved and the likely impact before introducing a further basis.

16.4 In fact, it could lead to additional burdens on business as they will need to compare several different accounting bases (accruals accounting, cash basis accounting (if eligible) and 'GAAP lite') to decide which will be most suitable for their needs and circumstances. For represented taxpayers, this might involve higher professional fees, although it should result in the optimum tax position. Unrepresented taxpayers may just decide to continue to prepare their accounts under full GAAP which would seem to defeat the object of introducing a new accounting basis.

16.5 It might be that HMRC are aiming the new accounting basis at the unrepresented taxpayer. The worry here is that they may well not understand the full implications of what is involved. HMRC will have to make available very clear and comprehensive guidance to ensure unrepresented taxpayers are aware of their options, and can make an informed decision. Overall, we think that the unrepresented taxpayer will be at a severe disadvantage to a represented taxpayer when faced with these choices.

16.6 It could lead to confusion and errors if businesses are permitted to pick and choose which adjustments to make, particularly if different choices are made in successive accounting periods. Software and apps would need to be able to provide specific nudges and prompts for the basis of accounting that is chosen, and be able to identify if there is any double counting.

16.7 It appears that a business adopting the 'GAAP lite' basis of accounting would most likely accelerate the payment of income tax, ie:

- Closing stock – any impairment of the stock value will reduce closing stock and hence reduce profits. Not undertaking such an adjustment will accelerate profits.

- Provision for bad debts – this ‘simplification’ would at a minimum defer a valid business expense, and at worse deny the expense entirely as many businesses would not take recovery action if the debt wasn’t significant or they knew that recovery action would be fruitless.

While some businesses may be comfortable with accelerating tax in this way, others may not and our concern is that poor choices could be made by uninformed taxpayers.

17 Question 7: Do you think that the restrictions proposed are appropriate? If not, what restrictions would you suggest?

17.1 The inclusion of restrictions adds to the complexity of the proposal and is another reason why we do not think this should be taken forward.

17.2 For example, many business might not take recovery action to pursue small amounts of overdue debt, or where there is no reasonable prospect of being paid. However, paragraph 4.29 implies that bad debt relief would not be available in those circumstances. We do not support any proposal which has the effect of denying relief for a legitimate business expense.

18 Question 10c: If the reduced reporting framework is introduced, please provide details of how this will affect your business or your clients or members, including details of both the expected one-off and ongoing benefits and costs for:
- Familiarisation with the new scheme and updating software or systems
- Having to make fewer adjustments than would be required under UK GAAP

18.1 We are unable to provide any specific information but our feeling is that familiarisation with the new scheme and updating of software or systems could be quite time consuming. We are already aware that some of the new software on the market has limited functionality in a number of key areas. Reviewing, choosing and implementing appropriate new software will be important.

18.2 The benefits and costs of having to make fewer adjustments that would be required under UK GAAP would really depend on the activities of the individual business.

Reforming the capital/revenue divide within cash basis

19 Question 8: Do you believe that simplifying the capital/revenue distinction as suggested in paragraphs 5.7 to 5.13 would simplify reporting for businesses within the cash basis?

19.1 Yes. If the entry threshold for the cash basis is retained at the level of the VAT registration threshold, simplifying the capital/revenue distinction would add real simplification without having to extend that to larger businesses. Overall, we think the financial effect of the changes proposed, in terms of the capital expenditure which can and cannot be claimed, will be negligible, yet the underlying rules will be simpler.

19.2 HMRC must, however, ensure that clear and understandable guidance on how the reformed rules works is available promptly on GOV.UK. It would be extremely useful if comprehensive examples could be provided showing the types of capital expenditure that are allowable within the cash basis and those which are not.

19.3 Nudges and prompts within software and apps must be able to provide clear messages to taxpayers using them so that they understand whether a particular type of capital expenditure is allowable or not.

20 Question 10d: If the revenue / capital divide is simplified as suggested do you believe that this would simplify reporting for businesses within the cash basis? If so please provide details of anticipated impacts, including both one-off and ongoing benefits and costs.

20.1 We cannot offer any specific details of what benefits or costs might be, but we would have thought they would be negligible for the majority of businesses using the cash basis since most of them will have simple affairs.

21 Acknowledgement of submission

21.1 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.

22 The Chartered Institute of Taxation

22.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. 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. 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.

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. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

The CIOT's 18,000 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

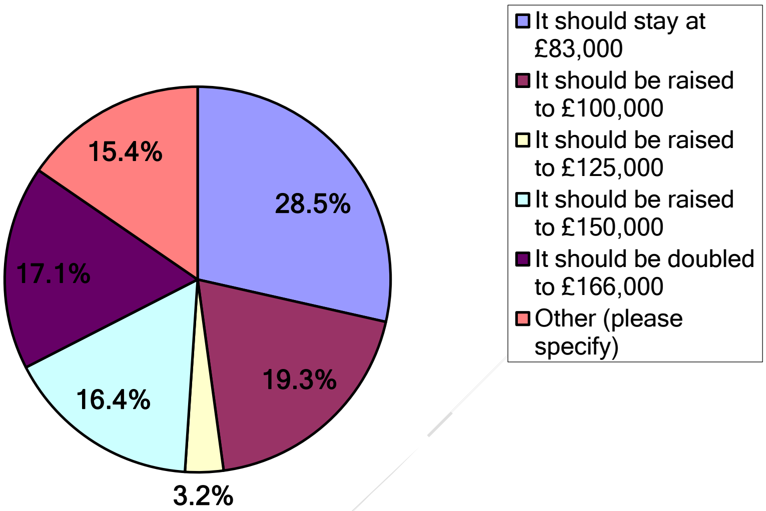
The Chartered Institute of Taxation
7 November 2016

Appendix One

Relevant CIOT / ATT survey questions and responses

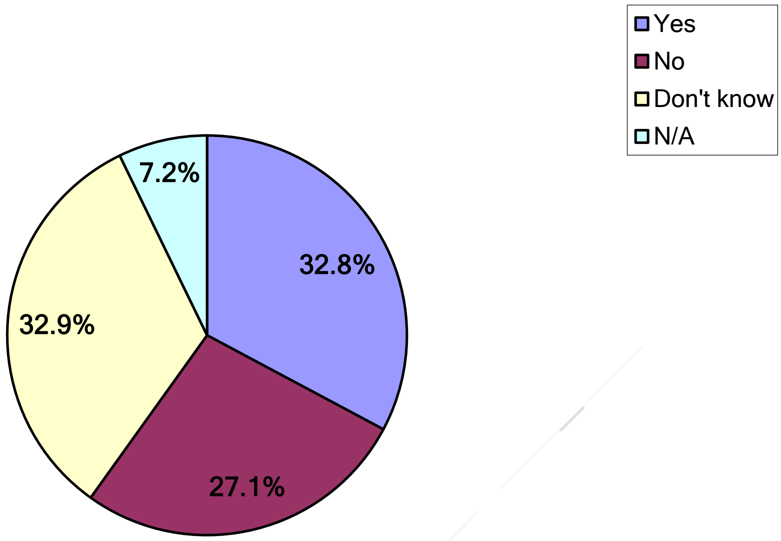
Summary of responses

'HMRC are consulting on raising the cash basis threshold from the VAT threshold (currently £83,000). What do you consider to be an appropriate threshold?'



Answer Options	Response Percent	Response Count
It should stay at £83,000	28.5%	301
It should be raised to £100,000	19.3%	204
It should be raised to £125,000	3.2%	34
It should be raised to £150,000	16.4%	173
It should be doubled to £166,000	17.1%	181
Other (please specify)	15.4%	163
	answered question	1056

'If the cash basis entry threshold is raised would you consider using the cash basis or advising your clients to use it?'



Answer Options	Response Percent	Response Count
Yes	32.8%	352
No	27.1%	291
Don't know	32.9%	353
N/A	7.2%	77
	answered question	1073

Appendix Two

Relevant CIOT / ATT survey questions and responses

Detailed responses

‘Thinking about your answer to the previous question [If the cash basis entry threshold is raised would you consider using the cash basis, or advising your clients to use it?]:- if you answered yes, please state 'YES' and provide details of anticipated impacts, including both one off and ongoing benefits and costs; - if you answered no, please state 'NO' and explain why you gave that answer. Please use the comment box below.’

difficulties of reconciling cash: accounting basis
Don't believe the cash basis to be generally beneficial, plus goes against many tax principals.
YES, easier to produce the required figures, so cost and time savings.
Problems with knowing how profitable the business actually is, what cashflows are going to be required and satisfying lenders covenants.
I am quite happy using the accruals basis
No. The accounts will not reflect Debtors and Creditors. It is not that long since HMRC abolished the cash basis - eg. for Barristers!
Cash=basis results are too easy to manipulate, I have seen it tried too often, by bringing forward or holding back income and expenditure. I would be very unwilling to lend money based on cash accounts and banks should be too.
Cash basis should not be advised based upon turnover, but on the nature of the business as it can severely distort a business's true profitability - this aspect can be hard for clients to understand. If cash basis was a good basis for accounting to understand what is going on in a business I would have thought the accounting professional bodies would make it compulsory.
Creates inaccuracies with accounting rules.
Yes may be easier to remove the need for period end adjustments each quarter. May affect cash flow and make results more volatile with expenditure no longer necessarily matched to expenditure.
I think accounts prepared under the cash basis will become inconsistent from one year to the next, as the items hit the accounts when paid not in the period they relate to. This makes it harder to check for mistakes, you will have to explain all the ups and downs. There is more room to manipulate results and so pay less tax. So for larger businesses with more tax at stake proper accruals accounts should remain to reflect the true performance of the business (this is important for management to review their business performance too, rather than just looking at cashflow)
My client can file his own returns
Yes. Not having to include end of period debtors and creditors does save time and expense.
Would have to consider potential implications further
Yes - I already have a number of clients who use it. Small clients understand cash much easier than accruals.
NO. Invoice basis is more suitable to our client base
YES' where appropriate as clients who at present have simple affairs but have turnover exceeding the existing limit are missing out on a simplification which could have a positive financial and efficiency impact on their business.

yes
NO the impact of debtors/creditors/stock can become a significant issue and teaming/lading in relation to payments/receipts may occur taking the client away from their business focus and potentially leading to cashflow issues
YES - although I have strong reservations as accounting principles cannot be simply ignored for all businesses, even where the turnover is relatively small, ie less than £160,000pa
No: I don’t feel it enables businesses to plan well as it doesn't take account of all costs and all income. Can't see any benefit if the business is small anyway.
Easier to use for certain clients who have a regular maintainable income
N/a if the cash basis is available for a client we will advise them to use it where it is beneficial to them. However this will have a cost to the client for the advice which we will seek to pass on to the client. I would expect that this cost would add about £100 in fees per client it is relevant to.
We believe that preparing our clients accounts using standard accounting practices on the accruals basis gives a true and fair view and ultimately they understand the reasoning better when we explain it to them.
For the clients with simple affairs would use cash basis, many have few debtors / creditors or other timing differences so would be little impact on results but avoid immaterial adjustments
This will depend on individual client circumstances
I actually find that the cash basis is more complex as clients still want to claim other things not covered by the cash basis
YES. Cash basis is easier for clients to understand and should eliminate a lot of questions about year end adjustments. There will be a small extra workload calculating adjustments on change of basis in the first year and some clients will feel thereafter that they can manage their own tax affairs.
There are dangers in the cash basis in that the consultations don't seem to envisage people keep balance sheets - they're obsessed with tracking invoices and receipts, and not reconciling things to the bank which seems dangerous and likely to lead to more errors rather than fewer!
NO
No. Reason by given in (12). Incorrect profits could affect income for mortgage purposes
We would always consider the best available basis for our clients to use.
YES - clients will find it easier to understand and comply.
YES - Clients work very much on a cash basis on what they see being credited and debited to their account. This then would follow on from this and be easier for clients to see and make comparatives when their accounts or quarterly returns are completed.
Yes, easier to record.
YES, for those businesses where the cashflow requirements supports cash basis. NO, where the cash basis will hinder cashflow requirements of the business
NO - although cash basis is simpler to administer, I feel it is not well enough understood, especially with the interaction with flat rate expenses.
Clients will have capital spend, accrued invoices, etc. which need considered. This goes against basic accounting principles.
YES
yes - easier to produce the quarterly document for HMRC
Cash basis is not a good idea.
NO Cash basis accounts do not reflect profit or true business performance and therefore we do not recommend this to clients.

The clients want to see accounts that represent their business not just a cash flow. Cash basis all very well but on expanding a whole new way of accounting needs explaining.
YES - it will save time and money on preparing Balance Sheet entries such as accruals, prepayments and depreciation.
YES. It will make the quarterly reporting a lot easier to complete
For established business, the tax benefit is in the first year only. Preparing accruals accounts involves little extra work. Cash basis accounts are not true and fair and I have serious reservations about producing
cash basis simple for clients to understand & the availability of up to £500 tax relief for interest paid is very attractive to clients burdened with credit card debts
YES - Figures may be distorted in the year moving over to cash basis.
we need one basis for smaller clients and as simple as possible
YES - in particular with regard to property income it will do away with brought forward and carried forward accrual calculations that normally cancel themselves out. May be a cost if in final rental period there is no accrued income b/f to match the expenses of that period. Assumes yes to question 15!
YES - increased simplicity and understanding for clients
The cash basis is too limited in the way of tax relief. Making tax simple shouldn't be about cutting back on tax relief in order to simplify things!
Don't Know - The cash basis has not been widely taken up and we have not pushed this as a firm as the restrictions on expenses in most cases are not as equitable as using actual expenses and allowances. It would need an overhaul to make it better for the clients if HMRC want mass take up of the cash basis.
HMRC consistently change. Cash basis accounting could be slightly manipulated by client. Accruals is fairer
NO cash basis can cause large distortions and is only useful in limited cases
Tax relief may be diminished by using cash basis
Yes, it would simplify the records avoiding adjustments for accruals, WIP etc.
I do a lot of rental income taxpayers which all are on cash basis
No - too confusing where end of year figures will be on an accruals basis
YES to help minimise burdens on business by changing their current working practices when the tax they pay will not change
Many clients are worse off using the cash basis, in particular, due to the many restrictions, plus it would be costly for us to move clients from the current accruals basis onto cash.
Cash basis leads to confusion and non-engagement by the client
It is far more understandable by clients than GAAP accounting.
NO Reconciliation problems
No - accounts make more sense on the accruals basis and. I don’t want to have to prepare 2 sets of accounts one for HMRC and another for a bank. Also tax restrictions apply on those using the cash basis. the
Yes - It would make things simpler for small clients
Simpler accounting procedures would reduce costs for clients.
A simple cashbook would enable quick preparation of accounts and taxes. It will be a much more simpler system to operate for clients. No year end adjustments.
By using this method it would provide the most straight forward method of reporting
Yes- it may have an impact in the short term but in the long term I think it would be easier for my clients

While the cash basis will be easier for clients to administer and understand they will still need help. May be a reduction in accountancy fees, but I do not anticipate many clients going it alone without professional help.
Easier to keep all clients on same basis as less complex
I think that it actually ends up complicating matters.
The cash basis is flawed and unworkable. HMRC are out of touch with very small businesses.
Most clients do not understand the accruals basis and this will increase errors when attempting quarterly accounting
cash basis is very simple if using good software with bank feed information and minimises burden
Easier for clients to understand. Clients could file their own accounts without advisor help
Loss relief restrictions
Assuming WIP continues to be done on accruals basis, most small business would benefit from the simplicity of a cash basis. The cash basis is easier to both communicate and understand. If a client understands what they need to do they are more likely to succeed in recording their information. Office of Tax Simplification! The self employed are increasing in numbers more than ever. This is an opportunity to help this growing group of people.
Minor savings in time and costs for small businesses. Simpler for businesses to understand.
NO. A cash basis gives an entirely incorrect and misleading financial result in all but the simplest of businesses.
For many businesses, it gives a misleading picture of the business
Would not wish to lose the ability to carry losses sideways, adjust CA claims to make maximum use of PA and claim all interest costs.
does not produce meaningful and accurate accounts
Cash basis is a more accurate form of accounting and VAT return preparation so we don't have to consider missing paperwork
Restrictions on loss relief Accounts not producing a meaningful picture of the business
Cash is simple. Credit is expensive (in accounting terms)
No I have not found it useful
Cash basis recognises profits before they have been made so is likely to disadvantage most of my clients
Using cash basis affects capital allowances and possible losses.
No - cash accounting has not been a recognised basis for preparing accounts for good reason. What about deposits paid/received in advance and the many other adjustments currently adjusted for by the accruals basis of accounting?
The accruals basis is a more accurate way of measuring profits. Clients may not understand this method but that's what accountants are for.
Can't really imagine how to implement it for businesses with a lot of debtors, creditors, stock etc
The complexity of switching from one basis to another and back again is too costly in accountancy terms for most small clients and in most cases on the cash basis it does not provide a fair view of their commercial business profits from year to year.

Answered no because it will depend on the client and how the cash basis would impact on a client's cash flow and when they have to pay that tax. Cash basis work okay for some clients but for others is a disaster if they don't put aside cash to pay for tax bill and costs at same time.
I do not use the cash basis because I find accruals accounting more meaningful and useful for clients.
Yes - would consider for some clients if it made their accounting easier and therefore cheaper. I expect little difference in tax liabilities apart from short term timing differences
Clients are content with how accounts are currently produced.
It's better to get proper accounts
YES
Savings to client
No delay in claiming tax relief on accountancy fees which usually only accrual provided.
YES: There is no way that smaller clients will be able to do anything different
Clients are used to the existing system and generally resist change if their current system is adequate in their eyes
Incorrect accounting treatment.
We use accounting software to prepare management accounts so it's just as easy to prepare accounts on an accruals basis
Clients are happy with the way their accounts are prepared at present. New clients may be persuaded
A one off alteration in the accounts.
Too early stage to give details -going to seminar on this in two weeks.
Record keeping much simpler
simpler accounting requirements for clients
Producing a proper set of accounts with accounting standards
It would simplify VAT record keeping to being mostly cash book based.
CASH BASIS MOSTLY NOT APPROPRIATE
I prefer to use accruals basis as most clients are not far away from being 'cash' basis really anyway
Yes - much easier for a client to understand the mechanics than accruals. Given they are required to complete a lot of compliance themselves this can only be a good thing
How can we calculate that until we know if MTD can be agent operated
YES - will be easier for clients to manage their records on a cash basis so it will reduce time costs for my firm in checking the clients' records, hopefully
Clients use accounts for mortgages etc & cash based accounts would not give a true picture
Better cashflow
NO, the cash basis will reduce our work!!
Will banks and building societies accept cash basis accounts for loan and mortgage requests? If not further costs will arise for clients to prepare full accounts.
No or yes depends on each client's circumstances.
NO - many clients would have vastly different taxable profits from year to year if cash basis is used.
Not yet considered fully
Depends on the individual client.
Unknown
I said don't know, because it would depend on what other requirements HMRC put in place

YES - if beneficial to the client. However it is more likely to be beneficial to represented tax payers - we would be expected to advise whether cash or accruals basis is better, limiting any simplification.
Yes - many clients don't understand accounting rules and adjustments. Cash in and out is simple and understandable and should cut down amount of time needed to keep compliant records. Could be issues around transition to/from cash basis at start or when exceeding any threshold. Should reduce agent time and cost that clients don't see any value from. Extending to property businesses is welcome but should have same limit as any other business.
YES Clients understand cash but not accruals. We could simply use client bank statements as a basis for their tax reporting.
Not a good way of measuring business performance
My clients are usually one man bands and only keep records of when they are paid and when they pay out. The accruals system is something they do not seem to understand.
Not helpful if accounts needed for other purposes, particularly obtaining finance
will make BKK easier
I don't like the cash basis system for starters and can't see why I should start using it with cash accounting.
YES but only in a limited number of circumstances as it is not suitable for all businesses. For those that can use it, it is just a little easier to understand for the client and is likely to result is less year end adjustments. The benefits are similar to now in that it will just take us a little less time to produce final accounts and tax returns etc.
YES: a good system for clients impacted by poor payers. A one off change from invoice to cash basis requires a change in the way software is processed initially but thereafter no difference. However; HMRC approved software would need to support cash accounting.
Accruals based accounting is well understood by accountants and our clients and provides a more accurate position to present to other stakeholders, such as the bank.
Easier for clients to understand.
Most clients don't understand accruals, creditors and debtors - they know what they have received and what they have paid out.
Could potentially give huge yearly variations it profits which lenders wouldn't like
Digitalising an over complex flawed system still leaves an over complex flawed system. I want my clients to think about their underlying businesses.
Open to abuse
It would depend on the individual and whether the cash basis was beneficial. For many clients it might not be.
YES - deferral of taxable income into the next tax year is suitable for smaller businesses and 83k is too low
Yes. Cash basis provides an easier solution for small clients
I don't believe it offers clients any great advantages and less flexibility and reliefs
If it is appropriate for our clients to use the cash basis then of course it will form part of our considerations when advising the client accordingly.
Cash basis may increase tax rates in one year, the earnings/invoice basis I think is the best, unless you are maybe a shop etc
I have a responsibility to ensure that my clients account accurately in terms of taxable profits, a cash basis of accounting can't do that particularly around rate thresholds.

Cash basis doesn't tie in with gap, or produce accurate accounts. It leads to a lot of fiddling around at year end when preparing figures.
EASIER FOR CLIENTS TO UNDERSTAND THE BASIS OF RETURNS
It will simplify accounting for a significant proportion of clients.
NO This simply encourages clients not to keep proper records.
It will depend on each client’s circumstances hence the answer.
Cash basis is problematic for companies.
No - the cash basis is not appropriate at or above this level
NO. I don't think the cash basis benefits any of our clients, and applying 2 sets of rules could lead to confusion and errors within the practice.
YES this may reduce our costs in calculating income and expenses relevant for a year and should avoid confusion for clients getting to grips with the accruals basis
Using the cash basis would remove the problem of attempting to account for debtors, creditors and accruals on quarterly returns.
Might enable some clients to do their own digital reporting.
No inaccuracy of earnings
I accept that the cash basis will work well for some businesses and I feel that where it is appropriate, savings to the client can be achieved without compromising their position.
Although the cash basis offers some simplification is has down sides eg lack of loss relief (not sure if this is going to change under MTD). The time in preparing the accounts is still scheduling invoices and bank and expenses, cash basis cuts down no time at all for most smaller businesses!
it would depend on the client's individual circumstances
As above.
YES. Cash flow benefit.
Where clients deal in credit they will usually keep a record of all invoices issued. This is easier to keep a record of as opposed to analyse bank statements to determine which fees have been settled, especially if clients confuse business and personal incoming and outgoing's.
Not appropriate for many of my clients.
No - I believe GAAP is simple enough and gives a better reflection of profit and this should be consider in terms of obtaining finance
It does not give a good representation of the performance of the business during the period
It would depend on each client's circumstances.
yes - the rounded up increased figure of £100k would appear to bring some simplicity to a complex system, easy for clients to relate to the threshold and consider the impact
Cash accounting does not provide the business owner with the right information to support their business.
It would vary from client to client depending on the nature of their business. Accruals/prepayments accounting is more appropriate for many of my smaller clients and less complex in many cases bearing in mind the numerous caveats linked to ‘cash basis’ accounting.
I would personally almost certainly continue to use the accruals basis for my own accounts and as I do now consider each clients circumstances to decide if there is any significant benefit in changing. I cannot assess the additional costs and benefits now although can say that as yet virtually none of my clients use the cash basis

Yes - cost of educating and training client - benefit of simplicity - but in all this clients may question why they would keep an accountant if they are doing all this work
I don't understand why the 'cash basis' cannot be used for sole traders who realise a loss and want to offset this against other income in the same tax year. •
I would only consider the cash basis for clients if the various expense restrictions were removed.
Greater fit with digital reporting
Generally reliefs & allowances are more beneficial using an accruals basis & there is less fluctuation in taxable profits year on year
UK GAAP accounts are still needed for banks where there are loans. Cash basis has anomalies re expenses that can be claimed. Not the ideal solution unless major changes in tax law.
This could be useful to private landlords
We would lose work because more clients would file their own (not necessarily accurate) figures.
Cash basis is more for clients who prepare their own accounts and tax returns. I believe a client would use our services in order to get a truer picture of profitability and performance in order that it can also be used as a toll to highlight areas of improvement for them as a business. Accounts prepared on the on cash basis do not provide a true picture of profitability and margins.
YES - to keep things simpler for some clients who don't understand GAAP accounting. Clients always rely on us to make these adjustments for them at year end.
Would simplify record keeping but increase time spent on clients affairs therefore no doubt raising their fees.
YES reporting will be simpler
Cash based does not provide all the tax allowances available, whilst the cash basis may be appropriate for a few businesses the majority will be disadvantaged.
YES A higher cash basis will avoid some of the year end adjustment which will give clients a better knowledge of their eventual liabilities.
Unable to comment
Record keeping should be reduced and records may be available in digital form at source, ie csv bank statements. May assist with the quarterly filing, but same level of errors and inexperience apply to correctly classing each transaction. Cash basis for rental would be welcomed, as this takes us back to the old Sch A rules.
Yes. The cash basis is simpler and more easily understood by small traders.
Why are some items allowed under accruals basis not allowed under cash basis? Sideways loss relief? Interest to finance capital?
NO - I do not see any material savings in using a cash basis for the accounts preparation and do not believe accurate accounts are prepared by using a cash basis
I usually do not use the cash basis as the simplified rules do not suit my clients needs despite the size of their business.
We already look to see if the cash basis is applicable for clients. The stumbling block has always been the interest restriction and the treatment of motor vehicles. If you have borrowed to start a business or your business model has delivery vans of any number then usually the accruals basis is better.
No because in all cases where we have considered using the cash basis, flat rate expenses are too low and it is has added time to the preparation of accounts in considering both basis. Even if the flat rate allowances were higher there would still be the need for the comparison.

YES
No -conflicts with generally accepted accounting principles
It will allow the VAT burden to match their cash flow.
Yes - the advantages are those that HMRC outlined in its condoc: Simplifying tax for unincorporated businesses
As above, I do not see it as particularly beneficial
NO because there is no relief for loan interest
I think clients ought to be considering the proper profitability of their businesses and cash accounting does not show that for many businesses
Cash basis is useful for small unincorporated businesses who complete their own accounts, however, is rarely used in practice.
yes but calculating the change from accruals to cash basis will cause problems
NO - it doesn't necessarily provide the most beneficial outcome for the client to use the cash basis.
No because the cash basis can be misleading and usually needs clarifying to the client.
Very hard to say what impact would be, as I have almost no micro clients. The only one I do have uses cash accounting anyway
No comments
Accounts are not just used for tax. They are used for banks, credit agencies, mortgage providers and most importantly for managing a business. Cash accounts do not show an accurate financial position.
It would depend on each client but the restriction on interest would be a concern. The Cash Basis can also make things more confusing rather than simpler.
YES For some clients, depending on the nature of the business, cash basis would provide a simpler system which should save some admin costs.
In production of figures these are done on an accruals basis so for many clients it is not appropriate to use the cash basis.
I believe clients understand the cash basis, as it relates to money spent and received. They do not understand accruals etc. I would like to see the cash basis amended to increase the interest claim, and for a general review of the whole of the other restrictions
YES -most of my clients are almost cash basis already and would benefit from full cash basis provided rules on loss relief were made fairer
Cash basis means using HMRC dictated fixed allowances and accounts not commercially correct for lenders, investors etc. Makes it difficult to see exactly what problems a client may have as debtors are unknown as well as creditors. HMRC think we and business exist just to supply it with information [I once worked there and it was the mind set] but 80% of our job is commercial advice for which commercial information is needed not just a figure on which tax is paid.
Don't know
YES allows you to spend less time on discounted services.
For most clients, the differences would be negligible.
Yes - clients find this mind set of preparing records from bank activity easier than from invoice dates so hopefully easier for clients to understand.
Does not produce proper accounts/profit except in the simplest of cases and sometimes not even in them!
The cash basis can distort the figures for a year and give a misleading view of profitability so not necessarily a good tool for management however the cash basis could avoid the need for annual reconciliations.

YES It will save time and effort on collating and record keeping/ analysis etc, and would anticipate cost of this exercise would reduce by 50% or so.
No
It will make sense to clients who do not understand the accruals basis.
No - accounts for all entities should be drawn up on a basis consistent with generally accepted accounting principles, whatever the size of the business.
Very little benefit to clients and prefer to continue with existing accountancy
It would provide flexibility to make matters easier by giving a choice between cash and accrual accounting
Cash basis would be easier to file but how to prepare accounts and move from accruals basis?
NO Inaccurate application of the tax brackets / rates from one year to another. Inability to apply true and fair basis in preparing business accounts.
Already advise clients to use it. All businesses should be VAT registered to create an equal playing field.
Unless a particular business is very steady with small monthly fluctuations, using the cash basis could severely impact upon the annual results. For example, the fluctuations could be especially detrimental in industries such as farming and building where income can be only received on completion of large contracts or in large amounts at few times in the year.
NO - Cash basis distorts the figures and doesn't reflect the period in which the income is actually earned. It's wholly unsuitable for larger businesses who need to present accounts to banks, to local authorities when applying for funding and it's useless as a management tool.
I believe the underlying concept of digital reporting is to move a large proportion of the self employed on to the cash basis, and have them submit their tax return themselves. So, for those in practice it means a loss of a load of compliance work which hopefully (in a way) will then be regenerated when the self employed gets enquiries that that can't sort out themselves. Big cost for the client...because HMRC said they could do it themselves, and the client listened to HMRC rather than to the CIOT/ATT member who said 'I wouldn't'
Not altogether convinced that cash basis accounting for trading businesses is a good thing unless businesses are very small/micro and unlikely to grow significantly.
is not advantageous to most clients
I object to the ‘dumbing down’ of my professional expertise. The accruals basis has been developed over hundreds of years. We now seem to want to abandon it because it's too difficult. Capital Allowances are mandatory - whether or not this leads to a loss of personal allowances. Loss options are very limited. The cash basis is made worthless by fears of avoidance.
the conditions to be met are onerous
Because I prefer my clients to prepare factual accounts, ie the accruals basis.
Answered don't know as need to consider this on a client by client basis.
Yes due to ease of submissions and keeping our fees down
YES - ease of reporting and clarity for clients

YES it will be less muddling for clients who read half the existing rules, misapply them and supply bizarre figures
Yes - given the level of income of our clients and the reporting requirements it would be difficult to account for the quarterly returns on a cash basis and then adjust to accruals for the year end. By raising the level, it would make it easier to reconcile the year end process.
NO....see 12 above
Easier for the client to understand. Cash in and out, no accounting lingo
NO - accounts are not just for tax purposes they are for a business to act on actual trading results and make appropriate business and investment decisions.
YES simpler accounting for clients
YES - reduced requirement to maintain a register of debtors and pay tax on that income before receipt.
On smaller clients easier to understand
Will have issues on changeover from accruals to cash basis but once change has occurred will be easier to explain to clients
YES - most small clients don't understand accounting principles and some already think they use the cash basis. Trying to charge a client for comparing which basis is best is a non-starter!
YES
It would make record-keeping easier for tax and therefore give it a better chance of being used properly
A cautious approach would need to be taken to ensure that the cash basis was not going to be tax disadvantageous to the client and this would need to be weighed against the advantage of simplicity. Such an exercise will give rise to one off costs.
YES as digital record keeping will be more reflective of the cash basis.
I have farming clients where stock is a significant factor on results and is needed to see who the business is doing.
No - I rarely use it. It does not accurately reflect profit. Sometimes I use it if it would benefit the particular client. Usually client keeps cash basis records but we just adjust for debtors and creditors and accruals at the year end. I would generally not use if for turnover > £20k. I think a business with turnover about £83k definitely needs to looks at actual costs/income not just receipts and payments. A cash based approach does not gel with MTD. If a client uses a digital accounting package he may as well raise invoices with that software and the software will recognize fees on an invoiced basis not a receipts basis. A credit entry to a balance sheet account for ‘fees raised but not received’ would need to be created - which is hardly a simplification.
Don't believe it gives a true reflection of business results. Tax should be based on profits earned, not on cash received.
Most of our clients do not know the difference between cash and invoice basis.
NO I don't consider cash basis accounts should be allowed as it doesn't show a true and fair view of the business' activities. Also, you don't have to be a qualified accountant to prepare cash basis accounts! I would never prepare accounts on a cash basis.
It is a silly system. Why should someone be able to manipulate their tax bill by choosing whether to pay a large bill just before or just after their year-end?
NO - NO CLIENTS ARE ON CASH BASIS>
Yes - benefits reduced end of period adjustments which are time consuming and add little or nothing to knowledge of activity
Decision would be on a client-by-client basis.

If clients are already preparing on an accruals basis then they will already have good record keeping. The £83k turnover limit already means that most small businesses are under the threshold.
No - It makes it easier to use prepayments and accruals which our clients understand
It depends on the type of business. Once set up on cash basis an accounting precedent is set, so will be easy to carry on in the future. There should be a rule that you cannot pick and choose. Once cash basis is set, clients should stick to this basis or if change, there should be a substantial reason why
Normally prepare accounts anyway.
but it would not be across the board - it would depend on the type of business and what figures are needed for lenders, management information etc.
It's not proper accounting.
The cash basis is disadvantageous to clients and will not be used
Might be simpler. Cost always involved.
Yes would make digital reporting easier and in line with VAT etc
Yes. ongoing help with bad debt issues and cash flow for clients
NO - the cash basis becomes less appropriate the larger a business is. Accruals accounting allows tax to be charged more consistently with the results of a business. It seems the reason for increasing the cash basis threshold is to make it easier for more people to handle 'making tax digital' rather than to increase the accuracy of reporting.
No - more useful information about business performance from accruals basis accounts
Cash accounts for businesses over £83000 do not mean anything.
I would want further details on the final proposal before making a decision
Yes - as quarterly accounting is going to be near on impossible for clients on an accruals basis
I don't think the cash basis gives a client a true view of how their business is doing.
It produces nonsensical results
Cash basis is not a True and Fair view and open to manipulation
The cash basis system does not give a fair result when calculating the profitability of a business and generally, a set of proper accounts would be expected to be presented not only to HMRC but also to other business associates ie lenders, financial planners etc. Individual businesses have their own level of expenditure which cannot fairly be covered by a single, averaging calculation
For clients with a large turnover but small profit margin (ie large value sales) it would assist. It is more straightforward for small business to understand.
better cashflow
YES. Whilst I am not at all confident that anything like the correct tax would be paid, my desire for simplicity outweighs that doubt.
Cash basis does not give an accurate picture of how a business is performing - clients are not going to prepare accounts for HMRC and for their management purposes as well
Because cash basis becomes less appropriate for many as their business grows.
YES' - the cost of reviewing whether a move to the cash basis may be high and clients may not be willing to pay for this review in its entirety. It should make the accounting easier over time but it will devalue, in my opinion, what an accountant/tax adviser does in this area. I for one do not understand, other than to make the tax system work the MTD rather than the other way around, why the accounting system we have needs to be changed. Having two systems depending on your turnover or choice seems to make no sense. Surely the accounting/tax system requires a degree of uniformity.

Easier and quicker to file quarterly, client would only need to file actual income and expenses. Same for me as the agent.
The benefits of the cash basis are far outweighed by the negatives.
Because proper accounts will still be required in commerce
This is meant to reduce complexity. It increases more uncertainty and for clients with significant clients uneven taxable earnings.
it will make things much easier
YES WILL MAKE THE ANNUAL RETURN SIMPLER AND QUICKER TO COMPLETE
It won't give a proper reflection for businesses with high debtors/creditors, stock etc.
Too complicated. Coupled with inability to use some reliefs. Should have followed OTS limit of £30k and kept it simple.
Benefit would be simplicity and adjustments to switch would be well worth it
Generally it isn't going to make a difference in the long run - just timing differences.
The current cash basis is too complicated and easier to remain with known rules
For simplicity.
Because Einstein it depends on the client and the type of business.
Clients who want to use cash basis typically deal with their own accounts and tax affairs. I'm not sure that we would want to change that because we couldn't charge a sufficiently low enough fee to satisfy that type of client.
Our clients are mostly too large for cash-basis to be a credible means of recognising their activity.
I do not believe the cash basis gives a true picture of the state of affairs for clients
For most of my clients it probably would not make a massive difference to their VAT reporting.
Yes
YES - this will have a significant impact on the number of our clients who are able to use the cash basis
All our clients use accruals basis and switching to cash basis could cause problems. However our clients would have to report on a cash basis because they certainly cannot afford 4 sets of accrual accounting figures per annum.
No - the majority of my clients are expanding businesses so they would have to leave the cash basis at some point leading to extra time and costs at that point. I personally feel with the type of clients I have (not many outstanding invoices at the year end) it is better to start out as it will have to be done in the future.
NO - only beneficial for clients doing their own bookkeeping
No- because of certain tax elections may be affected, flexibility of using losses and interest.
No: financial statements/records are used for many purposes [eg finance, management etc] and the accruals basis incorporating a balance sheet is best preference.
Do not consider the cash basis to be an accurate basis on which to prepare the accounts.
Cash basis is a bodge. The boundary will always be difficult to cross, particularly with a new tax reporting system which is designed to only work with the cash basis!
If it meant there was greater simplicity then it could help.
As at 12 a waste of time

NO, but I was only referring to the first part of the question, ie, I would consider advising clients, not that I would categorically advise them not to use the Cash Basis.
If a business makes a loss this can only be carried forward not back or sideways. This would not change because the threshold was raised.
YES - reduced costs (and greater client understanding!)
Loss relief and interest relief restrictions, HMRC are not the only agency accounts are prepared for!
Yes: the main benefit is that many clients prefer and understand the cash basis and it better reflects the VAT returns. There are no significant costs of such a change.
Less complicated so more likely to obtain accuracy for less cost.
There are ‘non-tax’ reasons for non-cash basis accounts that mean they will still need preparing in many cases
Yes ease of data entry
HMRC ignores the fact that there are other users of accounts such as lenders and even clients themselves. For this reason, accruals accounts should be maintained. It is possible for a taxpayer to trade below the VAT threshold and still have a higher rate tax liability in some years and not in others. A late customer receipt received just after the year end could generate a higher rate liability in that later year, whereas both years could be at basic rate if that customer had paid on time. Perhaps some averaging provisions could be included similar to those applicable to farmers? And what of those operating second hand goods schemes (antique dealers and small motor dealers, who may carry items in stock for some months before a buyer is found?)
No - poor measure of performance
For an accountant, the cash basis saves no time. It does not add to time either, but having some clients on cash and other on accruals is slightly more complicated in terms of management.
Yes - it would be easier for the small enterprise to make returns of actual monies received and paid out
Yes, simplification for clients. Possible consequences in terms of client expectations.
Could be detrimental if, for example, client wishes to obtain finance. Cash basis would not recognise stock, work in progress etc which could mean that accounts do not reflect underlying profitability of business. I do think that cash basis for landlords probably makes sense though.
Will depend on client by client basis and their levels of stock/WIP/debtors/creditors and their levels of record keeping. Will be appropriate for some and not for others. One size does not fit all
Would need to consider for each client individually and look carefully at the transitional rules and the effect on their position.
We'd consider suggesting it to some landlords and maybe some other businesses, but many still want to know if they have made a profit, so you end up doing 2 sets of books. It is not necessarily suitable for everyone.
How will one able to meeting reporting requirements of banks etc without much more work?
Cash basis is not suitable to all businesses. Clients are sometimes better off using the accruals basis, when applying for mortgages / loans etc.
It generally doesn't't' advantage the client.
Cash basis makes little difference to most businesses who are paid promptly. It only makes sense for those who have to wait months to be paid.

No much impact for my clients actually, as most are self-employed at a much lower level.
I do not know enough about the practical implications
A small number of clients would take advantage of it.
For small simple businesses a cash basis would be used and this should make year end accounting simpler.
Yes the payment and recovery of VAT on a cash basis is more equitable and simpler than a full accruals basis.
No - see 12 above
NO. Accounts should provide meaningful information to management and external stakeholders (banks etc) and I do not see that 'cash basis' achieves this.
YES -if clients have to submit their own quarterly figures they will make fewer mistakes on a cash basis. It's much easier to understand you only include monies received and monies spent on business items.
Yes - but each would need to be assessed to confirm that there was a benefit so there is an initial cost and a periodic cost for re-assessment - and a professional risk if the advice is wrong.
It is more likely to produce wild swings in client profits and losses which will not help the client and may lead to HMRC requesting too much tax.
No. For clients we use the accruals basis of accounting which is satisfactory
Too many restrictions on using the cash basis means using an accounts basis is generally preferable. People that don't use accountants can claim cash basis despite not understanding the ramifications of such, nor caring.
It depends on the client
I answered 'don't know' because as an accountant I can see that the cash basis can be so different from the accruals basis and find it hard to see how using the cash basis will work for larger businesses.
Yes. Clients could probably cope with the cash basis. They would not understand the intricacies of revenue/capital/accruals
YES - we would advise clients to use this basis for simplicity providing there was no significant adverse implications for example accelerating the tax payments. There is little cost saving benefit as we would still have to oversee the operation of the accounting system.
The vast majority of clients account for their profits for tax purposes under GAAP and the accruals basis
YES avoid wip and debtors
YES. Additional initial transition cost, but followed by simplicity thereafter.
1/4'ly 'real time' tax info. Cost may be greater for clients despite cash basis simplification.
Happy with the current basis
YES - ONE OFF PROBABLY AROUND £5000 ON GOING BENEFITS - NIL ON GOING COSTS £5000
YES; much easier to explain.
Clients find the cash basis simpler to manage, especially given the new requirements for MTD.
Makes it much easier for record keeping
Cash basis has to be paramount due to its simplicity if one has to file five times rather than once annually, as per my comment in box 11.
Taxpayers with accountants have no problem with invoice basis and on the contrary it is an easier basis for cooperation between them.
Cash movements can be very misleading, and not indicative of profitability. I suppose if the distinction between capital and revenue is discarded, and full relief is given for all capital cash costs, then it may be acceptable.

No, because it isn't actually simpler.
Need to know profit to run a business
YES - accounts will no longer be a correct reflection of activity
At this stage, it is still an unknown factor
Yes - The increase in threshold will help small businesses by not bringing them into the VAT administration. Although if tied in with quarterly reporting might not have any impact at all
This would depend on the business. Small consultants with little to no capital costs would benefit as no additional time to be spent once the cashbook is recorded. Where the client has stock or similar this would not be useful.
We always prepare accounts on the accruals basis
Reduced complexity and compliance costs.
Direct tax returns could be based on VAT returns and there will be some time savings in being able to ignore debtors/prepayments and creditors/accruals
Rules are far too complex. It is NOT a simple system.
Currently not many clients use cash basis. Lenders may not be keen on accounts under cash basis
For a larger business especially one with stock, cash records would be inadequate for running the business.
For my clients it does not make much difference whether the cash basis is used or not.
YES and it will be helpful to have at least most of my sole trader clients all using the same basis
Yes, but misleading accounts as would still have to use accruals basis for meaningful figures. Therefore four adjustments per year if quarterly figures are to be of any use. Costs therefore likely to increase by 25-50% or more likely a fall in my profit from such work!
It restricts the ability to offset losses. It gives the wrong management information to retailers/anyone selling goods because stock is deducted at the wrong time, not when the sale occurs.
YES - Most smaller businesses work on a cash basis in their ‘mind’ so this would make it easier for them and less costs going forward in making accounting adjustments.
Yes, but will need to be careful switching from accruals to cash basis with appropriate adjustments as a one off. There may have to be two systems in existence, one for controlling sales and purchases so you know what you are owed and who owes you money and one to record the cash basis of income and expenditure. The cash basis does not give the true position of a business but would possibly make it quicker to complete without having to include year end adjustments for prepayments and accruals.
If clients have businesses that are growing they may fine they have to switch basis if they go over the threshold. Also cash accounting does not always give an accurate reflection of the profitability of a business, which could cause issues with bank loans and applying for mortgages.
Simplification for clients but does not give a true accounting position.
I consider HMRC are pushing this option, while restricting the tax relief on business expenditure. Therefore, the accountant/tax adviser has to ensure adopting the cash basis does not increase the tax cost, or limit the clients' opportunity to benefit from tax reliefs introduced by Parliament (eg loss relief, capital allowances, etc). Therefore, to obtain simplicity, the adviser will need to charge additional fees for reviewing the accruals/cash basis options!
The work will be easier using electronic bookkeeping systems that favour using the bank account as the basis for the accounts.

The cash basis is supposed to be simple but it really isn't particularly for businesses likely to grow
Prefer traditional accruals basis - better reporting
The difference is minimal
Cash basis has added complexity to the tax system. As an agent, we now need to try to make a decision for clients on what will be better for them, which is difficult to be certain of. Most clients will need proper accruals accounts at some point for mortgages etc.
Yes - For those making the quarterly report themselves cash basis would mean that the quarterly reports would give a more accurate reflection of there likely taxable profits.
Save a lot of time on admin for businesses
YES - cash basis is helpful for individuals who do not understand accounting rules and allows them to manage their own affairs. It also means they are taxed only on income they have received and obtain relief for expenditure when it is incurred.
NO - cash basis is viable in limited circumstances - of no benefit for mortgage purposes or managing a business. Micro business level.
for some cash basis give a poorer situation and also it can cause problems for mortgage purposes
No. See my comments at Q.12.
The cash basis is a very confusing simplification and should be reworked totally if not abolished. We have not put a single client on to it.
There are so many 'systems' already available, clients are already confused about what to use. In the majority of cases, I find the cash based system a lazy system and in the main, fairly redundant. It does not encourage clients to chase debts and many will think you can just 'take everything from the bank statement'. Clients often do not record properly WHEN they paid, just that they have, or have been paid.
YES Simplicity in particular for rental income.
YES. I would put in line with FRS. Helps business get started with less red tape. We can talk accruals prepayments etc later. Cash is king especially in the early days and this will help them understand the concept better
It is likely to improve cash flow for clients whilst allowing them reduce costs
YES -maybe if appropriate to that client's business. Clients understand cash in, cash out more than accrual accounts.
The cash basis is too inflexible and restrict some of the expenses (revenue and capital) which can be claimed. Add this to the complications introduced by the universal credits and this results in one big complicated mess that no one has time to wade through and sort out.
MTD and the cash basis are two different animals. One is being used as an fig leaf for the other
YES - one-off cashflow advantage; tax becomes due only once the business has actually received the income.
Too many variables - smaller businesses have high private use proportions to calculate, maybe they use the AMR instead of full motor costs less private use. How about separating interest from capital repayments on loans and HP? Calculating a realistic use of home figure as opposed to claiming every household bill they possess? Builders with variable levels of stock or WIP at the year/quarter end?
To be honest, most small clients effectively operate on a cash basis anyway because of the nature of their business.

My practice does not offer the cash basis as a matter of policy, due to the losses restriction. Clients are advised of this at engagement. They cannot afford to be flipping between one type of accounting and another and I don't have time to offer this flipping facility.
I would never use the cash basis, as it produces accounts that do not reflect the true state of the business, and are no use for lenders.
No - Accounts will be required for other purposes over and above tax and it will still be important to reflect items outwith the '#cash basis' to get an accurate position of how the business is doing.
Most of my sole trader clients are effectively already preparing what are virtually cash basis accounts.
NO My personal view is that a business which generates £83,000 of turnover should not use the cash basis. The accruals basis is more appropriate for that size of business - it gives clients good incentive to chase debtors and keep creditors to a minimum which in turn will give them the most stable financial foundation to grow their businesses. I do think the VAT threshold should be a round figures such as £100,000 as clients find the odd figure of £83,000 difficult to remember. This is especially important where clients are in or around the VAT registration amount.
It can make a real positive change if the cash basis entry was raised significantly and will reduce red tape. Everything else is just tinkering.
Tax remains far too complicated. The denial of capital allowances under the cash basis is too significant.
I can see merits in the cash system for a small minority but, despite checking since it came in, have moved none of our clients over to it. I am not a fan!
NOT APPROPRIATE FOR ALL TRADERS
The benefit will only be relevant if the tax reliefs, such as loss relief were to be matched with the accruals basis, taxpayers will be innocently caught out otherwise
restrictions to loss relief
Contributes to making tax simpler Easier to report regularly
Simplicity of record keeping
client who benefit from the cash basic are already on the scheme
Accounts would then be prepared easier - again how can you four times a year look at accruals etc
THE PROPOSALS ARE COMPLETELY LACKING IN CLARITY. HENCE, I CANNOT COMMENT.
YES raising limit will mean majority of businesses can use the cash basis, resulting in hopefully fewer errors
It would reduce pressure for us and for clients.
Cash basis causes lots of problems
NO we, as a firm, disagree with the restrictions imposed on expenditure for using cash basis. There is no time saved in producing cash accounts as opposed to ‘proper’ accounts under GAAP which reflect a better true picture of business activity.
Reduce workload and simplifies things for those who are not experts in accounting
YES
No - cash basis is another form of accounting that is not relevant in the real world and should be got rid of.
We haven't seen any benefit to our clients to using the cash basis.

NO - accounts are more accurate if prepared on an accruals basis and this is required by Accounting Standards for all incorporated bodies.
YES. I would then use a bank stream system. Which would be an added cost to the business.
I think tax should be consistent and not have a plethora of special cases. It is too complicated, clients don't understand and increases professional risk
I think it will reduce admin for smaller businesses to a very small extent
YES - for the smaller clients we could offset the additional costs of 5 reports a year as opposed to 1 by simplifying some of the accounting methods, thereby still making it cost effective to use our services.
I think if you run a proper business (as opposed to earn a bit as a part time hobby) you should do proper accounts and understand profitability. Preparing accounts for HMRC is only one reason for doing them.
All our clients exceed the cash basis threshold
YES Cash flow advantages as debtors taking longer to pay
Don't know
Yes. I can't see any disadvantage for smaller businesses or individuals.
not a clear picture of how business is operating - not so easy to sell,
For very small businesses I would change my answer to 'yes' but for most businesses, the cash basis would not be suitable as it does not give a true and fair view of trading.
We would not advise it for all clients, however it would be beneficial for some clients who do not fully understand the accruals and prepayments system.
YES - cashflow benefits for clients
Cash basis very much depends on individual client record keeping.
YES. Many currently use it. It is simple for them to understand.
Simpler to understand for non accounting minded clients
It will make limited company accounts a little easier
There will be a one - off cost but it will be worth it in the long run. £83k is too low a threshold.
The year end accounts and resulting tax calculations would be considerably quicker as no searching and quantifying of debtors/creditors etc would be required
NO - the ability to sideways set-off losses is not available to businesses using the cash basis
YES. The opportunity of working straight from a Bank Account would simplify the quarterly burden.
Accrual basis is a lot better.
It will depend on clients
Simplicity for clients
having two sets of rules is confusing
I don't think businesses above VAT threshold should use cash accounting as they are big enough to understand accruals accounting properly which gives more accurate & reliable accounting reports
YES would make things a little easier
 I think that in general once a business has sales of £83k they do need an Accountant and shouldn't be preparing their own Accounts. Most people in general go to an Accountant when they need to prepare Accounts on an Accruals basis as it is more complicated. By raising threshold, more people may do their own accounts and generally get in a mess. Also at that point they may need bank

finance or a mortgage and generally they would need accounts on an accruals basis.
Because most businesses need and want to know how profitable they are and what their financial position is.
Time and cost saving
Clients forced to maintain digital accounts will be able to utilise accruals basis of preparation. Some may opt out and use cash accounting as an exception not a rule
Because the cash basis could have been a simple solution but was overly-complicated by far more tax legislation that was necessary. It is off-putting instead of being simple and the easier option.
I don't like the idea of abandoning traditional accounting principles, maintaining correct book keeping records is the only way to understand how the business is actually performing.
They have enough to monitor currently without further limits and deadlines for changing their status.
NO AS I THINK IT DOES NOT GIVE A TRUE AND FAIR PICTURE OF A BUSINSSS AND WOULD BE TOO CONFUSING FOR CLIENTS & FRANKLY ME.
Not a big fan of cash basis, but more likely to use if available for 'relatively large' small businesses.
It really depends on the client and the limit should be linked to VAT registration limits.
No, I don't like the cash basis. It doesn't give an accurate view of the business and can result in unexpected fluctuations
No. It is not appropriate
The cash basis is lousy accounting and frequently requires just as much work as proper accounting. The only general advantage would be if debtors significantly exceed creditors. However the attached restrictions are significant.
To make quarterly reporting more simple for clients. Most clients in my experience struggle with the concept of accruals accounting
Because of the additional restrictions on costs that can be claimed which appear to outweigh the benefits.
Yes - with software that can download bank information now available, that will be the simplest way to summarise quarterly transactions to make any returns.
I believe it would make record keeping simpler.
minimal
Cash basis will be simpler for client recordkeeping. Any Transitional adjustments from accruals basis will add complication
Most accountants do not use the cash basis as it does not have any benefit to small business
Not sure at this stage.
Would not advise clients' to use cash basis
In my opinion the cash basis doesn't fit within the tax system and creates more problems than it solves.
It is distortive

It will be easier for clients to prepare accurate accounts if they are using the cash basis. Also, the accounts will be more meaningful to the client as they will relate to what the client sees - ie cash in the bank. The accounts will require less work from me and so the cost will be lower.
All micro businesses without external investors should be allowed to prepare accounts etc on a cash basis. The complexities of accruals are not worth the effort.
simplicity especially if professional advisers cannot make the returns for the taxpayer
Increases complexity for the client in making ongoing decisions about record keeping and which policy might present the 'best alternative'. Gives a distorted view of the client's trading position.
easier bookkeeping
Bank feeds can be used for VAT Returns rather than needing outstanding invoices.
Cash accounting is easier to understand, and more people could use it and not have to thing I am growing and have to change back soon. Bigger companies can afford to understand accruals, small businesses may not understand accruals basis, and this could lead to more errors.
To be meaningful, accounts must be drawn up on an accruals basis.
not much of an impact
It would help with clients understanding landlords would find this easier to understand
easier administration
The accruals basis is fundamental to properly assessing a business's profits. Personally, I have never understood the obsession with the cash basis.
Do not use cash basis.
I want my accounts to reflect stock, debtors, creditors, accruals etc and would advise clients that they should as well. Cash accounting does not reflect reality.
Will depend on type of client
n/a - all my sole trade clients are eligible for cash basis any way and I look at on a case by case basis
I think the cash basis is pointless and misleading and should be scrapped
Easier to prepare accounts, only timing difference moving from accruals to cash basis
For me it is not simpler. Most work on cash basis with very small adjustments, so make far more sense to use this. Otherwise cost to do 2 sets to see what is better is too much for clients.
Simpler and easier and faster compliance work prep.
Simpler bookkeeping.
Depends on individual circumstances. It would benefit some but not others so it is impossible to generalise.
Smoothing of tax from one year to another is not possible with cash basis
Cash basis doesn't reflect what actually happened, on the accruals basis you get a more accurate figure. I can see advantages for clients (such as a shop) where cash basis or accruals basis end up with the same result.

For small clients, unless they decide to do their own VAT returns themselves, it's just extra work. Once you know the way VAT basically works it really takes care of itself. With small turnover it's probably better to use an 'easy' way of accounting for VAT - declare outputs the 'normal' way - on invoice basis - and (for your own simplicity) deal with inputs on a cash basis. Just know your client and watch for problems. Recording VAT on an invoice basis is just twice the work.
Easier to produce Accounts without the need to factor in accruals etc will reduce the time taken on each client, so reducing our costs and those of the client.
It would make digital reporting much more straightforward.
reduce ongoing fees for clients
Simpler to keep records as they are now
more efficient
The figures will be inaccurate as clients will get things wrong. The impact of capital purchases will be exaggerated, depending on how it is implemented.
Any simplification will help.
Much easier for small businesses to operate
Already use an accounting system that allows accrual accounting and cash profits broadly equal to accrual profits
Do not have VAT clients
The cash basis can lead to unacceptable fluctuations in profitability and seems at odds with trying to plan ahead for taxation liabilities.
Accounts should be based on accruals and not cash based. it is a fundamental principle that accounting should be on an accruals basis
less adjustments a simpler approach for unincorps
For the smallest clients, accounting complexity is not what makes completing accounts or tax returns difficult and timing differences are generally small and will correct over time. The biggest challenge in many of these cases is actually getting the information to pull together a set of accounts and to separate out personal and business income and expenditure.
we currently do suggest for certain small businesses and do not advocate altering the threshold significantly