



MAKING TAX DIGITAL

RESPONSE DOCUMENT

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1. INTRODUCTION

- 1.1. The Institute of Certified Bookkeepers (ICB) welcomes the opportunity to contribute to the Making Tax Digital Consultation, both through the invitation to take part in all relevant meetings with HMRC and other interested parties, but also to respond to the consultation documents.
- 1.2. This response has been put together and approved by the Directors of ICB after its own consultation with respondents through face-to-face meetings and by analysing the results of a survey sent out to members of ICB, individuals and businesses. Over 210 responses were received and the main points are summarised within our answers below.
- 1.3. This response covers consultation documents one through to five. ICB is not making a detailed response to document six as it is felt that many of these questions are better covered by software companies and all relevant thoughts have already been submitted via earlier meetings hosted by the MTD team.
- 1.4. ICB and its respondents represent over 120,000 self-employed persons and micro businesses within the UK, the majority of whom will be affected by the first tranche of businesses to be brought into the new system.
- 1.5. ICB conducted a statistical survey to calculate the percentage of respondents who are likely to be directly affected by the outcome of the consultation process.
- 1.6. 87% of respondents stated that they have clients who fall into the self-employed sector and who will therefore be directly affected by the outcome of the consultation process. Of these, 96% offer a full bookkeeping service, entering transactions, reconciling the bank, completing and uploading VAT returns and producing year-end final accounts. 70% of these respondents will visit their clients on a regular monthly basis, whilst a further 20% will visit quarterly, with the remainder only once or twice a year. The latter statistics are taken from respondents who mainly deal with self-assessment tax returns for the smallest of businesses who only need their income and expenses calculated for tax purposes but are unable to complete the returns without the guidance and assistance of an agent. It is, however this smallest group that is likely to be the most affected by the introduction of Making Tax Digital.

2. SUMMARY OF MAIN POINTS

- 2.1. ICB fully understands the need for a modernisation of the online tax system, and is in favour of, and supports, the process of introducing Making Tax Digital.
- 2.2. However from the results of our survey it has become obvious that our respondents have considerable concerns over the time frame for implementation and that HMRC must take on board the fact that there will be issues for all tax payers over the increase in work load, time in learning and implementing such an innovative system, plus what will inevitably be increased costs covering both software and training. In addition there is considerable worry over security of the entire system, which needs to be addressed as early as possible after the closure of the consultation period.
- 2.3. It is interesting to note that 80% of respondents said that they have at least one client who produces accounts using a spreadsheet for them to check, and although ICB does not have statistics on the actual number of clients that this represents, any final decision not to consider spreadsheets as a suitable online package for MTD will pose a challenge to a significant number of businesses.
- 2.4. ICB agrees that there will probably be savings for businesses over time as they become more familiar with the new processes but feels that it may take a longer time frame than that envisaged by HMRC for this to be realised in full. However ICB believes that HMRC may have vastly underestimated the initial costs that will be incurred in the early stages of implementation, both in software costs, training time and general familiarity with the new system. There is also concern that HMRC will be unable to quantify these additional costs and hence be unable to provide financial assistance in any way to overcome this.
- 2.5. Many of the questions in these consultation documents are aimed at the small business owner rather than the agent and our survey asked questions as to how the implementation would affect their clients. These smallest of businesses have owners who are probably not tax aware and would not be able to cope with the demands of using digital software, quarterly uploading and entering adjustments for non-allowable expenses themselves without considerable guidance and assistance. This is without the problems of access to fast broadband in some rural areas and also the time pressure on business owners at certain times of the year. The remaining questions are aimed at agents (both tax and bookkeeping) who will be acting on behalf of clients and this is the body of people for whom ICB is responding.
- 2.6. The provision of free software would seem, in its original suggestion, to be an excellent one for the business owner who is working within a cash-based system but not for those on the accruals-based system. Many

such businesses would probably need to use the services of a bookkeeper as again, they have neither the time nor the knowledge to make the required entries, updates and adjustments.

- 2.7. Many of the responses to our survey question the viability of the proposed system and its ability to cope with the demands required of it due to the huge demand and the short time frame for implementation. However the introduction of the public beta testing due to start in April 2017, and the number of businesses that will be chosen to trial the system should go a long way to solving many problems before the general launch in 2018.
- 2.8. Considerable concern was raised about the entire topic of voluntary payments and the possibility of automating returns. The general consensus from our respondents was that, over the past few years, there have been significant time delays experienced in dealing with HMRC generally, and that the help line will need to be enhanced considerably to cope with demand. There was also a strong feeling that when HMRC 'gets it wrong' it must be far more flexible in dealing with customer queries and problems and to put any penalties 'on hold' while problems are sorted out.

RESPONSES TO SPECIFIC DOCUMENTS AND QUESTIONS

3. Consultation Document 1 - Bringing business tax into the digital age

3.1. Chapter 2 - Software requirements

- 3.1.1. Question 1 - The main challenges for businesses that currently keep their financial record keeping on manual systems (or at most a spreadsheet) are:
 - Cost of new software – HMRC have identified that all software providers must (if they wish to access the API) provide free software. But questions have been raised as to how much access and usage will be included in this free stage. For example, if the software itself is free how much will software companies charge for updates, giving help, etc.
 - Training time (for both tax payers and bookkeepers) – learning new software requirements (even for free software) will incur time and hence a cost for the business owner. Such time will include finding out how the software works, using it to its best advantage, finding out how data will upload, ensuring software has compatibility with the HMRC system, how to deal with any upload queries and changes to the HMRC data once uploaded
- 3.1.2. Results from our survey showed that 89% of our respondents considered that the cost of upgrading or purchasing software would be a significant factor to consider whilst 82% felt that there would be a cost implication with regards to training needs and 66% also felt that they

would be a cost in making their existing software compatible with any new system.

3.1.3. 67% of our respondents felt that they themselves would incur additional cost in implementing the above and that this may or may not be recoverable from clients, thus further increasing costs to businesses in introducing MTD.

3.1.4. A selection of comments received on the introduction of the use of compulsory software demonstrates the feeling of our respondents with regards to the cost implications:

“There is a general fear of the time this will all take for small businesses already struggling to cope with the economic realities of day-to-day trade, having to work long hours for very low pay and struggling to make ends meet.”

“I work for a number of small traders with small turnover (less than £25K) per year who would find it disproportionately expensive to pay for software and would complicate their accounts massively.”

“All my clients are very small businesses and most are being crippled financially by the cost of living wages and auto enrolment. I fear that any extra costs inflicted by the Government including paying bookkeepers extra money for the extra work involved will be enough to stop a lot of them trading. They are despondent and already on the point of giving up.”

“Many sole traders are very practical people but will lack the computer skills required and/or the time to learn the software as they will be too busy running their business. Therefore they will suffer increased professional costs rather than the cost of software or any associated training.”

3.1.5. It should also be mentioned that April 2018 also sees the first increase in compulsory pension contributions under Auto Enrolment so this introduction will cause a double increase.

3.1.6. Question 2 - Information and guidance provided by HMRC must contain clear communication on what constitutes a suitable package and the software companies that have been approved for the new system. ICB wonders whether small businesses who are not already using commercial software would even know what to look for.

3.1.7. If businesses are already using a bookkeeper, or need to take on a bookkeeper to cover the new requirements, they will probably need to take the bookkeeper's advice on the best package to use. Would bookkeepers use the free software or suggest the use of more

sophisticated versions to enable them to offer an enhanced service rather than simply recording transactions on a cash in/cash out basis.

3.1.8. Question 3 - The only types of businesses that are likely to benefit from using free software (which by its nature will be simple software) are non VAT registered Sole Traders (cash based only) and private landlords. Other businesses are likely to have more detailed requirements and access to a more sophisticated software. However these are the people at whom HMRC are aiming this consultation in order to enable them to understand and see their current tax situation in real time. These are the ones who will need the most training to be able to identify the more complex areas of finalising uploads to get the information correct.

3.1.9. As a minimum, free software must be able to

- Enter income
- Scan receipts
- Categorise expenses easily

3.1.10. HMRC must ensure that full communication and publicity is issued to notify businesses of the changes. Once the April 2018 time line is reached, the sheer number of businesses who will be required to start the upload requires that the HMRC system is robust enough to be able to cope, yet alone providing support of the help line. It has been mentioned in several meetings and feedback groups that, depending on the level of exemptions and deferment given to the start date, there could be a requirement to upload one set of new business' data every 20 seconds for the entire year.

3.1.11. HMRC must ensure that the signing on process to the business tax account is straightforward, secure and trustworthy. The system must be easy to use and show all the relevant information in one place.

3.1.12. Questions 4 : 6 – At this stage ICB cannot estimate or identify any level of support that might be provided. Little information has been provided by HMRC on this topic and the factors to be considered are:

- Who should be supported – the business owner, the bookkeeper, the accountant, the tax advisor, etc.?
- Who would judge who needs to be supported – what evidence would need to be provided?
- How will HMRC identify those with additional needs?
- At what level will the training be provided – basic IT Training for those who will now need to start using software, cost of providing faster broadband speed?

3.2. Chapter 3 - Digital record keeping

- 3.2.1. Question 7 - Businesses are already required to keep evidence of transactions which can be in paper or digital form. If the proposed software easily allows the digital recording (scanning, photographing, etc.) of documents then there needs to be a simple way of identifying, recovering, searching, etc. for these.
- 3.2.2. Question 8 - As the idea of the whole concept is to withdraw the tax return there will be no need for the current list of categories to be adhered to. However, currently, the amounts are entered from the accounts and 'taken out' in separate boxes for non-allowable expenses. How will this be entered and allowed for if there is no way of entering these separately? The new system is purely for tax purposes and will not reflect the actual accounts for the business unless these are uploaded separately.
- 3.2.3. Question 9 - The profit and loss account (used to calculate tax in HMRC terms) does not include any reference to VAT unless as part of non-reclaimable VAT due to partial exemption. Current software already allows for automatic uploading of VAT Return information and the move to linking to quarterly reporting should be automatic although separate, and the upload fields will be different.
- 3.2.4. Question 10 - Property income and capital gains should be treated quite separately but this question seems to treat them as a single entity. Property income can be quite straight forward but capital gains tax is not. This needs a complex understanding of the rules for CGT and the small business would be highly unlikely to be able to cope with the complexities of the rules for calculating gains. The system should have an automatic calculation built in (similar to the current paper version) for calculating gains which is based on purchase date, costs, selling prices and other required information which can then calculate the gain and also the tax liability based on information already uploaded. It is highly unlikely that the types of software being considered for MTD would cope with these calculations.
- 3.2.5. Question 11 – For a sole trader business it makes complete sense to use the categories for expenses as outlined in the self—assessment return SA103. However some businesses may wish to use additional categories and once limited companies become part of the system in 2020 then these categories would be too simplistic.
- 3.2.6. Question 12 assumes that the business will be dealing with its own record keeping. The owner who records his or her financial transactions will need to understand the nature of a non-allowable expense which requires a fairly detailed knowledge of the rules covering this area.

3.2.7. Feedback from our respondents identifies a level of worry over arranging to receive paperwork on a quarterly basis. Respondents feel that business owners would either not be in a position to update their information quarterly or to even produce relevant paperwork to the bookkeeper.

- “I already have problems getting paperwork on time from my VAT clients. To a very small sole trader, the idea of having to have all their paperwork to hand on such a regular basis will cause a general panic. As in anything they will have to acclimatise to the changes but I strongly feel that dropping them in this so close to all the other changes they are currently having to face is unfair and will as usual penalise the smallest businesses who cannot afford to employ office staff to keep on top of their paperwork.”
- “From my point of view yes it would be easier, but I don't think it would make a difference for the client. They will have the view that they will need to get their figures together four times a year instead of one. Again it's the fear of change I think would be the hardest thing to overcome.”

3.2.8. Question 13 asks about prompts and nudges for identifying non-allowable expenses – if this is to be built into the software then ICB feels it is highly unlikely that the software companies will be able to include this in their free software and this is the size of business which has the most changes to make to their record keeping and will need the most prompts – a bookkeeper will look at the entries and make adjustments or enter as non-allowable at the first instance.

3.3. Chapter 4 - Establishing taxable profit

3.3.1. Questions 14 & 15 - Businesses should have as much flexibility built into the system as possible. If, as stated in the consultation documents, quarterly reporting is used to inform the business on its tax position then all information should be included as soon as applicable. But many non-incorporated businesses are unlikely to have knowledge of detailed reliefs allowable and would use a professional bookkeeper or accountant to finalise these at the year end. If the business uses the cash based scheme then few if any accounting adjustments will be involved.

3.3.2. Question 16 – depending on the number of uploads made in the tax year the system should be able to reflect any personal allowances in real time – e.g. if uploads are made quarterly then the personal allowance should be calculated against this in the same time frame. However, once the business tax account and the personal tax account is linked for those individuals with a more complex tax situation then this may be more difficult to show.

- 3.3.3. Questions 17 & 18 - With regards to partnerships and jointly owned property, 85% of respondents strongly felt that any system which simplifies the amount of submissions required is helpful. However, again, this requires a more detailed knowledge of how to, and at what stage, to split profits.
- 3.3.4. Of those who felt that allowing one partner to make the submission and to avoid the layer of partnership reporting, comments were mainly centred around the problems that might occur if the partnership fell into dispute:
- “Whilst it may not be the "norm", I think this gives too much control to one partner and, should they prove (even after a long period of trust) to be less than honest, could lay the whole partnership open to all sorts of problems and issues (I've known of at least three cases where something along these lines has actually happened and, in two cases where there was a lot of financial control, this has had very serious consequences for the others involved in terms of their finances, etc.) Where people have had no reason to doubt the trust they have in someone, it's unlikely that sufficient safeguards will be put in place to avert this risk.”
 - “The proposal will add passive power to one partner over the other. Partnerships work well until they start to fall apart, at which point HMRC will have some challenging arguments from the divided partners.”
 - “I have partnerships with partners receiving adoption benefits for children combined with monthly tax credits, this system would distort their share of profits.”
 - “Fraud and embezzlement possibilities for the key partner. Each partner should be responsible for reporting their own tax return.”
 - “Properties can be jointly owned as part of a business or by individuals on a business footing or a family basis. Again, things can go badly wrong with any relationship and I foresee that this could lead to serious consequences if one joint owner is not fully aware of the actions of another. Again, I know of at least two occasions where such "underhand" events have happened.”
- 3.3.5. Question 19 - For the CIS, 87% of our respondents felt that the recording of tax deducted at source should automatically upload into the tax account from the CIS return so it makes perfect sense to include this as part of any update system. It is HMRC’s intent that no person should be required to re-enter data that they already have

from any source so this is one example of where this should work. However one comment was received that listed a concern over the contractor actually making the payment on time.

- “The issue is that in my experience many small CIS contractors are terrible with their paperwork and so a subcontractor cannot rely solely on his contractors’ submissions. What happens if they do not pay? They would have to keep records anyway.”
- “I keep being told by CIS sub-contractors that they don't receive monthly certificates of tax deducted. With that being the case they have nothing to use to check that information pre-populated on their tax account is correct.”

3.3.6. If the proposed system is to work then it should be able to include all personal allowances on a quarterly basis, as well as any information from other sources such as pensions or employment, automatically without the need for any intervention except for checking. This is the only way that a truly integrated system would work.

3.4. Chapter 5 – Providing HMRC with updates

- 3.4.1. Questions 20 & 21 have been answered above in conjunction with question 11.
- 3.4.2. Question 22 - As the original premise was to upload data for income tax purposes, this does not include VAT in any way. For VAT registered businesses, HMRC already has this data digitally and once the VAT return is linked to the quarterly updates, information can be readily available to link the two into a single tax liability if this is the intention.
- 3.4.3. Question 23 - With regards to flexibility around the update cycles, too much flexibility might prove to be counter-productive. The requirements of quarterly with possible monthly uploads depending on personal preference would seem to be a reasonable cycle with 92% of respondents adamant that the period should not be compulsorily shorter than quarterly.
- 3.4.4. Question 24 – 58% of our respondents felt that one month would seem to be a reasonable time frame from the end of a quarter for allowing uploads to be completed. This closely matches the current VAT time limit and should cause few problems. A shorter period is not acceptable as it can take this length of time to complete the recording and longer would fail to show the relevant information that the system is designed to produce on a real time basis.

3.4.5. Of the remaining 42%, the majority felt that the period should be between two and three months or that the date should at least coincide with the requirement date for VAT returns to avoid duplicate uploads in one period. Some interesting and detailed reasons given by respondents for wishing the upload period to be longer were:

- “I believe more time will be required. Currently, 60% of my VAT registered customers have VAT quarters of March/June/September/December. This gives me a peak workload in April/July/October/January. The current proposal would add all sole trader customers (and later, incorporated clients) to this peak regardless of VAT registration. I foresee a situation whereby me, and other bookkeepers, could not cope with the peak and therefore be unable to take on more clients, but have slack times in the non-peak months. There is a huge difference between the current rules of having 9 months to file year-end info, and the proposed one month to file quarterly info.”
- “For practising bookkeepers visiting clients on a monthly basis an allowance of one month is short. For example a client who is visited shortly after the month end to prepare management accounts for the preceding month may not have all the details required to complete an update so would need an extra visit. Six weeks or two months would be better.”
- “One month in most cases should be enough. However, there should be allowance made for the fact that businesses are small and so won't have a full time bookkeeper. At the moment if PAYE is late, businesses are charged interest. This would not be fair for quarterly reporting. There needs to be a method built in to allow businesses with genuine reason for not reporting on time to make their submission late, with an opportunity to say why it is late. If a business is continually late, then perhaps sanctions could be introduced. But sanction cannot be the default position. If you only see a client once a quarter and the quarter ends at the start of your two week holiday in the summer, you have only a short amount of time to get the accounts in order, sort out any queries and get submitted. Throw in a power failure or the phone lines being down and it would be very easy to be late submitting.”
- “For an initial period of, say, two years to allow a transition to the quarterly submission frequency then allowing the submissions to be made up to two months from quarter ends. People will be reluctant to keep their records for each quarter when it was always annually. To give bookkeepers and accountants opportunity to get the processing done in two months seems fairer at the start of the new rules.”

- “One month is okay only if corrections can be made in future quarters. Anybody who has ever dealt with a marketplace seller on Amazon or Ebay knows you just can't get invoices through on request within four weeks.”

3.4.6. Question 25 - With regards to the start date for providing the first upload, the consultation suggests starting the process from the beginning of the business' first accounting year after April 2018. According to statistics provided by HMRC staff, around 50% of sole traders have an accounting year that commences on 6 April, with the balance being spread fairly evenly over the remainder of the year. If this is the case, HMRC will have a huge surge on the first upload which will happen on 31 July 2018 (one month after the first quarter end). It is highly unlikely that businesses will report earlier than this date. The only alternative to this is for HMRC to instruct a start date. However, as the tax will be calculated from the four quarterly period across the tax year, starting after April will not give full tax liabilities for at least one year.

3.4.7. Comments from our survey elicited the following specific comments:

- “It would make more sense to "iron out" the peaks. This could be done by: a) allowing calculations that follow the accounting year. This would flatten some of the peaks, although most sole traders' accounting year is the same as the fiscal year so it wouldn't help that much; or b) allow three months after the fiscal quarters for submission of the information. This would enable bookkeepers to iron out the peaks more successfully (provided they can extract the paperwork from their clients at the right time!)”
- “Forcing everyone to effectively have a year end of 5th April makes sense. Most of my clients opt for 5th April year ends since the current year basis was adopted in the late '90s. However - forcing all old business to change in such a way with immediate effect seems unnecessarily draconian.”

3.4.8. Question 26 – ICB wishes to make no comment on the operation of ‘in-year’ amendments to updates for the purposes of profits, taxes or VAT apart from those raised in other answers within this response.

3.5. Chapter 6 – Year-end Activity

3.5.1. Question 27 – ICB firmly believes that there should always be a chance to make a final, confirmation submission which is separate from the quarterly updates.

- 3.5.2. However, as uploads are intended to give a real time estimate of tax liabilities, the upload of year end accounts in their current format is no longer relevant, neither is the date of the accounting year end with regards to reporting for tax purposes only.
- 3.5.3. Question 28 - The deadline for submission of current tax returns is 31 January which is therefore only 9 months after the year end for 50% of all businesses reporting (as per statistics above). Hence a general rule that the final submission takes place 9 months after the year end is no longer relevant.
- 3.5.4. As there are currently no plans to change the payment dates, these will remain at 31 January (for balancing payments and first payments on account) and 31 July for second payments on account.
- 3.5.5. It therefore makes sense that if the payment date for tax remains at 31 January, a period of six months from the tax year end might give a better indication of the final tax due. Hence ICB suggests that for those who wish to report under the cash system, a general rule that final tax year end submissions should be made by 31 October which would give a period of three months to enable final planning for the tax payment. By then the July payment on account would be cleared and balancing payments clearly defined and calculated.
- 3.5.6. To insist on a shorter period would not be practical as the following comments show:
- “Many sole traders still rely heavily on cheque payments and the postal system. They do not use online banking so have to wait for paper bank statements. A large percentage were pushed into self-employment during the economic downturn and struggle to keep on top of their paperwork.”
 - “Because many will be late. They are used to having months to do this. Are there going to be penalties? More penalties imposed on small businesses who do not have the resources to dedicate to this stuff.”
- 3.5.7. However, for those who use the accruals system, a longer period of time may be required as the year-end adjustments would be far more detailed.
- “It's not reasonable to expect a non finance person to be 100% sure the accounts are correct, in fact I don't think I have ever seen any that don't require some adjustment when final accounts are submitted. There are a huge amount of small businesses and self-employed people who really don't have a clue about finances. They may be claiming for something they shouldn't - or the other way round, or paying for things

personally and not reclaiming. That's without going into capital allowances and depreciation. The list is endless.”

- 3.5.8. However on a more positive note several respondents felt that MTD should make clients more aware;
- “In our experience some clients will only give the go ahead for their year end accounts to be submitted at the 11th hour. With most systems now being digital it should be easier to cut this down to four or six months from year end. Otherwise it just drags on and on!”
 - “I think nine months is far too long. Six months would be better. Once MTD comes in maintenance of records will be ongoing and there will be no need to prepare a full year once the tax year has ended”

3.6. Chapter 7 – Exemptions

- 3.6.1. Question 29 – As per the consultation, ICB believes that ‘hobby’ businesses which have a turnover of the (finally) agreed turnover threshold should be exempt, even if this turnover is in addition to employment income. However, individuals who may have more than one source of additional income should be required to aggregate the income which may then take this over the exemption limit and they will be required to commence quarterly updates as per any trading business.
- 3.6.2. Questions 30 & 31 - With regards to charities, as smaller charities have none or low tax liabilities (and any tax on trading can be subject to corporation tax) then Charities should be exempt from quarterly updates, at least until the time at which incorporated bodies come into line in 2020 when the position can be reviewed.
- 3.6.3. Question 32 - Community Amateur Sports Clubs should also be exempt unless they fall into the same category as any charity above.
- 3.6.4. Question 33 - Businesses that are the subject of insolvency should be immediately exempt from quarterly updates once they are within a formal insolvency system. One of the standard accounting concepts is that the business is a going concern, which once in insolvency it is not so should be treated separately.
- 3.6.5. Question 34 – ICB received a mixed response to this question in its survey. The types of businesses/individuals that might be included in the definition would cover the normally identified areas of

disability, those with internet access problems and those who work in a seasonal category of business at certain times of the year.

- 3.6.6. However there are levels within these categories that need to be determined and this could be a very subjective area on which to base a decision.
- 3.6.7. Question 35 - When asked the levels of exemption that would be reasonable, 11% of respondents said that all businesses should report under MTD whilst the rest were equally divided between those who agreed with the suggested level of £10,000 and those who thought the level should be higher.
- 3.6.8. Of those who thought it should be higher, the main suggestion was to link this to the personal allowance (as below this level there is no tax liability) as the proposed £10,000 limit is set at too low a level.
- 3.6.9. If, as stated by HMRC, the main premise behind the concept of Making Tax Digital is to enable businesses to understand their tax position, individuals with such a low turnover will have no tax liability and would not benefit from this system. If the individual is using their trading business as an additional source of income then any allowances, etc. would already be taken up by other income forms, and tax would be calculated on a basic rate basis which is straightforward.
- 3.6.10. One obvious threshold (that was suggested by a number of respondents) is that the level be set at the VAT threshold but as businesses reach this level they would need to consider the introduction of both VAT Returns and quarterly uploads at the same time so the two should be separated by a sufficient amount to enable the systems to be introduced into the business in a manageable way.
- 3.6.11. The turnover threshold for exemption from quarterly updates could be set at (say) £20,000 which is a level at which tax (based on turnover less allowable expenses) could start to become a significant consideration to the business owner.
- 3.6.12. Question 36 - To delay entry to the requirement for quarterly updates by one year brings the date into line with the April 2019 date for bringing in the VAT Return. Again as these dates are aligned, those who fall into this bracket will have to start both at the same time.
- 3.6.13. It makes sense for the delayed bracket to be set at (say) £50,000 so that (unless they are voluntarily registered for VAT) they will not suffer the double burden of having to deal with both at the same time.

- 3.6.14. Questions 37 & 38 – This section of the consultation document received the highest number of comments and these seem to be equally divided on the issue.
- 3.6.15. ICB is of the opinion that exemptions should be allowed for certain sections of the population, in line with other policies and regulations. However there needs to be an element of flexibility that will allow those who may fall just outside the list to be considered on an individual basis. Comments from respondents made the following cases:
- “I don't think that speed of internet is a good enough reason - who is going to decide? If internet speed increases, will they volunteer to start?”
 - “There should be no exemption other than disability. The government should be linking MTD with the provision of suitable high speed internet as businesses already suffer from this, or not making it mandatory at all until they have.”
 - “Individual computer literacy should also be taken into account. Whilst this will change in time with children growing up with computers, especially with retirement taking place for my generation, there are still a good number of people who are frightened of computers and/or unable to understand them, but this may not necessarily be directly "age" related. I've known a few 80/90 year olds who know more about computers than I do.”
 - “It should be everyone or no one complies, are these businesses exempted from annual returns?”
 - “Please try to keep this as simple as possible - everyone has some kind of access to the internet or can get to a place where there is internet access. Making differences/ exemptions is an invitation to try to beat the system”
 - “My concern is all the individuals of an older generation who will be expected to check their tax affairs solely via a personal tax account in future and who are not digitally capable. The one size fits all approach seems a quick way to failure.”
 - “Equality to all regardless religion, location --- are you doing business in UK then law applies - law is law”
 - “Uniform rules for all curb the opportunity for abuse”

3.7. Chapter 8 – Initial Assessment of Impact

- 3.7.1. Question 39 is aimed at the business owner. The simplest of businesses with the smallest turnover would be exempt from quarterly updates so the question will not arise. Any business who currently produces their own accounts and submits their own tax return may have an increased cost both in the initial stages (for purchasing software and time to learn how to use it if they currently use a manual or a spreadsheet system) and on-going costs (annual costs of maintaining software as most cloud-based software is sold on a subscription basis). There may be a saving in time eventually but it might take some years for this saving to be of any benefit to the business financially.
- 3.7.2. For those businesses that use a bookkeeper or an accountant, there may be little savings if financial records are maintained on a regular basis. Those who will see an increase in cost are the businesses that only see an accountant once a year to produce the annual accounts and the tax return in one go. The advantages to these businesses will be more up to date information so the 'savings' may have to be calculated on a 'cost/benefit' basis rather than a cash saving.
- 3.7.3. Questions 40 & 41 - ICB has not gathered statistics as to the actual levels of cost that might be incurred but it appears obvious from all responses that there will be at least a significant increase in costs to both businesses and agents when they start the new system.

4. Consultation document 2 - Simplifying tax for unincorporated businesses

4.1. Chapter 2 – Increasing the threshold for case based businesses

- 4.1.1. Questions 1 & 2 – When asked, 57% of our respondents have clients who currently use the cash basis for keeping their accounts, but interestingly only 54% said that they welcomed the widening of the cash system.
- 4.1.2. When asked to comment on the levels for setting the cash based thresholds, 66% were evenly split between maintaining the current VAT threshold level and setting it at £100,000 whilst 28% felt it should be higher than £100,000. The comments on keeping the levels at the VAT threshold were basically that using the VAT threshold made it simpler not having to remember too many thresholds.
- 4.1.3. However all the recipients felt that the level for moving to accruals accounting should be twice the level for entering, regardless of the finally agreed threshold for entering.

- 4.1.4. However 80% of respondents felt that using a cash based system would make the transition to MTD an easy transition and 90% agreed that using the categories that are required to complete the self-assessment form SA103 would make most sense.
- 4.1.5. What became clear from the responses received is that there is a difference between producing accounts for the business and accounts for tax purposes. As the representative of bookkeepers, ICB has members who want to be able to give the full picture and even if the cash basis were to be extended, a large number of our respondents would continue to use accruals based accounting.
- “Whilst I accept that it may simplify the quarterly reporting, I do not feel that this system produces an accurate Balance Sheet. When I produce accounts for my clients I want them to be able to see a 'true' reflection of their business situation.”
 - “Most clients want to have debtor and creditor ledgers and want to be able to pull off an individual suppliers ledger to see a) what they have spent with that supplier over a given period (when negotiating discounts) and b) to track customer commissions taken.”
 - “Company cars capital allowances. Simplified expenses for motoring and use of the home calculated on an annual basis not recorded as an expense as you go along. “
- 4.1.6. There is also the problem with cash based accounting of the amount of interest that can be claimed back.
- 4.1.7. Finally there is a need to be able to explain the term cash basis in a straightforward manner – as the following comments demonstrate.
- “The term “cash” accounting basis gives the potential clients and clients I currently have on it the idea that they do not need to keep records carefully or abide by the basic rules of bookkeeping.”
 - “Again, we are back to human nature. Clients tend to be very disorganised when it comes to having and keeping records. Getting the information to record in the first place is far more of a problem than whether it is treated on a cash basis or accruals basis.”
- 4.1.8. There is only a limited reason for using the cash basis for landlords, many of whom have mortgages due to the restriction on the amount of interest that can be claimed.
- 4.1.9. ICB believes that it makes sense to retain the entry level to the cash based system at the VAT threshold. The cash basis only really makes

sense for non VAT registered businesses. Once VAT registration takes place, the accounts by their very nature become more complicated. However, there is an anomaly between VAT cash based transactions and cash based accounting. The level at which the business needs to leave the VAT cash basis and move to standard VAT Accounting is £1,350,000 which is vastly different to the accounting levels suggested in the consultation documents.

4.2. Chapter 3 – Reforming basis periods

- 4.2.1. Questions 3 & 4 - From comments made above on the year end process, the proposed system removes the tax calculation from the accounting year figures which therefore removes the need to operate a change of basis regime.
- 4.2.2. The concept of the basis periods is that businesses will pay a double taxation during the first year of operation which can only be offset once the business is closed down. This double taxation can impose a financial burden on businesses in their first two years. If the process of tax simplification is to be carried out in its simplest form then steps should be taken to remove this burden as soon as practical.
- 4.2.3. Many respondents felt that it makes perfect sense for the self-employed business to use the fiscal year as its accounting year.
- “I would suggest those affected could be given the opportunity to change their financial year to come in line with the fiscal year. Perhaps a special provision could be made in the changeover period, with a 'short' year submitted?”
- 4.2.4. However a number of our respondents felt that there is no need to ask any business to change its financial year. As an example of the responses received the comment below shows a general feeling:
- “Fiscal reporting will mean that all of my clients will need to report at the same time, which will be completely impractical for myself and other small bookkeeping practices. VAT returns are staggered, so fiscal reporting should also be (but in line with the accounting quarters.) Also, if the calculations are based on fiscal quarters then any potential benefit this new regime will have towards the preparing the final accounts will be reduced.”
- 4.2.5. For all business that fall within the first tranche to be introduced in April 2018, it makes no sense to have different schemes for other types of income. Employment income and investment income are all reported for the tax year so already fall into line and capital gains also needs to be reported for periods within the tax year.

4.3. Chapter 4 – Simpler business reporting

- 4.3.1. Questions 5 : 7 - This section of the document states that some businesses may have to report under GAAP for other non-accounting reasons (e.g. a bank may require adjusted figures). To include the suggestions of simplifying the year-end adjustments that would be allowed, as outlined in this section, would have the result of removing four of the main principals of the accounting standards which is counter-productive to those who need to produce accounting statements under GAAP.

4.4. Chapter 5 – Reforming the capital/revenue divide within the cash basis

- 4.4.1. Questions 8 & 9 - If operating within the capital / revenue divide it will be essential to clearly distinguish the items which cannot be claimed under the cash basis. If a business is using a bookkeeper or an accountant to produce the figures then this should cause fewer problems; however if the business owner is producing the figures themselves they will struggle to understand a complex system and when to apply an adjustment calculation.

4.5. Chapter 6 – Assessment of impact

- 4.5.1. Widening the cash basis should make it easier for businesses to upload information in a more straight forward manner and hence the cost implications should be less. However most of our respondents were concerned that using the cash basis for all businesses other than the smallest will give a distorted view of the accounts, even if it simplifies the reporting for tax purposes. If only the smallest of businesses will therefore be using the cash basis, these could well fall into the agreed exemption range of income so the impact would be negligible.

5. Consultation document 3 – simplified cash basis for unincorporated property businesses

5.1. Chapter 2 – Simplification process

- 5.1.1. Question 1 - The cash basis is already operational for rental income under current rules. One of the questions to be considered here is not simply the level of turnover for using the cash based system for recording income and expenditure but also the level of complexity. For example, it might be suitable for a property owner renting out a single property but may not be suitable for someone who owns several properties and for whom this is a complete trading business. So in this instance the recommendations for level of turnover, etc.

should be the same as for any other trading business. To have any other level would be confusing.

5.1.2. Question 2 - The main problem with the cash basis is the number of property owners who have loans against the property. With the limits on claiming back interest expense being currently held at £500 per year, and the changes coming into force on the limit of tax relief to be allowed on loans for properties changing from this year, this will exclude the majority of property owners from using the cash basis due to the limit on claiming back financial costs.

5.1.3. Comments received from respondents in this area were:

- “Currently mortgage statements have to be acquired from the company it is held with to ascertain interest values. These are usually only sent out at year end or have to be requested. It may be better if the mortgage companies liaise with HMRC in the same way pension companies do, or if not this information will need to be more readily available. It may also help if there is a system whereby the accounting system or HMRC’s system has a warning for amounts above the threshold.”
- “Landlords should be allowed to claim all their mortgage interest cost against income.”
- “Limiting the financial interest to £500 for cash basis means that most landlords will not use cash basis.”

5.1.4. Question 3 - Property income should be aggregated and not treated separately for considering whether the cash basis is relevant, whether this be UK based or foreign based income.

5.1.5. Question 4 - Consideration should be given to re-considering those assets whose replacement can be reclaimed, both under the cash basis and the accruals basis. The list of assets whose purchase can be reclaimed is confusing, more so since the removal of the wear and tear allowance. The current list on the HMRC website of capital expenditure that is not allowed is:

- adding an extension
- installing a security system if there wasn’t one before
- replacing a kitchen with one of a higher specification
- replacing carpet
- replacing a sofa
- replacing a fridge

- 5.1.6. The first three of these are large expenditure items and can clearly be justified as capital expenses as they add value to the property over a lengthy period of time. However the latter group of three expenses could well cover a much shorter period – for example, these could be easily damaged and need replacing each time a new tenant takes over the rental lease. One way around this is to allocate a financial amount to such items such that below the stipulated level the full amount can be reclaimed under the cash basis, or that all free-standing articles (furniture, beds, white goods) can be claimed for from new. This will also affect the answer to Question 8 in Chapter 3.

5.2. Chapter 3 – proposed details of cash basis

- 5.2.1. Question 5 - The answer to question 5 in this document is linked to the answers to the relevant questions in document 1 questions 17-19. The input of all data into the system should be simplified and a single entry only so the split of profits to more than one owner should be able to pre-populate each owner's personal account in a single report.
- 5.2.2. Question 6 – 63% of respondents replied that deposits that were received should only be reported in the accounts when they actually become income to the landlord and not when received.
- 5.2.3. Questions 7 - 10 - No specific comments were received to these questions from our respondents.

5.3. Chapter 4 – assessment of impacts

- 5.3.1. The impact of the implementation of this section will be the same as the cost implications as outlined in the response to document 1.

6. Consultation document 4 – Voluntary PAYG

6.1. Chapter 2 – What voluntary payments might look like

- 6.1.1. Question 1 - The challenge to the proposed payment schedule is the management of voluntary payments for current tax years against payments due under the current system for previous years' tax liabilities and how offsets will be made.
- 6.1.2. Question 2 - Any voluntary payments must be clearly shown on the personal tax account, in the simplest manner, as should previous tax liabilities that have fallen, or are yet to fall, due. These amounts should be clearly distinguished.
- 6.1.3. Question 3 - If a 'period of grace' is allowed for payments on account, then this may well be very confusing as to when and if penalties are attached to a tax payer's account. If the tax payer is clearly advised on how this will work then it may go some way to avoiding confusion.
- 6.1.4. Questions 4 & 5 – Generally ICB feels that the voluntary payment system would work but with reservations on how the payments for one year might be offset against previous year's liabilities. ICB feels that any payments made on account should be ring-fenced to the particular year and not allocated back to previous years.
- 6.1.5. There is also a prevalent view that unless sufficient incentives are put into place, business owners are more likely to save towards tax liabilities in a private account rather than place it within the HMRC system.
- 6.1.6. Those respondents who have serious reservations about the VPAYG system said;
- "In the first few years there may be a cashflow issue as individuals are not setting aside the tax as they go along, they are paying when it's due which with current self assessment this is 6 months or so in arrears"
 - "I think it has the potential to be utter chaos with misallocations, etc., the systems involved would need to be better than they are now"
 - "HMRC struggle with allocations as it is. Advisors should be able to move allocations to the correct date"

- “There may be problems if tax due for a previous year is disputed”
- “Confusion and incorrect payments being made and applied. Payments should be allocated to the correct reporting period and overdue payments chased under 'business as usual' methods.”
- “If HMRC make it very clear what the rules are and explain them in everyday language without referring people to first here and then there, there shouldn't be a problem. The one exception I can see is if there is a dispute over an earlier liability or an agreed payment plan for arrears. In those circumstances, there should be a rule that any current payments on a/c are NOT back-allocated.”
- “Keeping track of payments made & when they relate to may be difficult if not used to the system. Sole traders may not realise how long after the year end they need to continue making payments, which may lead to missed/late payments.”
- “I think that it would be confusing for some as they might think the payment they are making would be set against the liability they are looking at, not a previous outstanding balance.”
- “Yes seasonal businesses would be seriously affected because, for example, they may make a profit over the summer months therefore have to pay tax on the first two declarations, but make losses in the second half of the year resulting in tax refunds.”
- “I think this could become very confusing. I think that once a client chose to make voluntary payments they should be allocated to the accounting year in which they are made.”
- “To be honest they allocate PAYE and NIC payments to wherever they want now, so there is going to be even more of a muddle with the MTD.”

6.1.7. Questions 6 & 7 – ICB generally agrees with the process of refunding overpayments as outlined. This is a particular relevant for seasonal businesses. ICB agrees that there should be a minimum amount that can be repaid and that no repayment should be made within a certain period of the year end (for example within the final quarter) to ensure that all final uploads are made before the final tax liability is calculated. However it is obvious that no tax liability is due then the repayment should be made as soon as possible. Respondents were concerned about the time taken to make the refund and that the system needs to be as automated and quick as possible within the checking guidelines.

- “No refunds should be made until after the final accounts are prepared, because if the client has voluntarily paid on account that is what they think their liability will be”
- “Provisionally I agree, provided safeguards are in place to avoid payments being retained by HMRC incorrectly or inappropriately. I think a maximum of 2 months prior to the proposed liability date should be sufficient given the quarterly nature of the overall proposals.”

6.1.8. Comments from our respondents raised the problems of businesses manipulating the quarterly uploads to trigger a tax refund in times of problematical cash flow.

- “I guess that it's possible for a quarterly update to be deliberately understated to get back previous voluntary tax paid in order to boost cash-flow. With regards to a), what security reasons!?”
- “Fraudulent records could be submitted in order to boost cashflow with a repayment when none was in fact due. Tax paid should not be repayable until the final submission for the year is made and total amounts calculated.”
- “Tax should only be repaid if there is a considerable amount on account after the final return has been completed. At that stage it should be in consultation with the business owner. Any large fluctuation between periods should require more information to be submitted”

6.2. Chapter 3 – Other aspects of PAYG

6.2.1. Question 8 - The uploading of data and voluntary payments should only be revisited once, and if, HMRC decide that regular payments should become the norm. Until that time there need be no reconciliation of the two as it is not appropriate under the current suggested system. If any reconciliation is to take place then this is becoming similar to the current system under RTI where an update must be followed by matching payment.

6.2.2. Question 9 - The tax payer should always have the choice of electing for over payments to be held as voluntary credits or be repaid on request.

6.2.3. Questions 10 & 11 - With regards to partnerships, 76% of our respondents felt that being allowed to pay individual tax from the partnership account would not mean a loss of confidentiality.

However as payment of tax will remain the liability of the individual and not the partnership further discussion and thought will need to be carried out before taking a final decision on this.

6.2.4. However comments from the remaining 24% covered the problems of dealing with partnerships that may be in dispute, how to record and track any voluntary payments in the accounts and what will happen if one partner has a higher tax liability than any other and that actually this may be a retrograde step.

- “I think this could lead to mixing business expenses with personal liabilities and lead to confusion. I think the individual needs to remain responsible for making the payments.”
- “Retrograde step back to the pre SA partnership assessments which entailed a lot of accountant time in making provisions for tax in the accounts and drawings calculations. Leave individual partners to make voluntary payments if they wish”

6.3. Chapter 4 – Take up of voluntary PAYG

6.3.1. Question 12 – Respondents felt that the only ways to make customers feel confident in the system is to ensure that the entire MTD strategy is working clearly and well. Until this happens confidence in the entire system will be mixed. They also strongly felt that incentives should be offered.

- “Transparency of information from HMRC in "plain" English and transparency of procedures for payments being made and repayments where necessary, together with suitable interest being paid on any credit balance, comparable with average interest rates rather than the lowest interest rate”
- “Interest to be paid on any overpayment at the end of the tax year. I think that scrapping the payment on account system to allow for quarterly voluntary payments would be a lot easier and fairer. If a sole trader has increased income in a tax year, there can be a big jump in tax due to the balancing payment and POA”
- “The knowledge that the funds can only be used against one specific account or business. Making sure that there is the ability to track payments online & that the system is easier to use.”
- “Our financially savvy clients already make monthly provisions for tax in their personal accounts. If you were to ask them to make voluntary payments to HMRC, these payments would

need to be very clearly shown on the online portal and they would need to have the right to access of these funds. This is still their money and HMRC is acting as custodian until tax is due”

7. Consultation Document 5 – Tax Administration

7.1. Chapter 2 – Compliance powers

- 7.1.1. ICB feels strongly that if MTD is to proceed in its currently planned format that any new powers must receive full legislative backing and that maintaining safeguards should be HMRC's primary objective.

7.2. Chapter 3 – Late submission penalties

- 7.2.1. Question 1 - ICB considers that the system of issuing penalty points is a fair method of ensuring compliance without introducing additional hardship and costs except for those who deliberately flout the rules. 91% of our respondents were in agreement with this view. However, as the system is very new, time must be allowed for everything to be embedded before the penalty regime starts.
- “This does, at face value, seem a reasonably fair way of monitoring late payments. However, I would point out that many businesses and individuals are late making payments because they are still struggling to survive financially from the after effects of the recession (which in some parts of the country is still very much a factor), possibly other financial difficulties such as fires, floods, etc., not to mention Brexit. I'd like to see a return to looking at the overall picture of why people are struggling to pay and co-operation to help them survive (which means the bills will get paid eventually rather than perhaps not being paid at all), rather than the current "tick box" culture.”
 - “It is not always possible to comply with the strict government deadlines. It feels as though businesses are now working for HMRC not for themselves”
- 7.2.2. 67% of our respondents felt that the period of 12 months would be acceptable before any new penalty regime comes into effect as it would match previously offered familiarisation periods. However as the implementation of the strategy is being phased over a period of two years (one year to cover the businesses who will be starting from their first accounting year after 6 April 2018 and one for the businesses who will be able to claim the single year's deferment due to the level of their turnover) it remains to be agreed on what constitutes the period of 12 months and from which date it will run.
- 7.2.3. Comments from those who disagreed with the 12 month period felt generally that this should be extended to two years and felt that the current system of dealing with penalties which may not be the fault of

the business but through general errors is time consuming, confusing and stressful.

- “This is only allowing a use of four times and it would be three months apart. It can take longer to fully understand a system when not used on a regular daily basis. I would like to see a two year window free of penalties for all those who have to report on a quarterly basis. They are proposing a completely new way of reporting which will also be within a financial working year when at this moment in time they have almost another year to complete the report for HMRC.”
- “I have clients that have been issued penalties for "crimes" that haven't been committed and have been the fault of the HMRC. The penalties have been withdrawn, but there it causes a great deal of unnecessary upset, time and paperwork trying to sort it out. HMRC never apologise and take a high handed approach at all times. I worry that this new system will also have its glitches and that HMRC does not have the staff to deal with it. Clients currently cannot get through to HMRC and when they do the staff have no idea what they are talking about and are obviously undertrained and do not have enough experience to deal with the problems.”

- 7.2.4. Question 2 - The period of time in which penalties would disappear is confusing in the documents as some comments seem to suggest that the penalties would be removed as soon as the business becomes compliant, and some to suggest that nothing is removed within a set period regardless of the date of compliance.
- 7.2.5. ICB feels that if compliance is met within a period of no longer than 12 months then penalties should be removed immediately. However this time frame should be extended on a rolling basis for those who continue to flout the rules.
- 7.2.6. Questions 3, 4 & 5 – ICB believes that the suggested regime for penalties is fair as it stands and has no views on a better system other than it needs to be as simple as possible.
- 7.2.7. Questions 6 & 7 – Regardless of the final decision on how penalty points will be allocated, the system must remain as simple and understandable as possible. There must a clear notification of how the points are being added to the personal tax account. If points for quarterly updates are linked with (say) VAT and also submissions under RTI this could rapidly become an unwieldy and complex system.

- 7.2.8. Question 8 - The proposal for an 'enhanced' penalty scheme is extremely harsh and should only be introduced once the 'single points' total method is proven to be non-working. It should be brought in if, and only if, sufficient non-compliance is not reached.
- 7.2.9. Questions 9, 10 & 11 – again the system should be as simple and understandable as possible. With regards to penalties, the penalty amount charged should reflect the value of the business or the level of turnover but ICB has no suggestions as to what or the amount of penalties that should be applied and nothing in the consultation documents gives any idea of the level being considered.

7.3. Chapter 4 – Late payment sanctions

- 7.3.1. All questions - The penalty regime as outlined is similar to current penalty regimes in place. A similar system should be brought in to ensure clarity and consistency across HMRC.

7.4. Chapter 5 – Interest

- 7.4.1. All questions - As with penalties introduced, interest rules should be consistent across HMRC to avoid confusion.

7.5. Chapter 6 – Initial Impact

- 7.5.1. The initial impacts from this consultation document are the same as for any of the preceding documents and our views reflect this. There will be initial costs to both the business owner and the agent which will impact strongly on the business' cash flow and profitability, not to mention the time implication.

8. Consultation Document 6 – ICB is not making a response to this document

This is the end of the response document