

Written evidence to the Public Accounts Committee's inquiry: 'Progress with making tax digital'

Association of Accounting Technicians (AAT)

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1. About AAT

- 1.1 AAT is the UK's leading qualification and professional body for technical accountants and bookkeepers. We have around 51,000 members in over 100 countries and approximately 75,000 students studying our qualifications.
- 1.2 Founded in 1980, AAT is a registered charity committed to increasing the availability of high-quality accountancy education and raising professional standards. We aim to advance public education, promote the study of accountancy, prevent crime, and promote and enforce standards of professional conduct for accountants.
- 1.3 Over 600,000 small businesses are supported by more than 6,000 AAT licensed members to help build the businesses' financial capabilities.
- 1.4 An AAT Accountant is a qualified accounting professional with the practical and technical skills needed to support businesses with their accounting activities. Typical job roles include: Financial Accountant, Commercial Analyst, Senior Finance Officer, Payroll Manager, VAT Accountant, and Tax Supervisor.
- 1.5 AAT would be delighted to give oral evidence to the committee on this subject. If this is of interest or for any queries on this submission, please contact Jack Withrington, Head of Public Affairs & Public Policy at AAT: jack.withrington@aat.org.uk.

2. Executive Summary

- 2.1 **HMRC must set a definitive timeframe for the roll-out of Making Tax Digital (MTD) and stick to it.** The successive delays have dented business confidence in the programme and provided significant uncertainty. It is imperative that MTD is implemented with no further delays.
- 2.2 **Digitisation does not always equate simplification and there should be greater independent oversight on HMRC to ensure it is pursuing true tax simplification.** The abolition of the Office for Tax Simplification was a retrograde step. There should be more independent oversight to ensure that HMRC simplifies complex tax processes, rather than just digitising them.
- 2.3 **There have been some successes with MTD and AAT has identified significant appetite for greater intermediary involvement and support for the registration process.** An overwhelming 95% of AAT Licensed Accountants surveyed last year expressed a desire to register their clients for MTD for ITSA.
- 4.1 **HMRC must invest in building greater awareness of MTD among small businesses.** Last year, 85% of AAT Licensed Accountants believed the ITSA registration process was not well understood or only understood with the help of an accountant or other professional.
- 4.2 **HMRC must properly resource its customer services.** Customer service levels have declined to a point that it is severely disrupting businesses and ultimately hampering progress with MTD adoption.
- 2.4 **There is an increasing risk that MTD could be outpaced by technology if there were any further delays.** HMRC must not continue with the status quo but use the additional time to get the pilot running as soon as possible and adopt an approach of co-creation with software vendors and small businesses.
- 2.5 **HMRC should produce more information on how it will support the digitally excluded following implementation of MTD.** There will be taxpayers who will never be able to go digital. HMRC has recognised this, but we would welcome more detail on what specific support they will offer this vulnerable group.

3. HMRC's original vision and plans

- 3.1 AAT supports the principles of MTD to make it easier for individuals and businesses to get their tax right, help integrate tax management with a range of business processes, and “contribute to wider productivity gains for businesses”.
- 3.2 While there is a case to argue that MTD has in parts met some of these objectives, the much clearer conclusion is that HMRC's implementation timescales were unrealistic. While supportive of a move towards digitisation, AAT had from the beginning expressed concerns about the MTD timetable which were proven correct by several subsequent delays to the policy.
- 3.3 These delays have not only hampered the MTD programme overall but also severely dented confidence in MTD among businesses. Businesses need certainty and the recent last-minute delay of MTD for ITSA was frustrating for the accountancy profession who had made significant investments in getting ready for the deadline. AAT strongly recommends that HMRC should now set out a definitive delivery timeframe and stick to it.
- 3.4 Work towards the overarching objective on tax simplification has appeared to have strayed as plans for MTD progressed. Increasingly, HMRC appears to be adopting an approach of equating tax simplification solely with digitisation, when the two are not always mutually compatible. In some instances, this has led to HMRC causing further complexity for taxpayers, rather than simplifying the process itself.
- 3.5 This has been compounded by the abolition of the Office of Tax Simplification (OTS), which has left no dedicated body that could help oversee whether the principle of simplification is being followed when implementing MTD. AAT was very disappointed by the OTS decision, and we would urge the committee to consider how HMRC does not lose its focus on simplification as it progresses with delivering MTD.
- 3.6 ***While supportive of MTD's objectives to digitise the tax system, AAT had expressed concerns from the beginning that HMRC's original plans were unrealistic in times of implementation timescales. The successive delays have dented business confidence in MTD and there is a risk that in some places it is running counter to the principle of tax simplification. It is therefore vital there are no further delays and that HMRC sets a definitive timeframe for implementation. AAT would also welcome more independent oversight on ensuring HMRC is pursuing true tax simplification and not just equating it with digitisation.***

4. Progress made before re-phasing the programme at the end of 2022

- 4.3 Despite the delays with MTD, AAT is still supportive of its overall intention. As an organisation that takes a digital-first approach, we recognise the benefits that digitisation can bring, especially for proposals like the Single Customer Account. Many of AAT's digitally engaged members who have embraced digitisation have praised some of the improvements brought about by MTD to date.
- 4.4 If it's designed and implemented well, MTD has the potential to be a step change towards a modern and efficient tax system. An overwhelming 95% of AAT Licensed Accountants surveyed last year expressed a desire to register their clients for MTD for ITSA. This demonstrates a significant appetite for greater intermediary involvement and support for the registration process.
- 4.5 However, the same survey also showed 85% of AAT Licensed Accountants believed the ITSA registration process was not well understood or only understood with the help of an accountant or other professional. This lack of business awareness, particularly among small businesses, would likely have been a contributing factor to the re-phasing last year.

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- 4.6 Before the delay, there appeared to be an overreliance from government on the accountancy profession to educate small businesses about MTD for ITSA. While there is clearly a role for accountants in educating about MTD, there is a lack of direct communication with small businesses from HMRC which must be corrected quickly. This includes improving available guidance and putting much greater investment in public communication campaigns as we draw closer to the new deadlines.
- 4.7 The delays in progress with MTD is also underpinned by HMRC's strained resources and declining customer service levels. As the Public Accounts Committee has noted recently, HMRC customer service staff numbers have been cut by 24 per cent in the past five years and this has translated into now unacceptably low service levels. AAT members have been increasingly frustrated with delays and business disruption from dealing with HMRC with hours spent waiting on phone lines and chasing letters. This is ultimately hampering progress with adopting MTD as it damages the taxpayer's trust in HMRC.
- 4.8 AAT joined nine other UK accountancy and tax advisory bodies in writing to the Chancellor ahead of this year's Spring Budget calling for greater investment in HMRC's customer service¹. Justifications for cutting customer service levels cannot be made based on promises that future efficiencies will be brought with MTD. HMRC needs to be properly resourced now to improve service levels to ensure there is a well-functioning tax authority when MTD is finally rolled out. We would urge the Committee to support this recommendation.
- 4.9 ***There have been some successes with MTD and AAT has identified significant appetite for greater intermediary involvement and support for the registration process. However, the lack of awareness among small businesses as well as declining customer service levels, will ultimately hamper the progress in adopting MTD further. The government must invest both in direct communication campaigns with businesses as well as in greater resource to improve customer service levels.***

5. The realism of HMRC's latest plans for the programme

- 5.1 AAT understands the rationale for the delays announced at the end of last year to MTD for ITSA, but they have meant HMRC is further exposed to the risk that technology could outpace MTD, making the programme redundant. It is for this reason that AAT strongly recommends that there are no further delays with MTD and that HMRC set a definitive timetable for implementation.
- 5.2 It is too early to tell if the new phased approach announced by HMRC will be successful, but the extra time afforded by the delay cannot be used to continue the status quo. HMRC must take immediate action to ensure the new deadlines will be met, starting with ensuring the pilot for MTD for ITSA is implemented as soon as possible.
- 5.3 HMRC should review how it works with third-party software vendors and small businesses. In Australia, the principle of co-creation is resulting in similar programs to MTD moving much quicker and is getting the views of small businesses earlier in the process. In order to meet its new timetable, HMRC should adopt this co-creation approach as well as listen more to the concerns of vendors, accountants, and businesses. For example, the restriction to only allowing a single adviser to be assigned to an account could impact bookkeepers in making quarterly returns.
- 5.4 The realism of HMRC's plans for MTD must account for how those who are digitally excluded will be supported post-implementation. AAT supports HMRC's decision to review the needs of customers with a turnover under £30,000, but the details on how HMRC plans to support the digitally excluded group have not been fully explained. We would recommend the government

¹ Full letter can be read here: <https://www.aat.org.uk/prod/s3fs-public/assets/Open-letter-HMRC-service-levels-ahead-of-Spring-Budget-2023.pdf>

provide more information on what further support HMRC will offer this vulnerable group going forward.

- 5.5 ***There is an increasing risk that MTD could be outpaced by technology if there were any further delays. HMRC must not continue with the status quo but use the additional time to get the pilot running as soon as possible and adopt an approach of co-creation with software vendors and small businesses. AAT would also welcome more information from HMRC on how it will support the digitally excluded post-MTD implementation.***