National Audit Office

REPORT

Progress with Making Tax Digital

HM Revenue & Customs

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Progress with Making Tax Digital

HM Revenue & Customs

Report by the Comptroller and Auditor General

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Comptroller and Auditor General
National Audit Office

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Key facts

£3.9bn

HM Revenue & Customs' (HMRC's) latest estimate in 2023 of additional tax revenue expected from Making Tax Digital for VAT and Self Assessment business taxpayers with incomes over £30,000

4

the number of times the timetable for Making Tax Digital for Self Assessment has been delayed since first announced in 2015

£1.3bn

HMRC's 2023 estimate of its costs to introduce Making Tax Digital for VAT and Self Assessment business taxpayers with incomes over £30,000

£226 million	HMRC's original estimate in 2016 of the cost of introducing Making Tax Digital for three business taxes: VAT, Self Assessment for business taxpayers and Corporation Tax
2:1	benefit-to-cost ratio of Making Tax Digital for VAT and Self Assessment for business taxpayers with incomes over £30,000, based on HMRC's estimates
£1.5 billion	upfront transitional costs to VAT and Self Assessment business taxpayers with incomes over £10,000 to comply with Making Tax Digital, which HMRC omitted from cost-benefit analysis in its May 2022 business case seeking further investment
£1.2 billion	HMRC's provisional estimate of the net cost over the first five years to Self Assessment business taxpayers with incomes between £10,000 and £30,000 if required to comply with Making Tax Digital, equivalent to £460 each on average, based on 2021 costs
3.2 million	number of VAT taxpayer records moved onto HMRC's modern IT platform by March 2023
14 million	number of Self Assessment and Corporation Tax records on HMRC's legacy systems to be moved onto HMRC's modern IT platform, with dates so far set for moving 1.6 million

Summary

Introduction

1 HM Revenue & Customs (HMRC) is responsible for administering the UK's tax system. Its objectives include collecting the right tax; making it easy to pay the right tax and hard to bend or break the rules; maintaining taxpayers' consent through fair treatment; and protecting society from harm. In 2015 the government announced its ambition to make tax digital by 2020, and in 2016 HMRC said it wanted to become a leading digital tax authority. Digital transformation of the tax system has the potential to provide significant benefits to HMRC, taxpayers and the Exchequer.

2 HMRC launched its flagship transformation programme Making Tax Digital (MTD) in 2015-16. The programme's aims were to maximise tax revenue, make sustainable cost savings and improve customer service by modernising HMRC's systems for three business taxes – VAT, Income Tax Self Assessment (Self Assessment) and Corporation Tax. To achieve these objectives, HMRC intended to move its tax systems and tax records onto a modern tax management platform by 2020. HMRC also planned to require business taxpayers to keep and submit quarterly digital tax records. This was to reduce the amount of tax lost from taxpayers making avoidable or careless errors; help businesses better understand their tax position; and reduce the burden of submitting tax returns.

3 HMRC introduced digital record keeping for VAT for large traders as initially planned in 2019, and three years later for smaller traders (in 2022). Following three previous changes to its plans, the government announced in December 2022 that MTD for Self Assessment business taxpayers (those who are self-employed or landlords) would be introduced more slowly. Requirements for self-employed people and landlords with incomes over £50,000 start from April 2026; and from April 2027 for those with incomes over £30,000. The government is reviewing requirements for those with incomes under £30,000. It has not yet decided when MTD for Self Assessment will be introduced for general partnerships or when MTD will be introduced for Corporation Tax.

4 In 2018 we reported that changes in MTD's scope and delays had deferred the benefits for HMRC, and that overall it expected MTD to cost rather than benefit business taxpayers.[1] Our 2021 report, *The challenges in implementing digital change* highlighted common problems that departments encounter including: having unrealistic ambition and timescales, with unknown levels of risk; not engaging adequately with commercial partners; and underestimating the complexity involved in moving from legacy systems.[2] Tackling legacy systems is costly and complex, but continuing to use them is risky and leaves government facing greater costs and risks in the future, including possible service disruption and cyber-attacks.

Scope

5 This report considers progress to implement Making Tax Digital, and whether HMRC's latest plans provide confidence that the programme will deliver value for money. Specifically, the report looks at:

- HMRC's original vision, options and plans for MTD (Part One);
- HMRC's progress between summer 2017 and the end of 2022 (Part Two); and
- the realism of HMRC's latest plans (Part Three).

6 This report focuses on the MTD programme from 2016 onwards. We do not assess wider changes within HMRC, but we do refer to them where they relate to MTD. Appendix One describes our audit approach and evidence base. Appendix Two shows planned implementation dates for digital record keeping by business taxpayers since 2015.

Key findings

The high-level vision and initial plans

7 HMRC considers digital transformation of the tax system is necessary and the broad aim is supported by key stakeholders. There is a strong case for HMRC's move to modern digital systems. Its legacy systems are costly to run and maintain and lack resilience. Modern digital systems also provide the foundation for improving services, including a joined-up view of taxpayers' affairs. The government's 2020 tax administration strategy said HMRC must have a fully digital tax system able to support taxpayers across the full range of their needs. Key stakeholders, including tax agents and business representatives, support the aim to digitalise the tax system provided that changes improve customer experience and help taxpayers to get their tax right (paragraphs 1.2 to 1.5, 1.14 and 3.33).

1 Comptroller and Auditor General, *Report by the Comptroller and Auditor General: HM Revenue & Customs 2017-18 Accounts*, paragraphs 2.22 and 2.23. Published in HM Revenue & Customs, *Annual Report and Accounts 2017 to 2018,* HM Revenue & Customs, HC 1222, July 2018.

2 Legacy systems are operationally embedded in an organisation but have been overtaken by newer technologies or no longer meet changed business needs.

8 **HMRC's original plan to introduce Making Tax Digital by 2020 was not realistic.** MTD requires significant behavioural, administrative and technological change for the programme to succeed. In 2015, the government announced timescales for HMRC to introduce digital record keeping by business taxpayers for Self Assessment, VAT and Corporation Tax by 2020. Over the same period HMRC planned to move from its internal legacy systems for administering those taxes onto its modern tax management platform. Changes for Self Assessment were most ambitious in timing and scope: they were due to complete by 2018 including requirements for more frequent tax submissions from business taxpayers. The timeframes for MTD were agreed before HMRC had fully explored the range of options. HMRC considered whether to sequence work, by either starting with digital record keeping for business taxpayers, or first replacing its legacy systems, but concluded that sequencing these elements would not meet the published timetable. HMRC therefore proposed to do both at the same time. HMRC did not fully assess the scale of work required at the outset of the MTD programme, or the additional complexity of introducing digital record keeping for business taxpayers at the same time as replacing its legacy systems (paragraphs 1.3, 1.4, 1.6 to 1.9, 1.11 to 1.14, 1.16 and Figure 2).

9 **As it better understood the scale of the task, HMRC took sensible steps to revise its delivery plans for Making Tax Digital, putting changes to Self Assessment behind VAT.** Self Assessment is far more complex than VAT, so it was always likely that these changes would need much more time to deliver. HMRC planned fewer changes for VAT, maintaining the nine data fields to complete returns, and with quarterly reporting already standard practice. MTD for Self Assessment covers more taxpayers and a wider range of circumstances. HMRC's plans for Self Assessment require significant changes for people who are not used to digital transactions, electronic record keeping, and quarterly filing. In March 2017, 15 months after the government first published plans for MTD, HMRC had doubts about whether it could deliver the Self Assessment part of the MTD programme on time. Key risks included that legislation would not be in place and that software providers would not be ready for pilot testing. In July 2017, on the advice of HMRC, the government pushed back changes for Self Assessment until at least April 2020, citing concerns that businesses and tax agents were not ready and the delivery environment was more challenging following the UK's decision to leave the EU (paragraphs 1.6, 1.9, 1.15, 1.18, 1.19, 2.2, 2.6, 2.19, 2.20 and Figure 3).

Progress HMRC made between July 2017 and the end of 2022

10 **HMRC had to redeploy resources in response to EU Exit and the COVID-19 pandemic, which reduced its capacity to deliver Making Tax Digital.** Work associated with the UK's decision to leave the EU reduced HMRC's capacity to deliver wider change. In 2018 it closed early a programme providing digital services so that individuals could self-serve rather than write to or call HMRC. In response to the COVID-19 pandemic, HMRC had to redeploy staff to establish and run the digital systems needed for emergency support schemes. Policy and operational officials worked closely together to rapidly develop and implement these schemes. However, this inevitably drew development capacity away from HMRC's other programmes including MTD. Further changes, including preparations for the Health and Social Care Levy, also required system changes which affected progress on MTD (paragraphs 2.2, 3.28, 3.29 and Figure 3).

11 **HMRC introduced digital record keeping for VAT from April 2019, but it encountered problems moving tax records from the legacy system and the changes cost far more than HMRC expected.** In 2019, HMRC introduced MTD for VAT for larger traders, accounting for almost all (99%) of VAT collected, in line with its original timescale. It introduced MTD for smaller traders in 2022 – three years later than originally planned. This delay was due to HMRC's concerns about its ability to make changes during the EU Exit process, the COVID-19 pandemic, and burdens on businesses during that time. However, the changes involved far more work and cost than HMRC had expected. It estimates MTD for VAT had cost around £295 million (£322 million at 2022-23 prices) by March 2023; around £70 million more than it had originally expected MTD would cost for all three business taxes. HMRC did not anticipate the extent of data issues involved in moving tax records and took 15 months longer than planned to move all 3.2 million VAT records (paragraphs 2.5, 2.9, 2.10, Figure 3 and Figure 4).

12 **HMRC research indicates it is likely that Making Tax Digital for VAT has contributed to generating additional tax revenue.** In March 2022 HMRC reported that there was a high likelihood that MTD was generating additional tax revenue by making it easier for businesses to get their tax right. HMRC estimated this equated to £185 million to £195 million of additional VAT in 2019-20. It compared those who signed up early to MTD with similar businesses that did not. HMRC's modelling suggested that there was a high likelihood that revenue had increased from businesses using MTD, but there remains some uncertainty as to whether some of the increased revenue was due to other factors. A new VAT service in August 2022 introduced some extra controls, such as requiring identification for registration and additional verification checks for log-ins but did not introduce other controls, such as requiring proof of address, which may have helped to achieve additional tax revenue (paragraphs 2.14 to 2.18).

13 **Making Tax Digital for Self Assessment is at least eight years behind the original timetable and HMRC has not resolved some important elements of its design.** The government initially planned to introduce MTD for Self Assessment from 2018. HMRC launched a pilot in April 2017. Despite the range of potential scenarios to test, the scale of testing and piloting was limited – in part because HMRC set restrictive requirements including that participants must have an accounting year that aligns with the tax year. Since 2017, more than a thousand taxpayers signed up for the pilot but HMRC needed to remove most of these due to ineligibility, leaving only 15 participants when the pilot was closed to new entrants in 2022. Delays in moving VAT records in 2022-23 reduced HMRC's capacity to build its Self Assessment system and support development of commercial software. HMRC has not yet resolved some design issues including how to: allow for multiple agents to represent taxpayers; handle jointly owned property; and deal with changes in taxpayers' circumstances. In August 2022 HMRC concluded that MTD could not be delivered by 2024 (paragraphs 2.11, 2.19 to 2.25, Figure 5 and Figure 9).

HMRC's current plan for Making Tax Digital

14 **In December 2022, the government pushed back the timetable for Self Assessment for the fourth time, delaying benefits and increasing costs further.** On the advice of HMRC the government announced it would delay the start date for MTD for Self Assessment and take a phased approach to introducing it. This was to give more time for business taxpayers and HMRC to prepare. Doing so reduced pressure on HMRC to move tax records and limited the impact on its wider operations. The announcement meant that rather than requiring all Self Assessment business taxpayers with incomes over £10,000 to keep digital records from April 2024, only those with incomes over £50,000 would be required to do so from April 2026, and those with incomes over £30,000 from April 2027. HMRC is reviewing what requirements might be placed on those with incomes under £30,000. In 2016 HMRC had expected MTD would generate an annual return of £600 million in additional tax revenue from VAT and Self Assessment by 2020-21. It now expects to reach this level in 2027-28. HMRC's estimated costs have increased to £1.3 billion (a 400% increase in real terms since 2016), with £642 million already spent by March 2023 (paragraphs 3.3, 3.5, 3.6 and 3.10, and Figure 7).

15 **HMRC's business cases have omitted significant costs to customers from its cost-benefit analysis. This means that the case for further investment was based on an incomplete picture of the costs and benefits. HMRC told us it does not believe this would have affected the decisions that were taken.** MTD was originally approved with the expectation it would reduce burdens on business taxpayers because digital record keeping would make tax submissions easier. After challenge from stakeholders, HMRC revised its approach to estimating costs to these customers. In 2021 it published policy papers which estimated upfront transitional costs to Self Assessment customers with incomes above £10,000 would be around £1.4 billion and net ongoing costs would be around £150 million a year to comply with MTD. However, it did not carry upfront transitional costs through to its cost-benefit analysis in its May 2022 and March 2023 business cases seeking further investment in the programme. In its May 2022 business case HMRC forecast total net ongoing costs to taxpayers would be around £900 million over five years to comply with MTD. While it quantified upfront transitional costs to customers in an annex, it excluded these from the main body of the business case and from its cost-benefit analysis. This included significant upfront costs such as purchasing computers and getting support from agents to comply with MTD. HMRC's 2021 research indicated these costs could average £330 for each business affected and be almost £1,000 for some people. It did not include any transitional costs in its March 2023 business case. The exclusions mean that HMRC's 2022 and 2023 business cases presented partial analysis of the costs and benefits of MTD when requesting further investment in the programme. HMRC's May 2022 business case contained the most significant omission, with around £1.5 billion of forecast costs to VAT and Self Assessment customers excluded from the cost-benefit analysis. The business case should have shown that the combined costs to HMRC and customers of proceeding with MTD for Self Assessment were greater than the additional tax revenue expected. HMRC told us that it did not believe presenting the upfront transitional costs to customers within the cost-benefit analysis would have resulted in any different decisions being taken. It was able to provide us with some evidence that decision makers were sighted on the full upfront transitional costs to customers ahead of some key decisions (paragraphs 3.13 to 3.16 and Figure 7).

16 HMRC still expects the programme will generate a positive return, which has improved following a recent change in methodology for estimating tax revenue. HMRC now expects MTD will achieve £3.9 billion of additional tax revenue by 2033-34, up £0.6 billion on its March 2023 business case. HMRC had assumed that less compliant taxpayers would sign up later for MTD, delaying the reduction of errors attributable to the programme. Evidence from MTD for VAT indicates this has not been the case and HMRC removed this assumption from its latest estimate of additional tax revenue for Self Assessment. HMRC numbers now indicate MTD will achieve a benefit-cost return of around 2:1. Provisional HMRC numbers indicate the case for mandating MTD for those with lower Self Assessment income may be more marginal. HMRC estimates that in the first five years it would generate £1.6 billion of additional tax revenue from business taxpayers with incomes between £10,000 and £30,000 but complying with MTD might cost these customers £1.2 billion (£460 on average) over this period, based on research published in 2021. HMRC has yet to estimate how much extending MTD to more Self Assessment business taxpayers would increase its own costs. Direct comparisons of additional tax revenue to HMRC and customer costs is made more difficult because HM Treasury Green Book rules do not count additional tax revenue as an economic benefit. There may be a case to include revenue from reduced error and fraud on the grounds this represents a benefit to government and society as a whole but not a genuine loss to customers (paragraphs 3.10, 3.11, 3.14, 3.17 to 3.19, and Figure 7).

17 HMRC has set a very challenging plan to implement Making Tax Digital for Self Assessment from 2026-27, delivering many aspects of the programme in parallel. The scale of work required remains uncertain. HMRC's plans still require it to simultaneously move from legacy systems to a modern platform and introduce digital record keeping by business taxpayers. It has not been able to provide us with any measures of progress to the end of 2022, so it is not clear how much its investment to date has advanced its system development. HMRC's current plans indicate it has major work to complete on all the significant elements (restarting its pilot with business taxpayers, moving tax systems and records, and changing its internal processes), and this must all be done in parallel. It plans to move the tax records of all 740,000 Self Assessment business taxpayers with incomes over £50,000 in 2026-27; and the 870,000 business taxpayers with incomes between £30,000 and £50,000 in 2027-28. In March 2023 HMRC was seeking a better understanding of the quality of Self Assessment tax records prior to moving them, learning from its experience with MTD for VAT. It was considering, but had not yet decided, whether to get independent technical assurance over its plans. In 2022 HMRC started work on a new initiative – 'Income Tax Service Transformation' – which will look more fundamentally at how income tax is designed and operates. This initiative may continue much of the work initially envisaged under Making Tax Digital, including streamlining and simplifying the income tax regime (paragraphs 2.10, 3.21 to 3.25, 3.37 and Figure 8).

18 Stakeholders important to the success of Making Tax Digital want HMRC to be more collaborative and transparent about progress. HMRC meets frequently with stakeholders including tax agents, taxpayer representative groups and software developers. Developers and tax agents will be important both in developing and using software and in communicating changes and supporting taxpayers to make quarterly updates for the first time. Stakeholders have repeatedly raised concerns with HMRC about the added administrative burden and their own capacity to support taxpayers with quarterly updates. Stakeholders told us they valued consultations but wanted to be involved meaningfully on design decisions including income thresholds for inclusion in MTD for Self Assessment, quarterly updates, and how to support taxpayers with multiple tax agents. They were also concerned about whether free to use software would be available. All the stakeholders we spoke to would like to see a more comprehensive pilot, a detailed plan and more transparency on HMRC's progress. Since the December 2022 announcement, HMRC started working more closely with stakeholders to resolve issues such as how quarterly updates would work in practice (paragraphs 2.19 to 2.21, 3.27 to 3.29, Figure 6 and Figure 9).

19 HMRC will need to keep running most legacy systems alongside its modern tax management platform. HMRC completed the important task of moving 3.2 million VAT records on to its modern tax management platform by March 2023, against its plan to do this by December 2021. It has 14 million more records to move from legacy systems for Self Assessment and Corporation Tax. However, it has not set a new timetable or outlined plans to move Corporation Tax, and the 3 million related records, onto its modern tax management platform, or to move the 9.4 million Self Assessment taxpayers who have trading or property income below £30,000 or those with other forms of Self Assessment income. Until these records are migrated, HMRC will continue to have the costs and complexity of running its legacy systems alongside the new system (paragraphs 1.15, 2.10, 3.4, 3.7, 3.23 and 3.24).

Conclusion on value for money

20 HMRC's vision to digitalise the tax system has the potential to bring about a step-change in the system's efficiency and effectiveness. The principle of digitalising tax has broad support among stakeholders provided it makes it easier to pay tax. HMRC launched digital record keeping for VAT for larger businesses on time, but it needed more time to move taxpayer records off legacy systems due to the extent of data issues it had to deal with. HMRC's initial timeframe for MTD was unrealistic. It did not allow sufficient time for HMRC to explore the full range of options that would achieve the programme's aims and select one that it could implement.

21 Each announcement has set an ambitious timeframe for delivery, with several aspects of the MTD programme to be delivered in parallel. The repeated delays and rephasing of MTD has undermined its credibility and increased its costs. There is a risk that delivery partners and taxpayers disengage from a programme that can only succeed if those groups significantly change their behaviour. Higher costs were not inevitable, had HMRC taken more time to plan and consider the realism of the options. HMRC has not demonstrated the programme offers the best value for money for digitalising the tax system, with later business cases significantly underplaying the total cost to customers of making the change. The programme should now develop a robust business case which includes a comprehensive and up-to-date assessment of the costs to customers of implementing MTD. Planning has been too high-level and the risk remains that further delays will add costs and defer benefits. HMRC is reviewing how MTD will work for businesses and landlords with lower Self Assessment income. It should take this opportunity to assess how far the programme is improving services, reducing burdens, and making the tax system easier to comply with and use lessons from this review to ensure the wider programme is finally on track to secure the benefits it has long promised.

Recommendations

22 HMRC's ability to secure value for money from the remaining spend on MTD – forecast at £620 million at March 2023 – now depends on developing a more robust business case exploring the options for progressing MTD, resolving questions about design, and rigorously managing risks to delivery. HMRC should:

Testing the options and design

a Prepare a separate business case for Making Tax Digital for Self Assessment so that decision makers can understand the costs and benefits (excluding those already incurred or secured) and delivery risks for the full range of options. This should include greater clarity on how different groups of business taxpayers are affected.

b Identify and challenge whether each discrete element of the programme merits inclusion. Tests should include whether the change is: business critical or offers a benefit-cost return; meets the policy objectives of the programme; cannot be done better another way; and can be delivered with confidence.

c Reassess what scope the move to a modern tax management platform offers for: achieving additional tax revenue from improved controls and risk assessing of claims; greater efficiency gains; and benefits to business taxpayers by offering a more streamlined service. Consideration of the value for money of alternative options should include the full costs to both HMRC and customers.

d Resolve questions of design and the mechanics of the Self Assessment regime as a strategic priority. HMRC can learn from its success in resolving design issues quickly when implementing the COVID-19 support schemes by bringing together those with expertise in policy, tax, IT and operational delivery (including delivery partners). For MTD and other digital programmes it should develop and test the concept iteratively before committing to large-scale projects or finalising deadlines.

e Ensure it follows through on its public commitment to work collaboratively with stakeholders on how best to create the new system. HMRC changed its approach in early 2023 and must now work with stakeholders and relevant experts to quickly address the specific unresolved design issues, including how HMRC's systems will allow for taxpayers with different year-ends or jointly-let property, or those represented by multiple agents, and develop and test how the arrangements would work in practice for taxpayers, their agents and HMRC.

f Resolve questions around the choice of accessible software options and provision of free software, for self-employed people and landlords under Making Tax Digital and assess the implications on functionality and costs to customers if HMRC relies on software providers to deliver all MTD software, including for the smallest businesses with the most straightforward affairs. HMRC must establish the costs and time required if it needs to develop or procure its own software, and assess these alternative options in the business case.

On delivery

g Reassess its existing delivery plan to test whether it is realistic and offers the best value for money. In particular HMRC should:

- work with software providers to agree an approach for the pilot. Working through the more complex cases first may offer the best value for money and reduce the total cost for the programme;
- review its approach to moving taxpayer records from legacy systems and consider whether it needs more time and resources to cover this element;
- model the cost and time sensitivities around the plan to identify the areas of greatest risk and ensure the plan contains sufficient contingency; and
- use projections of further cost as a trigger to assess the continuing viability of the programme, should these threaten to outweigh the benefits.

h Seek independent technical assurance of its plans and monitor progress closely throughout. It should develop robust metrics to report progress against.

i Develop an end-to-end plan with the detail that delivery partners need and work with software developers on the sequence of work and testing that will be most likely to achieve value for money.

j Develop plans for how it will help taxpayers prepare for MTD. This should include a particular focus on those who are less digitally able and ensure the process for seeking exemptions is sufficiently accessible.

On appraising MTD and other programmes

k Investigate how incomplete and inaccurate information on upfront transitional costs to customers was presented in programme business cases and take any necessary corrective action.

l Review all its major programmes that are imposing costs on taxpayers and ensure it has correctly accounted for these costs when assessing the programmes' economic benefits and financial affordability.

m Review with HM Treasury how additional tax revenue from reduced fraud and error can be included in business case analysis so business cases for MTD and other HMRC programmes aiming to reduce fraud and error can provide decision makers with a clear view of all benefits and costs. The benefits of reducing fraud and error have been central to analysis for business cases prepared elsewhere in government.

23 For many of these recommendations, guidance can be found in our 2021 good practice guide on *Managing the commercial lifecycle* and our 2023 insights report *Lessons learned: Resetting major programmes.*

Part One

HMRC's original vision, options and plans for Making Tax Digital

1.1 This report considers HM Revenue & Customs' (HMRC's) progress with Making Tax Digital (MTD). This Part considers:

- HMRC's high-level vision for MTD;
- what the changes mean for business taxpayers and their representatives;
- the options HMRC assessed; and
- the risks associated with digital change.

The high-level vision for Making Tax Digital

1.2 Digital transformation offers HMRC the opportunity to improve its efficiency, revenue collection and customer service. It can also help taxpayers to get their tax right more easily. HMRC wants to move to a digital service that makes it easy for taxpayers to pay the right tax, requiring them to make digital submissions to improve the completeness and accuracy of tax records and provide closer to real-time data that HMRC can use to better support taxpayers and identify risks to tax revenue.

1.3 HMRC's ambition is to become one of the most digitally advanced tax authorities. In December 2015 the government announced its intention to make tax digital by moving to a fully digital tax system by 2020, ending the need for tax returns.[3] To deliver on its ambition, HMRC established its flagship transformation programme Making Tax Digital.

3 HM Revenue & Customs, *Making tax digital*, December 2015. Available at: https://webarchive.nationalarchives.gov.uk/ukgwa/20160114105542/https:/www.gov.uk/government/publications/making-tax-digital, accessed 24 April 2023.

1.4 The MTD programme has two main aims.

a Modernise HMRC's separate IT systems for three business taxes. Through MTD, HMRC aims to replace its legacy systems for VAT, Income Tax Self Assessment (Self Assessment) and Corporation Tax.[4] These three taxes yielded more than £260 billion of tax revenue in 2021-22 but the systems underpinning them are ageing, expensive to operate, lack resilience and risk falling into disrepair. HMRC is moving its processes and tax records on to its modern tax management platform.[5]

b Require business taxpayers, including self-employed people and landlords, to keep and submit digital tax records, reducing mistakes and reducing the tax gap.[6,7]

1.5 MTD also included work to enhance the digital Business Tax Account.[8] HMRC planned that this account would enable businesses to register, account for and pay taxes, and to understand their overall tax liabilities and entitlements. At the same time, HMRC's wider transformation programme included plans to digitalise services for individuals, primarily through digital tax accounts, with the aim of enabling them to resolve more issues without needing to write to or call HMRC.

What the changes mean for business taxpayers and their representatives

1.6 MTD is changing how business taxpayers keep and submit tax records to HMRC. Business taxpayers need to keep digital tax records and make quarterly digital updates. HMRC already requires quarterly returns for most VAT traders, but not for Self Assessment and Corporation Tax.[9] Under MTD, businesses can record their transactions using spreadsheets but HMRC is encouraging them to use specialist software provided by third parties and approved by HMRC.[10] Businesses will need to use specialist third-party software to make tax submissions, but continue to register for VAT and Self Assessment directly with HMRC.[11] In August 2022, HMRC introduced a new VAT registration service as part of the MTD programme.

4 Legacy systems are operationally embedded in an organisation but have been overtaken by newer technologies or no longer meet changed business needs.
5 A digital platform with a common infrastructure that links HMRC's systems for different business taxes.
6 Digital tax records not required for other forms of income covered by Self Assessment such as savings or investment income or for business taxpayers whose Self Assessment income does not exceed a minimum threshold, set at £10,000 but under review at June 2023. In December 2022, HMRC publicly announced an indefinite delay of a requirement for general partnerships to use digital tax records.
7 The tax gap is the difference between the tax due from and paid by taxpayers. MTD helps reduce mistakes caused by taxpayer errors and by taxpayers failing to take reasonable care.
8 Digital account available to all businesses that manage one or more business taxes online.
9 Some businesses make monthly VAT returns and a small number make annual returns.
10 MTD software providers include established providers of business software and new entrants.
11 At a minimum business taxpayers must use bridging software to make tax submissions.

1.7 MTD will impose additional costs on some business taxpayers because it requires them to use approved software, although HMRC expects basic free software to be available for the smallest businesses with the most straightforward affairs. HMRC expects some third-party software will provide businesses with significant productivity benefits through better business information and administration. Other tax authorities are also seeking to build tax into taxpayers' wider business systems.

1.8 **Figure 1** on pages 20 and 21 illustrates how the customer journey would change for Self Assessment business taxpayers. All Self Assessment business taxpayers will continue to submit their annual tax position by 31 January after the end of the tax year. Business taxpayers covered by MTD will have around nine months from the final quarterly Self Assessment update (due on 5 May) to finalise and complete their period statement for the year and pay any tax due.[12] At this point they will need to finalise their business income and annual expenditure and make any adjustments, for example, for tax reliefs claimed annually.

1.9 MTD could have significant ramifications for parts of the tax industry, such as high street tax firms who work with Self Assessment business taxpayers who mainly keep paper records. There are opportunities and risks for tax agents. MTD could reduce clerical work for some agents if their business customers choose to keep their own digital records. Agents who mainly deal with paper invoices and returns may need to change their business model, which may increase costs and add additional administrative work for those tax professionals. MTD may change how HMRC needs to engage with the tax market, particularly software providers, as HMRC approves the software that taxpayers depend upon to correctly calculate the tax they owe.[13]

Appraising the options for Making Tax Digital

1.10 HMRC prepared its first business case for the programme in April 2016, four months after MTD was announced. The business case said HMRC's services needed to make it easy for business taxpayers to get things right and thereby increase tax revenue, improve its efficiency and customer service.

1.11 HMRC assessed three options for change, with the key difference being whether to modernise its tax systems in parallel with mandating digital tax records, or sequence one element before the other. It concluded that the only viable option for meeting the policy of digital tax records by 2020 was to do both elements in parallel (**Figure 2** on page 22).

12 Self Assessment business taxpayers are self-employed people and landlords.
13 Under MTD, business taxpayers retain the legal responsibility for calculating the tax they owe. Third-party software will communicate electronically with HMRC to produce a tax liability estimate.

1.12 When appraising programmes, HM Treasury requires departments to consider a longlist of options for achieving the policy outcome before analysing in depth a subset of viable options including a do-minimum option. In practice only HMRC's preferred option was viable for the MTD timeframe of 2020 the government announced in 2015. As a result, HMRC only quantified the costs and benefits for this option. HMRC did not assess the costs and benefits of the MTD programme's two main elements separately, and thus did not assess the do-minimum option of moving tax processes and records to its modern tax management platform.

1.13 HMRC's business case did not cover variations of its preferred option. These could have included: different ways of sequencing changes for the three taxes up to 2020; the frequency of in-year reporting and the impact of this on business taxpayer burdens and tax compliance; alternative ways of transforming the tax system, such as those used by other tax authorities; or options for digital transformation focused on improving HMRC's efficiency and performance. Neither did the business case compare the merits of using software providers with HMRC providing software itself. HMRC assessed that requiring taxpayers to use third-party software would provide choice to business taxpayers and lead to innovation, although it recognised that this approach might impose costs on these customers. The business case did not assess some key risks such as whether the software industry could provide software in time, and data security, including the risk of data theft from third-party software.

Risks associated with major digital change

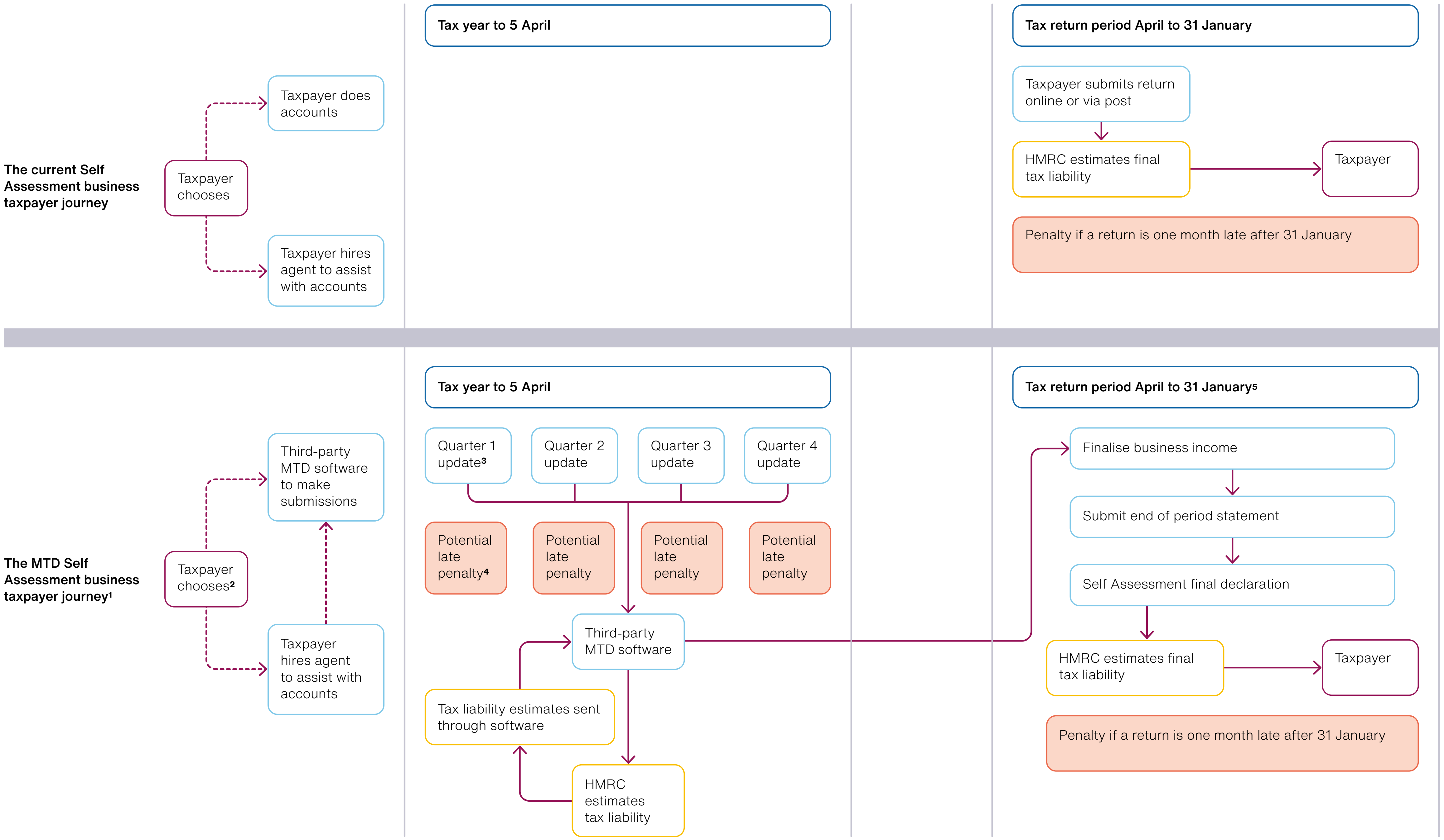
1.14 MTD requires significant behavioural, administrative and technological change for the programme to succeed. The initial plan for MTD announced in 2015, and confirmed in HMRC's first business case, was unrealistic. It required around four million Self Assessment business taxpayers to make quarterly digital tax updates from August 2018, within 32 months of MTD being announced.[14] HMRC then planned to require digital returns for VAT from 2019 and Corporation Tax from 2020. Many stakeholders supported the overall aim to digitalise the tax system, and still do, provided changes improve customer experience and help taxpayers to get their tax right.

14 The first quarterly update would have been due in August 2018.

Figure 1

How the proposed business taxpayer journey for Making Tax Digital (MTD) for Self Assessment compares with existing arrangements

Under MTD, business taxpayers will need to choose software and then move from making one submission to seven submissions to HM Revenue & Customs (HMRC) across the tax year and tax return period



- Done by the business taxpayer
- Completed by the business taxpayer or agent
- Time periods
- HMRC provides information
- Potential penalty points
- Direction of information
- Decision and choice

Notes

1 This journey will apply to Self Assessment business taxpayers with incomes over £50,000 from 2026-27 and over £30,000 from 2027-28.

2 In the MTD journey, business taxpayers may be advised on what software to use by their agent and those without an agent will need to decide themselves.

3 Quarterly updates will provide HMRC with the business taxpayer's income and expenditure for the quarter. The accuracy of these updates will not be checked until HMRC brings in prompts and nudges, but they will be used by the business taxpayer for their end of year tax liability calculations, at which point they will pay any tax due.

4 For the MTD journey, business taxpayers will receive a penalty point for each quarterly update submitted late, in addition to a penalty point if they submit their final tax return late, totalling up to five potential penalty points. A penalty may also be received by those business taxpayers who do not pay their tax liability on time. Some business taxpayers with fluctuating income or with income close to the mandation threshold, may not know if they are required to submit quarterly updates until later in their financial period when it becomes clear that their cumulative income passes the mandated threshold (for 2026-27 annual income above £50,000 and 2027-28 above £30,000).

5 Business taxpayers need to complete three actions in the final return period for MTD.

6 Under MTD there will be a total of seven submission points for a Self Assessment business taxpayer: four quarterly updates, finalisation of business income, end of period statement, and final declaration.

Source: National Audit Office analysis of HM Revenue & Customs' data on business taxpayer journeys

Figure 2
Options considered for Making Tax Digital (MTD) in 2016

HM Revenue & Customs (HMRC) identified two potentially viable options, but judged only one would deliver MTD by 2020[1]

Option	Timeframe in line with policy?	Costs and benefits quantified?	HMRC assessment of viability and impact
Preferred option Replace legacy tax systems and simultaneously require business taxpayers to keep digital records in parallel	Yes – complete by 2020	Yes	Viable – reduce the tax gap, HMRC costs and customer costs
Replace legacy tax systems first, then introduce digital record keeping	No – beyond 2020	No	Viable – delay rather than reduce investment costs, and delay reductions in tax gap and customer costs, bringing reputational damage
Introduce digital record keeping first, then replace legacy tax systems	No – beyond 2020	No	Not viable – re-platforming HMRC systems would need to be delivered alongside or before digital record keeping
Do nothing	No	No	Not viable – relying on legacy tax systems would increase cost, put pressure on service and reduce public trust in HMRC

Note

1 Options considered by HMRC in the first business case it prepared for MTD.

Source: National Audit Office analysis of 2016 HM Revenue & Customs' strategic outline case for Making Tax Digital

1.15 Although HMRC was using third parties to design and provide customer-facing software, it still faced technical challenges.

- **Replacing its tax records and systems.** Legacy systems expose organisations to risks such as service disruption and maintaining them is costly. Using legacy systems is unsustainable in the long-term because it will get harder to find people with the skills to maintain these very old systems. Replacing legacy systems is complicated, has risks and is costly. It is also fundamental for transformation of the tax system. For MTD, HMRC needs to: understand what business taxpayer data are needed and how these will be used on its modern tax management platform; cleanse and standardise existing data before moving records onto the platform; and review and adjust its processes. Around 17 million tax records needed to be moved, comprising VAT (3.2 million), Self Assessment (11 million) and Corporation Tax (3 million).[15]

- **Enabling business taxpayers to submit digital records via software.** This involves HMRC designing and building the infrastructure to receive digital submissions, communicating detailed requirements to third parties developing software, and providing a testing environment and data that are sufficiently representative of HMRC's systems for software providers to adequately test their products.

1.16 Major digital change can be difficult. We and the Infrastructure and Projects Authority have identified common issues including:[16]

- **unrealistic ambition and timescales, with unknown levels of risk.** From the start, HMRC rated MTD as a high-risk programme. When the original dates for digital record keeping by business taxpayers were announced in 2015, HMRC had not adequately assessed what was involved. It told us dates were required to provide certainty including for business taxpayers;

- **not engaging adequately with commercial partners.** The programme depends on third-party software providers, but HMRC did not assess whether they could deliver products in time;

- **underestimating the complexity involved in moving from legacy systems.** HMRC had not fully understood the scale of the challenge of moving data and systems when it prepared its initial business case; and

- **short-termism.** The dates announced in 2015 for introducing digital records were driven by securing additional tax revenue quickly to pay for modernising HMRC systems, rather than a realistic assessment of the programme's long-term outcomes.

15 Includes seven million Self Assessment taxpayers who were not mandated for MTD under original plans because annual trading or property income was below £10,000 or they had Self Assessment income types not covered by MTD. A further 2.6 million Self Assessment taxpayers with Self Assessment business or property income between £10,000 and £30,000 that may not be mandated following the government's announcement in December 2022 (paragraph 3.3).

16 Comptroller and Auditor General, *The challenges in implementing digital change*, Session 2021-22, HC 575. July 2021. The Infrastructure and Projects Authority is the government's centre of expertise for infrastructure and major projects.

1.17 HMRC consulted on its plans in August 2016, but it had not done the detailed design work needed to support digital tax records or modernise its systems.[17] Tax agents and taxpayer representatives were concerned about deliverability and thought HMRC's estimates of additional administrative burdens to business taxpayers were unrealistic.

1.18 In March 2017, HMRC gave MTD an amber-red delivery rating.[18] Key risks included that legislation might not be ready in time, and that software developers may not be ready for the testing needed to have software available to Self Assessment business taxpayers by 2018.

1.19 In response to stakeholder concerns about the pace of change, the government said in July 2017 that it would only require business taxpayers over the £85,000 turnover threshold to keep and submit digital tax records for VAT from 2019. It would not require those below the £85,000 VAT threshold to do so until April 2020 at the earliest, a year later than planned.[19] It also pushed back the requirement for digital Self Assessment returns until at least 2020, two years later than planned. Part Two considers HMRC's progress against the revised timetable.

17 HM Revenue & Customs, *Making Tax Digital – Bringing business tax into the digital age,* consultation document, August 2016, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/545715/Making_Tax_Digital-Bringing_business_tax_into_the_digital_age-consultation.pdf, accessed 24 April 2023.

18 The second highest of HMRC's risk ratings.

19 £85,000 is the VAT threshold. Businesses with turnover over £85,000 must register and pay VAT.

Part Two

Progress made towards Making Tax Digital

2.1 This part considers HM Revenue & Customs' (HMRC's) progress between announcing new timeframes for Making Tax Digital (MTD) in July 2017 and the end of 2022. It sets out:

- changes to the overall scope and timetable for MTD up to the end of 2022;
- progress HMRC had made implementing MTD for VAT, including the costs and benefits;
- HMRC's evaluation of the impact of MTD for VAT; and
- progress towards MTD for Income Tax Self Assessment (Self Assessment).

Changes to the scope and timetable of Making Tax Digital

2.2 In July 2017 the government announced a revised timetable for MTD and HMRC changed its delivery plan. The announcement confirmed that HMRC would delay until at least 2020, introducing a requirement for digital record keeping for VAT traders below the VAT registration threshold, and those who pay Self Assessment and Corporation Tax. HMRC made further changes to the timetable in 2020 and 2021 citing concerns raised about whether business taxpayers and agents were ready, and the impact of EU Exit and the COVID-19 pandemic on both HMRC and taxpayers (**Figure 3** overleaf). In 2018 HMRC closed early a separate programme which was developing digital services so that individuals could self-serve rather than write to or call HMRC.

2.3 While HMRC attributed delays to external factors, it also made less progress than it had expected. As HMRC understood more about the scale of the work required, it became clear that the budget it initially set for MTD would not cover the cost of necessary work. By March 2021 MTD had cost £356 million (£397 million at 2022-23 prices), exceeding its initial total budget of £226 million (£258 million at 2022-23 prices) for 2016-17 to 2020-21 (**Figure 4** on page 27) with slower progress than expected.

Figure 3

Making Tax Digital (MTD) public announcements of changes to planned implementation dates from July 2017 to December 2022

The government announced four changes to the timetable for implementing MTD

Announcement date or date implemented (grey)	Impact on implementation date	HM Revenue & Customs' (HMRC's) explanation for change
July 2017	VAT below £85,000 threshold: delayed by one year from 2019 to 2020[1] VAT above £85,000 threshold: unchanged from 2019 Self Assessment: delayed by two years from 2018 to 2020 at the earliest[2] Corporation Tax: unchanged from 2020[2]	A lack of business taxpayer and agent readiness HMRC resources had to be redeployed in response to EU Exit A hung Parliament meant uncertainty around government's policy priorities
April 2019	**MTD for VAT above £85,000 threshold implemented**	
July 2020	VAT below £85,000 threshold: to be delivered in two years, by 2022 Self Assessment: to be delivered in three years, by 2023 Corporation Tax: delayed by six years to 2026 at the earliest	A continued lack of business taxpayer and agent readiness The continued consequence of HMRC resource redeployment for EU Exit The COVID-19 pandemic created new HMRC priorities, and business taxpayers (including the self-employed) were faced with unprecedented challenge
September 2021	Self Assessment: delayed by one year to 2024 Corporation Tax: unchanged	In recognition of the continued challenge business taxpayers were facing from the COVID-19 pandemic HMRC had to redeploy staff to work on system changes for the new Health and Social Care Levy
April 2022	**MTD for VAT below £85,000 threshold implemented**	
December 2022	Self Assessment: delayed by two years minimum to 2026[3] Self Assessment for general partnerships: indefinitely delayed Corporation Tax: not mentioned in announcement	HMRC rephasing the MTD programme (paragraph 3.2)

Notes

1 Businesses with turnover over £85,000 must register and pay VAT to HMRC.

2 July 2017 announcement said 2020 at the earliest for Self Assessment and Corporation Tax.

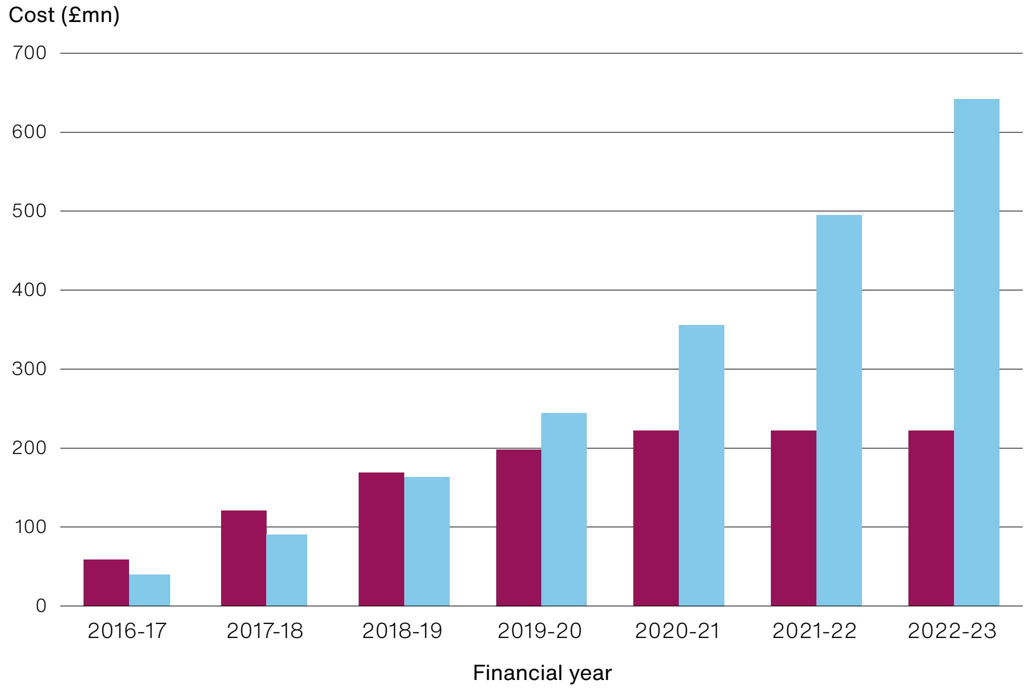
3 MTD for Self Assessment is to be introduced first for business taxpayers with incomes above £50,000 in 2026-27.

Source: National Audit Office analysis of HM Revenue & Customs' documents

Figure 4

Forecast and actual cost of Making Tax Digital, 2016-17 to 2022-23[1]

The cumulative cost of the programme far exceeds expectations set in 2016



	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Forecast cumulative cost, April 2016 business case	59	120	169	198	222	222	222
Actual cumulative cost	40	90	163	244	356	495	642

Notes

1 All values in this diagram are shown at their unadjusted rate, and thus do not take account of inflation or other factors.

2 Forecast is from Making Tax Digital's first business case in April 2016.

3 By March 2023, actual cumulative cost was £690 million at 2022-23 prices compared to forecast cumulative cost at 2022-23 prices of £258 million, a difference of £432 million. The 2016 business case profiled £222 million of spend against a programme budget of £226 million. We have used the budget of £226 million to arrive at forecast cumulative cost at 2022-23 prices.

4 When HMRC prepared the 2016 business case, the programme was due to close in 2020-21. HMRC is now forecasting the programme will close in 2027-28 at a cost of £1,260 million.

Source: National Audit Office analysis of HM Revenue & Customs' (HMRC's) April 2016 Making Tax Digital Strategic Outline Business Case and HMRC cost data

2.4 Activity accelerated from 2020-21, and by March 2023 HMRC had spent £642 million on MTD (£690 million at 2022-23 prices). Some of the cost increase was due to new elements, including around £35 million from the addition of penalty reform in 2020-21, to harmonise penalties for late submission and payment of VAT and Self Assessment.[20]

Progress towards Making Tax Digital for VAT

2.5 In 2019, HMRC implemented a requirement for VAT traders with turnover over £85,000 to keep digital records, in line with the original timescale for launching MTD.[21] These traders account for around 99% of all VAT collected. HMRC completed the roll-out for remaining traders in 2022, three years later than initially planned.

2.6 Introducing digital record keeping for VAT was always likely to be simpler than for the other two taxes. Most taxpayers already submitted records quarterly or monthly, and there were no changes to the nine data fields required under VAT returns.[22] The replacement of HMRC's legacy VAT system was the most complicated element of MTD for VAT. As well as building systems for VAT on its modern tax management platform, it needed to move all VAT records to the platform, and review and adjust its processes.

2.7 HMRC used third-party software providers to develop and provide software for VAT taxpayers. In December 2022, HMRC's website had links to more than 550 third-party MTD software packages for VAT, including 265 for agents. The government did not commit to having free MTD VAT software available. In May 2023, 26 VAT software products on HMRC's website were advertised as free to use.

2.8 Of 554 packages available in May 2023, 225 do not offer basic features such as checking what VAT is owed, the option to submit tax returns or view payment history. Thirty-two of the packages include accessibility features.[23] When we checked the software links on HMRC's website in December 2022 and January 2023, 34 links did not open a working webpage.

20 HM Revenue & Customs, *Policy paper: Penalties for late payment and interest harmonisation*, Updated 13 January 2022, accessed 1 June 2023 from: www.gov.uk/government/publications/penalties-for-late-payment-and-interest-harmonisation
21 Since 2017, businesses with turnover over £85,000 must register and pay VAT.
22 A minority of taxpayers make annual VAT returns and make advance VAT payments based on their last return. Taxpayers who paid annually or monthly were not required to change their frequency under MTD.
23 These features increase accessibility for blindness or impaired vision, deafness or impaired hearing, motor or physical difficulties and cognitive impairments.

2.9 HMRC estimates that introducing MTD for VAT had cost it £295 million (or £322 million at 2022-23 prices) by March 2023, around £70 million more in nominal terms than its original estimate of the full programme's costs.[24] The estimate covers HMRC's role in enabling reporting of digital VAT returns and putting VAT on its modern tax management platform, but not the cost of decommissioning the legacy VAT system.[25]

2.10 HMRC took 15 months longer than planned to move VAT records to its modern tax management platform. It attributes this delay to the poor quality of its data. HMRC moved half of the 3.2 million VAT records that were up to date for traders as they signed up to MTD. It planned to move the remainder by December 2021, but more than 100,000 records had poor-quality data. The problems delayed the movement of 700,000 records. HMRC used operational and temporary staff to address poor-quality records. It completed the movement of VAT records in March 2023.

2.11 Delays in moving VAT records onto HMRC's modern tax management platform did not affect the introduction of digital record keeping for VAT by business taxpayers but led to a nine-month postponement to January 2023 of the new VAT penalty regime, as this operates on the platform (paragraph 2.4). The delay reduced revenue by around £135 million. Subsequent work identified HMRC needed more time to develop new IT processes supporting penalty reform in any case.[26]

Evaluating the impact of Making Tax Digital for VAT

2.12 Under government guidance departments should undertake comprehensive, robust and proportionate evaluations of their interventions.[27] HMRC published several evaluation reports during its implementation of MTD for VAT (**Figure 5** on pages 30 and 31). Internally, HMRC also carried out lessons-learned exercises.

2.13 HMRC's objectives for MTD for VAT included reducing errors in VAT returns, increasing business productivity and improving how businesses control their wider tax affairs. HMRC's 2021 evaluations found that only 30% of businesses surveyed thought the benefits outweighed the costs of MTD for VAT. HMRC said this was because of a lack of business taxpayer and agent readiness, indicating that work to help business taxpayers get ready for future roll-outs for MTD will be important to secure the benefits.

24 After March 2023, HMRC expects to incur around £25 million by 2026-27 in maintaining MTD for VAT.
25 HMRC intends to cover in a separate business case the cost of decommissioning the VAT legacy system.
26 For the majority of traders who file returns quarterly, the new penalty regime applied from the returns they made from May 2023.
27 HM Treasury, *Magenta Book: Central Government guidance on evaluation*, March 2020, available at: www.gov.uk/government/publications/the-magenta-book

Figure 5
Key findings from HM Revenue & Customs' research on Making Tax Digital (MTD) for VAT

HM Revenue & Customs (HMRC) published research which covered several themes between 2017 and 2023

Research theme	Number of reports covering theme and range of dates reports published[1]	Key findings[2]
Awareness and readiness of business taxpayers and agents	Four reports published between 2017 and 2022[3]	In 2017, research based on 42 interviews with complex businesses showed they had low awareness of MTD but were supportive of digital change and increasing their digital interactions with HMRC. By 2022, 93% of businesses surveyed were aware of MTD. This was up from 87% in 2021. In 2022, 51% of businesses surveyed could recall at least one requirement and 57% believed they were either already compliant or would not be affected by MTD. Almost all 500 agents surveyed in August 2018 had heard of MTD eight months before VAT roll-out was expected in April 2019 and 56% said they understood all requirements.
Business taxpayers' engagement with MTD	Three reports published between 2017 and 2023[4]	In 2017, research based on 42 interviews with complex businesses showed that while generally supportive, they did not see MTD as a priority in their future tax administrative planning. In 2020, research based on interviews with 38 businesses showed those with limited understanding and engagement with MTD were less likely to see benefits of digital record keeping and more likely to see costs. The same 2020 research reported many of these businesses did not experience any impact from moving to MTD because they were either new VAT-registered businesses that year, so signed up from the outset for MTD, or already comfortable with using similar software. In 2023, research based on 50 interviews with MTD-compliant businesses found many felt overwhelmed when choosing software and were frustrated with their choice after using the software.
Cost and benefits to agents and business taxpayers	Four reports published between 2019 and 2021[5]	In 2019, 25% of 500 agents surveyed believed MTD would improve record keeping and 16% believed it would improve the quality and timeliness of information. In 2020, research based on 60 interviews found time savings and reduced scope for error in digital record keeping among those businesses that were fully automated, but this research noted there was a risk of businesses overly relying on software. In 2021, research based on 31 small businesses found businesses experienced more costs than benefits when transitioning to MTD, especially older and less digitally capable business taxpayers. This 2021 research also showed some of the businesses interviewed started to feel more benefits after transition, such as increased confidence with tax affairs, increased digital capability and productivity. A 2021 survey of 2,005 businesses using MTD for VAT software found that 69% had experienced at least one benefit, most commonly helping to prepare and submit VAT returns faster.
Additional tax revenue and impact on VAT administration	One report in 2022[6]	This 2022 evaluation estimated additional tax revenue arising from MTD in 2019-20 at between £185 million and £195 million (paragraph 2.14).
Impact on VAT administration	None	So far, HMRC has not evaluated how MTD has impacted on its VAT administration.

Figure 5 *continued*
Key findings from HM Revenue & Customs' research on Making Tax Digital (MTD) for VAT

Notes

1. Some reports evaluate more than one theme and therefore may be referenced more than once, and dates refer to publication dates.
2. Where interviews and qualitative surveys were conducted, findings were based on smaller samples and should not be interpreted as representative of the wider population.
3. Key findings from *Exploring complex businesses' tax processes and readiness for Making Tax Digital*, *Monitoring agents' awareness of Making Tax Digital* from 2019 and *Monitoring businesses awareness of Making Tax Digital*. Previous versions of *Monitoring businesses awareness of Making Tax Digital* published in 2020 and 2018.
4. Key findings from *Exploring complex businesses' tax processes and readiness for Making Tax Digital* from 2017, *Exploring voluntary sign-up to Making Tax Digital for VAT* from 2020 and *Research to explore the customer decision-making process of choosing compatible software* from 2023.
5. Key findings from *Monitoring agents awareness of Making Tax Digital*, *Exploring the cost and benefits of MTD for VAT experienced by small businesses* and *Impact of Making Tax Digital for VAT* and *Evaluating MTD's impact on record-keeping behaviour and scope for error among small businesses*. There was also a qualitative study called *Qualitatively assessing the impact of Making Tax Digital*.
6. Key finding from *Evaluating additional tax revenue from Making Tax Digital for VAT*, published in 2022.

Source: National Audit Office analysis of HM Revenue & Customs' Making Tax Digital research between 2017 and 2023

2.14 In March 2022 HMRC reported that there was a high likelihood that MTD was generating additional tax revenue by making it easier for businesses to get their tax right. HMRC estimated this equated to £185 million to £195 million of additional VAT in 2019-20, exceeding its 2015 forecast of £115 million for 2019-20. HMRC's March 2022 estimate was based on a comparison of those who signed up early to MTD compared with similar businesses that did not. It estimated the average additional VAT tax paid per business was £19 a quarter for those below the £85,000 VAT threshold, and £57 for those above.

2.15 Data and methodological limitations mean the headline estimate of additional tax revenue needs to be treated with caution.

- For its estimate of £185 million in 2019-20, HMRC is 95% confident that the change in revenue was between a reduction of £80 million and a £455 million increase. This range indicates around a 15% chance that MTD for VAT reduced tax revenue.
- HMRC's estimate assumes that its findings for a five-month period were applicable throughout 2019-20.[28]
- HMRC could not control for all factors which might have affected revenue, for example growing businesses may have been quicker to join MTD. As a consequence, there remains some uncertainty as to whether some of the increased revenue was due to factors other than MTD.

28 For businesses over the £85,000 VAT threshold the findings were for January 2019 to May 2019, and for those below October 2019 to February 2020.

Performance of the VAT system

2.16 HMRC has yet to evaluate the administrative impact of MTD on the VAT system, but it has some monitoring data available to understand how the system is performing. HMRC has identified that during 2022-23 the move to its modern tax management platform initially led to VAT liabilities being overstated by around £5 billion. The tax management platform and the predecessor system raised erroneous central assessments of VAT due for taxpayers who had not submitted VAT returns. HMRC has excluded the erroneous central assessments from the 2022-23 year-end VAT liabilities balance by cancelling or amending the relevant assessments.[29] It is not clear if the erroneous assessments have led to any business taxpayers being over-billed or overpaying tax.

2.17 Additional tax revenue from MTD for VAT rests primarily on reduced errors in record keeping and submissions. In early 2022-23 HMRC identified that fraudsters were systematically attempting to register falsely for VAT and claim repayments. The attacks continued throughout the year, which meant that HMRC had to put additional checks on VAT registrations. The new VAT registration service, introduced in August 2022 as part of the MTD programme, added some additional controls, including over identity. However, as with the old system, those registering are not required to prove their address. There have been examples of UK residents receiving thousands of VAT demands for overseas companies who appear to have falsely used their address. Digital transmission offers some opportunities to seek proof of address electronically and to compare records more widely. HMRC may further increase revenue (or reduce unmerited refunds) if it is able to strengthen checks on other types of submissions beyond numerical record keeping and do more to check other data sources and risk-assess claims.

2.18 HMRC's speed in processing of VAT registrations has declined markedly since the new service was introduced in August 2022. Prior to the new service, HMRC processed around 90% of VAT registrations within 30 days. After August 2022, the proportion of VAT registrations that HMRC completed declined in each successive month until March 2023 (69%) before improving to 75% in April 2023 (the latest month with data available). HMRC told us the controls it introduced as part of the new service to tackle fraudulent attacks reduced the number of registrations it processed automatically, increasing processing times. In May 2023 HMRC announced it would close its VAT registration helpline so staff could help process registrations. HMRC considers that the time spent by advisers answering the helpline would be better spent processing applications and reducing application processing times. It will keep the decision to close the VAT registration helpline under review, meaning the service may not re-open.

29 HMRC considers the errors do not affect its March 2022 estimates of additional tax revenue from MTD (paragraph 2.14), as these were based on actual tax liabilities.

Progress towards Making Tax Digital for Self Assessment

2.19 MTD for Self Assessment applies to self-employed people and landlords (business taxpayers). The task of delivering MTD for Self Assessment is inherently more complicated than for VAT:

- Self Assessment covers more taxpayers with a wider range of circumstances and income types, and requires data to be drawn from a number of HMRC systems.
- Self Assessment requires the calculation of annual profit whereas VAT is levied on a transaction basis. Some Income Tax reliefs, such as allowable expense reliefs and adjustments, are based on annual figures, making quarterly updates difficult.
- Business taxpayers and agents will have to change behaviour and submit quarterly updates as well as annual Self Assessment returns.
- Business taxpayers have more variable levels of digital capability and access than VAT-registered businesses.
- HMRC plans to introduce HMRC Assist through which it will provide more checks and prompts to help Self Assessment business taxpayers reduce errors in their submissions, but this introduces more complexity into building its systems.

2.20 With much greater complexity it was unlikely that Self Assessment could be delivered faster than VAT. HMRC first launched a Self Assessment pilot in April 2017 to enable developers to test and develop software ahead of HMRC's initial plan to require digital Self Assessment returns from 2018. HMRC maintained the pilot while implementation of MTD for Self Assessment was delayed, but it struggled to get eligible participants. HMRC had forecast 15,500 business taxpayers would join the pilot by 2021-22. Since 2017, around 1,000 taxpayers signed up for the pilot but HMRC needed to remove most of these due to ineligibility, leaving only 15 participants when the pilot was closed to new entrants in 2022.

2.21 In August 2021, HMRC noted that some software providers had limited appetite to develop software for the pilot. This was because software providers had lost confidence that it was worth investing in developing this software because the mandation timetable was unclear. A lack of clear design requirements made it difficult to build the software. Software developers told us HMRC did not provide a stable strategic plan with milestones to help them build products and maximise testing time.

2.22 The HMRC Self Assessment pilot had limitations, which restricted participants' eligibility and therefore the range of business taxpayers' experience HMRC and developers could learn about. These limitations included:

- participants had to have an accounting year that was the same as the tax year;[30]
- there were limited free software options for business taxpayers with lower incomes or those who were concerned about cost;
- in contrast to the approach preferred by software providers, the pilot did not extend to more complex tax affairs;
- the pilot did not cater for business taxpayers with multiple agents (such as a bookkeeper and a tax professional) or landlords sharing property income (such as married couples); and
- software developers could not test a wider range of end-to-end user journeys because there was limited live taxpayer data available in the pilot.

2.23 In January 2022, the programme highlighted the delivery risks to its senior leadership team. HMRC continued developing the functionality on its modern tax management platform that was needed for a more robust Self Assessment pilot. It also started work on a new interface for Self Assessment income types not requiring digital tax submissions.[31] HMRC research showed that 58% of the business taxpayers that were surveyed in 2022 were either disengaged or not ready for MTD for Self Assessment.[32] Those needing additional support were most likely to be disengaged or unready.

2.24 HMRC's May 2022 business case continued to rate the programme as high-risk due to the complexity of MTD and the potential impact on business taxpayers and HMRC. The business case was approved with no contingency, despite the programme's high-risk and track record of delays.

30 The tax year ends at 5 April whereas some Self Assessment business taxpayers report their income on financial year or calendar year basis; however, this may change for taxpayers due to basis period reforms to be implemented in 2024-25.

31 Self-employed people and landlords will be able to choose whether they keep digital tax records for any other forms of Self Assessment income, such as savings, investments and dividends. Non-business taxpayers will use the new interface.

32 Published in HMRC's research report *Customer readiness for Making Tax Digital for Income Tax Self Assessment,* April 2022.

2.25 In August 2022, three months after the May 2022 business case was approved, HMRC concluded that introducing MTD for Self Assessment by April 2024 was not feasible and it needed to defer the programme. Its reasons included:

- the knock-on consequences from delays in moving VAT records;
- a lack of operational staff capacity to cope with the manual workarounds needed to introduce Self Assessment by 2024;
- the complexity of the required changes to systems, which was greater than HMRC had anticipated;
- its lack of preparedness to secure the behavioural change by business taxpayers that would be necessary for the new approach to work;
- HMRC's lack of confidence that it could support the development of sufficient commercial software products; and
- the risk that wider policy changes to the tax system could squeeze out development work for MTD.

Part Three

The realism of HMRC's current plans for Making Tax Digital

3.1 This part examines HM Revenue & Customs' (HMRC's) current plans for delivering further elements of Making Tax Digital (MTD). We consider:

- the latest timetable announced in December 2022;
- how HMRC developed its approach;
- the strength of financial analysis;
- the overall realism of HMRC's plans and the risks it needs to manage;
- work required with taxpayers and stakeholders; and
- how digital services compare with other countries.

The latest timetable announced in December 2022

3.2 In December 2022 the government announced that digital records for Income Tax Self Assessment (Self Assessment) would be phased in later and over a longer period than previously planned. This would allow more time for HMRC, business taxpayers and agents to prepare. It also reduced pressure on HMRC to move records and limited the impact on its wider operations.

3.3 From April 2026 self-employed individuals and landlords (business taxpayers) with income over £50,000 are required to keep digital records and, for the first time, provide quarterly updates on income and expenditure using approved software. From April 2027, these requirements will also apply to those with annual incomes over £30,000. The government has not yet decided whether to extend the MTD programme to business taxpayers with Self Assessment income of less than £30,000.[33] The introduction of penalty reform for Self Assessment planned for 2024 is now also being phased in from 2026 (paragraph 2.4).[34]

33 Prior to December 2022, all those with Self Assessment business or property incomes over £10,000 were due to be mandated for MTD.
34 HMRC has not said when penalty reform will be introduced for those with incomes under £30,000, or for non-mandated Self Assessment taxpayers.

3.4 The December 2022 announcement did not set a timetable for extending digital record keeping requirements for Self Assessment for general partnerships or for businesses paying Corporation Tax. In 2021 HMRC considered that it was unlikely to be possible to mandate digital Corporation Tax returns by 2030. HMRC has yet to set a date for moving Corporation Tax records from its legacy system to its modern tax management platform. In 2021 HMRC judged that its legacy system for Corporation Tax was sufficiently stable that it could continue for the foreseeable future but the system might restrict what changes could be made to Corporation Tax and make any changes more expensive. HMRC told us that it regularly assesses the risks and impacts of continuing to use its legacy Corporation Tax system.

How HMRC developed its approach

3.5 Before the government's announcement, HMRC assessed options for the revised delivery of MTD for Self Assessment against criteria including strategic/policy alignment, deliverability and impact on stakeholders. HMRC identified four broad options.

- **Preferred option:** Mandation requirements sequenced over a longer time period.
- Delaying mandation by up to three years.
- Taking a different approach to dealing with back-end data and its systems.
- Pausing MTD pending more fundamental tax reform. In late 2022 HMRC began considering options for transforming Income Tax, including how to simplify and digitalise services for customers.

3.6 The preferred option, announced by the government in December 2022, aimed to help HMRC move taxpayer records and respond to stakeholders who wanted a more measured introduction of changes. The other options involved greater technical challenges, manual workarounds or unwanted impacts on legacy systems.

3.7 The preferred option will see HMRC move 1.6 million Self Assessment tax records to its modern tax management platform as people sign up or are mandated for MTD. HMRC will move only one year of data, so its staff will need to access two systems for most business taxpayers for the foreseeable future. HMRC has yet to decide when it will move the records of those 9.4 million Self Assessment taxpayers with annual trading or property income below £30,000 or with income types not covered by MTD. Until this is done, HMRC will have the costs and complexity of running its legacy system alongside its new system.

3.8 HMRC's long list of options did not include the possibility of removing quarterly updates on Self Assessment, but the requirements for those below £30,000 is under review (paragraph 3.3). Quarterly updates are at the heart of MTD's intention to bring tax closer to real-time, in line with the government's 2020 tax administration strategy.[35] These updates encourage businesses to keep tax records up to date, but stakeholders question their cost and value to businesses and HMRC (**Figure 6**).

Figure 6

HM Revenue & Customs' (HMRC's) and stakeholders' views of the new mandatory quarterly updates to be provided by Self Assessment business taxpayers[1]

HMRC believes quarterly updates will provide benefits by bringing Self Assessment submissions closer to real-time, but some stakeholders question the design and value of updates

HMRC's assessment of the benefits of quarterly updates

For business taxpayers, they:

- will receive an HMRC estimate of their emerging tax liability helping financial planning;[2]
- will reduce the likelihood of a compliance intervention; and
- any government support to businesses through HMRC could be informed by recent data in their quarterly updates.[3]

For HMRC:

- encourages business taxpayers to keep their tax records up to date and thereby contribute to additional tax revenue;[4]
- enables future policy development, such as faster payment of tax; and
- provides quarterly data which could inform responses to future crises.

Stakeholder views

Some stakeholders support quarterly updates if they help business taxpayers and agents with accuracy, and with understanding taxes and reliefs, but other stakeholders have argued they should not be mandated. Concerns about mandation include:

- HMRC has underestimated the costs to businesses of submitting quarterly updates;
- requiring updates of non-cumulative income on a tax-year basis reduces their value and adds complexity for those with different accounting year-ends; and
- in-year HMRC estimates of tax liabilities could be misleading, particularly for businesses whose income fluctuates through the year.[2]

Notes

1 Self Assessment business taxpayers comprises self-employed people and landlords.

2 HMRC estimates that up to one third of businesses could be well-served by estimates from the first year they are introduced, with the other two thirds not benefiting but having to meet the cost of quarterly updates.

3 Government support: examples include tax reliefs for small businesses.

4 Quarterly updates account for around 15% of the annual on-going cost to Self Assessment business taxpayers of complying with Making Tax Digital.

Source: National Audit Office analysis of HM Revenue & Customs' documents and interviews with stakeholders conducted by the National Audit Office

35 HM Revenue & Customs and HM Treasury, *Building a trusted, modern tax administration system,* July 2020, available at: www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system, accessed 6 June 2023.

3.9 For those taxpayers that submit them, HMRC considers quarterly updates could help it assess the need for emergency support should the government introduce schemes akin to the COVID-19 employment support schemes. Without quarterly updates for those under £30,000, or other means of getting data closer to real-time, HMRC will continue to have limited data to assess the need for emergency support should the government introduce schemes akin to the COVID-19 employment support schemes. Quarterly updates will not help HMRC assess the position of new Self Assessment taxpayers as updates are only required after they have submitted their first tax return. In March 2023 the Committee of Public Accounts reported that gaps and lags in HMRC data contributed to the COVID-19 employment support schemes providing excessive support to some, while others in need were ineligible.

The strength of financial analysis

3.10 Deferrals of the MTD programme have seen the expected benefits delayed and the costs to HMRC increase. In 2016, HMRC's business case indicated it expected MTD to generate additional tax revenue of £600 million a year from VAT and Self Assessment by 2020-21. It now expects additional revenue from these taxes will reach £600 million a year in 2027-28, some seven years later. HMRC's estimated costs for MTD have increased from £226 million at the start of the programme to £1,260 million in its 2023 business case (in real terms, a 400% increase), with £642 million already spent by March 2023.

3.11 HMRC expects the overall programme will still generate a positive return, which has improved following changes in its methodology and assumptions for estimating additional tax revenue.[36] By the end of March 2023, HMRC was forecasting MTD would achieve £3.9 billion of additional tax revenue by 2033-34. The changes HMRC made at the end of March 2023 to its methods and assumptions added £0.6 billion of its estimate of additional tax revenue that MTD for Self Assessment would generate by 2033-34.[37] The main change (adding £0.4 billion) related to the rate at which less compliant customers sign up for MTD.[38] HMRC had assumed that less compliant customers would sign up later than more compliant customers, delaying the reduction of errors attributable to MTD. Evidence from MTD for VAT indicates this has not been the case and HMRC removed the assumption. The changes in HMRC's methods and assumptions were reviewed and agreed by the Office for Budget Responsibility as part of its role in preparing fiscal estimates.[39]

36 When assessing the returns from programmes like MTD, HMRC takes account of its costs, plus additional tax revenue and customer costs for the five year period after a change is introduced. In practice additional tax revenue may arise over a longer period if MTD continues to have an impact. Similarly, customer costs may extend beyond five years.

37 We have not audited the increase of £0.6 billion.

38 The second largest change reflects an alteration to the way in which profits are measured for businesses in Self Assessment. Due to a policy change which is not part of the MTD programme, from 2024-25, all business will be taxed on the profits arising in the tax year itself, which will bring forward when some businesses need to pay their tax. From 2026-27, earlier payment will include the tax that has arisen from MTD reducing errors made by business taxpayers. HMRC estimates this change will increase the revenue MTD generates by £0.2 billion between 2026-27 and 2033-34.

39 The Office for Budget Responsibility (OBR) included revised estimates of the additional tax revenue from MTD for Self Assessment and HMRC Assist in the period 2023-24 to 2027-28, in its *Economic and fiscal outlook*, March 2023. The estimates reflect central projections of the impact of MTD on tax revenue, which the OBR deems to be of high uncertainty.

3.12 HMRC has significantly understated the cost for customers to comply with MTD in its cost-benefit analysis for recent business cases. MTD was originally approved with the expectation it would reduce the burdens on customers because digital record keeping would make tax submissions easier. After challenge from stakeholders, HMRC commissioned research into the costs faced by customers. In 2021 it published policy papers which estimated upfront transitional costs to Self Assessment customers with incomes above £10,000 would be around £1.4 billion and net ongoing costs would be around £150 million a year to comply with MTD.[40] HMRC has not assessed how many businesses will face different amounts of upfront costs.

3.13 Despite estimating large upfront transitional costs for customers in 2021, HMRC omitted these from its cost-benefit analysis in May 2022 and March 2023 business cases seeking further investment. Its May 2022 business case included only its forecast of the net ongoing costs to customers to comply with MTD of £895 million over five years. The March 2023 business case estimated net ongoing costs to customers of just £102 million over five years following the removal of lower income taxpayers. The cost-benefit analysis in both business cases excluded upfront transitional costs to customers, such as purchasing computers and getting support from agents to comply with MTD. HMRC's 2021 research indicates these costs could average £330 for each business affected, with some facing upfront transitional costs of almost £1,000. For example, a self-employed person with income of £30,000 moving to MTD from a paper-based system could face upfront transitional costs including £500 for accountant support, £200 for a new computer, plus £253 for time spent training and setting up software. The exclusion of transitional costs means business cases seeking further funding for MTD presented partial analysis of the programme's costs and benefits. HMRC's May 2022 business case contained the most significant omission, with around £1.5 billion of costs to VAT and Self Assessment customers excluded from the cost-benefit analysis. An annex to the May 2022 business case included figures on upfront transitional costs but omitted these from the cost-benefit analysis. In describing the costs and benefits to customers it said: "While acknowledging that there will be costs to this transition, the benefits available to businesses are comprehensive and wide-ranging." The March 2023 business case excluded upfront transitional costs completely. HMRC told us that it did not believe presenting the upfront transitional costs to customers within the cost-benefit analysis would have resulted in any different decisions being taken. It was able to provide us with some evidence that decision makers were sighted on the full transitional costs to customers ahead of some key decisions.

40 HM Revenue & Customs, *Customer costs and benefits for the next phases of Making Tax Digital,* September 2021, section 4.2.3. Available at: www.gov.uk/government/publications/customer-costs-and-benefits-for-the-next-phases-of-making-tax-digital/customer-costs-and-benefits-for-the-next-phases-of-making-tax-digital, accessed 5 May 2023.

3.14 **Figure 7** on pages 42 and 43 shows the benefit-cost ratio for the overall MTD programme, taking account of additional tax revenue and upfront transitional costs to customers. The ratios in Figure 7 reflect the amounts already spent and benefits already secured (sunk cost and benefits) as well as the cost and benefits of proceeding with plans because HMRC's business cases did not separate out these different elements. HMRC's earlier business cases did not contain a sufficiently detailed profile of additional tax revenue needed to calculate a benefit-cost ratio.

3.15 We looked more closely at the figures supporting decisions made in 2022 and 2023 to understand how far the sunk costs and benefits, and the omission of upfront transitional costs to customers, affected the benefit-cost ratio. In May 2022 decision-makers approved the business case proposal to introduce MTD for Self Assessment customers with annual incomes over £10,000. Our analysis of HMRC's estimates from May 2022 found that the benefits from proceeding (that is excluding benefits already secured) were likely to be lower than the future costs to HMRC and customers by around 0.8:1. However, the ratio was better in March 2023, with the exclusion of Self Assessment customers with annual incomes of £10,000 to £30,000 and HMRC's latest forecast for additional tax revenue. The forecast benefits from proceeding exceeded the costs by 1.9:1. If less compliant Self Assessment customers were to sign up later for MTD the estimated return would fall to around 1.5:1 (paragraph 3.11).

3.16 In reviewing the business cases we identified further factors which made it difficult to judge the trade-offs between additional tax revenue, the cost to HMRC and cost to customers. Issues included that:

- business cases incorrectly included ongoing customer costs and benefits in the government's return on investment. This error overstated the return to government in early business cases and understated it in later business cases when HMRC estimates began to show ongoing customer costs would exceed benefits;
- business cases did not set out transparently the costs and benefits related to discrete elements including: the 'do minimum' option of replacing legacy systems; the split between VAT and Self Assessment; or different options for the frequency of Self Assessment updates;
- costs to customers have not been adjusted for inflation since 2021 while estimates of additional tax revenue do take account of this. Errors in real term calculations meant costs and benefits were not on a like-for-like basis; and
- HM Treasury Green Book rules exclude additional tax revenue from MTD's economic case on the grounds this simply represents a transfer of money within the economy. This means the economic case did not directly compare the benefits from reduced taxpayer errors with the burdens imposed on customers.

Figure 7
Estimates of the quantified benefits and costs of Making Tax Digital (MTD)

Estimates of additional tax revenue and HM Revenue & Customs (HMRC) costs have risen since 2016. Estimated costs to customers have also risen but their scale has been masked as HMRC has generally not included all costs to customers in its business case analysis. When all costs are included, the total quantified costs of MTD as estimated by HMRC in May 2022 were similar in size to MTD's quantified benefits, mainly additional tax revenue. In March 2023, the removal of Self Assessment customers with annual incomes between £10,000 and £30,000 from the MTD business case and recent changes HMRC made to the assumptions used to estimate additional tax revenue resulted in MTD's benefits exceeding costs by a ratio of 2.0:1 (or 100%)

Date and type of business case[1]	Taxes covered by business case and the quantification of benefits and costs[2]	Period covered by the quantification of benefits and costs[3]	Additional tax revenue for five years after MTD introduced[4]	HMRC cost	Net customer benefits (costs) included in HMRC business case analysis[5]	Customer costs excluded in HMRC business case analysis[6]	Ratio of quantified benefits for HMRC to quantified costs for HMRC and quantified net costs for customers[7]
			(£mn)	(£mn)	(£mn)	(£mn)[5]	
April 2016 – first strategic outline business case	All three taxes	5 years – 2016-17 to 2020-21	Not shown – but annual steady-state expected to be £600 million[3]	(226)	349	Upfront transitional costs not quantified and therefore not included	Not known
March 2017 – first outline business case	All three taxes, with Self Assessment for those with income over £10,000	7 years – 2016-17 to 2022-23	Not shown – but annual steady-state expected to be £1,000 million[3]	(235)	(645)	None – all costs included	Not known[7]
May 2022 – last outline business case before programme rephased at the end of 2022	VAT and Self Assessment for those with income over £10,000	13 years – 2016-17 to 2028-29	3,260	(1,038)	(895)	(1,484)	1.0:1
March 2023 – outline business case covering rephased mandation of MTD for Self Assessment[8]	VAT and Self Assessment for those with income over £30,000	18 years – 2016-17 to 2033-34	3,280	(1,260)	(102)	(640)	1.6:1
March 2023 – outline business case updated for impact on additional tax revenue for changes in methods and assumptions agreed with the Office for Budget Responsibility[9]	VAT and Self Assessment for those with income over £30,000	18 years – 2016-17 to 2033-34	3,900	(1,260)	(102)	(640)	2.0:1

Figure 7 *continued*
Estimates of the quantified benefits and costs of Making Tax Digital (MTD)

Notes

1 Strategic outline cases are the first stage in the development of a business case and appraise options. Outline business cases are 'intermediate' business cases and identify the option offering best public value for spend and aim to put in place the arrangements for successful delivery of a programme.

2 The three taxes covered by MTD are VAT, Income Tax for Self Assessment and Corporation Tax. Corporation Tax was included in the April 2016 and March 2017 business cases but not May 2022 or March 2023. For Self Assessment, the May 2022 business case covered self-employed people and landlords (business taxpayers) with annual incomes over £10,000. The March 2023 business case excludes those with incomes under £30,000 reducing customer costs and related additional tax revenue. The April 2016 business case did not refer to a minimum income threshold for Self Assessment mandation.

3 In its recent business cases, HMRC has included in its business case analysis five years of additional tax revenue, five years of ongoing customer benefits and five years of ongoing customer costs in complying with MTD, from the point a tax or other MTD change (such as penalty reform) is introduced. In its 2016 and 2017 business cases HMRC reported the annual steady-state impact on additional tax revenue once changes were fully embedded.

4 Penalty reform was added to the MTD programme after March 2017. The May 2022 business case includes £225 million of revenue due from the addition of penalty reform and March 2023 includes £435 million. The March 2023 business case also includes £175 million from HMRC Assist which will help taxpayers get their tax returns right. Cost and benefits are at nominal values. HMRC costs exclude non-cash costs such as depreciation.

5 Values for net customer benefits (costs) included in HMRC business case analysis are ongoing benefits less ongoing costs and any upfront transitional costs HMRC included in the business case analysis.

6 We found HMRC did not adequately reflect in its analysis for the May 2022 and March 2023 business cases the upfront transitional costs for customers in transitioning to MTD. HMRC does not hold data on the upfront transitional costs estimated in April 2016. In March 2017, upfront transitional costs were included in HMRC's business case analysis.

7 The benefit-cost ratio is calculated by dividing the sum of additional tax revenue and HMRC efficiency improvements by the sum of HMRC costs and quantified net costs to customers taking account of ongoing costs and benefits and upfront transitional costs. We have not shown separately HMRC's estimates of efficiency improvements as they are small. In its March 2023 business case HMRC was estimating efficiency improvements of £15 million. We calculated the ratio as HMRC business cases did not include a metric which captured the total costs and benefits of MTD.

8 In December 2022, the government announced that MTD for Self Assessment would be introduced in phases. From April 2026, self-employed individuals and landlords (business taxpayers) with income over £50,000 will be mandated for MTD and, from April 2027, mandation will extend to those with annual incomes over £30,000.

9 For Autumn Statement 2022, the Office for Budget Responsibility (OBR) agreed revisions to HMRC's methods and assumptions for estimating additional tax revenue from MTD for VAT. In March 2023, with OBR's agreement, HMRC applied these revised methods and assumptions for estimates of additional tax revenue made for MTD for Self Assessment for Budget 2023. When HMRC applied these changes across the longer period of its business case (ie to 2033-34) they increased its estimate of additional tax revenue by £640 million by 2033-34.

Source: National Audit Office analysis of HM Revenue & Customs' documents

3.17 There is a case for HMRC to include additional tax revenue in the economic case for the MTD business case and other programmes that reduce error or fraud, on the basis these represent a gain to government and society overall, but not a genuine loss to businesses or individuals. The Universal Credit business case used this rationale in 2018. Such a change would allow direct comparison of all costs and benefits.

3.18 Going forward, HMRC needs to address past flaws in business cases and assess the costs and benefits of each discrete element of the programme. As announced in December 2022, the government is reviewing if and how MTD should be applied to those Self Assessment business taxpayers with incomes of less than £30,000 a year (paragraph 3.3). Provisional HMRC data indicate that additional tax revenue for the 2.6 million business taxpayers with Self Assessment income of between £10,000 and £30,000 could total around £1.6 billion in the first five years after mandation.[41] Based on its 2021 research (paragraph 3.12), HMRC made a provisional estimate in 2022 that in the first five years MTD might impose costs of £1.2 billion on these customers, equivalent to around £460 each. The extent to which mandating MTD for these customers would achieve a positive return will depend on HMRC updating its estimates of revenue and customer costs, and identifying the additional costs it would incur in implementing and supporting MTD for these taxpayers. HMRC intends to develop and publish revised customer cost estimates to reflect the December 2022 policy announcement (paragraphs 3.2 and 3.3), and any further change in the scope of mandatory requirements.

Unquantified costs and benefits

3.19 HMRC's business cases do not quantify all the significant benefits and costs of MTD. HMRC has not had the data to estimate the wider productivity gains to businesses from integrating digital tax records within their wider business processes. In 2022 HMRC commissioned research to improve its understanding. HMRC has not been able to estimate how it might benefit from changes such as MTD reducing the need for compliance checks on smaller businesses and MTD providing the building blocks for potentially moving payment of tax closer to real-time. The 2023 business case does not cover important costs and risks, including some:

- **costs to HMRC**, such as:
  - the potential increase in the cost of serving business taxpayers if they seek HMRC support with the introduction of digital tax records and more frequent tax submissions;
  - the costs of moving all taxpayers off legacy systems. The latest business case does not cover moving those Self Assessment taxpayers (9.4 million) not mandated for MTD under HMRC's latest plans or any aspect of MTD for Corporation Tax;[42] and
  - the costs of running legacy systems for longer because of delays in moving tax records.

41 Estimate for additional tax revenue reflects revised assumptions (paragraph 3.11) and would be for five years after MTD is introduced for these taxpayers.
42 HMRC has not a set a date for when it will move the tax records for Corporation Tax or those Self Assessment taxpayers not mandated for MTD under HMRC's latest plans.

- **costs and benefits to the Exchequer**, such as:
  - MTD raising take-up of some tax reliefs; and
  - potential reductions in tax revenue and economic output if businesses seek to avoid MTD by lowering their reported income, or actual income, by restricting trading activity, or ceasing trading.

3.20 Some of the benefits of moving off legacy systems onto HMRC's modern tax management platform are briefly described but not quantified in the MTD business case and depend on other change programmes, which HMRC is delivering later. In particular, the single customer account aims to give taxpayers a joined-up view of their position across taxes. In 2009, HMRC said it planned to create a single customer record, but this was difficult because it operated separate computer systems for different taxes. It remains unclear when the single customer account will be available to business taxpayers. HMRC is unlikely to be able to provide a single customer account for many businesses until it has moved Corporation Tax records to its modern tax management platform and it has not set a date for doing this (paragraph 3.4).

3.21 MTD will not achieve significant efficiencies for HMRC or improve current poor service levels when taxpayers call but it may enable greater self-service in the long run. In 2022 we reported that HMRC's customer service performance had declined in 2021-22.[43] Its response times to post improved markedly in 2022-23 but its call-handling performance declined further and was worse than in any of the five previous years.[44]

The overall realism of HMRC's plan for Making Tax Digital for Self Assessment

3.22 HMRC's plans for delivering the preferred option remain high-risk. Its current high-level plans for the roll-out of MTD for Self Assessment show many elements need to be delivered in parallel (**Figure 8** overleaf). HMRC assessed the programme as high-risk in its March 2023 business case. The Infrastructure and Projects Authority reviewed the programme and concluded delivery of the programme was feasible notwithstanding the complex environment in which it was operating.[45]

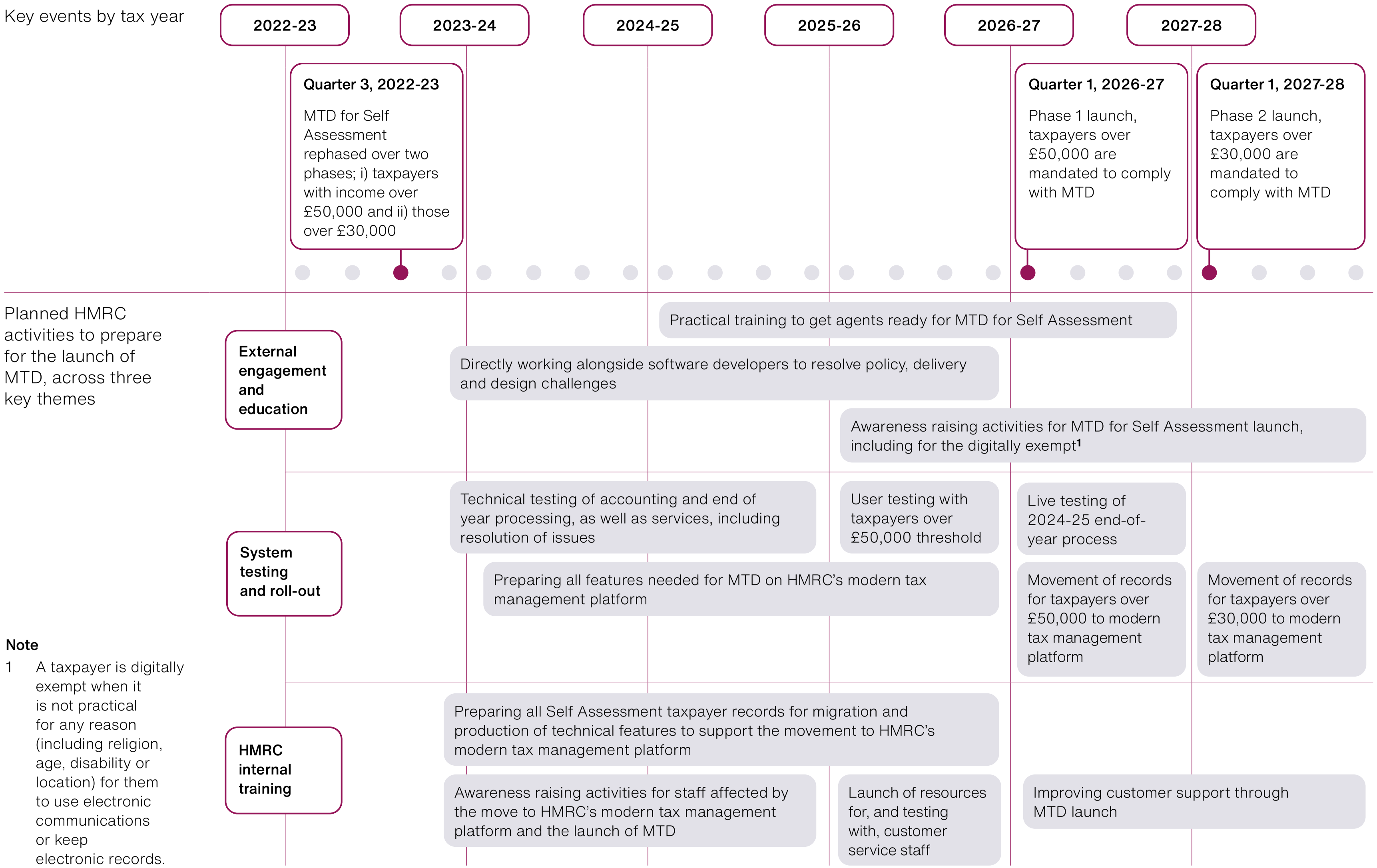
3.23 As yet HMRC's detailed plans only cover the first phase – for business taxpayers with annual Self Assessment incomes over £50,000, who will be mandated from 2026. There are no detailed delivery plans for those business taxpayers with lower incomes, despite the planned extension of the MTD programme to those with incomes between £30,000 and £50,000 from 2027.

43 Comptroller and Auditor General, *Report by the Comptroller and Auditor General: HM Revenue & Customs 2021-22 Accounts*, HC 494, July 2022, paragraph 1.25 and Figure 8.
44 HMRC's reported data include non-business taxpayers. Average time to answer a call between April 2022 and February 2023 was almost 16 minutes (up by two and half minutes on 2021-22), while 89% of correspondence from taxpayers between April 2022 and January 2023 was handled in 40 days of receipt (up by 29 percentage points).
45 The Infrastructure and Projects Authority is the government's centre of expertise for infrastructure and major projects.

Figure 8

HM Revenue & Customs' (HMRC's) current high-level plan to phase in digital record keeping for Self Assessment business taxpayers

HMRC's high-level plan shows the parallel activities it needs to undertake in order to be ready for the first stage of Making Tax Digital (MTD) for Self Assessment from 2026-27



Note

1 A taxpayer is digitally exempt when it is not practical for any reason (including religion, age, disability or location) for them to use electronic communications or keep electronic records.

Source: National Audit Office analysis of HM Revenue & Customs' documents

3.24 HMRC has not been able to provide us with any measures of progress to the end of 2022. Its plans indicate it has major work to complete on all the significant elements. It intends to move Self Assessment business taxpayers onto its modern tax management platform in earnest from April 2026. By April 2027 HMRC plans to have the approximately 740,000 phase 1 taxpayers moved across in full, and then move the approximately 870,000 phase 2 taxpayers fully across by April 2028.

3.25 HMRC has completed lessons-learned exercises covering its work so far on MTD for Self Assessment to help inform the realism of its new plans. Known design and implementation issues that HMRC is seeking to manage include:

- **unresolved design issues:** The design and feasibility of important elements remains unclear including how HMRC will allow for multiple agents to represent business taxpayers (for example people who use a separate bookkeeper and tax accountant), taxpayers who share rental income from jointly owned properties (such as couples), whether quarterly records will be cumulative and allow for corrections, and how changes in circumstances will be treated;
- **the scale of the work required to move to its modern tax management platform and build systems to support MTD:** HMRC does not yet have a robust understanding of the quality of Self Assessment records. A key lesson from VAT roll-out was that work to cleanse and move records was much greater than HMRC first anticipated. It is seeking a better understanding of the quality of Self Assessment data prior to moving records. HMRC has considered, but not decided, whether to commission independent assurance of its plans and approach for moving records;
- **over-optimism in planning:** HMRC has allowed for optimism bias of around 10% to 15% for the build of its systems and has not been able to demonstrate how it got to this percentage. This is within the lower half of the range HM Treasury guidance recommends of 0% to 41% for outsourced capital expenditure;[46] and
- **implementation of plans:** HMRC is increasing its use of programme management software, but it was not able to provide metrics on the cumulative position of the MTD programme. It had not developed and tested its detailed plans for implementation work with software providers.

3.26 MTD for Self Assessment has an opportunity cost for HMRC. Given its limited change capacity, successful delivery will require HMRC to prioritise MTD over other changes it would like to make. MTD also requires HMRC to make changes to its operations. More than 20,000 HMRC staff need to be trained and become used to HMRC's new tax systems to serve business taxpayers and undertake compliance activities.

46 HM Treasury, S*upplementary Green Book Guidance: Optimism Bias*, April 2013 from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/191507/Optimism_bias.pdf, accessed 1 June 2023.

Working with stakeholders and business taxpayers

3.27 Much of the success of MTD for Self Assessment will depend on working effectively with tax professionals and software providers to resolve design issues and ensure smooth delivery and implementation. HMRC relies on third-party developers to provide software that business taxpayers will use to keep accurate digital records and submit quarterly updates and a tax return. HMRC will need to make sure business taxpayers have an appropriate choice of software that works as expected with HMRC's back-end systems. The government has committed that free to use software will be available for those business taxpayers with lower Self Assessment incomes. If this is not the case, then HMRC may need to commission its own solution.

3.28 We heard a number of concerns from stakeholders (**Figure 9**). Most significant was the desire to be genuinely involved in resolving design questions. Many felt that while they were consulted often by HMRC, they saw little action to resolve longstanding concerns and that closer working with tax professionals and software providers could resolve matters relatively quickly. Software providers were keen for a shared delivery plan and greater transparency on the progress HMRC was making with its design elements.

3.29 We have previously reported that close working between policy-makers and operational delivery staff was a key factor in HMRC's success in developing and implementing the COVID-19 support schemes quickly.[47] Close working is more difficult to do for MTD because software providers are not paid, or part of government. There is limited software developer representation on HMRC's Administrative Burdens Advisory Board, and from March 2023 there has been some software developer representation on HMRC's MTD Programme Board. There could be other ways to involve representatives from all interested stakeholders while maintaining a safe space for HMRC policy-making and managing risks to commercial sensitivity and conflicts of interest. Since December 2022, HMRC has established a plan to work with its stakeholders to solve issues. In March 2023 it started by exploring with stakeholders how quarterly updates could work in practice.

3.30 Business taxpayers will need to be ready in time for the mandated start dates for MTD for Self Assessment. The latest rephasing announcement noted that the transition to MTD represents a significant change to business taxpayers as well as HMRC in reporting of self-employment and property income. The government provided a longer period to prepare for this. HMRC will need to manage the risks that business taxpayers do not adequately prepare in time or understand what is required of them.

47 Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019–2021, HC 862, National Audit Office, October 2020, paragraph 10.

Figure 9

Making Tax Digital (MTD) issues raised by stakeholders that they want to see addressed for Self Assessment

Stakeholders told us they want a reassessment of design decisions, more transparency, better collaboration and a more comprehensive pilot and testing programme

Stakeholder group	Issues to be addressed by HM Revenue & Customs (HMRC)
HMRC's Administrative Burdens Advisory Board	**Design:** Reconsider how best to help business taxpayers keep good quality records and provide timely updates. Reassess quarterly updates and the focus on additional tax revenue. Consider alternatives for making software available to taxpayers. **Collaboration:** Introduce partnership working on issues such as multiple agents and joint property. Rebuild trust with those who have got business taxpayers ready. Make sure HMRC's programme team has access to sufficient tax, business and technical leadership. **Piloting and testing:** A larger pilot programme and faster HMRC response to issues and bugs reported. A more focused approach to develop and test the live links between HMRC systems and the software industry's products.
Software developers	**Collaboration:** Transparency from HMRC on progress and full end-to-end detailed plans to help software developers better plan what they need to do when changes are made on the design and timetable of the programme. Greater engagement and better communication with the software industry including sharing data to help them understand taxpayer groups. HMRC to raise awareness to help taxpayers prepare. **Piloting and testing:** A less restrictive pilot to allow design for more complex cases, and to resolve issues such as HMRC not allowing multiple agents for a single taxpayer. Provide access to a live testing facility.
Tax agents and professional bodies	**Design:** Discussion ahead of programme redesigns and greater input into major decisions. Reassess mandated quarterly updates. Raise income threshold from the £10,000 originally planned. **Collaboration:** Better communication on progress of MTD and a timeline with key milestones. More action from HMRC to get taxpayers ready. **Piloting and testing:** Consider an expanded pilot.
Taxpayer representative bodies	**Design:** Consider administrative burdens of MTD. Provide greater awareness of available tax reliefs. **Collaboration:** Greater transparency on rationale for decisions and shorten the time between giving HMRC feedback and seeing the outcome. HMRC to do more to understand the needs of lower-income business taxpayers and those who need help with digital technology. Make sure free software options are available. **Piloting and testing:** Make sure that lower-income business taxpayers can be involved in pilots so that they can be ready in time for mandation.

Source: National Audit Office analysis of semi-structured online interviews held with stakeholder groups during December 2022 and January 2023

3.31 HMRC expects there will be an increase in additional needs and exemption applications for the new Self Assessment system. This includes business taxpayers who are in vulnerable circumstances that need additional help to access and use digital services and those that are currently digitally excluded. HMRC has not estimated how many business taxpayers will need support and it does not have specific plans for providing additional support, other than for the digitally exempt.[48] In 2021 it set up a stakeholder subgroup to discuss additional needs.

3.32 From 2026, HMRC plans to give more help to business taxpayers to get their tax returns right. Through HMRC Assist, HMRC plans to pre-populate more boxes in Self Assessment forms and provide more ‘nudges and prompts’ to help Self Assessment business taxpayers understand the boxes they still need to complete.

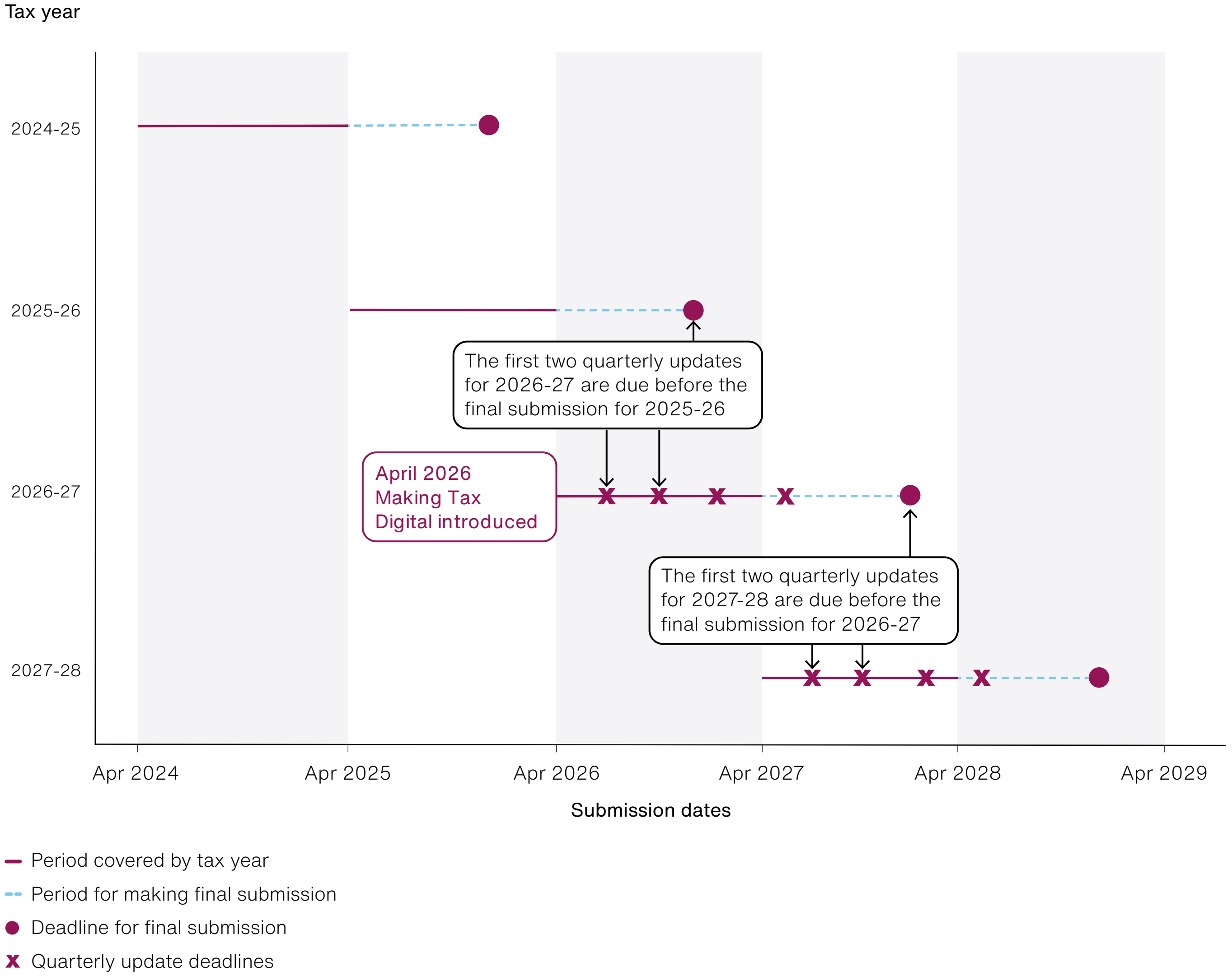
3.33 It will be difficult to manage the changeover in filing requirements for business taxpayers who move across the MTD mandation annual income threshold. **Figure 10** shows how introduction of quarterly updates will create an overlap between submissions due for different tax years. Business taxpayers will need to file two quarterly updates for 2026-27 before the deadline for filing 2025-26 returns is reached (31 January 2027). With annual income determining whether quarterly updates are required, it may be difficult for business taxpayers to understand and predict whether they should be submitting updates to HMRC.

3.34 Self-employed people and landlords will be able to choose whether they keep digital tax records for any other forms of Self Assessment income. If they do not, they will make a separate annual tax return through a new submission service HMRC is planning to phase in from 2026, replacing its existing online Self Assessment service for all Self Assessment taxpayers with non-mandated income in due course.

48 Digitally exempt refers to those who are exempt from MTD as they would find digital record keeping impractical due to age, disability, location or religious reasons that are incompatible with using electronic records.

Figure 10
Self Assessment deadlines for business taxpayers exceeding the £50,000 threshold

Business taxpayers will be required to file two quarterly updates for 2026-27 before the final submission deadline for 2025-26



Note

1 Payment dates are unaffected.

Source: National Audit Office analysis of HM Revenue & Customs' data

How services compare with other countries

3.35 The government's 10-year 2020 tax administration strategy states that: "Rising public expectations of world-class customer service mean that the UK both can and must have a fully digital tax system able to support taxpayers across the full range of their needs."[49]

3.36 Currently, HMRC does not have some automated processes or offer some digital services which are often available in other countries with large economies (**Figure 11**). Most of the 15 countries of the G20 (other than the UK) that responded to a 2022 Organisation for Economic Co-operation and Development (OECD) survey reported they automatically processed tax returns for personal income and corporate tax, with a majority also reporting that they offer taxpayers digital services for handling correspondence and objections for both these taxes and VAT. Fifteen G20 countries also responded to a 2017 OECD survey, with nine reporting they provided a "whole of taxpayer" view across multiple taxes.[50] By moving three taxes onto a single modern tax management platform, MTD should enable HMRC's project to develop a single customer account for business taxpayers (paragraph 3.20). MTD should also lead to HMRC providing taxpayers with other digital services, such as more prefilling of tax return data.

3.37 In 2022 HMRC started work to develop a new initiative – "Income Tax Service Transformation" – which will look more fundamentally at how income tax is designed and operates. This initiative may continue much of the work initially envisaged under MTD, including streamlining and simplifying the income tax regime.

49 HM Revenue & Customs and HM Treasury, *Building a trusted, modern tax administration system,* July 2020. Available at: www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system

50 National Audit Office analysis of Organisation for Economic Co-operation and Development, *Tax Administration Comparative Information on OECD and Other Advanced and Emerging Economies,* 2017. Available at: www.oecd-ilibrary.org/taxation/tax-administration-2019_74d162b6-en

Figure 11

In 2022, many tax authorities in other countries with large economies reported providing digital services that are not widely available in the UK[1]

Unlike taxpayers in many of the world's larger economies, UK taxpayers are unable to use digital services to file objections or deal with correspondence and HM Revenue & Customs (HMRC) does not automatically process tax returns or taxpayer registrations

Digital services not widely available in the UK	Number of countries (out of 15) providing service for		
	Personal tax	VAT	Corporate tax
Tax authorities can:			
automatically process tax returns	9	7	9
automatically process taxpayer registrations	6	7	10
prefill income data into returns	9[2]	4[3]	3
prefill expenses and allowances into returns	6[2]	3[3]	1
Taxpayers can:			
deal with correspondence	12	10	13
file objections	12	10	13

Notes

1. This Figure covers the 15 countries of the G20 (other than the UK) that responded to the Organisation for Economic Co-operation and Development's (OECD's) 2022 Inventory of Tax Technology Initiatives survey. The G20 (or Group of 20) is an intergovernmental forum of 19 countries with the largest economies, as well as the European Union. The G20 countries that did not participate in the OECD survey were Germany, Russia and South Korea.
2. In response to the 2022 OECD survey, the UK said it did not provide these services. However, some prefilling of income and expenses for Self Assessment does take place. For example, taxpayers may have Pay As You Earn elements of income prefilled, as well as state pensions, benefits and student loan repayments.
3. In response to the 2022 OECD survey, the UK said it did not provide these services. However, those VAT traders that select and use Making Tax Digital software that includes e-invoicing and digital cash registers can now have their VAT returns pre-filled.
4. 'Personal tax' is the equivalent of the Self Assessment element of UK Income Tax. 'Corporate tax' is the equivalent of the UK's Corporation Tax.

Source: National Audit Office analysis of Organisation for Economic Co-operation and Development Inventory of Tax Technology Initiatives, 2022, adjusted for HM Revenue & Customs' update post-survey regarding VAT prefilling

Appendix One

Our evidence base

1 This report evaluates HM Revenue & Customs' (HMRC's) progress on its flagship transformation programme, Making Tax Digital (MTD). We focus on the progress made to date by HMRC, including its original vision, options and plans for MTD, progress it made on the programme up to 2022 and the realism of HMRC's plans to achieve its next phase. We analysed evidence collected between November 2022 and May 2023. This enabled us to provide a factual update on the programme's progress, set out the remaining risks to MTD and reach our independent conclusions and recommendations for HMRC.

Interviews

2 We conducted 36 online semi-structured interviews. These interviews were with a range of individuals and teams that had experience and specific interest and influence on the MTD programme, including HMRC's internal stakeholders and the programme's core teams. We used interviews with HMRC teams to inform our findings. We also interviewed external stakeholders, which were recommended to us by HMRC or showed a public interest in the programme's development. We used these interviews for evidence for our report, as well as informing us on areas of focus for the report and helped us identify topics and evidence that needed to be discussed with, and collected from, HMRC. Facts presented to us by external stakeholders interviewed were verified independently. These external stakeholders include:

- Infrastructure and Projects Authority
- Administrative Burdens Advisory Board
- Office for Budget Responsibility
- Institute of Chartered Accountants in England and Wales
- Association of Taxation Technicians
- Association of Independent Professionals and the Self-Employed
- Federation of Small Businesses
- Chartered Institute of Taxation
- TaxAid
- Accounting software developers.

Document review

3 We reviewed key programme documents to understand the progress made and remaining risks of MTD. We reviewed these documents to help us understand the original objectives of the programme since its announcement in 2015, the progress of the VAT phase, the reasons for change in scope as well as the future plans HMRC has in place for the next phase of the programme. We also reviewed documents to analyse and understand the impact of MTD on other transformation programmes being implemented by HMRC, as well as the wider relationship the MTD programme has with HMRC's strategic decisions. These documents were used to inform our findings and helped us shape our interview design and to confirm findings from interviews. The documents we reviewed include:

- business cases and approvals
- executive committee documents
- financial, resourcing and planning documents
- HMRC publications and research
- risk management documents
- lessons-learned documents
- strategy documents
- stakeholder analysis
- HMRC's Annual Report and Accounts
- Organisation for Economic Co-operation and Development (OECD) publications and costing models
- news articles and third-party research
- Infrastructure and Projects Authority reports
- previous National Audit Office reports.

Quantitative analysis

4 We conducted two quantitative analysis methods: financial analysis and website data analysis.

Financial analysis

5 We analysed financial data from the MTD programme's financial model and latest data actual spend to understand the total cost of the programme. We have compared costs of the programme to what was expected at its start in 2016. We also analysed the expected benefits of the programme, including the additional tax revenue and business taxpayer costs and benefits up to 2033-34, as forecast in HMRC's latest programme business case. Most of the analysis is shown in nominal terms, but we have also included real terms values where most helpful (for example, in Figure 4) or included ratios to aid comparisons over time (Figure 7). We calculated real terms values using HM Treasury's GDP deflators, published April 2023.[51]

Website data analysis

6 We conducted analysis on data from HMRC's webpage that lists all the software products available to taxpayers and agents for MTD for VAT. We did this on three occasions to analyse the different types and functionality of software products available and how well HMRC managed its provision. These findings were shared with HMRC during the study.

International comparisons

7 In Part Three (paragraphs 3.35 to 3.37, and Figure 11) we present analysis of the OECD's 2022 Inventory of Tax Technology Initiatives survey. The survey has responses from 79 tax jurisdictions in total (including both countries and self-governing territories). We compared the digital services provided in the UK with those provided by the other 15 Group of 20 (G20) countries that responded to the OECD survey.[52] We also compared the UK with:

- all the other 32 OECD countries that responded to the OECD survey, and obtained broadly similar results; and
- the five other Group of 7 (G7) countries that responded to the survey.[53] Several of the G7 countries reported having few digital services and thus the UK's position relative to these countries was better than the UK's position against the wider groups of G20 countries or OECD countries that responded to the survey.

51 HM Treasury, *GDP deflators at market prices, and money GDP March 2023 (Quarterly National Accounts)*, April 2023. Available at: www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-march-2023-quarterly-national-accounts
52 The G20 is an intergovernmental forum comprising countries with large economies which cooperate on economic matters.
53 The G7 is an intergovernmental forum involving Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

Appendix Two

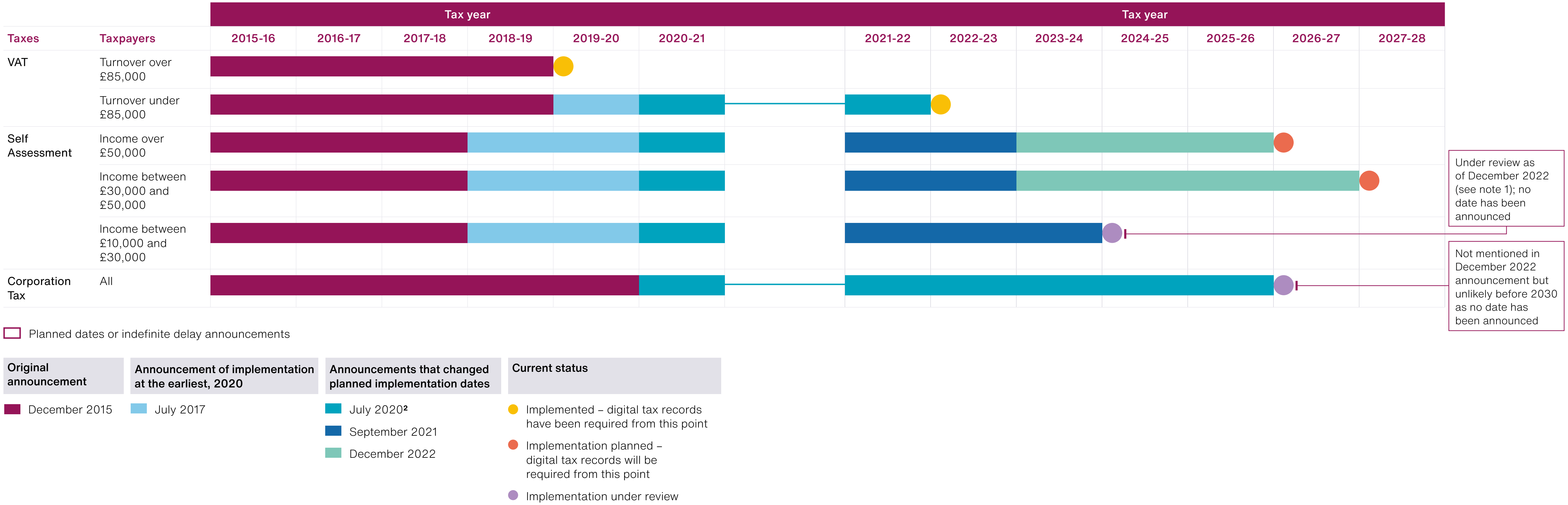
Planned implementation dates for digital record keeping by business taxpayers since 2015

1 See **Figure 12** on pages 58 and 59.

Figure 12

Planned implementation dates for digital record keeping by business taxpayers since 2015

There have been four changes to implementation dates since they were first announced in 2015. Currently there are no implementation dates for Self Assessment taxpayers with annual incomes under £30,000, those in general partnerships or for businesses paying Corporation Tax



Notes

1 General partnerships were planned for mandation by 2025, but mandation was indefinitely delayed in December 2022. These dates have not been included in the timeline due to the small number of affected businesses.

2 For Corporation Tax, this announcement set an earliest date for implementation.

Source: National Audit Office summary of HM Revenue & Customs' announcements and internal programme management documents for Making Tax Digital

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