HM Revenue & Customs

Making Tax Digital for Corporation Tax consultation

Summary of responses

30 November 2021

Contents

Executive Summary

In July 2020, the Government published its 10-year Tax Administration Strategy - '*Building a trusted, modern tax administration system*'. The strategy sets out how HMRC will make sure tax administration keeps up with the rapid changes taking place in society, the economy and technology to deliver the flexible, resilient and responsive tax system the UK will need in the years ahead.

The strategy focuses on delivering a fully digital tax system that works closer to real time, is fair and builds trust – allowing taxpayers to pay the right tax with ease as they live their lives and go about their business.

Making Tax Digital (MTD) is a core part of that strategy. A consultation on the design proposals for MTD for Corporation Tax (CT) launched in winter 2020/2021.

HMRC is currently in the final phases of delivering MTD for VAT and is preparing to deliver the MTD for Income Tax Self Assessment (ITSA) service from April 2024, as announced on 23 September 2021. Ensuring the success of the VAT and ITSA services is currently HMRC's main focus for MTD. The Government is also keen to ensure the lessons from the rollout of these services are taken into account in any future MTD for CT design.

Respondents to the consultation have emphasised the need for early clarity and assurance on both the design and timing of the service. The Government is committed to ongoing collaboration with stakeholders to help shape a service design that works for all and will provide sufficient notice ahead of implementation following any decision to mandate MTD for CT, to allow businesses time to prepare.

This document summarises the feedback from respondents on the questions raised in the consultation, and provides some indications as to how these could inform a future design of MTD for CT.

1. Introduction

Details of the Consultation

1.1 The Making Tax Digital (MTD) for Corporation Tax (CT) consultation, was published on 12 November 2020 and ran until 5 March 2021, following an extended consultation period.

1.2 On 11 January 2021 a shortened online version of the consultation was also launched, specifically for small businesses. This also ran until 5 March 2021.

1.3 The consultation proposed a range of design options for entities within the charge to CT. No decisions have been taken on whether or when to make the MTD for CT service mandatory.

How People Responded

1.4 In total, HMRC received 142 written responses to the consultation. Of these, 91 were from individuals, companies and not-for-profit organisations, 22 from tax agents and 29 from representative bodies. Some of the respondents held positions in wider organisations but were classified as individuals because they were replying in a personal capacity. A list of respondents to the consultation, excluding individuals, can be found in Annex A.

1.5 In addition, 65 respondents completed a shortened online version of the consultation designed for small businesses, which included some of the key questions from the wider consultation. Those responses have been included in this Summary of Responses.

1.6 HMRC also provided other opportunities for stakeholders to express their views. During the course of the consultation period, HMRC held 10 virtual events with interested parties to communicate and discuss the proposals and a public webinar. In total over 1500 entities, agents, representative bodies, software developers and others, participated. Feedback from these events has been considered as part of the consultation exercise.

1.7 The Government thanks those who responded to the consultation and recognises the time and effort that went into the comments and contributions received. These will continue to inform the development of the policy and design of MTD for CT.

2. MTD for CT Future Timeline

2.1 Respondents welcomed the fact that the Government was consulting on the design several years in advance of the potential mandation date (the consultation stated this would not be before April 2026 at the earliest). However, the overwhelming majority emphasised the need for early certainty, clarity and assurance on both design and the timetable for MTD. This reflects the fact that larger companies in particular undertake business readiness preparations and make funding decisions between 2 and 5 years in advance of any change.

2.2 The Government is committed to working with stakeholders to get the design right and will provide sufficient notice ahead of implementation, following any decision to mandate MTD for CT, to allow businesses time to prepare.

3. Consultation and Government Response

General Comments

3.1 Respondents were broadly supportive of the design proposals set out in the consultation document and there was a high level of engagement throughout the consultation process across the various response channels.

3.2 The vast majority of stakeholders were in agreement that MTD for CT was the next natural progression in the MTD journey, however, some sectors felt the change would not deliver the improvements and benefits they would need to make it viable for them.

3.3 Building on their lessons learnt so far from MTD for VAT and MTD for Income Tax Self Assessment (ITSA), respondents were keen to share their experiences. Early themes that were identified were the need for early certainty, clarity and assurance as well as flexibility, both on what was being asked for within the design but also around the time it would take to implement the changes within businesses.

3.4 Respondents raised concerns about some particular proposals including the tagging of data at transactional level, the alignment of filing dates for statutory accounts and company tax returns, and the inclusion of charities within the scope of MTD for CT. These points are discussed in more detail below.

3.5 Respondents welcomed the opportunity to work closely with HMRC over the coming years to help shape and develop the future design. Like HMRC, they recognise that this cannot be a ‘one size fits all’ design due to the diverse nature of the CT population.

Government Response to General Comments

3.6 The Government has been encouraged by the level of engagement the MTD for CT consultation received, and that this should be the next step in the Making Tax Digital journey.

3.7 The Government understands the challenges that all businesses face in the current economic climate and the need to manage significant transformational change.

3.8 The high level of support that respondents have shown to the design proposals, despite the unprecedented level of uncertainty under which entities have operated in recent months and years, demonstrates their commitment to moving to an increasingly digitised tax system. Where respondents didn't feel they were currently able to support the proposals fully, but shared views on ways they could be improved or gather broader support, these will be considered.

3.9 The Government believes that a co-creation approach to policy and design will support development of a tailored service for a diverse CT population. There will be continuing opportunities for entities of all sizes, their agents, representative bodies and software developers to influence this work.

4. The Scope of MTD for Corporation Tax

4.1. This chapter of the consultation considered the scope of MTD and its application across entities within the charge to CT. In order to understand the impact of design options, the Government considered the diverse range of entities included within the charge to CT and the scope and complexity of the CT regime.

Question 1: Do you think there are any reasons why an entity within the charge to CT (or a sum assessable as though it were CT), should not fall within the overarching scope of MTD?

There were 71 responses to this question from the full consultation and a further 64 responses to the equivalent online question (Q1).

Consultation responses

4.2. The majority of respondents agreed that all entities within the charge to CT should be within the scope of MTD for CT. Some stressed that the Government needed to ensure consistency of approach across all heads of duty.

4.3. Of those respondents, many felt there would be particular groups for which elements of the overall design will be difficult to comply with, but that they should not be excluded from the overarching scope of MTD for CT solely on that basis. Some respondents however suggested the design would need to be flexible or tailored to meet their specific circumstances. Even where respondents proposed that entities could be exempt from MTD for CT requirements, some suggested that exemption may only need to be from the quarterly reporting requirements.

4.4. Some respondents were concerned that the smallest, unrepresented companies may have limited or no knowledge of financial systems, and that this could be a barrier to compliance with elements of MTD. They felt inclusion within MTD for CT would increase costs needed for additional resources, outsourcing of financial work and new software to be compliant.

4.5. The charitable sector and some other respondents felt that whilst larger charities with trading subsidiaries should be within the scope of MTD for CT, small charities and not-for-profit organisations should be exempt for various reasons. Many charities considered the investment to comply with MTD as being disproportionate in consideration of the amount of CT (if any) these entities pay each year. There is further discussion on this point in Chapter 8.

4.6. Where respondents thought some entity types should not fall within the scope of MTD for CT, the responses can be divided broadly into three categories:

- entities for which a complete exemption from MTD for CT should be considered, for example dormant companies or charities
- entities for which exemption from quarterly reporting only should be considered. These entities would still be required to meet all other MTD for CT requirements
- entities for whom a tailored design for MTD for CT should be considered – for example UK permanent establishments including UK branches of overseas companies, or entities with high levels of complexity in their record keeping (Lloyd's members, investment companies).

4.7. A minority of respondents suggested the use of a turnover threshold as a criterion for entities to be within the scope of MTD for CT. Suggestions on this threshold ranged from £10,000 per year to £100,000 per year.

Government response

4.8. The Government believes strongly that the digital transformation of the corporate tax system is the right way forward. It offers the opportunity to help enhance the customer experience and support businesses to pay the right amount of tax.

4.9. The Government acknowledges the concerns and challenges raised through the consultation to the design proposals. However, it is encouraged by the recognition of the majority of respondents that, to deliver a world leading tax system, the scope of MTD for CT needs to include all entities within the CT charge. This also recognises that online filing of company tax returns has been mandatory for many years. The Government does not propose therefore to introduce income-based exemptions within the design for MTD for CT.

4.10. From the outset, the Government has appreciated that a ‘one size fits all’ design would not support the diverse needs of the UK CT population and that the design would need to be flexible and tailored for different parts of the population.

4.11. The Government welcomes the opportunity to work with entities of all sizes across the CT population, representative bodies, agents and software developers, to discuss and develop a design for MTD for CT, that allows all entities to be within the scope, whilst making the requirements proportionate to the type of entity and the tax due.

4.12. In relation to the concerns expressed that MTD would become too costly and burdensome for very small, typically unrepresented companies, the Government would like to work with representatives for these businesses and software developers, to ensure the level of detail required is proportionate and adequately supported in software.

4.13. HMRC has had discussions with the stakeholders representing the charity sector, in particular smaller charities, sports clubs and not-for-profit organisations. The Government is open to exploring a more bespoke design for these entities that reflects their specific circumstances.

4.14. For the avoidance of any doubt, it remains the government's view that if specific businesses are already exempt from filing company tax returns online, then they should also be treated as exempt for MTD for CT.

5. Digital Record Keeping

5.1. This chapter considered what business records could be kept and maintained digitally by entities within the charge to CT, including how these should be categorised.

Choosing software and digital links

5.2. Whilst this was not a question the Government specifically consulted on, several respondents took the opportunity to make the point that most entities within the charge to CT already maintain their business records in some form of software program. In that sense, they are already compliant with one of the core principles of MTD for CT, of keeping digital records.

5.3. However, many were concerned about the prospect of having to change software that already meets their business needs solely in order to meet a requirement to maintain these records in "MTD compatible" software. Several respondents noted that, in relation to MTD for VAT, it was acceptable to meet all of the requirements of MTD using more than one software program, provided that information was transferred between the individual programs using digital links. Many respondents assumed the same would apply to MTD for CT. Others sought confirmation that this would be the case.

Government response

5.4. The Government fully accepts that many entities are already keeping their business records digitally. It is not the intention to force all companies to acquire completely new software solely in order to meet MTD requirements.

5.5. The Government's expectation is that companies will be able to use more than one software program to meet the totality of the MTD requirements, if they need to. This may be "in house" software, something provided by a third-party software developer or some combination of the two. For example, a company may choose to have one or more accounting systems to maintain the digital records and a separate piece of software to submit information to HMRC. That is likely to also mean there will be a need to put in place rules around digital links where data is transferred between programs, possibly similar to the rules currently in place for MTD VAT[1].

5.6. The Government is committed to working with software developers to develop products that provide businesses with a range of software options. HMRC already has an established relationship with software providers through its experiences with MTD for VAT and MTD for ITSA.

Question 2: Do you agree that all entities should be required to record the date, amount, and category for all transactions within MTD compatible software? Where this approach differs to your current approach to record keeping, please provide details of any additional one-off and ongoing costs or savings.

There were 69 responses to this question and a further 65 responses to the online equivalent question (Q2).

Consultation responses

5.7. The majority of respondents agreed with this proposal but provided suggestions on how it could work in practice and stressed the need for clarity and flexibility. For example, a 'category' needs to be clearly defined to ensure the correct data is captured against it, but flexibility would also allow businesses to continue using existing data classifications, some of which may be sector specific. The suggested minimum categorisation is discussed separately under question 4.

5.8. The need for certainty on the terms proposed, was a feature of all responses, with clarity required on whether the 'date' would be the date of transaction, payment, processing or adjustment date, and for HMRC to confirm what constitutes a 'transaction'.

5.9. Areas where some respondents felt businesses may face challenges included one-off costs of software changes and associated training costs. It was suggested that transactional level categorisation will require tax professional knowledge and this could be onerous and costly. However, many felt with the

[1] VAT Notice 700/22: Making Tax Digital for VAT

right definitions built into the software, this would be workable and could streamline existing processes.

5.10. Some respondents favoured the use of a unique identifier for each transaction to help track or trace transactions, whilst others questioned how capital allowances would be reflected, as currently this occurs once a transaction has been recorded and not in real time.

Government response

5.11. A key theme of the consultation responses was the need for clarity in the design. This extends to the use of terminology as well as processes. The Government agrees it is important to provide definitions of key terms used.

5.12. As set out in the consultation document, the Government does not propose to define ‘transaction’, instead relying on its commonly understood meaning to include any income the entity earns and any expense which entity incurs. For example, this would also include items such as loans and dividends. The Government remains of the view that recording the date, amount and category for each transaction is essential to identify that transaction. However, further guidance on exactly what needs to be recorded will be necessary.

5.13. In MTD, the approach is that all entities within the charge to CT will keep digital records of their transactions held on the MTD compatible software, so it is important to understand how these can be best categorised for tax purposes.

5.14. The Government will consider any suggestions to simplify the categories, such as the option of using an identifier.

Question 3: Would group companies value the ability to keep digital records at group level? Are there any additional benefits to utilising a mixed approach?

There were 62 responses to this question.

Consultation responses

5.15. The majority of respondents welcomed the flexibility that this proposal offered, suggesting they would value having the option of keeping digital records at group level. Some suggested there may be merit in having a mixed approach (whereby some entities within the group have their obligations fulfilled by another whilst others maintain their own digital records), since different groups operate differently.

5.16. This mixed approach would help address the challenges already faced where different Enterprise Resource Planning (ERP) systems (IT systems used to manage a company’s activities and processes) hold different data that can be difficult to consolidate.

5.17. Respondents further suggested this would allow a group to decide which companies to include in their consolidated group record keeping and which companies would file independently. This offered the additional flexibility to include or exclude entities, as appropriate for their structure.

5.18. Some respondents noted that even if digital records are maintained at group level, they would prefer the submission of company tax returns to be made at entity level to avoid the need to eliminate consolidation adjustments.

5.19. A few respondents suggested clarity would be needed on a definition of what is meant in ‘keeping records at group level’, to understand the practicalities of how the proposed approach would work, and the level of change to existing systems that may be required.

Government response

5.20. The Government recognises groups work differently, depending on the type of businesses and their operating structure. For example, businesses may face challenges where a group holds data in different formats across multiple software packages or where a data supply is needed from a parental group situated overseas.

5.21. The Government will consider offering flexibility within the MTD for CT design to reflect the complexity of grouping arrangements within a business structure. HMRC will further explore the possibility to allow the keeping of digital records at group level or even the use of a mixed approach within one group. With this in mind, further work will be needed to understand the extent to which this approach fits with existing processes and policies.

Consultation Paragraph 3.10 The Government welcomed the views of businesses on the type of data they currently maintain and the proposal for group structure data. Please provide details of any increased or reduced administrative burdens of recording and providing such data through MTD compatible software.

There were 21 responses to this question.

Consultation responses

5.22. Respondents in the main reported that non-financial data is held either non-digitally, or digitally but on separate systems to those holding their transactional data. Data types included complex group structures and bulk data e.g. address data.

5.23. Respondents suggested that changing their systems and processes in order to provide data through MTD compatible software would require additional time, significant costs and an increased administrative burden.

5.24. Some respondents wanted further clarity on how the data would be digitally transferred, especially where there were areas of sensitivity in the data.

5.25. A minority of respondents considered this could be a duplicated information request, as this (or similar) information is currently supplied for Companies House and under country-by-country reporting regulations.

5.26. Some respondents proposed that the group structure should be considered separately and supplied annually.

Government response

5.27. The Government wants to develop a further understanding of business structures to influence the design of MTD for CT. It will be important to understand how the data flows between the members of the group. However, the Government remains interested in principle in collecting better data on group structures. This would help to establish who has responsibilities and where in the group CT liabilities arise, particularly where structural changes have arisen, for example mergers and acquisitions. Additionally, it would improve contact between HMRC and the business, in turn improving the customer experience for groups.

5.28. There are several ways the Government may approach this subject, including:

- considering digital tax services in other countries to better understand the level of reporting there
- further stakeholder engagement to determine what group structure data would be required and when
- how software can support the supply of group structure data
- the introduction of a unique identifier for a group and the entities that sit within it. By identifying who should supply the data, this approach could support the regular supply of data relating to group structures.

Question 4: Do you agree with the suggested minimum categorisation of transactions within MTD compatible software?

There were 59 responses to this question and a further 65 online responses to the equivalent question (Q3).

Consultation responses

5.29. The majority of respondents agreed that there should be a minimum categorisation of transactions within MTD compatible software. However, they proposed that it should be aligned to either existing accounting tax categorisation or the DPL account within the XBRL taxonomy. This would be to enable integrated reporting with one taxonomy from one data set, to both HMRC and Companies House. Respondents also suggested providing flexibility by having 'additional' categories for specific business types.

5.30. Some respondents suggested the minimum categorisation would work better for smaller or medium entities but perhaps not so well for the larger entities. This is due to the volumes of data and complexity of transactions larger entities hold. The challenges for larger entities may mean significant changes to the software, in catering for additional charges. Therefore, respondents proposed HMRC exclude the following:

- Gains from non-trading loan relationships
- Capital expenditure
- Gains and losses on asset disposals, change of use and sales proceeds
- Depreciation
- Gains not falling under any other heading – a degree of flexibility for large companies and specific sectors.

5.31. They also suggested the non-mandation of data categories for larger entities.

5.32. Some respondents disagreed with the proposed minimum categorisation. They felt there were too many categories, the proposed ones were not sufficiently simple or that their descriptions appeared to overlap, which could lead to inconsistencies in categorisation and confusion. Some made suggestions to either simplify or reduce some categories.

5.33. Respondents supported the idea of providing guidance on categorisation.

5.34. There was also concern that additional costs could be incurred in association with purchasing new software to accommodate categorisation.

Question 5: Are there further categories or alternative approaches to the categorisation of records within MTD compatible software that you consider would be appropriate?

There were 48 responses to this question, and a further 65 online responses to the equivalent question (Q4).

Consultation responses

5.35. The majority of respondents suggested allowing entities the flexibility to add their own categories. This would enable entities the flexibility to tailor the categories for their specific business type.

5.36. Respondents further suggested clarity through clear logical definitions of the lists of categories. This could be supplemented with a comprehensive guide of categories for specific sectors such as the Banking and Financial sector.

5.37. Some respondents suggested that MTD software could be mapped with profit of loss categories, whilst other respondents suggested aligning categories to the XBRL tagging taxonomy.

5.38. A few respondents suggested a different approach of using the XBRL DPL as opposed to a list of categories.

Government response to questions 4 and 5

5.39. Corporation Tax brings its own complexities for compliance and its requirements for tax payments.

5.40. The Government still believes a minimum categorisation is sensible, but more work is needed on what the minimum categories should be and to what extent there could be sector-specific categories or alignment with the XBRL taxonomy.

5.41. Common standards should apply for all businesses using XBRL tagging and through the application of the taxonomy. However, MTD for CT should allow the flexibility in its design for specific business sectors.

5.42. HMRC are currently reviewing and exploring ways to improve XBRL and are working collaboratively with Companies House as the work develops. This includes considering the current service and standard of submissions and how this could change in the future.

5.43. Engagement with software developers will help build understanding of future software options and how they could be incorporated into the MTD for CT design.

6. Providing Regular Updates

6.1. This chapter considered how entities could provide information to HMRC through regular updates and how this information will be used. It specifically considered how updates might work for groups of companies and for the very largest entities within CT.

Purpose and content of updates

6.2. Whilst it was not a question the Government specifically consulted on, several respondents took the opportunity to comment on the purpose and content of quarterly updates in an MTD for CT context.

6.3. They also queried how HMRC will use the data and how it may inform CT compliance reviews.

Government response

6.4. The main advantages of quarterly updates are that they underpin the objective of keeping business records digitally in as close to real time as possible, helping to reduce avoidable errors. HMRC's ambition is also to use the regular updates to provide targeted support to customers before they submit their return, helping businesses to get it right at the point of submission in real-time and reduce the need for downstream compliance interventions.

6.5. The Government will provide clarity on the information required for a quarterly update once further work is completed. Tailoring the design of MTD for CT could also provide an opportunity to vary the information required from different entities. The Government accepts that the requirements need to be streamlined to ensure they are as simple as possible for businesses to comply with.

6.6. It is acknowledged that an entity's tax position may change across the year and that a quarterly update, whilst an indication of business performance and record keeping, may not provide an accurate assessment of their final liability.

Question 6: Would group companies value the ability to provide regular updates through a nominated company? Please provide details of any increased or reduced administrative burdens or costs that could result from this.

There were 49 responses to this question.

Consultation responses

6.7. The majority of respondents suggested groups would value exercising their flexibility in providing updates through either one or several nominated companies.

6.8. They would prefer this remained an option rather than be made mandatory, as it would allow groups the ability to determine which option works best for them according to their particular circumstances, such as business structure, activity and in some cases change of ownership.

6.9. Many respondents felt that without a firm HMRC position, they were unable to advise on the exact cost impact this may have on their business. However, respondents have acknowledged this proposal could be beneficial for some groups, but it may create an increase in administrative burden for others, with a further need for resources.

6.10. Some respondents suggested quarterly updates would not accurately reflect each company's expenditure. This is due to some expenses being paid at group level but not allocated until the year end.

6.11. A few respondents noted that, even if updates were provided at group level, they would prefer the submission of end-of-year company tax returns to be made at entity level to avoid the need to eliminate consolidation adjustments.

6.12. Some respondents asked if group structural data would be part of the quarterly requirements. If it were, these respondents felt this could prove problematic to provide. Some businesses hold large worldwide complex group structures with their parental entities situated overseas. Providing that level of detail through a quarterly update would significantly increase the administrative burden.

Question 7: Do you foresee any constraints to providing updates at group level and how do you think these could be addressed?

There were 45 responses to this question.

Consultation responses

6.13. Areas where respondents felt businesses may face constraints included groups with differing accounting dates, requiring a change of mechanism to consolidate data from different platforms and software into a single submission, supported by digital links. This was reported as likely to be expensive and time consuming especially for larger groups. Other constraints referenced included multiple agents having access or needing authorisation to access detailed records on a real-time basis.

6.14. Some respondents were concerned this would increase workloads on central teams. Where group members are managed separately and do not work together, this could cause administrative difficulties and increase both compliance burden and costs.

6.15. To help mitigate constraints, a few respondents suggested groups be allowed the flexibility of altering information that entities are submitting without an approval process. However, more broadly, respondents said that offering groups the flexibility to decide whether to report on an entity level, through several nominated companies or a combination of both options, should minimise the number of issues.

6.16. A few respondents noted that, for accounting purposes, groups are likely to consolidate results for material entities. They suggested this should be acceptable to HMRC (purely for the purposes of meeting MTD update requirements) rather than a more detailed view.

6.17. Some respondents wanted further clarity on the practicalities of who would be classed as liable if one company within the group did not have information ready by the deadline.

Government response to questions 6 and 7

6.18. The Government was interested in understanding whether groups of companies would benefit from having the ability to report regular updates at a consolidated group level.

6.19. The Government welcomes the constructive responses to these questions. Based on the feedback received, it is clear some but not all would find this useful. The Government will therefore explore further whether a mixed approach would be feasible - and if groups require ‘flexibility’, what would this mean in practical terms.

Question 8: Which forms and processes around incentives, allowances and reliefs would you most like to see digitised? Please provide details of the guidance and/or tailored assistance that would help this process.

There were 55 responses to this question.

Consultation responses

6.20. Respondents have welcomed the proposal to digitise forms and processes. They would like to see this done in all scenarios, with links to HMRC guidance. They proposed a priority order for digitisation, suggesting that the CT61 returns, Group Payment Arrangement closure notice, Simplified Group Relief Arrangement submissions and Non-resident landlord returns, should be the priority.

6.21. Some respondents would like further clarity on how ‘digitisation’ would deal with forms that still require ‘wet signatures’ from businesses.

6.22. Further consideration would need to be given to calculations that cannot be digitised as part of the forms and to allow a non-digital submission.

Government response

6.23. As part of the Government’s digital transformation, the consultation proposed the digitisation of a range of forms and processes for incentives, allowances and reliefs, that could be delivered through MTD compatible software.

6.24. The Government welcomes the positive response this proposal received and stakeholder feedback on where improvements could be made. It also acknowledges the need for flexibility within the design of new processes and forms, one that allows a business to decide whether a claim is submitted at the year-end or during the year.

6.25. MTD for CT provides an opportunity for HMRC to review the current information requested from businesses on the CT600 form and the supplementary pages such as the CT600E used by charities, to simplify and standardise the data required. Some respondents had felt these were no longer fit for purpose in their current format.

6.26. The Government would consider looking at a design where under MTD for CT, there is a move away from the CT600 altogether towards a dynamic style of return, similar to that used for MTD for ITSA, where filing online would be through MTD compatible software for CT. This approach may also provide further opportunities for the claims process and forms.

6.27. As part of the further work required to review forms and processes more generally, stakeholders will have the opportunity to work with HMRC to help shape and test future design options.

Question 9: What practical benefits do you think could result from standardising how entities submit claims and elections through software? Please provide details of any increased or reduced administrative burdens or costs that could result from this.

There were 47 responses to this question**.**

Consultation responses

6.28. Almost all respondents have suggested a series of benefits resulting from standardisation through software when making claims and elections.

6.29. It was suggested the main benefits are in terms of costs, time and a reduction in both administrative burden and errors by having a consistent approach. It would allow both parties to have access to an audit trail of claims and elections made and could speed up the process of paying-out tax credits.

6.30. Respondents further suggested various methods to implement this, from simple digital receipts to suggestions of creating a single CT portal that records all filings and submissions.

6.31. Very few respondents suggested possible challenges they could face, but those reported included concerns about software complexity and that claims and elections would be too difficult to standardise due to the varying data requirements and deadlines.

6.32. A minority of respondents preferred the retention of existing processes and deadlines, in particular the process for Gift Aid online.

Government response

6.33. The Government welcomes the suggested ideas from stakeholders regarding the submission of claims and elections.

6.34. The Government will work with stakeholders to find opportunities to simplify the claims and elections process. Digitising the forms and processes will make these requests easier to submit and provide certainty to entities on the progress of their claims. Such changes could also be implemented independently of MTD for CT.

Question 10: Do you agree that an entity's update cycle should be based upon its expected accounting period with updates due one month after each quarter end?

There were 64 responses to this question and a further 65 online responses to the equivalent questions.

Consultation responses

6.35. The majority of respondents agreed with this question but have suggested aligning the deadline date with the existing quarter end.

6.36. Some respondents suggested an alternative would be to align the deadline with other forms of tax requirements such as MTD for ITSA or VAT stagger deadlines.

6.37. Respondents further suggested the one-month deadline after each quarter end was insufficient time for entities to prepare and provide updates, raising concerns around the accuracy of the submissions. It was suggested that quarterly update requirements will place demand pressures on entities and could prove very challenging to deliver. Some respondents suggested revising the deadline to two months.

Government response

6.38. Whilst the majority of respondents supported a one-month deadline, there were alternative suggestions which have some merit.

6.39. Further work will be needed to understand which of these proposals would best support the design of MTD for CT.

Question 11: Do you agree with the principles for very large companies within the QIPs regime? (*Note: this included a relaxation of quarterly update requirements*)

There were 61 responses to this question.

Consultation responses

6.40. The majority of respondents agreed with the principles but suggested it should be extended to all entities within the Quarterly Instalment Payments (QIPs) regime. Many argued that entities in the QIPs regime are already meeting many of the MTD principles.

6.41. It was suggested that instead of an annual profit threshold to determine what is a "very large company", there were other possible criteria that could be used, such as the SAO (Senior Accounting Officer) qualifying company test, the allocation of a CCM (Customer Compliance Manager) to the business by HMRC, or whether entities are subject to the Business Risk Review (BRR) process. Several respondents pointed out the annual profit threshold created too much uncertainty, as business could fall in and out of quarterly update obligations on a regular basis, wherever the threshold is set, due to volatility in the amount of their annual profits.

6.42. Some respondents disagreed with the proposal, suggesting excluding large companies went against the reasons for MTD for CT, which is to collect more real time data. They therefore suggested those in the QIPs regime should not be excluded from quarterly updates.

6.43. Some respondents went on to recognise that these businesses have already established an engagement with HMRC for QIPs. However, this is only to provide tax payments and there are no requirements to provide an underlying calculation in support of the payable amount. It has been suggested that all businesses should therefore file via MTD rather than having to switch between QIPs and MTD.

Government response

6.44. The Government believes very large companies are already meeting many of the MTD principles in their business practices. For this reason, it had proposed an alternative approach to quarterly updates for this group in the consultation.

6.45. The Government notes that the majority of respondents agreed that very large companies should be excluded from the quarterly update requirements. However, it also recognises that not all agreed.

6.46. The Government considers that all entities could benefit from the transformation that MTD can bring. At the same time, it wishes to avoid unnecessarily adding to the range of statutory obligations in place and look for alternative ways to include all entities.

6.47. Wider engagement to support the consultation highlighted that the quarterly updates should not be restricted only to data relating to income and expenditure and that there was an opportunity for other information to be collected through a quarterly update, such as changes to a group structure following a merger or acquisition.

6.48. The Government will therefore engage further as the design progresses on the requirements for quarterly updates, including what this could mean for very large companies, while ensuring that all obligations are proportionate and necessary.

6.49. The Government accepts that if an exception is maintained for very large companies, the QIPs test may not be the best test to identify them. Alternatively, therefore, the Government may consider the use of an annual turnover or balance sheet-based test, such as is already used for example in the Transfer Pricing regime to distinguish small and medium sized enterprises from large companies.

Consultation Paragraph 4.16. The Government asked whether the regular update requirements should be adapted for dormant companies and different business segments with additional statutory reporting requirements, such as those required to submit an annual country-by-country report.

There were 16 responses to this question.

Consultation responses

6.50. Respondents have suggested dormant companies should not be required to provide quarterly updates as they anticipate it will create unwanted administrative burden and costs to an otherwise non-active set of companies.

6.51. Some respondents proposed using an alternative approach, suggesting when a company becomes dormant, they should file a final (annual) company tax return instead.

6.52. Some respondents noted that country-by-country reporting provides specific sets of data, different to that required for MTD for CT. It was suggested that MTD for CT requirements could be adapted for companies subject to these reporting obligations.

Consultation Paragraph 4.21. The Government welcomed thoughts on other areas of the international tax system, including how the rules for double taxation relief, hybrid entities and transactions, corporate interest restriction and transfer pricing might interact with the design of MTD for CT.

There were 5 responses to this question.

Consultation responses

6.53. Many respondents pointed out overseas parents of UK branches usually maintain the business records and construct the accounts for the UK branch. Branch records are not maintained separately, and the parent may not be maintaining records in real time. This could prove problematic for quarterly updates.

6.54. It was also suggested that the application of double taxation relief, as well as rules on hybrid entities and transactions, corporate interest restriction and transfer pricing are all very complex areas where, typically, annual adjustments are made.

Question 12: Do you consider that any of these other scenarios* require a different approach to the process of updating HMRC? If so, please provide details of any barriers and how these could be addressed within the overall approach outlined.

There were 39 responses to this question.

*(*Note: Scenarios discussed in the consultation included:*

- *multinational businesses that have controlled foreign companies (CFCs) which may result in a tax charge on the water’s edge company controlling the CFC or may be partially or wholly exempt*

- *UK resident companies operating in a foreign tax jurisdiction through a permanent establishment whose profits and losses are chargeable to CT.*
- *companies resident in the UK as well as another country, for example where they are incorporated in a foreign tax jurisdiction, but their central management and control is located in the UK and there is no applicable tiebreaker in a tax treaty.)*

Consultation responses

6.55. Some respondents felt more time would be needed to retrieve information for quarterly updates whilst other's preference was that an exclusion from quarterly update requirements could be necessary wherever there is a dependency on obtaining information from non-UK entities (who will generally have different record keeping and tax requirements).

6.56. Others noted scenarios where tax adjustments cannot be done in-year, because the overall position can only be determined after year end and even then the computations are often best worked outside of the main record-keeping software solution. Examples cited included the corporate interest restriction.

Government response to paragraphs 4.16, 4.21 and question 12

6.57. The Government recognises that a 'one size fits all' design approach will not meet the needs of a diverse CT population. Therefore, there will be a need to tailor elements of the design of the service delivered for MTD for CT for different customer groups.

6.58. Whilst the proposal is to bring all entities within the charge of Corporation Tax into the MTD for CT design, the Government is considering how the core design principles of MTD could be applied and adapted, for example in the context of dormant businesses that become active.

6.59. The Government agrees that there are complex areas of the international tax system, that will warrant further work and, potentially, flexibility in the MTD for CT design. The Government will also explore the information already submitted through country-by-country reporting.

7. Establishing the Final CT Liability

7.1. This chapter considered how entities within the charge to CT would use their MTD compatible software to provide the equivalent information, accounts, statements and reports currently required as part of their company tax return and in doing so establish their profits (or losses) for tax purposes.

Consultation Paragraph 5.5. The Government would welcome views on the alignment of these obligations from group members who would choose to meet their individual MTD requirements through a nominated entity. Please provide

details of any increased or reduced administrative burdens or costs that could result from this.

There were 6 responses to this question.

Consultation responses

7.2. Respondents suggested allowing flexibility within a group, for them to decide whether a nominated entity would prepare or make a company tax return. For some groups, this facility might prove useful but only if this would avoid costly changes to processes.

7.3. A few respondents raised practical considerations, due to the volumes of data involved and the need for reconciliation of records.

7.4. A minority of respondents suggested further clarity was needed to understand how the proposed approach would work.

7.5. Some respondents suggested if the UK were to introduce a consolidated tax return, then this would clearly be beneficial and would be expected to reduce administrative burden and costs.

Government response

7.6. The Government considers the case for annual company tax returns being submitted for groups of companies at group level, rather than at entity level, is weaker than the case for allowing quarterly updates to be submitted at group level.

7.7. However, HMRC will explore with stakeholders whether allowing nominated entities within groups to submit the entity level company tax returns on behalf of all the group members would offer any benefits to groups.

Question 13: Do you agree it is appropriate to align the filing dates for tax and company law purposes? If not, what difficulties do you foresee?

There were 81 responses to this question and a further 65 online responses to the equivalent question (Q7)

Consultation responses

7.8. The vast majority of respondents disagreed with aligning the filing dates. They advised that the tax return computations cannot begin until the financial accounts have been completed and signed-off.

7.9. The difficulties respondents could foresee for businesses includes the need for:

- considerable time, to consider or prepare the tax adjustments
- quality assurance checks to be carried out to reduce the risks in the accuracies of the return being filed.

7.10. It was reported that the administrative burden this would create would force large and complex companies to submit estimated returns, resulting in an increase in amended returns.

7.11. It could also increase pressure on resources by creating large peak periods of work within the financial year. Finance teams and auditors would be particularly impacted. Some respondents felt this proposal would also increase costs in terms of professional fees and additional resources required.

7.12. Some respondents suggested that, whilst total alignment of filing dates may not be possible presently, it may be possible to reduce the timescale between the two for some parts of the population. It was suggested that small businesses could be able to move from the filing requirements being 3 months apart to 1 month.

7.13. A number of respondents also accepted that the introduction of MTD for CT and advancements in software options may offer an opportunity for businesses to review the way they currently operate, and that closer alignment of filing dates may bring streamlining efficiencies.

Government response

7.14. The Government has noted the high level of feedback from stakeholders to this proposal and the challenges they would face from aligning the deadlines for filing statutory accounts and company tax returns.

7.15. Whilst there are no plans to change legislation to require all companies to file their company tax returns with HMRC at the same time as they file their statutory accounts with Companies House, the introduction of MTD for CT would bring an opportunity to revisit and simplify existing processes.

7.16. With this in mind, the Government would be interested to explore further options to shorten the timescales between the submission of statutory accounts and company tax returns. For example, consultation feedback suggested that small businesses would be able to accommodate and would benefit from submitting their tax returns within 1 month of the statutory accounts filing date, as this would provide them with more certainty on the tax payments they are making. This would align to the current small business preference to file their company tax returns shortly after filing with Companies House.

Question 14: Do you agree that amendments to an entity's company tax return should be made through MTD compatible software?

There were 61 responses to this question.

Consultation responses

7.17. The majority of respondents agreed with this proposal, provided that the amendments could be submitted on the same basis as the original filing. Some suggested that entities should be allowed the flexibility to make amendments through software but that this should not be mandatory.

7.18. Additionally, a few respondents suggested that entities should be allowed to file amended tax returns outside of the statutory twelve-month window, as currently

HMRC can still process an amended return made more than two years after the end of the tax return period in special circumstances.

7.19. A few respondents neither agreed nor disagreed with the proposal, and instead addressed challenges businesses may face adjusting to the proposal, for example ensuring they have MTD compliant software and/or putting in place any necessary digital links.

7.20. Some respondents offered examples of where two or more different software products would inevitably be involved, such as jointly amended group relief returns.

Government response

7.21. With third party software advancing rapidly, the Government will continue to engage with software developers to ensure that a range of software is available that can fulfil MTD for CT requirements. The ambition would be to allow businesses to make amendments to company tax returns using the same software they used to file their original return. However, HMRC recognises that this will not always be possible. Where an entity or accountant has changed their software package prior to an amendment being made, this could be submitted through the new software. Special consideration may also need to be given to amendments resulting from amended group relief claims.

Question 15: How can MTD for CT ensure that accounts and tax computations submitted as part of a Company Tax Return, are fully and accurately tagged in iXBRL format?

There were 62 responses to this question.

Consultation responses

7.22. Respondents suggested this could be accomplished by introducing automation within MTD compatible software, as this should improve accuracy and completeness of tagging. Aligning to a single taxonomy, for example using the same taxonomy in both HMRC and Companies House, and adopting validation checks incorporated into the software would help to ensure consistency, accuracy and compliance with MTD for CT.

7.23. However, respondents also highlighted that costs resulting from software changes, would be the biggest challenges faced by businesses. There was concern for smaller businesses and charities for whom this may be felt as a large expense.

7.24. Respondents welcomed the opportunity to support any improvements on XBRL tagging and would like HMRC to share any issues and feedback relating to tagging.

7.25. Respondents were keen for HMRC to have further engagement with Companies House and software developers to discuss particular issues around the costs and availability of software and how this could be addressed.

7.26. A few respondents questioned whether the costs of tagging outweighed the benefits and sought clarity on the benefits to businesses. They also queried if digital links were sufficient for MTD for VAT, and therefore whether there would be a future need for tagging at all.

Government response

7.27. The Government has noted the feedback received from stakeholders and can confirm HMRC is working closely together with Companies House to consider the future direction and application of XBRL tagging.

7.28. Those discussions include how to improve the customer experience of the current XBRL tagging requirements by providing businesses with better support to help them meet their legal obligations and by better information sharing between Government departments to avoid the need to ask businesses for the same information twice.

7.29. For accounts, there is already a single suite of XBRL taxonomies, maintained by the Financial Reporting Council and recognised by both HMRC and Companies House (and which from 2021 includes the Detailed Profit and Loss Account). However, the tax computation taxonomy is currently required by HMRC only. HMRC will continue to reflect on its future tagging needs and whether there is scope to make improvements either in advance of MTD for CT or when MTD is introduced.

Question 16: Do you think HMRC should reject returns or charge penalties where the XBRL tagging is incomplete or inaccurate?

There were 62 responses to this question.

Consultation responses

7.30. The majority of respondents disagreed with this proposal. They suggested HMRC should firstly raise awareness of common errors and issues in relation to XBRL tagging and secondly, provide further support to taxpayers to enable them to become more compliant. Furthermore, as some tagging is automatic, there were suggestions that any issues raised could be related to software errors.

7.31. Some respondents agreed with the proposal. They suggested that it should be aimed at and applied to those who are persistently non-compliant with tagging requirements including businesses that have not made reasonable endeavours to get this right.

7.32. It was further suggested that HMRC should apply a light touch approach to encourage businesses to improve their behaviours without seeking the need to penalise taxpayers.

Government response

7.33. The Government agrees that, if a sanction were to be applied in cases where XBRL tagging is incomplete or inaccurate, these must be applied fairly and transparently. However, it also accepts that there is more work to do to promulgate best practice before applying new sanctions in this area.

7.34. The Government would like to take this opportunity to work closely with businesses to offer support and understanding on the common errors made. An important focus of this work will be to mitigate and deter persistent non-compliance.

Question 17: What hurdles do you think would need to be overcome should HMRC want businesses to tag data at a transactional level?

There were 60 responses to this question.

Consultation responses

7.35. Respondents suggested tagging at transactional level is more complex considering how many transactions an entity may have. For this reason, they envisage these changes as a costly exercise for businesses, requiring time, appropriate training, and the purchasing of new software or repurposing of existing software to provide tagging at transactional level.

7.36. Respondents suggested there would be a need for investment in enhanced data security to support the changes, resulting from higher levels of financial data held with third parties.

7.37. It was suggested further clarity was needed in what tagging at transactional level would look like under MTD for CT and how this would be applied for the different types of entities and how this would work for different systems, for example UK GAAP.

7.38. Respondents also wanted HMRC to justify why this is needed by clearly outlining the benefits to businesses.

Government response

7.39. The Government recognises the challenges businesses would face if they were required to tag at transactional level. HMRC's intention has always been to find a straightforward way of helping businesses and its own compliance officers understand or explain how the company tax return figures have been derived.

7.40. The Government fully accepts that tagging every transaction would be difficult, especially for the larger businesses, who will have very high volumes. HMRC will continue to explore with stakeholders how software solutions can further enhance transparency and the traceability of transactions from the point at which they are first captured in software through to the submission of accounts, computations and the company tax return.

Question 18: What do you think are the potential impacts of HMRC withdrawing the free filing product, known as CATO? Please provide any examples or

evidence held including evidence relating to the potential impact on filing accounts with Companies House.

There were 40 responses to this question with an additional 64 from the online survey for small businesses

Consultation responses

7.41. The majority of respondents suggested CATO should not be withdrawn as it would negatively impact the smallest of entities such as charities and not-for-profit-organisations, where it would significantly raise costs.

7.42. It was suggested in the case that CATO was withdrawn, a free software or an alternative software, aligned with filing with Companies House, should be provided. Alternatively, it was suggested grants could be made available to entities as an incentive, to ensure software providers are committed to making available free, fully supported solutions for MTD. Representatives for software developers on the other hand were concerned by any suggestion that third party MTD for CT products should be free to use, given their relative complexity.

7.43. Respondents who agreed with CATO being withdrawn provided their experiences of using the product. They felt the design of, and the functionality offered by, the current CATO filing product was not optimal. Where however businesses had simpler tax affairs, respondents generally felt that CATO was reasonably easy to use.

7.44. Some respondents said that CATO could be extended, to include for example property companies. They suggested, if a similar software were to replace CATO, then this should cater for all businesses within the scope of MTD for CT.

Government response

7.45. The Government recognises that a variety of entities currently make use of the CATO free filing product. CATO is a 'filing only' product and therefore will not meet the digital record keeping or quarterly update requirements of MTD.

7.46. In order to understand the impact of removing this product and to consider what alternative approaches can be provided, the Government will need to carry out further work to understand the needs of the population currently using CATO. Consideration will also be given for a transitional period to allow businesses to adapt to the changes of MTD for CT and to become fully compliant.

7.47. The Government supports the ongoing discussions between HMRC and Companies House to address the concerns related to the CATO product being withdrawn and on how to further support stakeholders such as the micro entities.

8. Special Cases and Exemptions

8.1 This chapter examined whether alternative MTD processes or exemptions may be appropriate for some entities falling within the charge to CT.

Question 19: Should charities, Community Amateur Sports Clubs (CASCs) and other not for profit organisations, be within the scope of MTD for CT where they have income within the charge to CT and required to complete a Company Tax Return? If not, please explain why you consider an alternative approach is necessary for charities and what criteria should be applied to assess eligibility for this?

There were 43 responses to this question.

Consultation responses

8.2 The charity sector strongly opposed their inclusion within the scope of MTD for CT, especially given most charities file irregularly and their taxable income is often nil or negligible. Their view was that the investment needed to comply with MTD obligations, would add unnecessary pressure on existing staff (many of whom are volunteers with little knowledge of the sort of software systems that would be needed). It would also add extra cost, for example in staff training, acquiring software and paying for professional advice. This extra cost would outstrip the CT liability (if any) of these entities.

8.3 On the other hand, some respondents felt that larger charities with CT liability could be in scope with smaller charitable and other not-for-profit organisations, as well as CASCs, exempted. One respondent proposed an exemption criterion based on an annual turnover threshold or income of less than a certain amount each year. Alternatively, for CASCs and charities, MTD for CT should be made voluntary.

8.4 A further suggestion was that clubs not registered as a charity or a CASC and not VAT registered should be exempt. Another respondent said that universities should be exempt.

8.5 However, the majority of respondents across all sectors were in favour of Charities, CASCs and other not-for-profit organisations being included within the scope of MTD for CT. The reasons they gave were that these entities are already part of CT, as they are currently submitting company tax returns. Like other businesses, they are also under an obligation to prove they have appropriate accounting arrangements in place and (if appropriate) pay the right amount of tax. A few respondents noted that this is a powerful way of deterring paid staff and volunteers from misappropriating funds.

Consultation Paragraph 6.8. The Government welcomes views from charities, CASCs and other not for profit organisations on how MTD requirements might best be tailored to work for them.

There was 1 response to this question.

Consultation responses

8.6. The respondent suggested that the proposed categorisation of transaction entries (see paragraph 5.7 onwards, above), should be adapted to include donations, gift aid and grants and that the categories are aligned to the entries required on the supplementary pages of the tax return.

8.7. These adaptations would support tailoring the design to the needs of charities, CASCs and other not for profit organisations and help them prepare their tax returns.

8.8. The respondent felt it was reasonable for companies to maintain digital records and file final company tax returns using MTD compatible software. However, they also suggested there would be no added value in providing regular updates, as the taxable profit could be gifted to charities through subsidiary companies resulting in no CT liability on the final tax return.

Government response to question 19 and consultation paragraph 6.8

8.9. The Government welcomes the level of engagement received from the charity sector to the design proposals. The Government would prefer the sector to be within the scope of MTD for CT. Excluding them from the service or making it voluntary to join will mean many charities will not get the benefits of going digital that other entities will enjoy. There is also a risk that software developers will not deliver products that meet the specific needs of charities if demand is suppressed. However, the Government accepts that not all elements of the design MTD for CT are necessary or appropriate for all charities and CASCs and is committed to working with the sector to further develop a tailored design for such entities.

8.10. The Government will work closely with the sector to understand how this could be achieved, including the consideration of exempting smaller charities, CASCs and not-for-profit organisations from being required to make quarterly updates.

8.11. Where any exemption from quarterly updates is given, these organisations would still be required to keep digital records and, in years for which a company tax return is required by HMRC, to submit that return through MTD compatible software. However, there would be no in-year reporting obligations.

8.12. The Government recognises there are other improvements that can be made to the customer experience for this sector. MTD for CT provides an opportunity to review existing forms and processes with a view to simplifying these processes within a digital service. A form that many stakeholders felt should be a priority for such a review is the CT600E. The Government agrees.

Question 20: Do you agree that MTD obligations should cease where a company is exempted from mandatory online filing of company tax returns due to insolvency?

There were 53 responses to this question.

Consultation responses

8.13. Almost all respondents agreed and suggested that it would not be appropriate for mandatory online filing of company tax returns where an entity is in insolvency.

8.14. Other respondents suggested the responsibility would pass onto the insolvency administrator or practitioner. In the case where they should still continue to file returns, they would have access to the software and therefore would be able to maintain the MTD obligations for CT.

Government response

8.15. The Government notes the high-level of responses who agreed that it would not be appropriate for mandatory online filing of company tax returns once an entity is in insolvency. The legal exemptions from online filing that are currently in place for the period of the insolvency, and which are set out in the GOV.UK guidance "*Corporation Tax: online filing at the end of a company's life*" [2], will therefore apply also to MTD for CT.

8.16. If an entity resumes trading, they will be required to meet all MTD for CT requirements.

9. Assessment of Impacts

9.1. This chapter explored the impacts and costs that might be incurred by businesses and other groups, in moving from manual or paper-based recording systems to digital.

Question 21: What timescales and costs do you consider would be involved in acquiring, updating, replacing or adapting existing software in order to be MTD compliant? Please provide details of one-off and ongoing costs and benefits you think may arise.

There were 65 responses to this question and a further 62 online responses to the equivalent question (Q10).

Consultation responses

9.2. The vast majority of respondents suggested further clarity was needed on MTD for CT requirements, before businesses could provide an accurate timescale or costs forecast to become MTD compliant for CT.

9.3. Some respondents provided an estimated timescale, however this varied between entity types. The timescales suggested ranged between 1-3 months

[2] Corporation Tax: online filing at the end of a company's life

and 5 years. To successfully implement the changes to their current processes and systems, companies said they needed time to agree funding, allocate the appropriate level of resources and training and acquire and test software and processes to ensure all requirements are met.

9.4. Estimates of costs ranged wildly. But most respondents noted the related costs would vary depending on the size and type of entity.

9.5. Acquiring new software would be the highest one-off cost, followed by ongoing costs to upgrade or adjust existing software for the MTD requirements they are already meeting. Other ongoing costs included the cost of outsourcing software maintenance, and professional and licence fees, which were likely to increase due to additional workload demand. The smallest costs to businesses referenced were in relation to training staff to use the software.

9.6. Respondents suggested the time taken to become compliant would vary from business to business, and that it would depend on how significant the changes were, the complexity of an entity's situation, their level of capability or knowledge, their capacity to invest and the ability of suppliers to provide the software required.

Question 22: Apart from software costs, what timescales and costs do you consider would be involved in making the transition to MTD for CT? Please provide details of one-off and ongoing costs and benefits you think may arise.

There were 57 responses to this question.

Consultation responses

9.7. The majority of respondents suggested that for the transition to MTD for CT, there would be multiple one-off costs. These were predicted to include funding for training and upskilling staff, costs to set up quarterly reporting, implementing new specialist software systems (including software that can do tagging), data migration, information security, and paying professional fees (which were projected to increase due to the work demand). Responses from or on behalf of charities frequently noted that they were unlikely to be able to claim tax relief on these costs unless they relate to a specific source of taxable income.

9.8. An additional difficulty and therefore source of cost for smaller, especially retail businesses was in creating digital links between Electronic Point of Sale systems and accounting software.

9.9. Specialist sector businesses suggested they were disadvantaged as there is currently no software that meet their specific requirements.

9.10. Respondents who have experienced making the changes to become MTD VAT compliant tended to have a better understanding of the resources needed. Some larger businesses reported that because they already maintain records in software and have management reporting in place, the additional cost of meeting MTD for CT requirements could be relatively small. However, one large business estimated the cost of making the changes needed for MTD VAT was over £1m; they estimated costs would exceed this for MTD for CT.

9.11. The main concern for businesses is that whilst both HMRC and businesses want to drive the cost of compliance down, the drive for increased transparency and more frequent provision of information can have the opposite effect.

Government response to questions 21 and 22

9.12. The Government is grateful for the time respondents took to explain where new one-off and ongoing costs might arise and to estimate these costs. The Government acknowledges that due to the diverse nature and size of businesses within the CT population, that costs will differ across the population, as would their experience of MTD.

9.13. Since the introduction of MTD VAT in April 2019, to date, over 1.5 million businesses have joined MTD, including a third of those VAT businesses with taxable turnover below the VAT threshold (£85,000) who have joined voluntarily. HMRC has provided comprehensive support to businesses to help them with their transition to MTD. This has included guidance across a range of channels including on GOV.UK, YouTube videos, a programme of webinars and engagement, as well as an online software choices tool to assist businesses in identifying the right software for them. Building on the lessons learnt from MTD for VAT and MTD for ITSA, an extensive range of support will be provided to support businesses with the transition to the MTD for CT service.

9.14. Businesses already operating MTD for VAT have reported through our research and evaluation activities that they are experiencing a range of benefits in using MTD including time saved, reductions in input errors and increased confidence in managing their tax affairs. Many businesses have found that benefits also increase over time.

9.15. The Government will continue to engage with stakeholders to ensure that MTD for CT delivers a range of benefits to business in the longer term, and importantly an improved customer experience of the tax system. A more detailed assessment of the impacts on and benefits to business will be made as the MTD for CT design develops.

Annex A: List of stakeholders consulted

In total, HMRC received 142 written responses to the consultation.

Of these:

91 responses were from individuals, companies and not-for-profit organisations. Some of the respondents held positions in wider organisations but were classified as individuals because they were replying in a personal capacity. They have not been named here.

22 were from Tax Agents:

- Ridgell and Co - Accountants
- Sapphire Business Services – Bookkeepers
- Richard Baldwin - Charity Tax Consultant
- Shirley Woods – Accountant
- PwC
- Grant Thornton UK LLP
- BDO LLP
- Ernst & Young
- Deloitte LLP
- KPMG LLP
- RSM UK
- Mazars
- Saffery Champness LLP
- Advantage Tax Services
- Moore Kingston Smith LLP
- MHA Tait Walker
- Crowe UK LLP
- Shareway Ltd
- Kingston & Co, accountancy services
- Nomina Plc
- 2 are unnamed

29 were representative bodies:

- Charity Law Association
- Association of Taxation Technicians (ATT)
- CIOT MTD Working Group
- Institute of Chartered Accountants in England & Wales (ICAEW)
- Association of Investment Companies (AIC)
- British Universities Finance Directors Group (BUFDG)
- Lloyds Underwriters

- The British Antique Dealers’ Association (BADA)
- The Society of Professional Accountants
- Association of British Insurer (ABI)
- Low Incomes Tax Reform Group (LITRG)
- Building Societies Association (BSA)
- Confederation of British Industry (CBI)
- Chartered Accountants Ireland (CAI)
- Chartered Institute of Taxation (CIOT)
- The Institute of Chartered Accountants of Scotland (ICAS)
- The Institute of Certified Bookkeepers (ICB)
- Investment & Life Assurance Group (ILAG)
- London Society of Chartered Accountants (LSCA) Taxation Committee
- National Federation of Retail Newsagents (NFRN)
- National Farmers’ Union (NFU)
- Scottish Charity Regulator (OSCR)
- Business Application Software Developers’ Association (BASDA)
- UK Finance
- UK Oil Industry Taxation Committee (OITC)
- Charity Tax Group
- Tax Director Network
- The Investment Association (IA)
- Association of Accounting Technicians (AAT)