



HM Revenue  
& Customs

# Making Tax Digital: Tax administration

**Summary of responses**

31 January 2017

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## Introduction

- 1.1 On 14 December 2015, HM Revenue and Customs (HMRC) published the [Making Tax Digital roadmap](#) which sets out how we will transform the tax system so that it is more effective, more efficient and easier for customers.
- 1.2 Making Tax Digital (MTD) will be introduced in phases: April 2018 for Income Tax and Class 4 National Insurance obligations; April 2019 for VAT obligations; and April 2020 for Corporation Tax obligations.
- 1.3 On 15 August 2016, HMRC published six MTD consultation documents. One of these, [Making Tax Digital: Tax Administration](#), sought views on how to adapt existing tax administration powers to support the introduction of MTD.
- 1.4 Tax administration legislation governs the way in which HMRC interacts with its customers. This includes tax returns, assessments, claims, data gathering, payment, compliance, interest, penalties, information powers, appeals and time limits.
- 1.5 The consultation document focused on proposed changes to tax administration in order to deliver MTD including changing the rules relating to penalties. It also contained proposals on the alignment of interest rules.
- 1.6 HMRC is grateful to all those who responded. 135 written responses were received. An overview document covering all six consultations, which included two questions from the Making Tax Digital: Tax Administration consultation, was also published on 15 August 2016, providing an easier way for stakeholders to respond. In addition, HMRC held a number of events with interested parties to discuss the proposals, reaching thousands of interested parties.

## Next Steps

- 1.7 Legislation will be included in Finance Bill 2017 that will adapt existing Income Tax compliance powers to fit with MTD processes in time for the introduction of MTD for Income Tax in April 2018.
- 1.8 The government is committed to get the late submission penalties model right and recognises more work needs to be done on this. We intend to publish a further consultation document in spring 2017 with a view to introducing legislation at the next appropriate opportunity.
- 1.9 We also intend to consult further on specific proposals for late payment penalty interest and the alignment of interest rules in 2017.

## Who should read this document?

- 1.10 All individual and business customers, agents and representative bodies with an interest in tax administration should read this document.
- 1.11 Unless expressly exempted, all businesses, with Income Tax, Class 4 National Insurance Contributions (NICs), VAT or Corporation Tax obligations will be impacted by MTD as they will need to keep their business records digitally and update HMRC quarterly. In particular, the compliance, penalty and interest proposals in this document will affect businesses.

## Structure of this document

- 1.12 This document sets out the questions posed in the consultation document, summarises what respondents told us and provides a government response. It is structured as follows:
- [Chapter 2: Checking a customer's tax position – compliance powers](#) provides responses from stakeholders to proposals that sought to adapt existing Income Tax compliance powers to fit with MTD processes in time for the introduction of MTD for Income Tax in April 2018
  - [Chapter 3: Late submission penalties](#) provides responses to proposals that sought to revise late submission penalty powers in line with the principles which gained wide support in [HMRC Penalties: a Discussion Document](#)
  - [Chapter 4: Late payment sanctions](#) provides responses to two proposals that outlined new sanctions for paying tax late
  - [Chapter 5: Interest](#) provides responses to the proposal that current interest rules for Income Tax and Class 4 NICs should continue to apply and initial thoughts on the possible alignment of interest rules across different tax regimes when interest is due to or from customers
  - [Chapter 6: Initial assessment of impacts](#) provides responses to the initial assessment of the impacts of the changes proposed in Making Tax Digital: Tax Administration
  - [Annex A](#) lists stakeholders who provided written responses to the consultation

## Overview of responses

- 1.13 Respondents were largely supportive of many of the proposals set out in Making Tax Digital: Tax Administration whilst noting potential issues which require further consideration.
- 1.14 [Checking a customer's tax position - compliance powers](#): Respondents were broadly supportive of proposals to replicate HMRC's compliance powers so that they deliver the same outcomes under MTD as they do now. Most respondents also supported replicating existing customer safeguards, although some suggested that existing safeguards may require strengthening.

- 1.15 **Late submission penalties:** Most respondents believed that the transitional arrangements, where customers will not be charged late submission penalties for new MTD submission obligations, should be longer than 12 months.
- 1.16 The proposed points-based model received mixed responses. Whilst many respondents welcomed it in principle, concerns were expressed over the potential complexity of the system and the speed with which points could accrue. Respondents felt the proposed 24 month time period to 'wipe the slate clean' was too long, with many advocating 12 months.
- 1.17 There was strong opposition to the proposal that points should only become appealable when they have caused a penalty to be charged.
- 1.18 **Late payment sanctions:** Charging penalty interest on customers who fail to pay their tax in full and have not entered into arrangements to pay over an agreed period (Proposal A), emerged as the most attractive option to respondents.
- 1.19 **Interest:** Respondents generally agreed that the current interest rules should continue to apply to Income Tax and Class 4 NICs and strongly supported aligning interest rules across taxes.
- 1.20 Many respondents, although broadly supportive of a digitised tax reporting system, reflected general concerns about what MTD would mean in practice for them, their businesses and their clients.
- 1.21 Some respondents were particularly concerned about the pace of change and the capability of the smallest businesses to adapt as well as those who struggle with digital technology. Some also felt that the core MTD requirements could result in more late submission penalties being levied regardless of what penalty model was adopted. The government response to general comments on MTD is set out in the summary of responses to the consultation [Making Tax Digital: Bringing business tax into the digital age](#).
- 1.22 Many respondents advocated the need for agents to have full access to digital tax accounts to enable them to support customers in complying with requirements.

## Chapter 2: Checking a customer's tax position - compliance powers

- 2.1 Chapter 2 of Making Tax Digital: Tax Administration set out proposals about how HMRC's compliance powers should work so that the ability to check a customer's tax position in a digital world is retained. As MTD will apply to businesses within scope of Income Tax from April 2018, HMRC's powers will need to be adapted to fit with the MTD processes in time for this.
- 2.2 The government's intention is to replicate HMRC's current enquiry powers. The consultation document proposed that existing legislation should be amended to allow HMRC to enquire into the End of Year declaration in order to check the tax position of a customer. Customers' safeguards, which protect customers' rights, will be maintained under MTD. This includes the right for customers to request a review or appeal against HMRC decisions as well as time limits for HMRC to be able to enquire into a customer's tax position. The proposals would not allow HMRC to make an enquiry into the new quarterly updates.
- 2.3 Legislation will be included in Finance Bill 2017 that will adapt existing Income Tax compliance powers to fit with MTD processes in time for the introduction of MTD for Income Tax in April 2018.

### Responses to consultation questions

Question 2.1: Do you agree that compliance legislation should be amended to replicate current enquiry powers into the Self-Assessment return to the End of Year declaration?

- 2.4 The majority of respondents supported the principle of replicating existing compliance powers under MTD. A few respondents noted that these powers should only apply to the End of Year declaration, as the consultation document set out, not to regular updates.
- 2.5 Some respondents wanted additional detail on how the enquiry window would work for customers who have non-business income, and would therefore continue to submit a Self-Assessment tax return as well as an End of Year declaration. Several respondents reflected concerns that this could enable HMRC to have 'multiple enquiry windows' and held the view that this would extend rather than replicate HMRC powers.

### Government response

- 2.6 The government does not intend HMRC to enquire in-year into regular updates. As a result of the new MTD obligations, where a customer completes an End of Year declaration and has non-business income submitted in a Self-Assessment tax return, there will only be one enquiry window which will commence when all

relevant information has been received and is confirmed by the customer to be complete and correct.

### Question 2.2: Do you agree that current HMRC and customer safeguards should also be maintained?

- 2.7 Respondents generally agreed that current customer safeguards should be maintained.
- 2.8 A quarter of respondents believed current safeguards may need to be enhanced. In particular, a commonly held view was that because more data will be transferred digitally under MTD, extra safeguards may be needed to ensure the security and privacy of that data. Some highlighted the need to protect customers who accidentally make mistakes due to lack of familiarity with digital tools.
- 2.9 Some respondents said that paragraph 2.22 of Making Tax Digital: Tax Administration misinterpreted the rules regarding displacement of determinations by returns. Other respondents also mentioned the lack of a reference to Special Relief, a form of overpayment relief which applies to amounts charged in HMRC determinations in certain circumstances.

### Government response

- 2.10 The government recognises the need to ensure that customer information is handled securely and in accordance with data protection legislation. We understand that we need to ensure customer confidence in HMRC's ability to protect our customers' personal information.
- 2.11 The government intends to replicate the existing legislation on determinations, which includes Special Relief. For clarity, a return can be submitted to cancel a determination either by the later of 3 years from the filing date or 12 months from the date of the determination.

### Question 2.3: Are there any other options for preserving HMRC's current enquiry powers in MTD?

- 2.12 Respondents provided a broad range of additional views. Some suggested reducing HMRC's compliance powers under MTD. Suggestions included:
- considering whether MTD with its increased use of real time information and application of customer 'nudges' and 'prompts', may provide an opportunity to narrow HMRC's compliance powers in the future.
  - shortening the length of time that HMRC currently has to go back and assess tax and to charge penalties if fraud or wilful behaviour is suspected (currently 20 years).

## Government response

- 2.13 Recognising the scale and scope of the changes that MTD will bring, we wish to retain as much consistency as possible in terms of compliance powers. As such, we believe that replicating existing compliance powers is the appropriate way of ensuring MTD works effectively to deliver the same outcomes as now, rather than introducing any changes at this stage.
- 2.14 As MTD evolves HMRC will keep these suggestions under consideration as part of its commitment to delivering its 'Promote, Prevent, Respond' strategy. This builds compliance into everything HMRC does, helping those who need support to get things right.

Question 2.4: Do you agree with the proposed approach to replicate HMRC's compliance powers for determinations, corrections, information powers and discovery assessments?

- 2.15 Almost all respondents agreed that the proposed approach to replicate HMRC's compliance powers represented the most sensible way forward. There was a wide range of accompanying comments and suggestions. The most common suggestion emphasised the need for sufficient customer safeguards if there are discrepancies or errors in the pre-populated information, particularly when using this information to make determinations.

## Government response

- 2.16 The government will be replicating HMRC's compliance powers for determinations, corrections, information powers and discovery assessments.
- 2.17 HMRC will proactively work with third party information providers to ensure that information meets the required quality standard. We are also improving our ability to match information to customer records and will only use third party information when we are confident that we have correctly matched it to the customer. Further detail can be found in the summary of responses to the consultation [Making Tax Digital: Transforming the tax system through the better use of information](#)

Question 2.5 Do you have any other comments on how compliance powers need to change to transition to MTD?

- 2.18 Respondents generally emphasised themes expressed in response to earlier questions.

## Government Response

- 2.19 Please see the government responses to questions 2.1, 2.2, 2.3 and 2.4 which respond to the key points raised under this question.

## Chapter 3: Late submission penalties

- 3.1 Chapter 3 of Making Tax Digital: Tax Administration proposed a new approach to late submission penalties, in line with the widely supported principles set out in [HMRC Penalties: a Discussion Document](#). Instead of applying penalties to each failure, it proposed a more gradual model whereby each failure would attract penalty points. Only once the points reach a set level would a penalty be charged.
- 3.2 The government also proposed that customers who are within the scope of new submission obligations being introduced by MTD should have a period to gain familiarity with the new system before the new penalty regime comes into effect.
- 3.3 In designing the penalties system, the government is trying to balance several competing objectives. The system needs to be both fair and easy to understand whilst also ensuring it actively promotes the right behaviours and actions. The government recognises that there will sometimes be tension between these objectives, and as such the government may have to prioritise different objectives.
- 3.4 We are committed to designing a system that works for customers and HMRC. As such, we will look again at sanctions for late submission. We intend to publish a further consultation document in spring 2017 with a view to introducing legislation at the next appropriate legislative opportunity. **In order to support customers during the transition to the new MTD obligations, customers will be given a period of at least 12 months before they will be charged late submission penalties under MTD.**
- 3.5 A detailed government response to respondents' comments on the individual consultation questions and an indication of the intended approach to developing the penalty model is set out at the end of this chapter.

### Responses to consultation questions

Question 3.1 Do you agree that 12 months is an appropriate length of time to allow customers to become familiar with the new obligations before the new penalty regime comes into effect?

- 3.6 A majority of respondents believed a 12 month transitional period was too short due to the scale of the proposed changes. It would mean some customers would not have the opportunity to complete a whole cycle under the new system before being liable for penalties. There were particular concerns over customers who would be less confident with new digital processes.

- 3.7 Respondents questioned whether the transitional arrangements would start from the beginning of MTD, or whether as each tax transitioned to the new system, there would be a separate transitional period.
- 3.8 Some of those who suggested alternative timeframes proposed 24 months, while a smaller number advocated three years to align with the time which they understood had been given to smaller employers when the RTI regime for PAYE was introduced.

Question 3.2: Do you agree that the period to wipe the slate clean should be 24 months? If not, what other period would be appropriate?

- 3.9 Respondents generally felt that 24 months was too long because it:
- could lead to penalties being levied as a result of points that had been accrued a long time ago. This was seen as a particular problem if points could not be appealed until a penalty was levied
  - would be very difficult for taxpayers with quarterly obligations to achieve a 24 month period of perfect compliance
  - could reduce compliance as taxpayers could feel that wiping the slate clean was unachievable.
- 3.10 Over a third advocated 12 months instead to align with the current rules for VAT.
- 3.11 A number of respondents proposed that points should have a shelf life and expire after a set period of time. Several suggested that it would be fairer if the slate were to be wiped clean after a certain number of timely submissions rather than after a set time.

Question 3.3: We invite views on the design principles outlined for the points based penalty. For example, do you consider there are any further elements to build into this basic model?

- 3.12 Many respondents welcomed the points-based penalty design in principle, however, concerns were raised about complexity and the speed with which points could accrue.
- 3.13 Respondents suggested a number of further elements including:
- weighting of penalty points depending on the significance of the submission deadline that had been missed, for example failure to submit an End of Year declaration attracting more points than missing in-year deadlines
  - flexibility for those with a reasonable excuse for missing a deadline such as IT failures or one-off unforeseeable circumstances
  - an effective system to notify taxpayers when they had received a point. Many felt that notification via the digital tax account would be insufficient

- and an email/text/postal alert would be necessary to ensure taxpayers were aware
- providing agents with access to the information.

Question 3.4: At what stage for each of these different submission frequencies should points generate a penalty?

- 3.14 The majority of respondents agreed that the number of points which generate a penalty would need to vary depending on the frequency of the obligation, with a higher threshold for more frequent obligations. A few respondents suggested that the number of failures before a penalty is generated for quarterly obligations should be double the number for annual obligations. However, there was a concern that varying the number of points according to the frequency of the obligation would introduce complexity to the design.

Question 3.5: We would welcome comments on whether existing penalties are sufficient to support compliance with occasional filing obligations. If not, what more is needed?

- 3.15 Almost all respondents agreed that existing penalties are sufficient for occasional filing obligations.

Question 3.6: Do you agree that, in principle, a single points total that covers all of the customer's submission obligations is the right approach?

- 3.16 Respondents were divided on whether a single points total covering all of the customer's submission obligations was the right approach with around three fifths in favour and two fifths opposed. Those in favour felt that it would be simpler and more proportionate, avoiding the possibility of several penalties for a single event involving multiple failures.
- 3.17 However, a number of respondents felt that the proposal would be unworkable as in many businesses the responsibility for different taxes lies with different teams or agents. There were particular concerns over how it would work for partnerships.
- 3.18 Some expressed concerns that a single total would be unfair as businesses with a larger number of submission obligations would be more likely to receive a penalty.

Question 3.7: Do you agree that the proposal outlined in paragraphs 3.25 to 3.28 is the right way to operate a single points total? If not, what alternative would you suggest that ensures the design of the penalty is kept simple?

- 3.19 Two thirds of respondents agreed that the proposal was the right way to operate a single points total. Several welcomed the proposal that all failures to

make submissions that occurred at the same time would be treated as a single failure rather than multiplying the number of points to reflect the number of submissions involved.

- 3.20 However, a number of respondents were opposed as they felt it would be unfair that businesses who had only missed one obligation would be penalised in the same way as those who had missed all their obligations on that occasion. It was suggested that if, for example, a customer had a number of obligations each quarter and they did not meet one of these obligations they would have no incentive to meet the rest.

**Question 3.8: We welcome views on whether the escalator model would be a more effective way of aligning with the five principles described in paragraph 3.2?**

- 3.21 Although many respondents agreed in principle that there should be consequences for a continued failure to submit, respondents were generally opposed to the proposed escalator model.
- 3.22 Two fifths of respondents felt that the escalator model was disproportionate as points could accrue quickly, particularly if subsequent failures attracted more points. Many felt that the model left too little time for customers to respond and correct their behaviour.
- 3.23 Almost a third of respondents were concerned that the model would add complexity.
- 3.24 Some respondents suggested that missed submission obligations should be carried forward and be reported as part of the next submission.

**Question 3.9: Do you agree that a fixed amount penalty is appropriate?**

- 3.25 A majority of respondents agreed that a fixed penalty would be appropriate. However, some suggested that the size of the penalty should be dependent on the gravity of the default or the size of the tax liability.

**Question 3.10: Should the amount of fixed penalty reflect the size of a business?**

- 3.26 Two thirds of respondents agreed. Many questioned what criteria HMRC would use to measure the size of a business.

**Question 3.11: Do you agree that points should only become appealable when they have caused a penalty to be charged?**

- 3.27 Respondents were generally opposed to this proposal. They felt that there should be a right to appeal points as they arise because:
- a delay might mean customers no longer have the evidence to prove a reasonable excuse by the time it came to appeal the point

- even with no financial impact, many would object to having penalty points on their account which they felt were unjustified
- the appeal process could improve compliance by leading customers to immediately engage with the system
- it would provide customers with certainty about their affairs
- it would be an opportunity to alert HMRC to any problems in their systems.

3.28 A number of respondents suggested a middle ground where customers could lodge their objections against a penalty point and provide supporting evidence at the time.

### Government Response

3.29 The government is committed to get the penalties model right and recognises more work needs to be done. We intend to publish a further consultation document in spring 2017.

3.30 In order to support customers during the transition to the new Making Tax Digital arrangements, we have already committed to a soft landing – with customers being given a period of at least 12 months before they will be charged any late submission penalties under MTD.

### Intended Approach

3.31 The following paragraphs respond to the comments made by respondents which have been summarised in this chapter and indicate the government's intended approach to developing the penalty model for a further consultation.

3.32 We understand the importance to customers of having time to become familiar with the new MTD submission obligations and we will further consider whether 12 months is long enough.

3.33 The government recognises the desire of some respondents for a sophisticated model and that this needs to be balanced against the risk that it is more complex for customers. For example, we understand the logic behind the suggestion that penalty points be weighted but this could make the penalty model more difficult to understand.

3.34 The government intends that a fixed penalty should apply and considers that varying the amount of the penalty according to the size of the business or liability would introduce further complexity.

3.35 As now, there will be no point or penalty if a customer has a reasonable excuse for failing to meet an obligation.

3.36 The government does not support the proposition that points have a shelf life. This proposition offers scope for the non-compliant to 'manipulate' the system

to their advantage. The government will reconsider the conditions for 'wiping the slate clean'.

- 3.37 The government will provide a right of appeal to penalty points as they are incurred.
- 3.38 Customers who wish to, will have the ability to authorise a nominated agent to access information to manage their tax affairs using digital tools.

## Chapter 4: Late payment sanctions

- 4.1 Chapter 4 of Making Tax Digital: Tax Administration set out two proposals to change late payment sanctions:
- **Proposal A: penalty interest:** Charging penalty interest on customers who, within 14 days of the due date, fail to pay in full or to enter into arrangements to pay over an agreed period to which they then adhere
  - **Proposal B: revise and align existing late payment penalty regimes:** Revision of existing legislation to deliver an aligned penalty regime for Income Tax, VAT and Corporation Tax
- 4.2 Proposal B was split into two further models. Model 1 was based on the Income Tax late payment penalty regime where a set late payment percentage rate is charged at set time periods. Model 2 would introduce a tapered system where the penalty percentage rate increases the longer the debt remains outstanding.
- 4.3 We will continue to explore Proposal A: penalty interest, taking into account concerns raised, particularly about the rate levels and the interaction with the current interest provisions. We intend to consult further on specific proposals in 2017.

### Responses to consultation questions

Question 4.1: Do you agree that 14 days is an appropriate length of time to allow customers to either pay in full, or make arrangements to do so before penalty interest is charged?

- 4.4 Most respondents did not agree that 14 days were sufficient. One in ten respondents considered that 14 days was an appropriate timeframe. Many felt that the current equivalent timescale of 30 days would be more appropriate.
- 4.5 Respondents expressed a number of common concerns about the 14 days proposal, stating that:
- it is an insufficient time period to make arrangements with HMRC;
  - personal factors such as illness, travel and holidays make it unworkable;

- postal delays and/or internal HMRC delays would create difficulties;
- it is too short a time period to enable businesses to overcome cash flow problems;
- there would be an insufficiently short gap between late payment interest and penalty interest being applied.

**Question 4.2: Do you think that charging penalty interest is the right sanction for non-compliance with payment obligations?**

4.6 Most respondents considered penalty interest the right sanction. It was generally considered fairer than a fixed rate penalty.

4.7 A few respondents:

- thought applying penalty interest on top of late payment interest was unfair
- suggested that evidence should be provided demonstrating that penalty interest was likely to bring about behavioural change amongst the non-compliant
- welcomed the replacement of the existing VAT default surcharge

4.8 Several respondents suggested that the illustrative rate of 10% included in the consultation document was too high. Most alternative proposals suggested a fixed percentage above the Bank of England base rate.

**Question 4.3: Are there other commercial models that might be appropriate for us to consider?**

4.9 Respondents suggested different ways of applying penalty interest. These included:

- charging interest by the day
- applying interest at commercial rates
- making interest tax deductible
- using payment incentives before penalty interest is applied
- setting a significantly lower rate of penalty interest when time to pay arrangements are entered into on time

4.10 Several respondents suggested that HMRC should provide more education to customers in the form of awareness courses. This was suggested as an alternative to sanctions that would promote compliance.

**Question 4.4: We invite views on the design principles outlined for penalty interest. For example, do you consider there are any further elements to build into this proposal?**

4.11 Respondents emphasised the need for effective communication from HMRC to ensure customers were aware that they were at risk of incurring penalty

interest. This included 'non-digital' notifications as well as digital prompts. Others highlighted the importance of specific support for people struggling with the transition to MTD.

- 4.12 Some respondents highlighted the importance of an appropriate rate of penalty interest to ensure it was not perceived as a government revenue generating exercise. Several respondents suggested 'Bank of England base rate plus 8%' as a credible rate as this replicated the system used for commercial late payments.

Question 4.5: Does model 1 or model 2 best meet the government's objective of providing a fair and proportionate response to late payment of tax?

- 4.13 Responses to this question were mixed with support for Model 1, Model 2 and 'neither model' broadly similar. Supporters of Model 2 felt this model was fairer and more proportionate. Several respondents suggested an approach that combined elements of both models.
- 4.14 Respondents held mixed views on whether penalties should be reduced when time to pay arrangements had been entered into.

Question 4.6: Do you agree that the timing of late payment penalties should change to reflect the frequency of payment due dates?

- 4.15 Approximately two thirds of respondents agreed with this. A number thought that this approach would work better for Income Tax and Corporation Tax than for VAT where payments are due at more regular intervals meaning penalties could potentially accrue faster.
- 4.16 Just under a quarter of respondents did not agree and said that changing the timing of late payment penalties to reflect the frequency of payment due dates would add complexity to the design.

Question 4.7: We invite views on the design principles outlined for late payment sanctions. For example, do you consider there are any further elements to build into these proposals?

- 4.17 Respondents suggested a wide range of further elements, including:
- making changes to the current system of payment allocations which some respondents felt resulted in unfair interest payments
  - introducing an alternative model whereby late payment penalties would be monthly rather than charged after 6 months
  - ensuring a greater distinction between interest and penalties
  - calculating late payment penalties to include interest
  - a daily rate of interest until the outstanding tax is paid

#### Question: 4.8: Which proposal best meets the design principles?

- 4.18 Proposal A: penalty interest attracted the most support, with two fifths of respondents supporting this proposal. The second most popular option was Proposal B, Model 1 based on the income tax late payment penalty regime.
- 4.19 Some respondents did not support the proposals. Several expressed the view that the sanction against late payment should be interest, but not a penalty rate of interest.

#### Government Response

- 4.20 We will continue to explore Proposal A: penalty interest, taking into account concerns raised, particularly about the rate levels and the interaction with the current interest provisions. We intend to consult further on specific proposals in 2017.
- 4.21 Suggestions were made by respondents about providing additional education in the form of awareness courses as an alternative to sanctions. HMRC provides a wide range of guidance and supporting materials and tools. These ensure customers are aware of their obligations, liabilities, entitlements and the consequences of their transactions. HMRC webinars, e-learning, email alerts and videos for businesses and agents are available at <https://www.gov.uk/government/collections/hmrc-webinars-email-alerts-and-videos>. Under MTD digital 'prompts' and 'nudges' will alert customers to common errors, inconsistencies or missing information and so allow customers to correct them. HMRC does not intend to provide formal education events as it does not consider this will be an effective way of promoting compliance in relation to payment or submission obligations.

## Chapter 5: Interest

- 5.1. Late payment interest provides financial compensation to the Exchequer when tax is not paid to HMRC on time. Chapter 5 of Making Tax Digital: Tax Administration asked for views on maintaining existing late payment interest rules for the purposes of Income Tax and Class 4 National Insurance Contributions (NICs). It also asked for views on the possible alignment of interest rules across Income Tax and Class 4 NICs, Corporation Tax and VAT.
- 5.2. The government will maintain the current interest rules for Income Tax and Class 4 NICs and intends to consult on specific proposals to align interest across Income Tax and Class 4 NICs, Corporation Tax and VAT in 2017.

### Question 5.1: Should the current interest rules for Income Tax and Class 4 National Insurance contributions continue to apply in MTD?

- 5.3. Respondents broadly agreed that this would be a reasonable approach. Some respondents believe that repayment interest should accrue from the date of payment rather than the statutory payment date.
- 5.4. Several respondents suggested that if Proposal A: penalty interest (contained in Chapter 4) is introduced, the interaction between penalty and late payment interest needs careful consideration.
- 5.5. Several respondents believed that the current rules contained 'anomalies', particularly in relation to payments on account which unfairly disadvantaged the customer.

### Government response

- 5.6. Taking into account the comments made by respondents, we will maintain the current interest rules for Income Tax and Class 4 NICs.
- 5.7. Whilst there is no intention to change the date at which statutory interest becomes due, we will consider the detailed points raised by respondents and the interaction with late payment sanctions (Chapter 4) as part of further alignment work.

### Question 5.2: Do you have initial views about aligning interest rules across taxes?

- 5.8. A majority of respondents strongly supported the alignment of interest rules across taxes. Many expressed views that this was a sensible proposal which would help to provide simplicity and consistency. Several respondents noted that direct and indirect taxes are currently structured differently for the purposes of late payment and repayment.

5.9. Areas that respondents said HMRC should give specific consideration to included:

- Corporation Tax late payment interest which is currently a deductible sum under non-trading loan relationship rules
- the slow release of tax refunds by HMRC which can have negative impact on customer cash flow
- ensuring overpayments (including any voluntary payments) and underpayments attract interest at the same rate
- how the interest rules will operate where HMRC offsets repayments against an amount due for a different tax

### **Government Response**

5.10. We intend to consult further on specific proposals to align interest across Income Tax and Class 4 NICs, VAT and Corporation Tax in 2017.

## Chapter 6: Initial assessment of impacts

- 6.1 Chapter 6 set out the initial assessment of the impacts of the changes proposed in the Making Tax Digital: Tax Administration consultation document.

Question 6.1: Please provide details of how the proposed administrative changes will affect you, including details of any one-off and ongoing costs or savings.

- 6.2 Most respondents focused on how MTD more generally would impact upon them rather than on the specific proposals in Making Tax Digital: Tax Administration. The most common response was that businesses and agents would incur costs in the short term as a result of the need to familiarise staff and clients with digital record keeping and updating requirements. Respondents predicted that they would need to invest time and money training their staff and educating clients.
- 6.3 Several respondents expressed a view that the changes would have a limited impact on them. A few agents suggested the changes could improve compliance by their clients, for example through the use of 'nudges' and 'prompts'.
- 6.4 Some respondents suggested they would need time to familiarise themselves with the proposed new penalty models and aligned interest rules. Respondents also suggested that, if late submission points carry a right of appeal, additional costs will be incurred through the need to appeal points.
- 6.5 Many felt that they did not have enough information to provide a detailed response at this time.

### Government response

- 6.6 Further information on the impacts of Making Tax Digital more generally can be found in the summary of responses to the consultation [Making Tax Digital: Bringing business tax into the digital age](#).

Questions 6.2: Do these administration proposals have a significant or disproportionate impact on groups with legally protected characteristics, as recognised in the Equality Act 2010?

- 6.7 Respondents generally reflected broader concerns about MTD. Several respondents suggested that people with protected characteristics, in particular age and disability, may find the transition to MTD challenging.

### Government response

- 6.8 There will be help and support for all customers who are transitioning to MTD. Further information on the equalities impacts of Making Tax Digital more

generally can be found in the summary of responses to the consultation [Making Tax Digital: Bringing business tax into the digital age](#).

## Annex A: List of Stakeholders who provided written responses to Making Tax Digital: Tax Administration

1. Albert Goodman LLP
2. Ander Tax Ltd
3. Association of Accounting Technicians
4. Association of Chartered Certified Accountants
5. Association of Taxation Technicians
6. AW Tax Service Ltd
7. Barber Harrison & Platt
8. BDO LLP
9. Blackadders LLP
10. Brian Tilbury & Co
11. Buzzacott LLP
12. Charter Committee
13. Chartered Institute of Taxation
14. CKLG Ltd
15. Clive McGovern Ltd
16. Colin Hutson Accounting Ltd
17. Confederation of British Industry
18. Copson Grandfield Ltd
19. Country Land and Business Association Ltd
20. Crowe Clark Whitehill LLP
21. Crunch
22. Davies Tracey Ltd
23. Deloitte LLP
24. Digital Advisory Group
25. Duncan & Toplis Ltd
26. Dyke Ruscoe & Hayes Ltd
27. Elizabeth Whiteley Accountancy Ltd
28. Equity
29. Federation of Small Businesses
30. Fenn Cox & Partners
31. FreeAgent Central Ltd
32. Gibson Whitter Ltd
33. Glenn & Company Accountants
34. Grant Thornton UK LLP
35. Greaves West & Ayre
36. Hillier Hopkins LLP
37. Howsons Ltd
38. Institute of Certified Practising Accountants
39. IRIS Software Group Ltd
40. Johnston Carmichael LLP
41. Kendall Wadley LLP
42. Kingston Smith LLP

43. KLM Associates
44. KPMG LLP (UK)
45. Kreston Reeves LLP
46. Lambert Chapman LLP
47. Lamont Pridmore
48. Landtax LLP
49. Larking Gowen
50. London Society of Chartered Accountants' Taxation Committee
51. Low Incomes Tax Reform Group
52. M&S Accountancy and Taxation Ltd
53. Menzies LLP
54. MHA National Accounting Association
55. Ministry of Defence
56. Moore and Smalley LLP
57. Morris Owen
58. National Farmers' Union
59. National Union of Journalists
60. Northern Ireland Tax Committee of Chartered Accountants Ireland
61. Office of Tax Simplification
62. Patricia J Arnold and Co Ltd
63. PKF Francis Clark
64. Price Bailey LLP
65. PricewaterhouseCoopers LLP
66. Prudential
67. Rayner Essex LLP
68. Richardson Swift Ltd
69. River Thames Accountancy Ltd
70. Ross Martin Tax Consultancy Ltd
71. RSM UK Tax and Accounting Ltd
72. Sagars Accountants Ltd
73. Saint & Co
74. Sandisons Ltd
75. Scottish Council for Voluntary Organisations
76. Smith & Williamson LLP
77. Spurling Cannon Ltd
78. Standard Life
79. Tax Help For Older People
80. TaxAid
81. TaxAssist Accountants
82. The Harold Smith Partnership
83. The Institute of Chartered Accountants in England and Wales
84. The Institute of Chartered Accountants of Scotland
85. The Investment Association
86. The Money Advice Trust
87. Turner and Co
88. UK200Group
89. VAT Practitioners Group
90. Whitefield Tax Ltd

**91. Wolters Kluwer UK**  
**92. Zen Chartered Accountants**

**42 individuals also provided written responses.**