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Research Report 519

Making Tax Digital – Monitoring Businesses’ Awareness of MTD

Summary Findings

February 2019

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1. Introduction

Making Tax Digital (MTD) will provide a more modern, digital service that aims to make it easier for businesses to get their tax right, not only reducing the tax gap, but also reducing the cost, uncertainty and worry that businesses face when HMRC is forced to intervene to put things right. Under MTD, the vast majority of Value Added Tax (VAT) registered businesses with a taxable turnover above the VAT threshold (£85,000) will be required to keep digital VAT records and send returns using MTD compatible software from April 2019. Those with turnover below the VAT threshold will be able to join MTD voluntarily and HMRC is also piloting the MTD changes for Income Tax. This research was carried out in November and December 2018. The purpose of the research is to measure businesses' current awareness, readiness and behaviours as the MTD requirements for VAT businesses approach. These findings could then inform the design and focus of the continuing communications and engagement with businesses in relation to MTD.

The overarching aim of this research is to conduct primary quantitative research with both VAT business customers and Income Tax business customers, to track and monitor awareness of and readiness for MTD and its requirements. The research will help HMRC to ensure that businesses are aware of, understand the requirements of, and are preparing for MTD. The specific research objectives are to:

- measure businesses' awareness and understanding of MTD as a mandate to meet the requirements approaches;
- examine and monitor business behaviours relating to MTD (e.g. digital record-keeping), and how these change over time; and
- monitor levels of business readiness and preparation activity for MTD among businesses.

This short report details the key findings.

1.1 Summary of approach

In total, 500 quantitative telephone interviews were conducted between 26th November and 17th December 2018. The table below shows how these interviews break down by tax liability:

Group	Number of interviews
VAT liabilities with a turnover over £85,000	371
VAT liabilities with a turnover £85,000 or under	33
Income Tax liabilities and no VAT liability	96
Total	500

The 371 interviews conducted with businesses above the £85,000 VAT threshold provided an understanding of the VAT population that will be mandated from April 2019. This group will be referred to as 'VAT mandated' throughout. Businesses who had Income Tax Self-Assessment liabilities and no VAT liabilities will be referred to as 'Income Tax businesses' throughout.

The sample for the survey was sourced from Market Location, a commercial primary data owner in the UK who independently verify and collect business data. All recruitment and interviewing was conducted by IFF Research, an independent research agency, via Computer Assisted Telephone Interviewing (CATI). Data from businesses liable for VAT was weighted to be representative of the turnover of the VAT population shown by HMRC internal population figures¹ and data from Income Tax businesses was weighted separately to be representative of the Income Tax population shown by HMRC internal population figures.

1.2 Reporting Notes

Percentages shown may not total to exactly 100% or to a summary statistic given, due to rounding to the nearest whole number or where respondents were able to choose more than one response option at a particular question.

2. VAT mandated businesses

2.1 Awareness

In total, eight in ten VAT mandated businesses were aware of MTD either by name or the concept² (81%). Awareness of MTD among VAT mandated businesses was split between those aware of MTD by name (70%) and those unaware of the name but aware of the concept (11%).

The most common way that VAT mandated businesses had heard about MTD was through a tax agent or accountant (43%). Awareness through other sources was significantly lower, although 13% had heard about MTD via an email from HMRC, 11% had heard about it on the HMRC website and 9% had heard through a letter from HMRC.

¹ HMRC population data was assessed to be the most accurate dataset available to provide the population of eligible businesses for this survey i.e. excluding business that are not liable for VAT or Income Tax. However, figures could only be provided for the VAT and Income tax populations separately, meaning they had to be weighted separately and no combined figure of the two populations has been produced.

² Businesses were asked two questions in relation to their awareness of MTD. Firstly they were asked 'Are you aware of MTD?', if they were unaware they were then asked 'Are you aware that HMRC are making changes to the way businesses send Income Tax and VAT information to them?'. If businesses said they were aware at the second question they are deemed to be aware of the concept of MTD.

HMRC are in the process of sending letters to businesses to encourage signing up to MTD. The first were sent out in November 2018 to a small number of businesses to allow HMRC to assess the impact of their communications. One in five (20%)³ VAT mandated businesses said they had received a letter from HMRC sent in late 2018. Those who recalled receiving the letter were significantly more likely to be aware of MTD or the concept than those who did not recall receiving the letter (98% vs. 76%).

Over eight in ten VAT mandated businesses who were aware of MTD or the concept, were aware of the following requirements:

- The need to keep digital records (e.g. Using software or apps) (85%);
- That most VAT businesses above the £85,000 turnover threshold were required to join MTD from April 2019 (84%);
- The need to submit updates using Making Tax Digital compatible software on a quarterly basis (84%).

Around six in ten businesses who were aware of MTD or the concept were aware that businesses below the VAT threshold could join voluntarily (65%) and that Income Tax businesses could make quarterly updates on a voluntary basis (59%).

2.2 Current processes

In total, nine in ten VAT mandated businesses (93%) reported using digital record keeping in the form of software, apps or spreadsheets. Eight in ten VAT mandated businesses reported that they were already using software or apps for keeping business records (79% in total; 75% using software, 25% using apps⁴). Businesses with a turnover of more than £1 million were more likely to use software or apps than businesses with lower turnovers (91% vs. 77%). Seven in ten VAT mandated businesses were using spreadsheets for keeping business records (72%). Fewer than one in ten VAT mandated businesses used only paper methods for keeping business records (7%).

³ A higher proportion of VAT mandated businesses said they received a letter from HMRC about MTD in the last month or so compared to the proportion who said at an earlier question that they heard about MTD via a letter. The proportion saying they received a letter when directly asked is likely to be higher, because businesses may interpret the question of where they heard about MTD to be where they first heard about MTD. So although these business may have subsequently received a letter from HMRC, they don't attribute their awareness specifically to the letter.

⁴ Businesses were able to say they used more than one method of keeping business records.

Nine in ten VAT mandated businesses reported they used an external agent to support with their accounts and/or tax (90%)⁵, and four in ten had an in-house accountant or tax agent (44%).

Almost all VAT mandated businesses reported that they update their records for transactions, invoices and receipts at least once a quarter (98%).

2.3 Readiness for Making Tax Digital

Eight in ten VAT mandated businesses (82%) agreed that they felt comfortable using technology to manage their finances. This was lower among those not currently using software or apps (62%) compared to those who were already using software or apps (87%). Most VAT mandated businesses felt it would be easy to use software to keep digital records of income and expenditure (80%), but again this was higher among those currently using software or apps (88%) and reduced to half (47%) among those not currently using them. Half of VAT mandated businesses were not worried about the security of keeping records digitally (49%), but one in five said they neither agreed nor disagreed with the statement (19%) and three in ten agreed they would be worried (31%).

Half of VAT mandated businesses (45%) said they planned to sign up to MTD before the April 2019 deadline, and 7% reported that they had already signed up. A quarter reported they were relying on their accountant to advise on when to sign up (25%). One in five did not have a clear idea of when they planned to sign up: 17% reported they did not know when they planned to sign up and 4% needed more information before they could decide.

Eight in ten VAT mandated businesses aware of MTD or the concept had started to prepare for the changes (83%), suggesting that once aware the proportion willing to take action is high. The most common actions taken among those aware of MTD or the concept were discussing the changes with an accountant (54%) and starting to keep digital records (52%).

Encouragingly, six in ten VAT mandated businesses did not foresee any barriers to implementing MTD (62%). The concerns of those who did foresee barriers centred on there being new software or IT requirements (36% of those who foresaw a barrier) and a perceived financial cost (29% of those who foresaw a barrier).

⁵ Businesses were not asked which type of tax that the accountant or tax agent was assisting them with, so it is not possible to know whether they were assisted specifically with VAT or not.

3. Income Tax businesses

Income Tax businesses as defined here are those currently submitting Income Tax Self-Assessment (ITSA) returns to HMRC that are not liable for VAT. The Making Tax Digital pilot for Income Tax is currently available on a voluntary basis. Businesses can sign up if they are a sole trader with income from one business and/or are landlords, except those with furnished holiday lettings. MTD for Income Tax businesses will not be mandatory until at least 2020, meaning that awareness of MTD is not essential at this stage.

3.1 Awareness

Just under half of Income Tax businesses were aware of MTD (47%), either by name or by concept⁶. Four in ten were aware of MTD by name (40%), and one in twenty were unaware of the name but were aware of the concept (7%).

3.2 Current processes

Paper methods were the most common way for Income Tax businesses to keep business records (82%), and one in three used *only* paper methods (29%). Around half of Income Tax businesses used spreadsheets to keep business records (46%), a third used software (33%) and a fifth used apps (22%).

Six in ten Income Tax businesses used an external accountant or tax agent to help with their accounts and tax affairs (63%), and a small minority used an in-house accountant or agent (3%). Just under a fifth had unpaid help with their accounts from a family, friend or colleague (18%) and a quarter said they had no help (24%).

Four in five Income Tax businesses reported that they update their records for transactions, invoices and receipts at least once every quarter (83%).

3.3 Readiness for Making Tax Digital

Three-quarters of Income Tax businesses agreed that they felt comfortable using technology to manage business finances (76%). In addition, seven in ten reported it would be easy to keep digital records of income and expenditure (72%), one in ten reported it would be difficult

⁶ Businesses were asked two questions in relation to their awareness of MTD. Firstly they were asked 'Are you aware of MTD?', if they were unaware they were then asked 'Are you aware that HMRC are making changes to the way businesses send Income Tax and VAT information to them?'. If businesses said they were aware at the second question they are deemed to be aware of the concept of MTD.

(10%), and the remaining fifth either said they did not know how easy or difficult they thought it might be (8%) or reported it would be neither easy nor difficult (11%).

Many Income Tax businesses will be able to join MTD on a voluntary basis and so were asked if and when they planned to sign up. One in five had plans to voluntarily sign up before April 2019 (15%) or after April 2019 (5%). Three in ten Income Tax businesses did not know when they planned to sign up to MTD (28%). A further three in ten were relying on their accountant to advise them (30%) and others said they needed more information about MTD (16%).

Four in ten Income Tax businesses reported they would be worried about the security of keeping business records digitally (42%). Income Tax businesses were also asked if they feel there are any barriers to MTD. Six in ten Income Tax businesses saw no barriers to signing up to MTD (63%). Of those that did perceive barriers to signing up to MTD, they centred on concerns about the software and IT requirements, the potential cost, and lacking computer literacy skills⁷.

⁷ Percentages are not provided for these statement because of the low base size of the sample in question; only 25 ITSA business said they perceived barriers to signing up to MTD.