



HM Revenue  
& Customs

**Research report 573**

# **Making Tax Digital – Monitoring Business’ Awareness of MTD - Updated**

March 2020

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# 1. Executive summary

## 1.1 VAT mandated businesses

### 1.1.1 Awareness

Awareness of Making Tax Digital (MTD) steadily increased in each wave of research. It was almost universal at Wave 4 (Jun-Jul 2019) where 98% of VAT mandated businesses were aware of MTD by name or concept, compared to six in ten in Wave 1 (May 18), eight in ten in Wave 2 (Nov-Dec 18), and nine in ten in Wave 3 (Feb-Mar 19). Additionally, awareness of MTD by name significantly increased to 96%, from just over four in ten aware by name at Wave 1, seven in ten aware at Wave 2, and eight in ten at Wave 3.

Knowledge of the specific requirements amongst those aware of MTD rose most sharply at Wave 2, and then remained consistent at Waves 3 and 4. Awareness of the core features of MTD were high (around nine in ten were aware of which businesses are mandated, and the requirements to submit on a quarterly basis using software or apps). Awareness of features relating to non-mandated businesses was lower, at around six in ten.

### 1.1.2 Digital usage

Use of software or apps amongst VAT mandated businesses increased across all four waves, although the bulk of the increase took place between Waves 1 and 2 (69% to 79%). By Wave 4, use had risen slightly to 84%.

However, this means there were still around a sixth of VAT mandated businesses not using software or apps at the time of the Wave 4 research. Some of these customers still had more time before they were required to start using software, but it still suggests there is more work to be done to encourage these businesses to make the transition. Eight in ten VAT mandated businesses used an external agent or accountant, so HMRC communication with these agents is of high importance.

Most VAT mandated businesses reported at Wave 4 they felt comfortable using technology to manage their finances but three in ten (33%) said they would be worried about the security of keeping records digitally (consistent with previous waves). Any reassurance that can be provided to these businesses may have an impact on encouraging usage of digital records.

### 1.1.3 Preparedness

The proportion of VAT-mandated businesses who have done something to prepare for MTD increased from 75% in Wave 1 to 83% in Wave 2, 94% in Wave 3 and 91% in Wave 4, which suggests that communications around MTD had an impact. The preparation activities these

businesses were most likely to have undertaken were discussing the changes with an accountant, starting to keep records digitally or researching compliant software. The proportion of VAT mandated businesses that had purchased new software rose significantly between Waves 3 and 4 (from 15% in Wave 1, 13% in Wave 2, 28% in Wave 3 and up to 35% in Wave 4).

#### **1.1.4 Signing up and making first submission**

By Wave 4, six in ten VAT mandated businesses reported they have already signed up for MTD (57%), and a further fifth (22%) planned to sign up before their first return was due.

This leaves a fifth that did not plan to sign up before their first return is due, either knowingly or because they did not know when they are planning to sign up, further suggesting that more encouragement is needed to persuade these businesses to make the transition.

In Waves 2 and 3, businesses were asked whether they had received a letter from HMRC about MTD in the preceding month. Those that had received the letter were more likely than those that had not received the letter to be aware of MTD, and to have already signed up to MTD or say that they would be doing so before April 2019. This suggests that the letters were valuable in encouraging businesses to sign up.

Almost two out of three VAT mandated businesses saw no barriers to implementing MTD (62% in Wave 4). Where barriers are mentioned they centre on concerns around the new software / IT requirements and the financial barriers or cost of the changes they will need to make.

## **1.2 ITSA businesses**

Awareness of MTD amongst ITSA businesses rose from Wave 3 onwards, from around half in Waves 1 and 2 (47%) to three-quarters in wave 4 (71% in Wave 3, 75% in Wave 4).

Awareness of specific requirements decreased between Waves 3 and 4, suggesting that the ITSA businesses who became aware most recently are not as knowledgeable of the details.

The majority of ITSA businesses do not use software or apps in their record keeping, and usage did not increase across waves, staying at around three in ten across the research. Most ITSA businesses did update their records on a quarterly basis (78% in Wave 4), although this also did not increase across waves.

Generally, ITSA businesses were less confident using digital records than VAT mandated businesses, which is a barrier to overcome when encouraging voluntary sign up for MTD. One in ten ITSA businesses had signed up to MTD at Wave 4 (10%), over a quarter were relying on their accountant to advise (27%) and a third felt they would never sign up (33%) (although, MTD is voluntary for these businesses).

## 2. Introduction

### 2.1 Background

Making Tax Digital (MTD) provides a modern, digital service that makes it easier for businesses to get their tax right first time, not only reducing tax lost due to avoidable errors, 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) are required to keep digital VAT records and send returns using MTD compatible software for their first VAT Return period starting on or after 1 April 2019. Those with turnover below the VAT threshold are able to join MTD voluntarily, and HMRC is also piloting the MTD service for Income Tax.

Research was needed to measure businesses' awareness, readiness and behaviours as the deadline to begin meeting MTD requirements for VAT mandated businesses approached.

This research was carried out across four waves during the following time periods to so findings could inform the design and focus of the continuing communications and engagement with businesses in relation to MTD:

- Wave 1: May 2018
- Wave 2: November – December 2018
- Wave 3: February – March 2019
- Wave 4: June – July 2019

This report details the findings from the first three waves of research conducted before the introduction of MTD, followed by the fourth wave which took place after MTD had been introduced.

### 2.2 Research aims

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 in the run-up to MTD requirements becoming compulsory;
- 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.

## 2.3 Method

### 2.3.1 Fieldwork

In total, 2,001 quantitative telephone interviews were conducted with businesses across the three waves of research, using Computed Assisted Telephone Interviewing (CATI) from IFF Research's telephone centre in London.

Interviews lasted 14 minutes on average.

After a questionnaire development phase took place between IFF Research and HMRC in March 2018, a pilot survey was carried out in April 2018 prior to the first wave of the research, to test and refine the questionnaire.

The table below shows how the achieved interviews break down by tax liability and wave:

Group	Number of interviews				
	Wave 1	Wave 2	Wave 3	Wave 4	Total
VAT liabilities with a turnover over £85,000	376	371	363	364	1,474
VAT liabilities with a turnover £85,000 or under	48	33	42	61	184
Income Tax liabilities and no VAT liability	77	96	95	75	343
<b>Total</b>	<b>501</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>2,001</b>

For the purposes of this report, businesses with VAT liabilities but a turnover of £85,000 or under have been excluded from the analysis, on the basis they are not part of the VAT mandated population, nor part of the Income Tax Self-Assessment (ITSA) *only* population, but rather have liabilities for both VAT and ITSA and as such are distinct from the businesses discussed in this report.

The table below shows the breakdown of interviews that are reported on in this report (broken down by tax status and business turnover):

Group and business size	Number of interviews				
	Wave 1	Wave 2	Wave 3	Wave 4	Total
VAT liabilities with a turnover over £85,000 (VAT Mandated)					
Under £10,000	0	2	2	0	4
£10,000 - £85,000	0	9	10	0	19
£85,001 - £250,000	89	91	79	89	348
£250,001 - £1m	144	119	126	137	526
More than £1m	138	150	146	138	572
Don't know	5	0	0	0	5
<b>Total VAT Mandated</b>	<b>376</b>	<b>371</b>	<b>363</b>	<b>364</b>	<b>1,474</b>
Income Tax liabilities and no VAT liability (ITSA only)					
Under £10,000	15	23	30	17	85
£10,000 - £85,000	49	68	60	53	230
£85,001 - £250,000	7	4	1	2	14
£250,001 - £1m	3	1	4	3	11
More than £1m	3	0	0	0	3
<b>Total ITSA only</b>	<b>77</b>	<b>96</b>	<b>95</b>	<b>75</b>	<b>343</b>
<b>Overall Total</b>	<b>453</b>	<b>467</b>	<b>458</b>	<b>439</b>	<b>1,817</b>

### 2.3.2 Sampling

Sample for the survey was provided by Market Location<sup>1</sup>. Each wave we obtained a random sample of 10,000 business records from Market Location that was stratified by business turnover (in line with interview targets). The sample provided was at organisation level (rather than site level) which meant we could access the head office of larger organisations.

The sample of businesses was then cleaned and de-duped each wave so that it contained no duplicate businesses and no businesses were contacted for more than one wave of research.

<sup>1</sup> This is a commercially available database of UK businesses.

### 2.3.3 Weighting

Across all three waves, survey data was weighted according to turnover based on HMRC VAT and ITSA population data. The same weighting profile was used in all waves. A cap of 3 was applied to the weighting so that no record could have a weighting factor of more than 3.

The following tables show the weighting profile used for VAT mandated businesses:

Turnover bracket	Percent
Under £10,000	23.34
£10,000 to £85,000	26.02
£85,000 to £100,000	4.14
£100,000 to £250,000	21.06
£250,000 to £500,000	9.54
£500,000 to £1,000,000	6.31
£1,000,000 to £5,000,000	6.92
£5,000,000 to £10,000,000	1.18
£10,000,000 to £25,000,000	0.81
Over £25,000,000	0.69

The table below shows the weighting profile used for ITSA businesses:

Turnover bracket	Percent
Under £10,000	43.76
£10,000 to £85,000	51.75
£85,000 to £100,000	0.86
£100,000 to £250,000	2.61
£250,000 to £500,000	0.65
£500,000 to £1,000,000	0.26
£1,000,000 to £25,000,000	0.11

### **2.3.4 Reporting**

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

Green arrows shown on charts indicate a statistically significant wave on wave increase (at the 95% confidence level). Red arrows shown on charts indicate a statistically significant wave on wave decrease (at the 95% confidence level).

### 3. Findings from Waves 1-3

#### 3.1 Awareness of Making Tax Digital among VAT mandated businesses

Awareness of Making Tax Digital (MTD) or the concept that HMRC are making changes to the way Income Tax and VAT information are sent, has increased steadily over the three waves of research. In Wave 1 (May 2018) six in ten VAT mandated businesses were aware of MTD or the concept (60%), at Wave 2 (Nov-Dec 2018) this increased to eight in ten at (81%) and at Wave 3 (Feb-Mar 2019) this increased again to nine in ten (92%) (*Figure 1 1*).

*Figure 1: Awareness of MTD by name or concept among VAT mandated population*



*Base: All VAT mandated businesses (Wave 3: 363; Wave 2: 371; Wave 1: 376)*

*B1. Have you heard of Making Tax Digital?*

*B2. Are you aware that HMRC are making changes to the way businesses send Income Tax and VAT information to them?*

↑↓ = significantly higher or lower vs. previous wave

Over eight in ten VAT mandated businesses were aware of MTD by name at Wave 3 (85%), making up the majority of those aware. The remaining proportion of those aware of MTD (6%) said they were aware that HMRC are making changes to the way businesses send Income Tax and VAT information to them, after prompting. The proportion of businesses aware of MTD by name also increased significantly wave on wave: in Wave 1 just under half were aware by name (45%) and in Wave 2 seven in ten were aware by name (70%).

VAT Mandated businesses that used software or apps in their record keeping were significantly more likely to be aware of MTD or the concept than those that only used

spreadsheets or paper methods (93% vs. 83% at Wave 3, but this pattern was apparent across all Waves).

In addition, in Wave 3, VAT mandated businesses that recalled receiving a letter from HMRC in the preceding month were significantly more likely to be aware of MTD by name (96%) than businesses that had not received a letter (71%). Additionally, VAT mandated businesses with a turnover of more than £1 million were significantly more likely to be aware of MTD by name (93%) than businesses with a turnover of £1 million or less (84%).

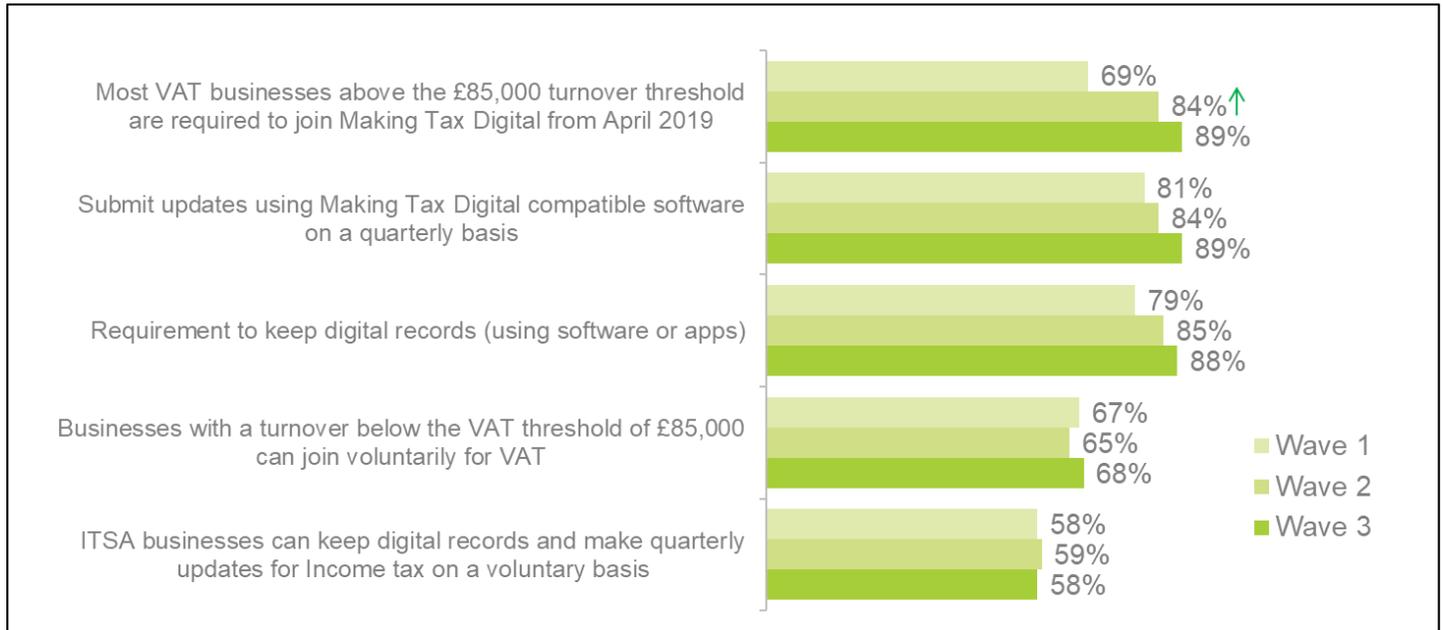
In Wave 3 the most commonly recalled features or requirements of MTD by VAT mandated businesses were as follows:

- 89% were aware that most VAT businesses above the £85,000 turnover threshold are required to join MTD from April 2019;
- 89% were aware of the requirement to submit updates using MTD compatible software on a quarterly basis;
- 88% were aware of the requirement to use software or apps to keep digital records.

Awareness of these requirements has risen steadily, although not significantly, over the three waves of research (Figure 2).

There was lower awareness of features relating to non-mandated businesses. Seven in ten VAT mandated businesses were aware that businesses with a turnover below the VAT threshold can join voluntarily for VAT (68%), and six in ten were aware that ITSA businesses can keep digital records and make quarterly updates for Income Tax on a regular basis (58%). The proportion of those aware of MTD that recalled these features has remained consistent across all three waves (Figure 2).

Figure 2: Awareness of features and requirements of MTD among VAT mandated population



Base: VAT mandated businesses aware of MTD or concept (Wave 3: 337; Wave 2: 305; Wave 1: 229)

B3. Which of the following do you think are the key features or requirements of Making Tax Digital/the new HMRC changes? Wording of some features and requirements changed slightly after Wave 1<sup>2</sup>

↑↓ = significantly higher or lower vs. previous wave

Experience with and perceptions of using technology to keep business records was related to awareness of features and requirements of MTD. In Wave 3, VAT mandated businesses using software or apps for record keeping were significantly more likely to be aware of each of the features of requirements than those using spreadsheets or paper methods only:

- Requirement for most VAT businesses above the £85,000 turnover threshold to join MTD from April 2019: 92% using software or apps vs. 79% spreadsheets or paper only;
- Requirement to submit updates using MTD compatible software on a quarterly basis: 93% using software or apps vs. 75% spreadsheets or paper only;
- Requirement to use software or apps to keep digital records: 90% using software or apps vs. 79% spreadsheets or paper only;

<sup>2</sup> Wave 1 wording of features and requirements:

- Requirement to keep records of income and expenditure digitally (using software or apps)
- VAT businesses above the £85,000 turnover threshold are required to join Making Tax Digital from April 2019
- Submit updates to HMRC on a quarterly basis
- Businesses with a turnover below the VAT threshold of £85,000 can join voluntarily for VAT
- ITSA businesses can keep digital records and make quarterly updates for Income tax on a voluntary basis
- Businesses with a turnover below the VAT threshold of £85,000 can join voluntarily for VAT

- Businesses with a turnover below the VAT threshold can join voluntarily for VAT: 72% using software or apps vs. 53% spreadsheets or paper only;
- ITSA businesses can keep digital records and make quarterly updates for Income Tax on a regular basis: 62% using software or apps vs. 43% spreadsheets or paper only.

Additionally, in Wave 3, VAT mandated businesses that felt they were comfortable using technology were significantly more likely to be aware of four or more of the requirements or features of MTD (65%) than those that did not feel comfortable using technology (37%). This was also the case for VAT mandated businesses that felt they would find it easy to use software to keep records (66% aware of four or more requirements / features) than those that did not feel they would find it easy (40% aware of four or more requirements / features).

In Wave 3, VAT mandated businesses that recalled receiving a letter from HMRC about MTD were significantly more likely to recall the requirements for VAT mandated businesses than those that did not recall receiving a letter, although this did not have as strong an association with awareness as the use of software or apps:

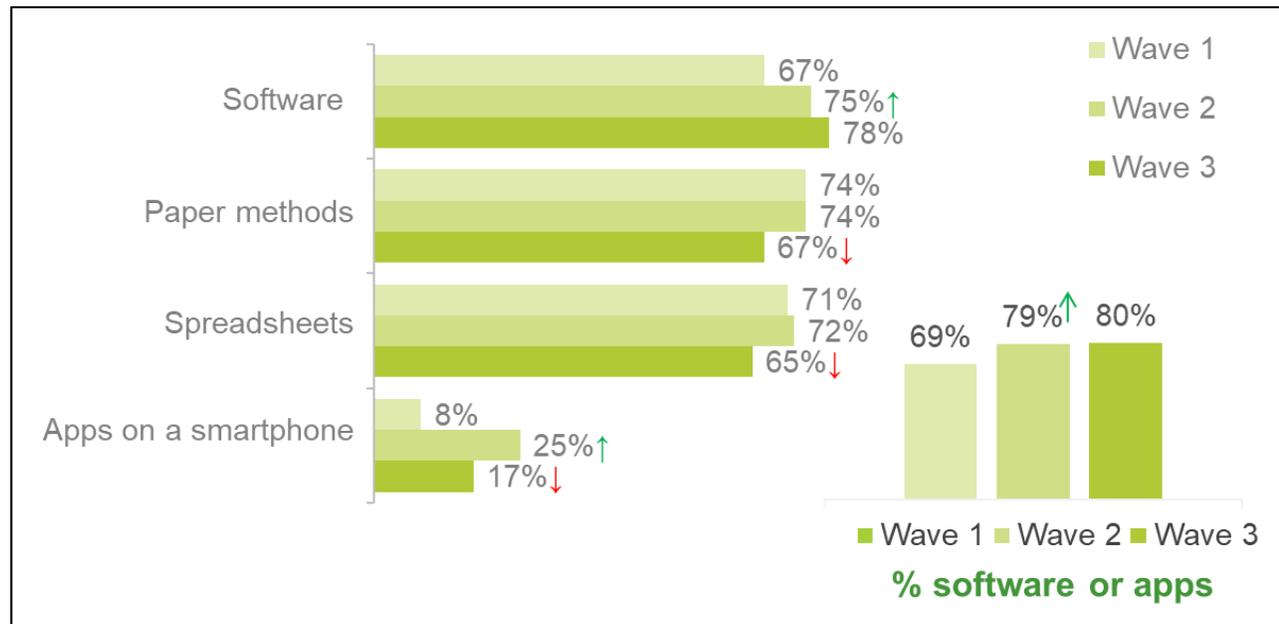
- Requirement for most VAT businesses above the £85,000 turnover threshold to join MTD from April 2019: 92% recalled receiving the letter vs. 83% who did not receive the letter;
- Requirement to submit updates using MTD compatible software on a quarterly basis: 95% received the letter vs. 81% did not receive the letter;
- Requirement to use software or apps to keep digital records: 93% received the letter vs. 82% did not receive the letter.

## 3.2 Current processes among VAT mandated businesses

### 3.2.1 Current record keeping methods

The most common form of record keeping used by VAT mandated businesses in Wave 3 was software, which was used by eight in ten businesses (78%). This represents a significant increase since the Wave 1 baseline when two-thirds were using software (67%). Paper methods were the second most commonly used method of record keeping, used by two-thirds of VAT mandated businesses in Wave 3 (67%), although most of these businesses used paper in combination with other methods (just 7% used only paper methods). The proportion using paper methods fell significantly from the previous two Waves where paper methods were used by three-quarters of VAT mandated businesses (74%). Likewise, whilst seven in ten VAT mandated businesses used spreadsheets in Waves 1 and 2 (71% and 72% respectively) this decreased significantly to 65% in Wave 3. Smartphone apps were the least frequently used method of record keeping, with less than one in five VAT mandated businesses using apps at Wave 3 (17%) (Figure 3).

Figure 3: Current method of keeping business records for VAT mandated businesses



Base: All VAT mandated businesses (Wave 3: 363; Wave 2: 371; Wave 1: 376)

C2. Does your business / do you use any of the following to keep business records?

↑↓ = significantly higher or lower vs. previous wave

Four in five VAT mandated businesses in Wave 3 were already using either software or apps for record keeping, in line with MTD requirements (80%). This increased significantly between Wave 1 and Wave 2 (from 69% to 79%) and has remained steady since. VAT mandated

businesses with a turnover above £1 million in Wave 3 were significantly more likely to use software or apps than businesses with a turnover of £250,000 or less (94% vs. 71%). In addition, businesses that used an internal agent to help with their accounts and tax were significantly more likely to use software or apps (96%) than businesses that used an external agent (80%).

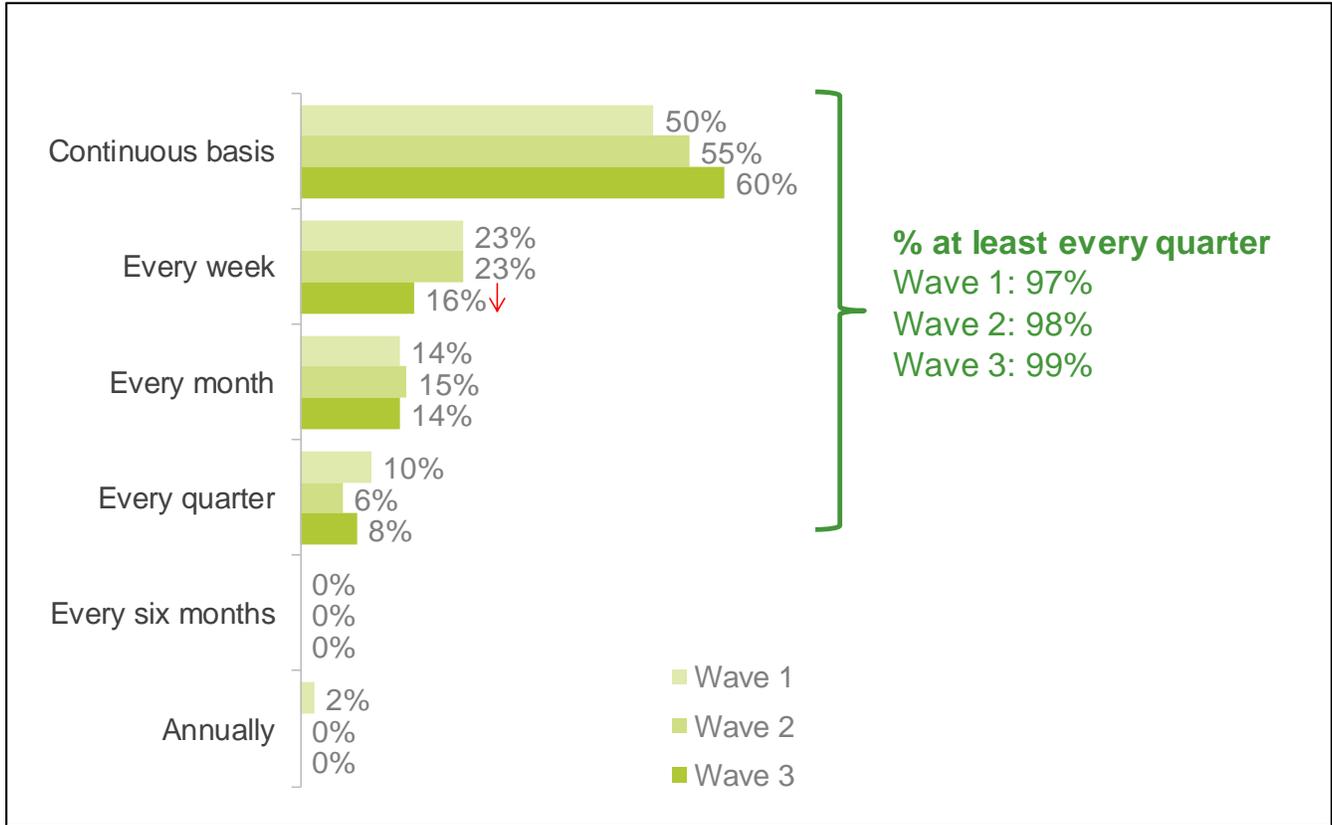
Less than one in five VAT mandated businesses used only paper or spreadsheet methods for record keeping in Wave 3 (17%), a significant decrease since the baseline at Wave 1 (Wave 1: 31%; Wave 2: 21%). Sole traders were significantly more likely to use paper or spreadsheet methods only (35% in Wave 3).

### 3.2.2 Frequency of updating records

Nearly all VAT mandated businesses reported that they updated their business records at least once a quarter (99% in Wave 3), in line with MTD requirements. Although there were some fluctuations between Waves in the precise frequency that VAT mandated businesses updated their records (Figure ), the proportion that update their records at least quarterly has remained consistent across all Waves (Wave 1: 97%; Wave 2: 98%).

Figure 4 shows that six in ten VAT mandated businesses kept their business records on a continuous basis (60% in Wave 3). The proportion of businesses keeping continuous records has increased significantly since Wave 1 (50%) and Wave 2 (55%). Businesses with a turnover over £1 million were significantly more likely to update their records on a continuous basis (88% Wave 3) than businesses with a turnover of £250,000 or less (47% Wave 3). There was also a relationship between continuous updating of records and awareness of MTD: VAT mandated businesses that were aware of MTD by name were significantly more likely to update records continuously (64% Wave 3) as were those that received a letter from HMRC (66% Wave 3). VAT mandated businesses that used software or apps were also significantly more likely to update records on a continuous basis (66% Wave 3).

Figure 4: Frequency of updating records for transactions, invoices and receipts for VAT mandated businesses



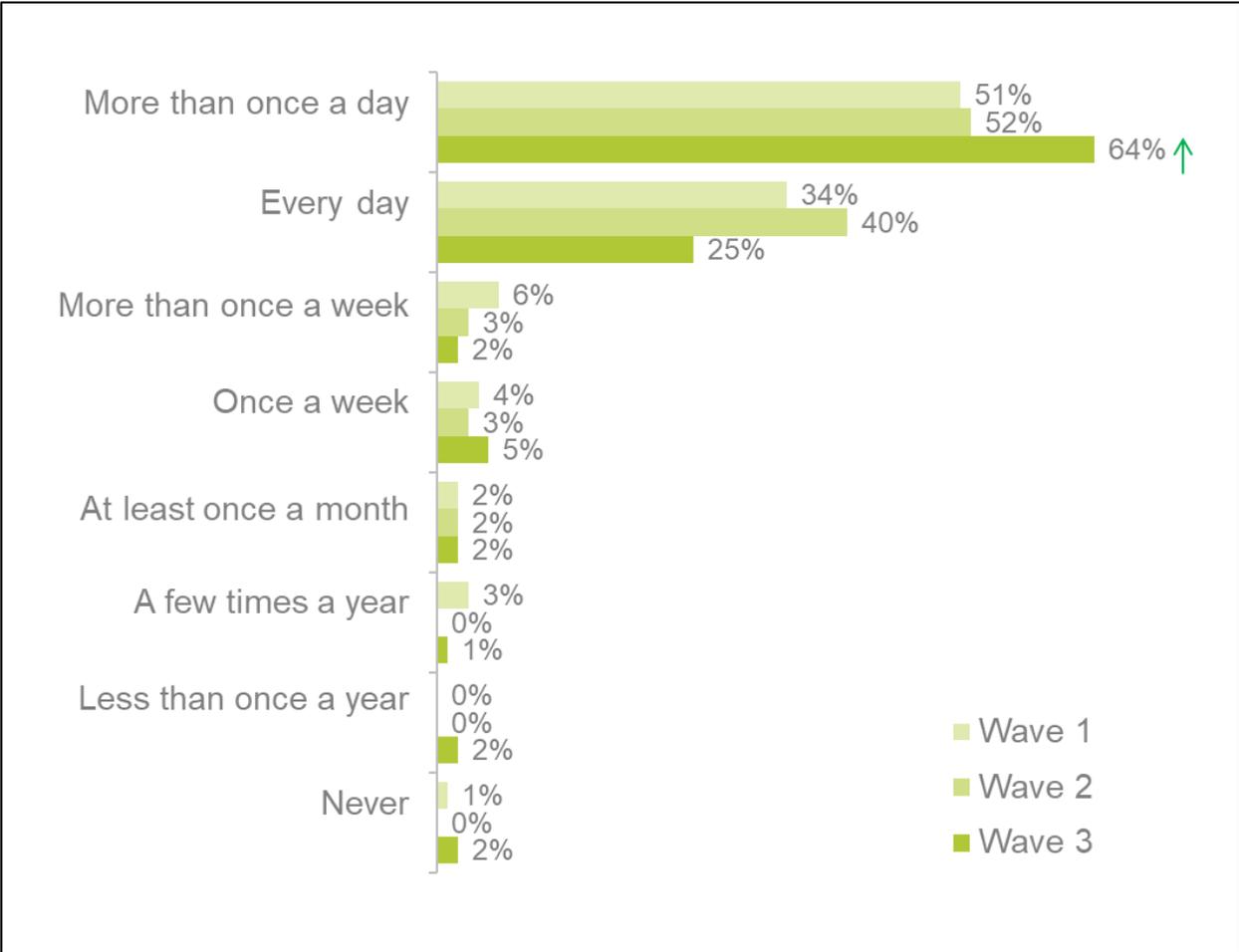
Base: All VAT mandated businesses (Wave 3: 363; Wave 2: 371; Wave 1: 376)  
 C3. How frequently are your records for transactions, invoices and receipts updated?

↑↓ = significantly higher or lower vs. previous wave

### 3.2.3 Frequency of internet use

The majority of VAT businesses in Wave 3 used the internet frequently for business purposes, suggesting this will not be a barrier to uptake of MTD. Two-thirds used the internet more than once a day (64%), a significant increase compared to the previous two waves (Wave 1: 51%; Wave 2: 52%). A further quarter used the internet every day (25%). In Wave 3 a minority of businesses used the internet less than once a week (5%), and only 2% never used the internet for business purposes (Figure 5).

Figure 5: Frequency of internet use for business purposes by VAT mandated businesses



Base: All VAT mandated businesses (Wave 3: 363; Wave 2: 371; Wave 1: 376)  
 D3. On average, how often do you use the internet for business purposes, either at your workplace or elsewhere?

↑↓ = significantly higher or lower vs. previous wave

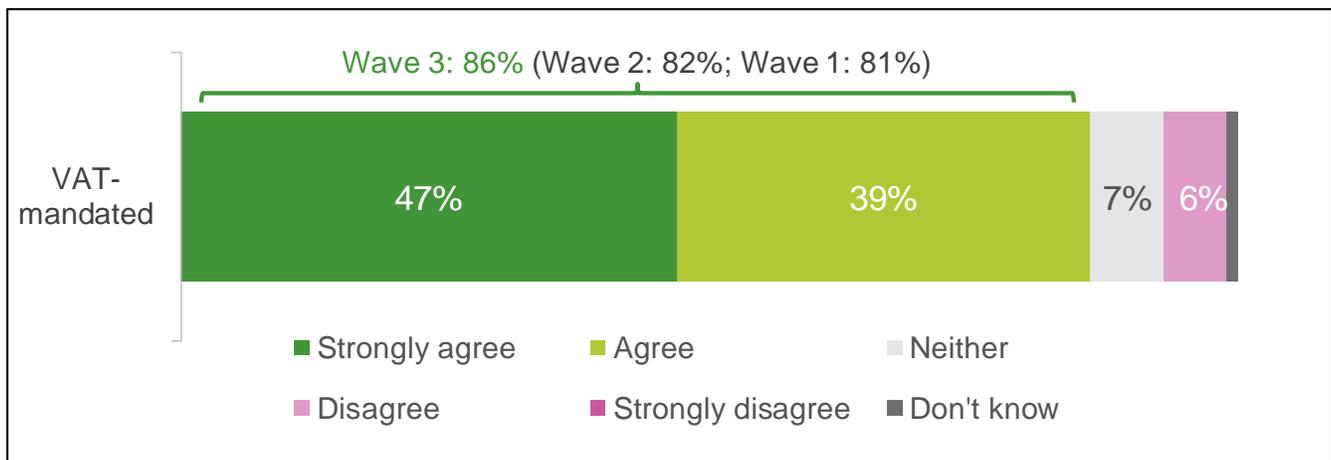
### 3.3 Readiness for Making Tax Digital among VAT mandated businesses

#### 3.3.1 Level of agreement about readiness for digital tax records

Just under nine in ten VAT mandated businesses in Wave 3 agreed with the statement that they were comfortable using technology to manage business finances (86%), in line with Waves 1 and 2. Few disagreed (6%) or felt unable to agree or disagree either way (7%) (Figure 6).

As could be expected, VAT mandated businesses who used software or apps were more likely to agree they were comfortable using technology to manage business finances (93%) than those who used spreadsheets or paper only (63%). Sole traders were less likely to agree (66%) than businesses overall (86%).

Figure 6: Level of agreement about readiness of digital tax records among VAT mandated businesses: "I am comfortable using technology to manage business finances"



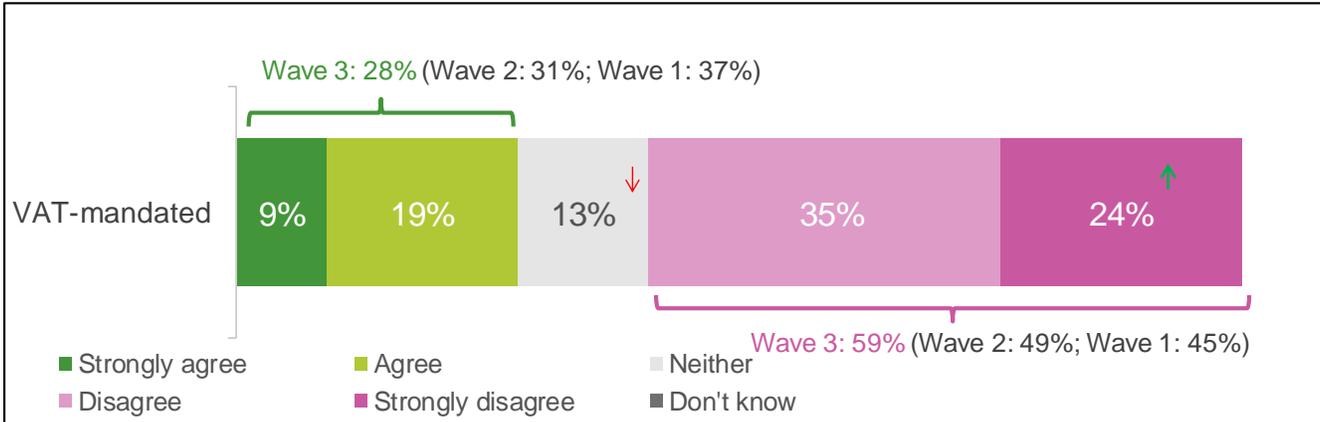
Base: All VAT mandated businesses (Wave 3: 363; Wave 2: 371; Wave 1: 376)  
D1. To what extent do you agree or disagree with the following statements...?

Just over a quarter of VAT mandated businesses in Wave 3 agreed with the statement that they were worried about the security of keeping business records digitally (28%), six in ten disagreed (59%) (Figure 7).

Compared with previous waves, VAT mandated businesses in Wave 3 were more likely to disagree that they would be worried (59% compared to 45% in Wave 1 and 49% in Wave 2). Sole traders were less likely to disagree (35%) than businesses with one or more employees.

In Wave 3, VAT mandated businesses who used only spreadsheets or paper were more likely to agree that they were or would be worried (46%), as were VAT mandated businesses who were unaware of MTD by name (45%).

Figure 7: Level of agreement about readiness of digital tax records among VAT mandated businesses: "I would be / I am worried about the security of keeping business records digitally"



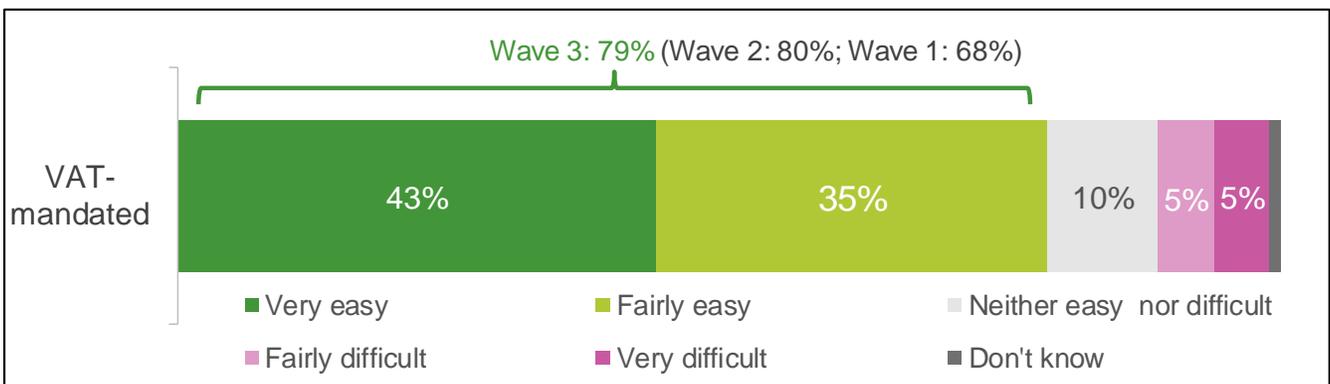
Base: All VAT mandated businesses (Wave 3: 363; Wave 2: 371; Wave 1: 376)  
 D1. To what extent do you agree or disagree with the following statements...?

↑↓ = significantly higher or lower vs. previous wave

### 3.3.2 Perception of ease of keeping digital records

At Wave 3, four in five VAT mandated businesses felt that it is or would be fairly or very easy to use software to keep digital records of their income and expenditure (79% - in line with 80% in Wave 2 but significantly higher than 68% in Wave 1) (Figure 8).

Figure 8: Perception of ease of keeping digital records among VAT mandated businesses: "How easy/difficult will it be to use software to keep digital records of your income and expenditure"



Base: All VAT mandated businesses (Wave 3: 363; Wave 2: 371; Wave 1: 376)

D2. How easy or difficult will it be/is it to use software to keep digital records of your income and expenditure?

Those who used software or apps for record keeping in Wave 3 were, unsurprisingly, more likely to feel that it would be easy to keep digital records (88%) than businesses who used spreadsheets or paper only (38%). Those who were aware of MTD by name were more likely

to feel that it would be easy (81%) compared to those who were unaware of MTD by name (66%).

Sole traders in Wave 3 were more likely to feel that it is or would be difficult to keep digital records (34%) compared to businesses with more than one employee (7%).

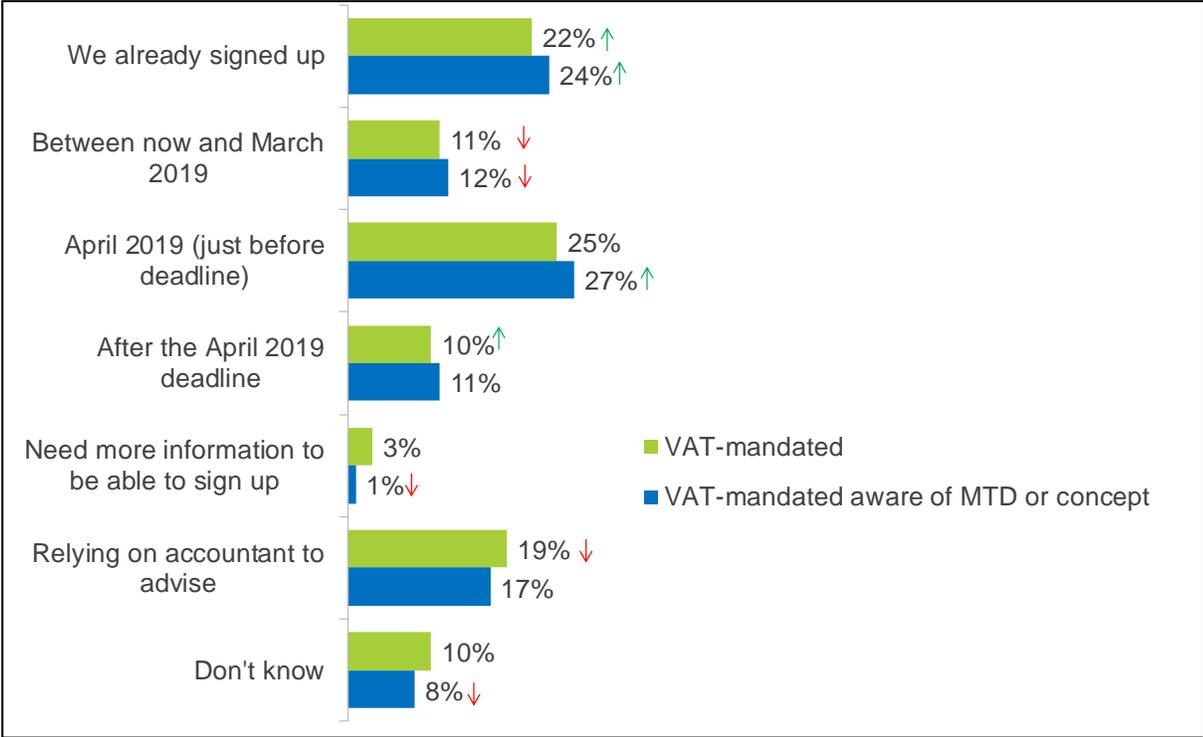
### **3.3.3 Date planning / planned to sign up for MTD**

At the point of interview in Wave 3 (Feb-Mar 19), one in five VAT mandated businesses said that they had signed up to MTD (22%) and a further third planned to do so before 1 April 2019 (36%) (Figure 9). It should be noted that 1 April 2019 was not the deadline for all businesses to sign up to MTD - businesses are required to join MTD and submit their VAT returns for their first VAT period which begins on or after 1 April. For the majority, who file quarterly, they are not required to join MTD and file their first return until August 2019 or later.

Those aware of MTD by name were more likely to have planned to sign up before 1 April 2019 or to have already done so (64%), compared to those unaware of MTD by name (21%). A difference was also observed between those who had received a letter from HMRC about MTD (70% planned to sign up before 1 April or had already done so compared to 42% who had not received the letter). Additionally, those that found it easy to use software to keep records were more likely to have planned to sign up before 1 April 2019 deadline or already done so (61%) than those who did not (45%).

Members of professional bodies were more likely to intend to sign up before 1 April 2019 (46%) than those that were not members (31%).

Figure 9: Date planned to sign up for Making Tax Digital among Wave 3 VAT mandated businesses

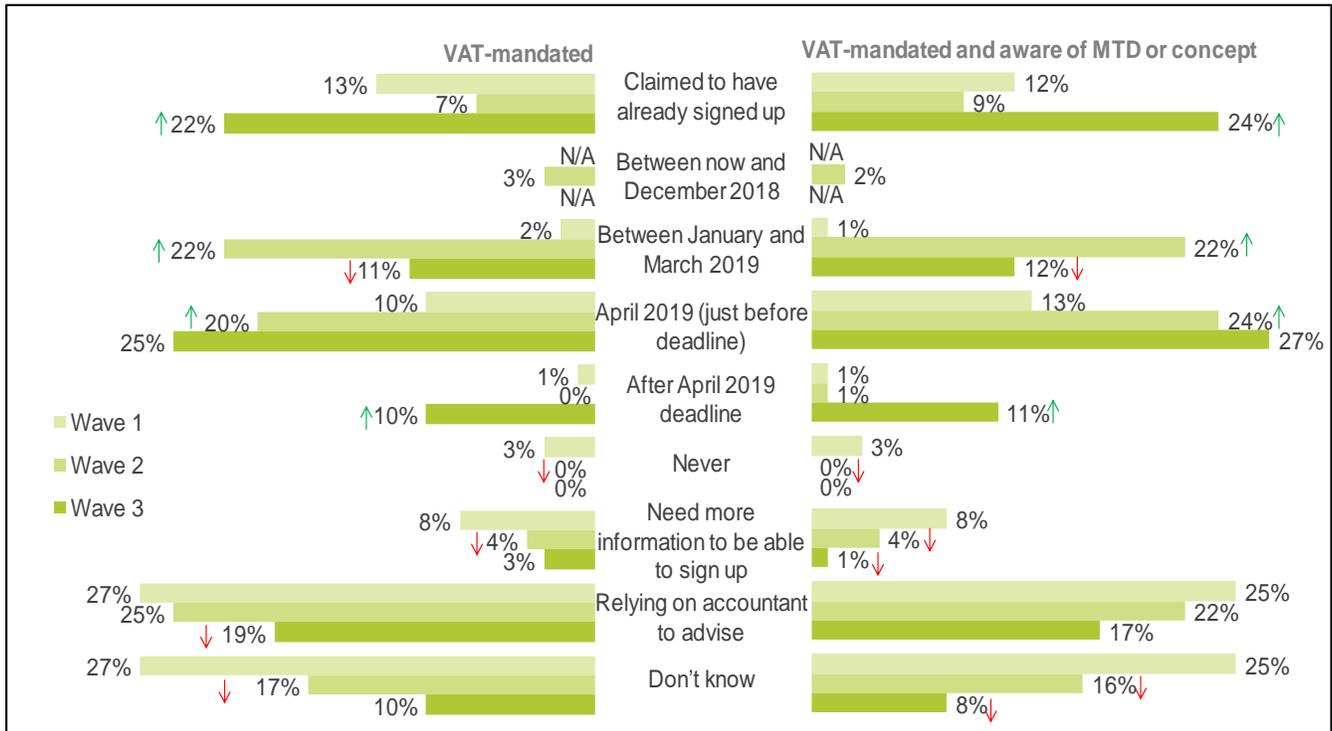


Base: VAT mandated businesses: 363; VAT mandated and aware of MTD or concept: 337  
 D4. When, if at all, does your business /do you plan to sign up for Making Tax Digital?

↑ ↓ = significantly higher or lower vs. previous wave

Figure 10 shows how propensity to sign up before 1 April 2019 has changed over the course of the three Waves of research, among the VAT mandated population and the VAT mandated population who are aware of MTD or the concept.

Figure 10: Date planned to sign up for MTD (by Wave) among all VAT mandated businesses and those who were previously aware of the name or concept



Base: (VAT mandated: Wave 3: 363; Wave 2: 371; Wave 1:424); (VAT mandated and aware of MTD or concept: Wave 3: 337; Wave 2: 305; Wave 1: 229)

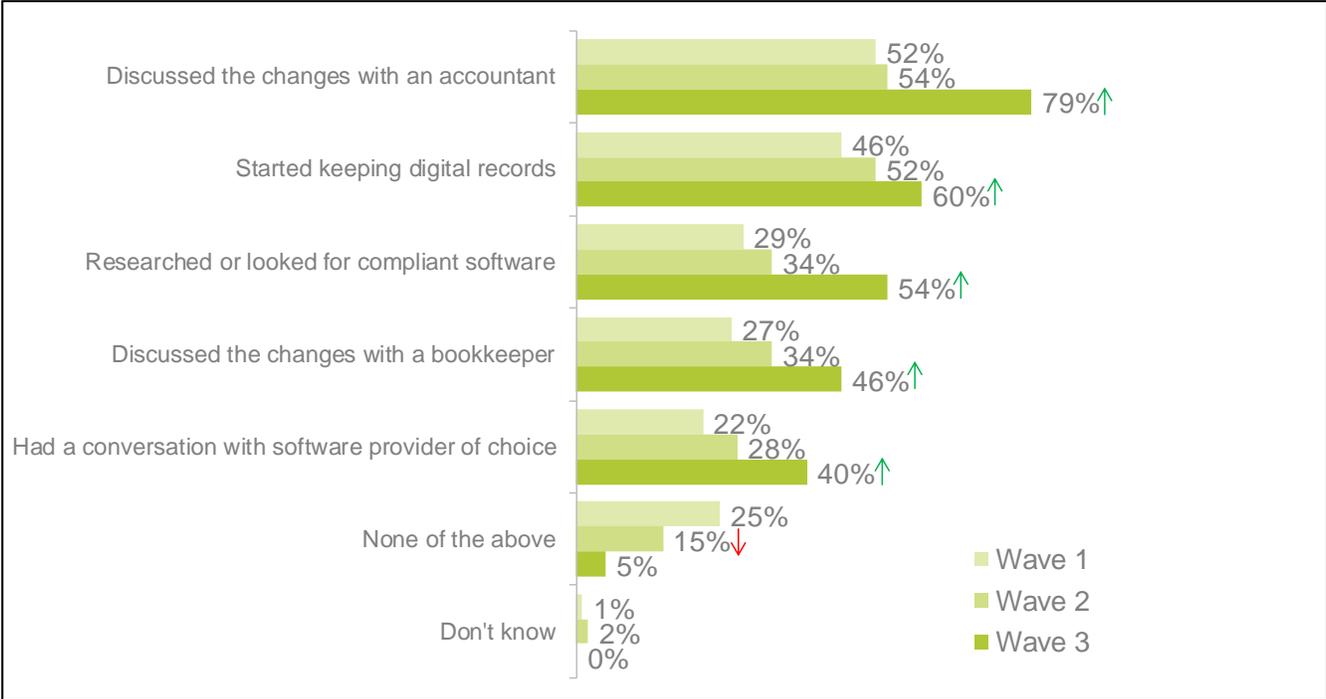
D4. When, if at all, does your business /do you plan to sign up for Making Tax Digital?

↑↓ = significantly higher or lower vs. previous wave

### 3.3.4 Activities to prepare for Making Tax Digital

Over nine in ten VAT mandated businesses that were aware of MTD had taken action to prepare for changes that Making Tax Digital would bring (94%). Figure 11 details which actions have already been taken and shows that VAT mandated businesses in Wave 3 were more likely than in other waves to have carried out each activity listed.

Figure 11: Activities to prepare for changes that Making Tax Digital will bring among VAT mandated businesses



Base: VAT mandated and aware of MTD or concept: Wave 3: 337; Wave 2: 305; Wave 1: 229  
 D5. What activities, if any, are you doing to prepare for the changes that Making Tax Digital will bring?  
 ↑↓ = significantly higher or lower vs. previous wave

### **3.4 How to engage VAT mandated businesses**

#### **3.4.1 Help with accounts and tax**

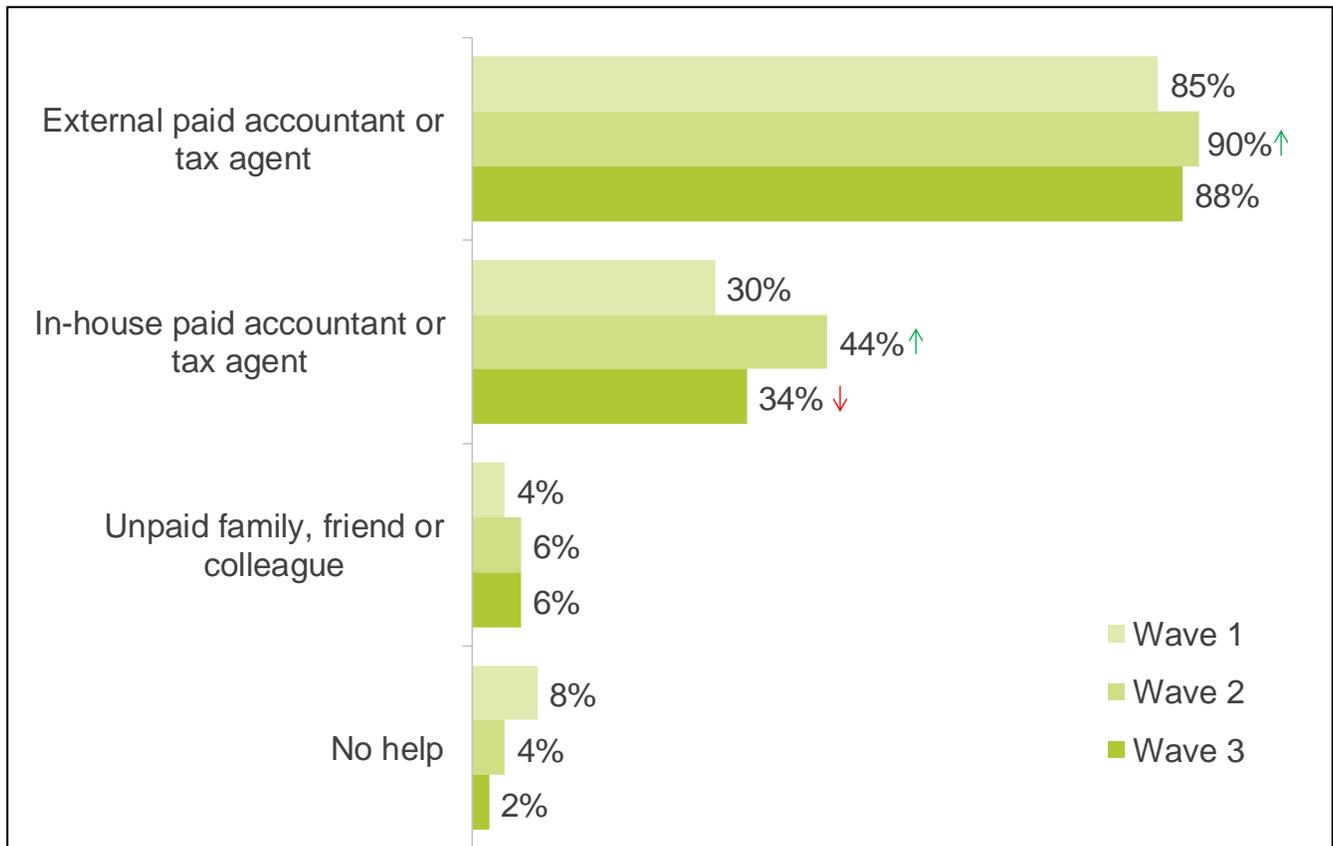
Nine in ten VAT mandated businesses in Wave 3 used an external accountant or agent to help with their accounts and tax, suggesting this is a useful channel for communication about MTD. This proportion has been broadly consistent across the three waves (Figure 12). A third of VAT mandated businesses in Wave 3 reported that they had an in-house accountant or agent (34%). Only a small minority of VAT mandated businesses had unpaid help (6%) or no help (2%) in Wave 3, consistent across the three Waves.

As could perhaps be expected, likelihood for VAT mandated businesses to have an internal or external accountant varied significantly by turnover:

- VAT mandated businesses with a turnover of £1 million or less were significantly more likely to have an external agent (91%) than VAT mandated businesses with a turnover of over £1 million (76%);
- VAT mandated businesses with a turnover above £1 million were significantly more likely to have an internal accountant or agent (60%) than VAT mandated businesses with a turnover of £1 million or less (28%).
- VAT mandated businesses with a turnover of £250,000 or less were significantly more likely to have unpaid help (10%) than VAT mandated businesses with a turnover of more than £250,000 (2%).

This suggests that if external agents are to be used as a channel of communication it would be worth bearing in mind the types of businesses most likely to be reached.

Figure 12: Help with accounts and tax among VAT mandated businesses



Base: All VAT mandated businesses (Wave 3: 363; Wave 2: 371; Wave 1: 376)

C1. Firstly, does anyone help you with your accounts and tax either on a paid or unpaid basis?

↑↓ = significantly higher or lower vs. previous wave

### 3.4.2 Membership of professional bodies or trade organisations

In Wave 1 two in five VAT mandated businesses were members of a professional body or trade organisation (40%). This dropped to 33% in Wave 2 and stayed at a similar level in Wave 3 (34%) (Figure 13).

Figure 13: Membership of professional bodies or trade organisations among VAT mandated businesses



Base: All VAT mandated businesses (Wave 3: 363; Wave 2: 371; Wave 1: 376)

A3. Is your organisation a member of a representative body relating to the profession or trade of your business?

↑↓ = significantly higher or lower vs. previous wave

Medium sized businesses (50-249 employees) were significantly more likely to be a member of a professional body or trade organisation (58% Wave 3).

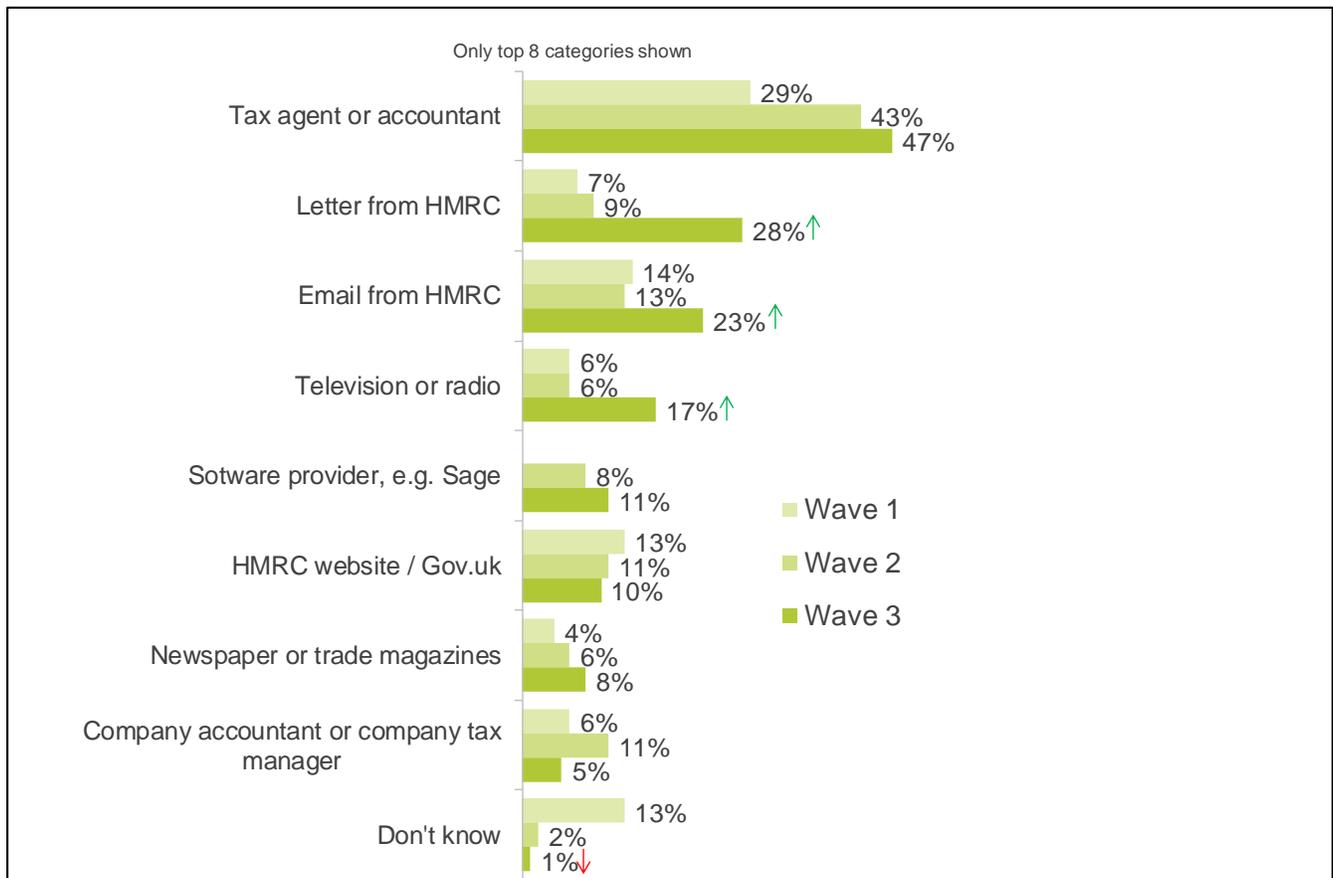
There was a wide variety of bodies and organisations that VAT mandated businesses reported they were members of. In Wave 3, the most frequently mentioned was the Federation of Small Businesses, which one in ten of those with any memberships reported being a member of (9%). There was a large number of other bodies and organisations mentioned, with no other organisation attracting more than 3% of mentions.

### 3.4.3 Source of awareness of MTD

In Wave 3, the most common source of awareness of MTD for VAT mandated businesses was their tax agent or accountant: almost half had heard of MTD through that route (47%). Whilst a tax agent or accountant was consistently the most common source of awareness

across all three Waves, there has been a significant increase in awareness via that route since the baseline Wave (Wave 1: 29%; Wave 2: 43%) (Figure ).

Figure 14: Top 8 sources of awareness of MTD among VAT mandated businesses



Base: VAT mandated businesses aware of MTD or concept (Wave 1: 229, Wave 2: 305; Wave 3: 337)  
 B4. Where did you hear about Making Tax Digital / the new HMRC changes?

↑↓ = significantly higher or lower vs. previous wave

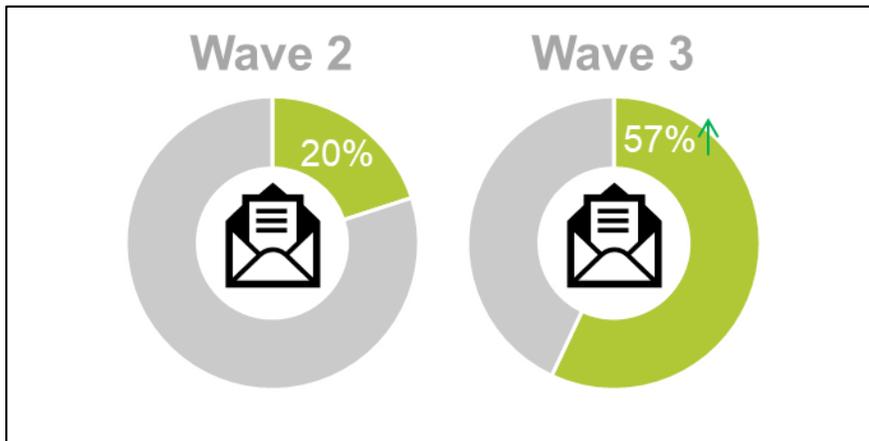
Communications from HMRC were the second most commonly cited source of awareness of MTD in Wave 3, with a significant jump in awareness from letters and emails from HMRC between Waves 2 and 3. HMRC sent letters publicising MTD to large numbers of businesses between these two waves.

In addition, almost one in five VAT mandated businesses in Wave 3 had heard of MTD through television or radio (17%), a significant increase compared to the previous waves (Wave 1: 6%; Wave 2: 6%).

Whilst in Wave 3 28% of VAT mandated businesses cited a letter from HMRC as how they heard about MTD, more VAT businesses - six in ten - recalled receiving a letter from HMRC

about MTD in the last few months (57%), a significant increase from Wave 2 (20%) (Figure 15). Given the proportion receiving a letter at Wave 3 is higher than the proportion of VAT mandated businesses that reported the letter was the source of their awareness, this suggests that a significant proportion of businesses that received the letter were already aware of MTD.

Figure 15: Whether received a letter from HMRC in the last month among VAT mandated businesses



Base: All VAT mandated businesses (Wave 3: 363; Wave 2: 371; Wave 1: 376)

A3. Is your organisation a member of a representative body relating to the profession or trade of your business?

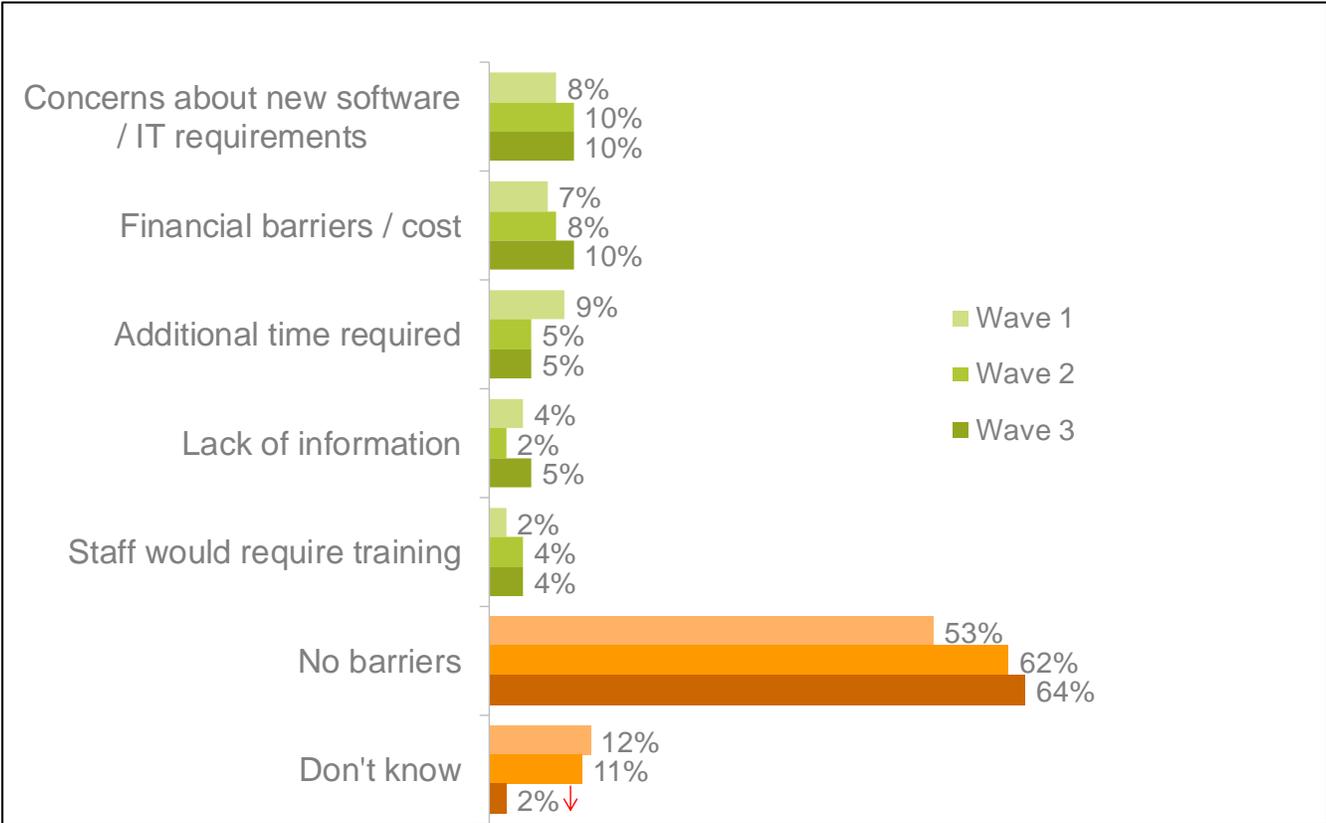
↑↓ = significantly higher or lower vs. previous wave

### 3.4.4 Barriers to implementing MTD

Two-thirds of VAT mandated businesses in Wave 3 reported that they could see no barriers to implementing MTD (64%). This was consistent with Wave 2 (62%) but a significant increase since the Wave 1 baseline (53%) (Figure 16). VAT mandated businesses that were already using apps in their record keeping in Wave 3 were significantly more likely to report no barriers to implementing MTD (77%).

The most common concerns in Wave 3 centred on the new software and cost. One in ten VAT mandated businesses had concerns about the new software / IT requirements (10%), or were concerned about the cost of implementing MTD (10%). Fewer had concerns about the additional time required (5%), lack of information (5%) and the need to train staff (4%). The proportion of VAT mandated businesses with each concern has remained broadly consistent across all three waves.

Figure 16: Barriers to implementing MTD among VAT mandated businesses



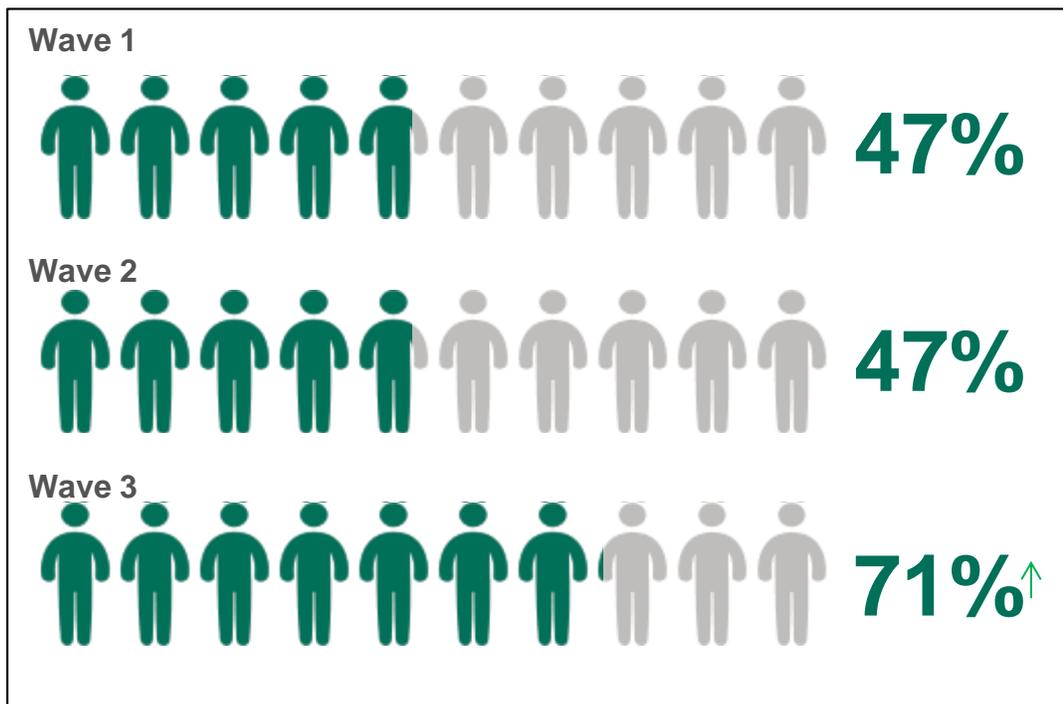
Base: All VAT mandated businesses (Wave 3: 363; Wave 2: 371; Wave 1: 376)  
 D6. Are there any barriers to implementing the changes related to Making Tax Digital?  
 ↑ ↓ = significantly higher or lower vs. previous wave

### 3.5 Awareness of Making Tax Digital among ITSA businesses

Under MTD for Income Tax, sole traders and landlords will keep digital records and send a quarterly summary of income and expenditure to HMRC using MTD compatible software. HMRC is currently running a voluntary pilot of this service. At Spring Statement 2019, the Government confirmed that the Income Tax element of MTD will not be mandated in 2020. For the period of this research, the priority has been to support businesses to transition for VAT.

Seven in ten ITSA businesses were aware of MTD in Wave 3, either by name or the concept (71%) (Figure 17). This is a significant increase since Wave 1 and 2, where just under half were aware (47%). Similarly to the VAT mandated population, ITSA businesses in Wave 3 that use software or apps as part of their record keeping were significantly more likely to be aware of MTD or the concept than those using spreadsheets or paper methods only (83% vs. 63%).

Figure 17: Awareness of MTD by name or concept among ITSA population



Base: All ITSA businesses (Wave 3: 95; Wave 2: 96; Wave 1: 77)

B1. Have you heard of Making Tax Digital?

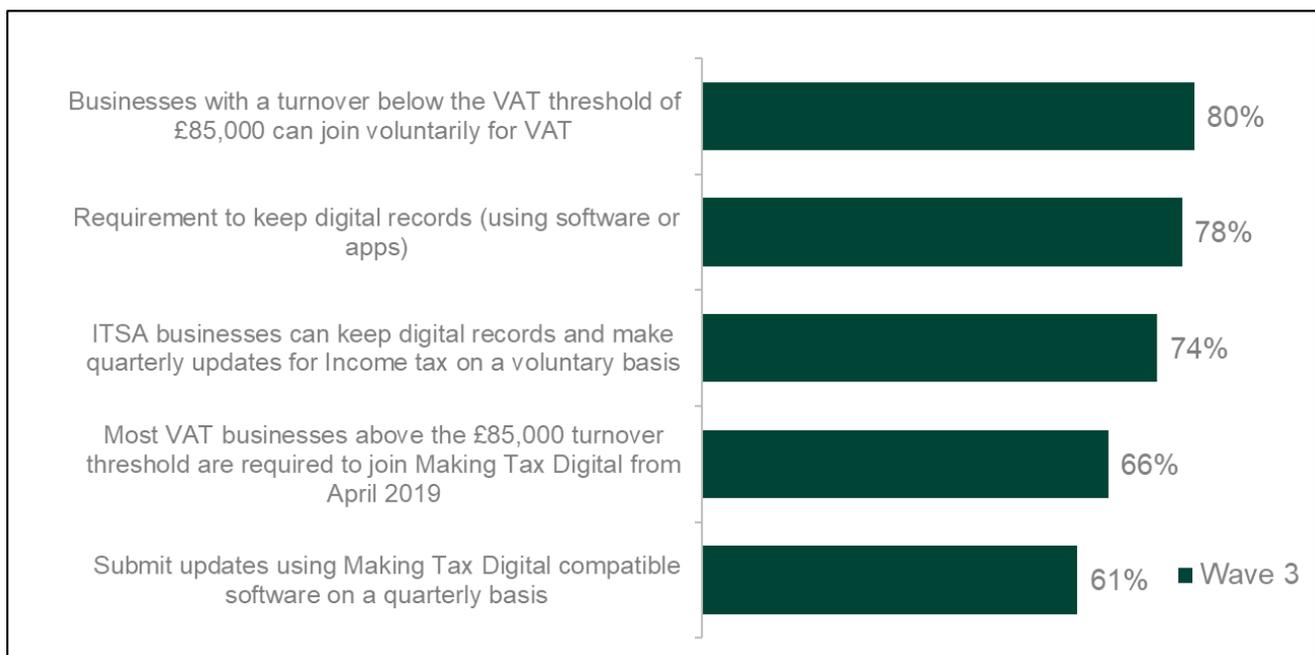
B2. Are you aware that HMRC are making changes to the way businesses send Income Tax and VAT information to them?

↑↓ = significantly higher or lower vs. previous wave

Two-thirds of the ITSA businesses aware of MTD in Wave 3 were aware of it by name (62%), a significant increase since the previous waves: 27% were aware by name in Wave 1, and 40% in Wave 2. The remaining 9% of those ITSA businesses aware in Wave 3 were not aware of MTD by name, but after prompting were aware that HMRC are making changes to the way businesses provide tax information.

The majority of ITSA businesses that were aware of MTD in Wave 3 recalled the voluntary features of MTD for businesses like theirs (Figure 18). Four in five ITSA businesses that were aware of MTD recalled that businesses with a turnover below the VAT threshold could join MTD voluntarily for VAT (80%), and three-quarters were aware that ITSA businesses can make quarterly updates for Income Tax on a voluntary basis (74%). In terms of awareness of the other general requirements at Wave 3, four in five ITSA businesses recalled the requirement to keep digital records (78%) and over six in ten recalled that most VAT businesses were required to join from April 2019 (66%) and the requirement to use MTD compatible software (61%).

Figure 18: Awareness of features and requirements of MTD among ITSA population



Base: ITSA businesses aware of MTD or concept (Wave 3: 66; Wave 2: 47; Wave 1: 36). Waves 1 and 2 not reported due to low base sizes

B3. Which of the following do you think are the key features or requirements of Making Tax Digital/the new HMRC changes? Wording of some features and requirements changed slightly after Wave 1<sup>3</sup>

<sup>3</sup> Wave 1 wording of features and requirements:

- Requirement to keep records of income and expenditure digitally (using software or apps)
- VAT businesses above the £85,000 turnover threshold are required to join Making Tax Digital from April 2019
- Submit updates to HMRC on a quarterly basis

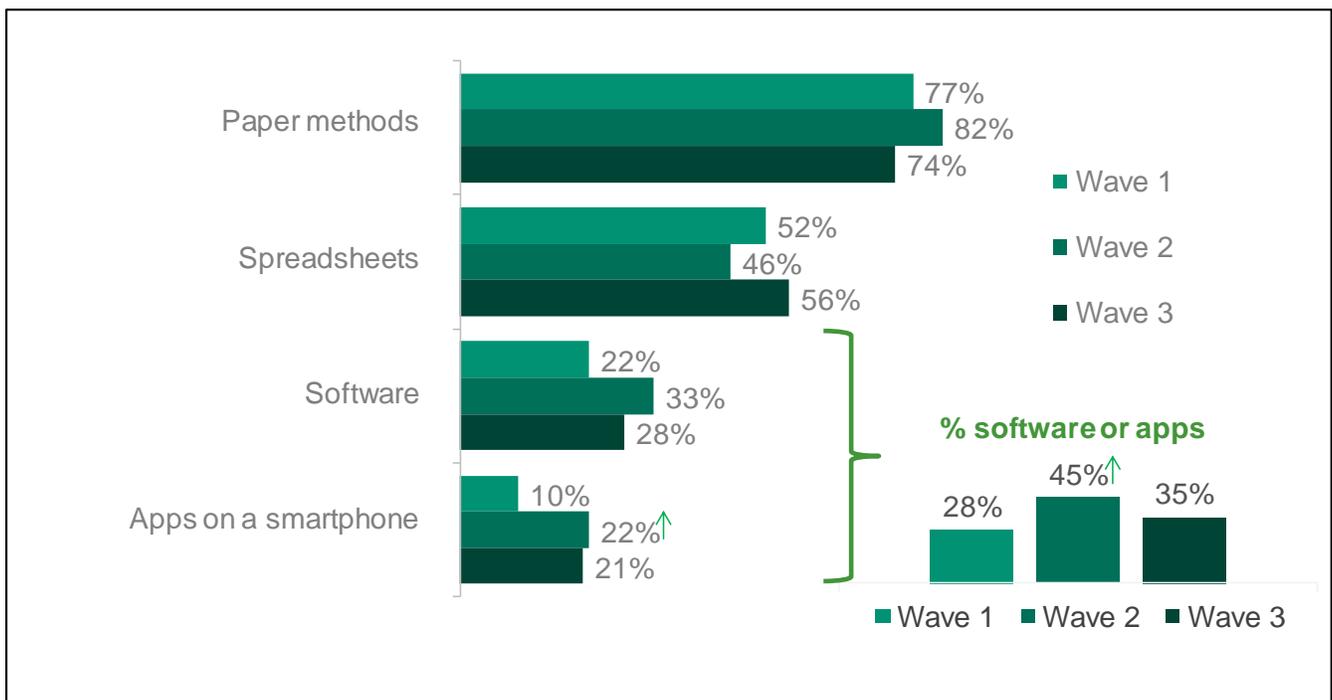
### 3.6 Current processes among ITSA businesses

#### 3.6.1 Current record keeping methods

Three-quarters of ITSA businesses used paper methods for keeping business records in Wave 3 (74%), making it the most commonly used method of record keeping for these businesses (Figure ). This has not changed significantly since Wave 1 (77%) and Wave 2 (82%). The next most commonly used form of record keeping among ITSA businesses was spreadsheets, used by around half in Wave 3 (56%).

Three in ten businesses used software (28% Wave 3) and two in ten used apps (21% Wave 3 – a significant increase since 10% in Wave 1). (Figure )

Figure 19: Current method of keeping business records for ITSA businesses



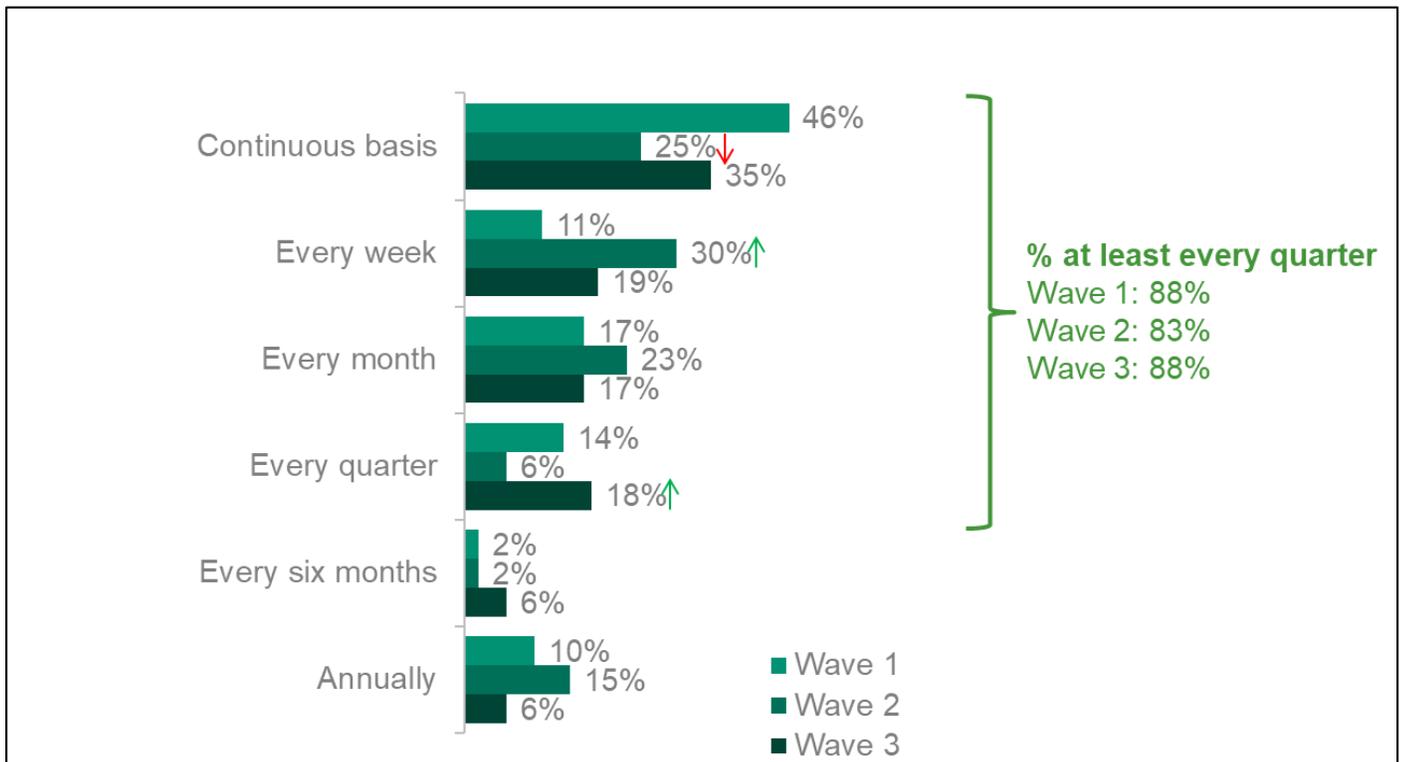
Base: All ITSA businesses (Wave 3: 95; Wave 2: 96; Wave 1: 77)  
 C2. Does your business / do you use any of the following to keep business records?  
 ↑↓ = significantly higher or lower vs. previous wave

#### 3.6.2 Frequency of updating records among ITSA businesses

- Businesses with a turnover below the VAT threshold of £85,000 can join voluntarily for VAT
- ITSA businesses can keep digital records and make quarterly updates for Income tax on a voluntary basis
- Businesses with a turnover below the VAT threshold of £85,000 can join voluntarily for VAT

Nine in ten ITSA businesses updated their records for transactions, invoices and receipts at least once a quarter in Wave 3 (88%), in line with MTD requirements. This was made up of a third that updated records on a continuous basis (35%), one in five that updated them weekly (19%) and just under one in five that updated monthly (17%) or quarterly (18%). The proportion of ITSA businesses that updated their records at least quarterly has not changed significantly across all three waves (Figure 20).

Figure 20: Frequency of updating records for transactions, invoices and receipts for ITSA businesses



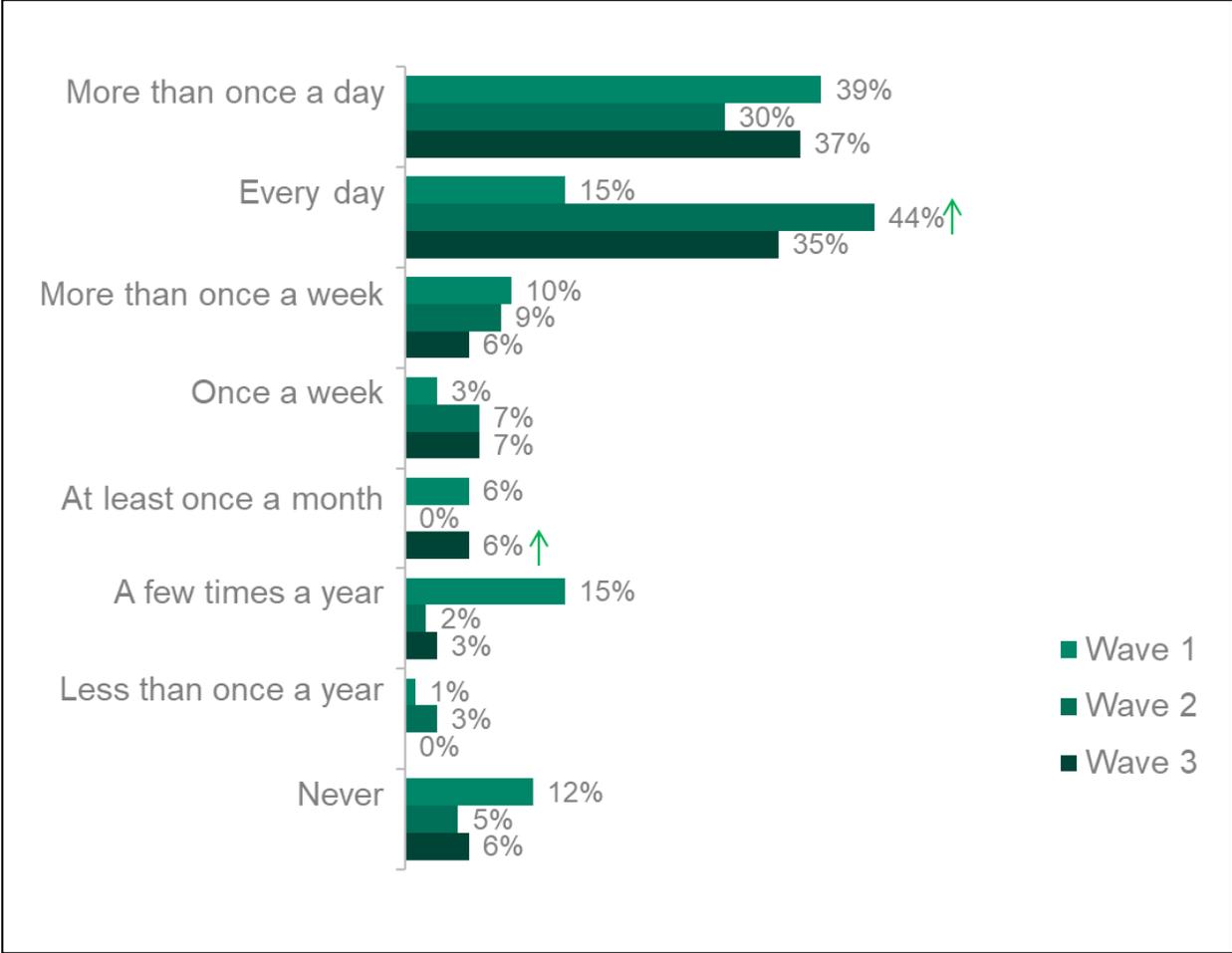
Base: All ITSA businesses (Wave 3: 95; Wave 2: 96; Wave 1: 77)  
 C3. How frequently are your records for transactions, invoices and receipts updated?

↑↓ = significantly higher or lower vs. previous wave

### 3.6.3 Frequency of internet use

Seven in ten ITSA businesses used the internet for business purposes at least once a day in Wave 3 (72%). This is made up of almost four in ten that used the internet more than once a day (37%) and a third that use it every day (35%). One in twenty ITSA businesses never used the internet for business purposes (6%), which could be a barrier to signing up to MTD for these businesses (Figure 21).

Figure 21: Frequency of internet use for business purposes by ITSA businesses



Base: All ITSA businesses (Wave 3: 95; Wave 2: 96; Wave 1: 77)  
 D3. On average, how often do you use the internet for business purposes, either at your workplace or elsewhere?  
 ↑↓ = significantly higher or lower vs. previous wave

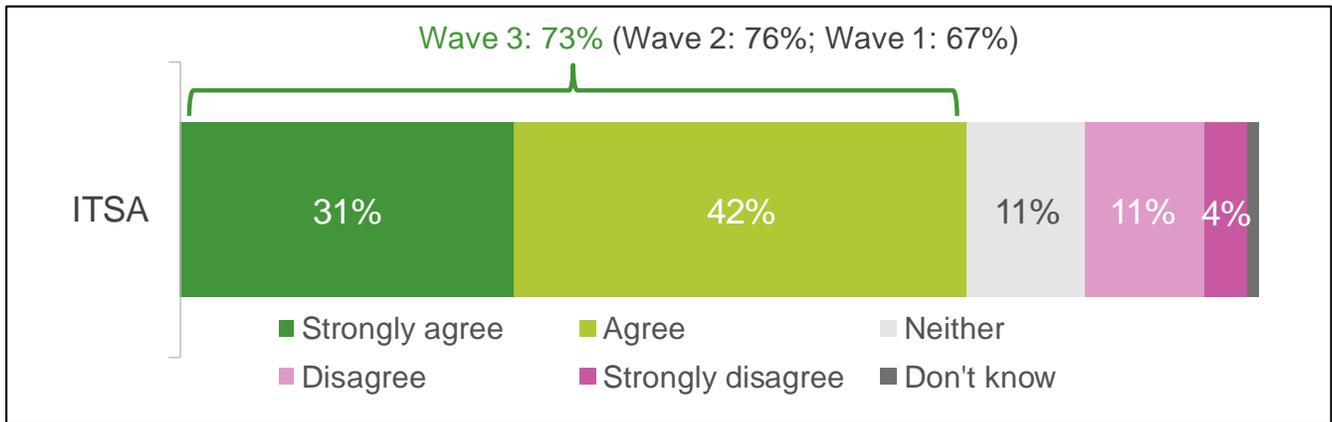
### 3.7 Readiness for Making Tax Digital among ITSA businesses

#### 3.7.1 Level of agreement about readiness for digital tax records

In Wave 3, three-quarters of ITSA businesses either agreed or strongly agreed that they were comfortable using technology to manage business finances (73%), consistent with Waves 1 and 2 (Figure 22). One in ten (11%) neither agreed nor disagreed, whereas over one-in-ten (14%) disagreed.

Those using software or apps were more likely to agree that they were comfortable (94%), than those who used spreadsheets or paper only (61%). Those who were aware of MTD by name were more likely (81%) to agree than those who were not (61%).

Figure 22: Level of agreement about readiness of digital tax records: "I am comfortable using technology to manage business finances"

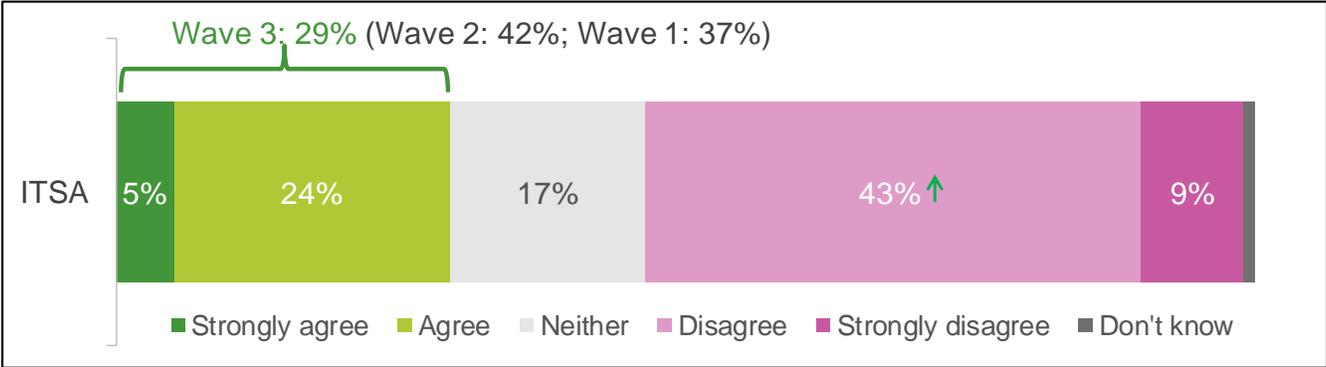


Base: All ITSA businesses (Wave 3: 95; Wave 2: 96; Wave 1: 77)  
 D1. To what extent do you agree or disagree with the following statements...?

Figure 23 shows that just under a third of ITSA businesses agreed that they would be worried about the security of keeping business records digitally (29%), thus requiring more reassurance about the security of digital records. Around a fifth (17%) neither agreed nor disagreed.

ITSA businesses in Wave 3 were more likely to disagree that they would be worried (53%) than those in Wave 2 (36%).

Figure 23: Level of agreement about readiness of digital tax records: "I would be / I am worried about the security of keeping business records digitally"



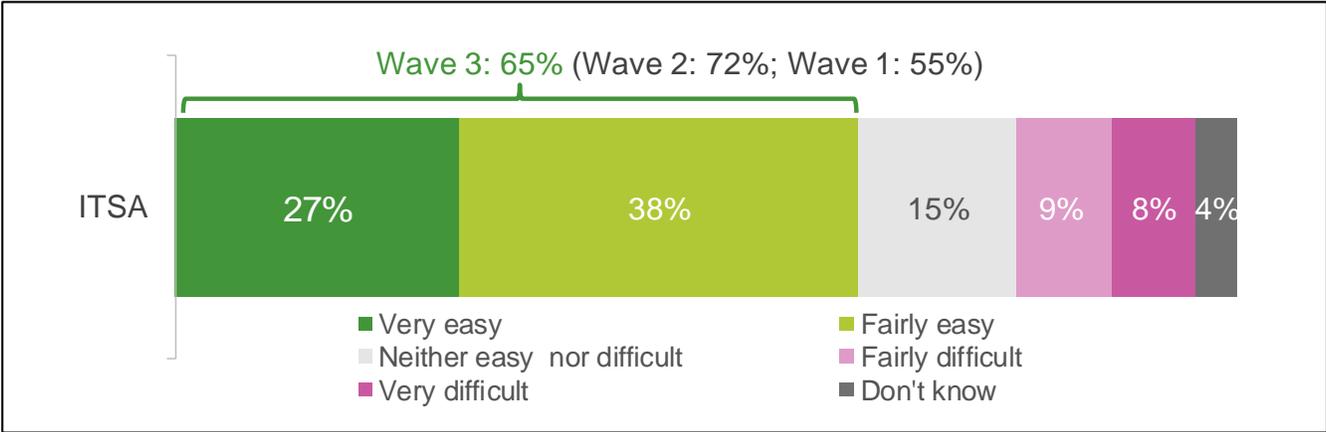
Base: All ITSA businesses (Wave 3: 95; Wave 2: 96; Wave 1: 77)  
 D1. To what extent do you agree or disagree with the following statements...?  
 ↑↓ = significantly higher or lower vs. previous wave

**3.7.2 Perception of ease of keeping digital records**

Around two-thirds of ITSA businesses felt that it is or would be very or fairly easy to use software to keep digital records of their income and expenditures (65%) and just under a fifth felt it is or would be very or fairly difficult (17%) (Figure 24).

Again, those using software or apps were more likely to feel that it is or would be very or fairly easy (87%) than those who use spreadsheets or paper only (55%).

Figure 24: Perception of ease of keeping digital records: "How easy/difficult will it be to use software to keep digital records of your income and expenditure?"



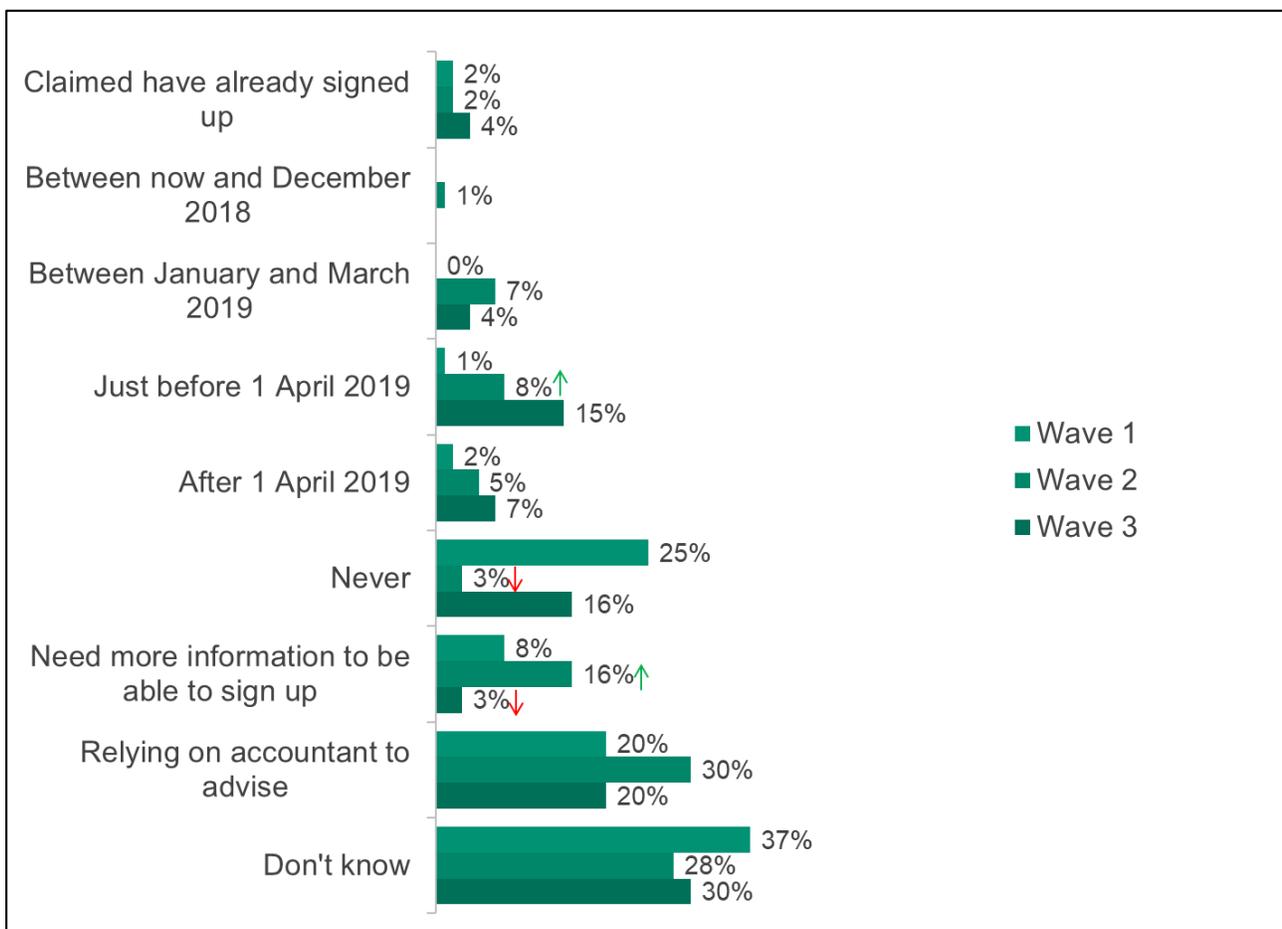
Base: All ITSA businesses (Wave 3: 95; Wave 2: 96; Wave 1: 77)  
 D1. To what extent do you agree or disagree with the following statements...?

### 3.7.3 Date planning / planned to sign up for MTD

At the point of interview, around one in five ITSA businesses planned to sign up before April 2019 (19%), although it is worth noting that signing up is voluntary for ITSA businesses. A minority said they intended to sign up after April 2019 (7%) and one in six said they never planned to sign up (16%). A fifth (20%) were relying on their accountant to advise them, while a further three in ten (30%) did not know when they planned to sign up, both of which were broadly consistent across the three waves.

ITSA businesses in Wave 3 were less likely to feel that needed more information to be able to sign up (3%) compared to those in Wave 2 (16%).

Figure 25: Date ITSA businesses planned to sign up for MTD (Waves 1-3)



Base: All ITSA businesses (Wave 3: 95; Wave 2: 96; Wave 1: 77)  
 D4. When, if at all, does your business / do you plan to sign up for Making Tax Digital?

↑↓ = significantly higher or lower vs. previous wave

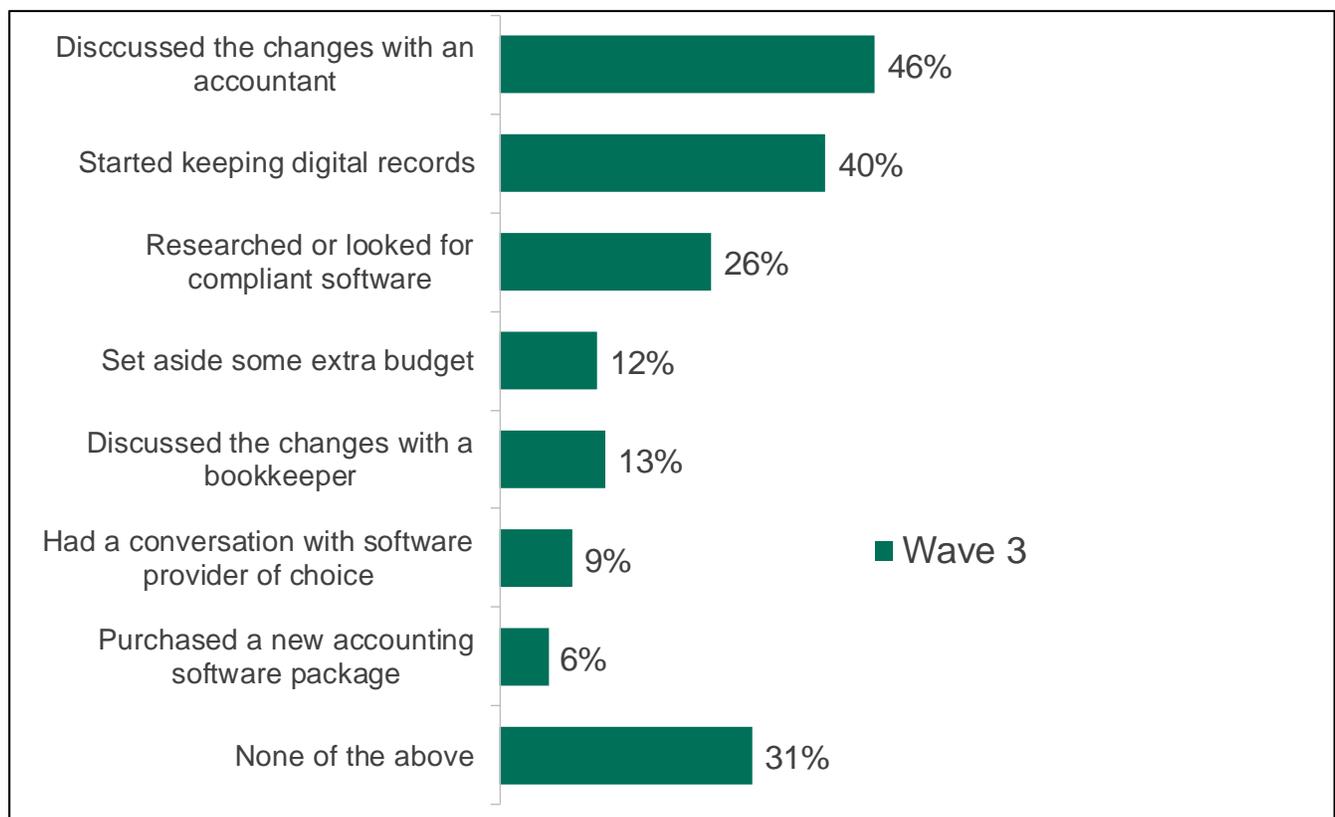
ITSA businesses that would find it easy to use software to keep records were more likely to sign up than those who would not find it easy.

### 3.7.4 Activities to prepare for Making Tax Digital

Seven in ten ITSA businesses who were aware of MTD or the concept had done something to prepare for MTD (69%). The activities undertaken by these businesses are detailed in Figure 26.

Most commonly ITSA businesses had discussed the changes with an accountant (46%) or started keeping digital records (40%).

Figure 26: Activities to prepare for changes that Making Tax Digital will bring among ITSA businesses



Base: ITSA businesses aware of MTD or concept: 66

D5. What activities, if any, is your business / are you doing to prepare for the changes that Making Tax Digital will bring?

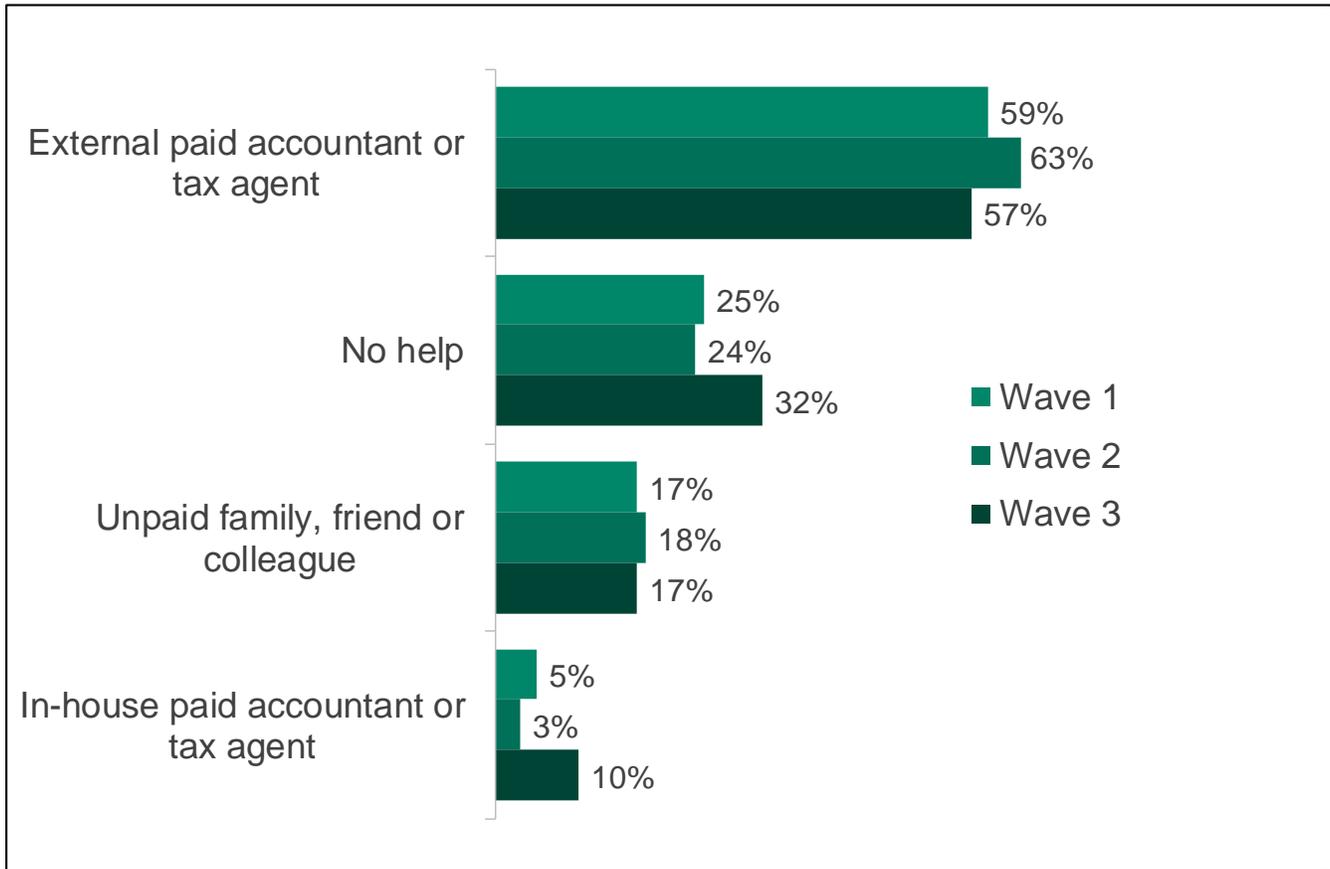
Wave 1 and 2 data not included in the chart below as base sizes for these waves were too low.

### 3.8 How to engage ITSA businesses

#### 3.8.1 Help with accounts and tax

External paid accountants or tax agents were used by six in ten ITSA businesses for assistance with accounts and tax among in Wave 3 (57%), in line with Waves 1 and 2 (Figure 27). Just under one in five used an unpaid relative, friend or colleague (17%) and one in ten employed an in-house paid accountant or tax agent (10%). A third of ITSA businesses said they had no help with their accounts or tax (32% Wave 3).

Figure 27: Help with accounts and tax among ITSA businesses



Base: All ITSA businesses: Wave 1: 77, Wave 2: 96, Wave 3: 95)

C1. Firstly, does anyone help you with your accounts and tax either on a paid or unpaid basis?

### 3.8.2 Businesses that are a member of a professional body or trade organisation

One in five ITSA businesses said they were a member of a professional body or trade organisation (19%) in line with the previous Waves.

Figure 28: ITSA businesses that are members of a professional bodies or trade organisations



Base: ITSA businesses: Wave 1: 77, Wave 2: 96, Wave 3: 95

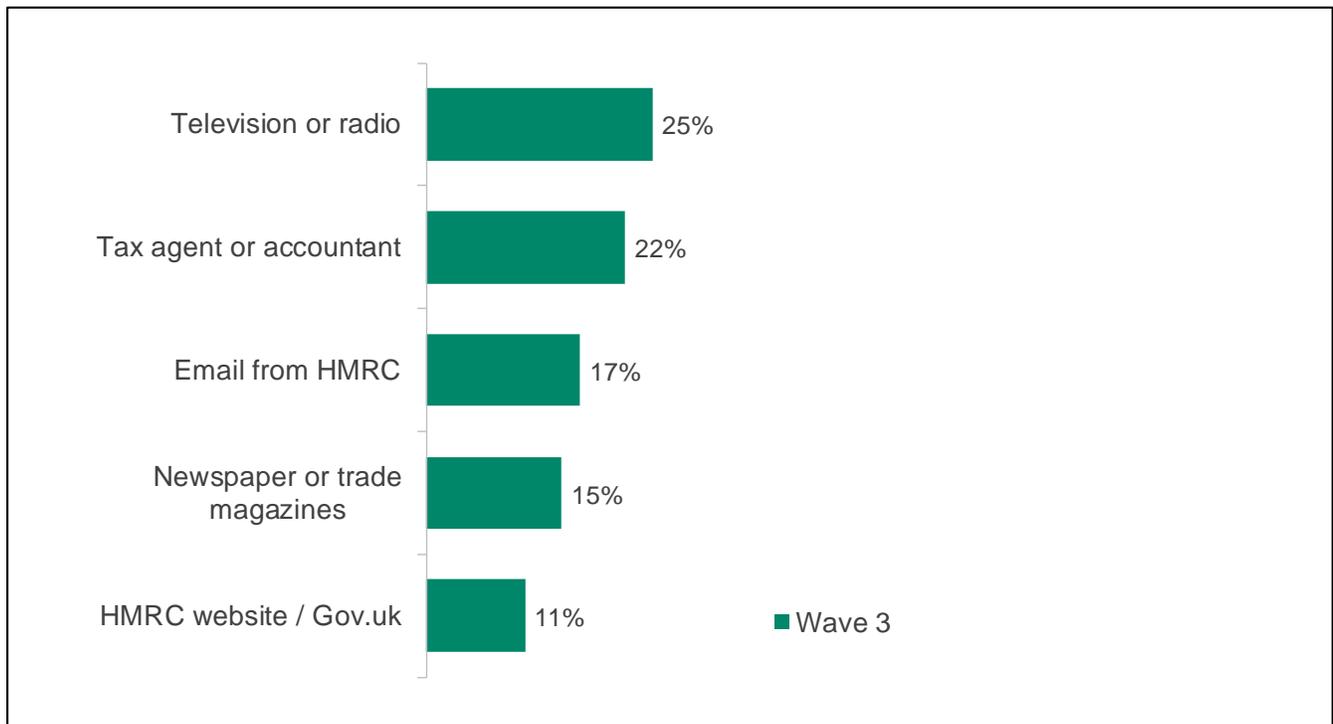
A3. Is your organisation a member of a representative body relating to the profession or trade of your business?

NB: Follow up question about what organisation ITSA businesses belonged to was asked, but results are not shown due to low base size of the sub-sample

### 3.8.3 Where businesses heard about Making Tax Digital

The most commonly reported source of first hearing about Making Tax Digital was television or radio, reported by a quarter of ITSA businesses (25%). Around one in five ITSA businesses found out about MTD through a tax agent or accountant (22%) and slightly fewer found out via an e-mail from HMRC (17%) (Figure 29).

Figure 29: Where heard about Making Tax Digital among ITSA businesses



Base: All ITSA businesses aware of MTD or concept (Wave 3: 66)

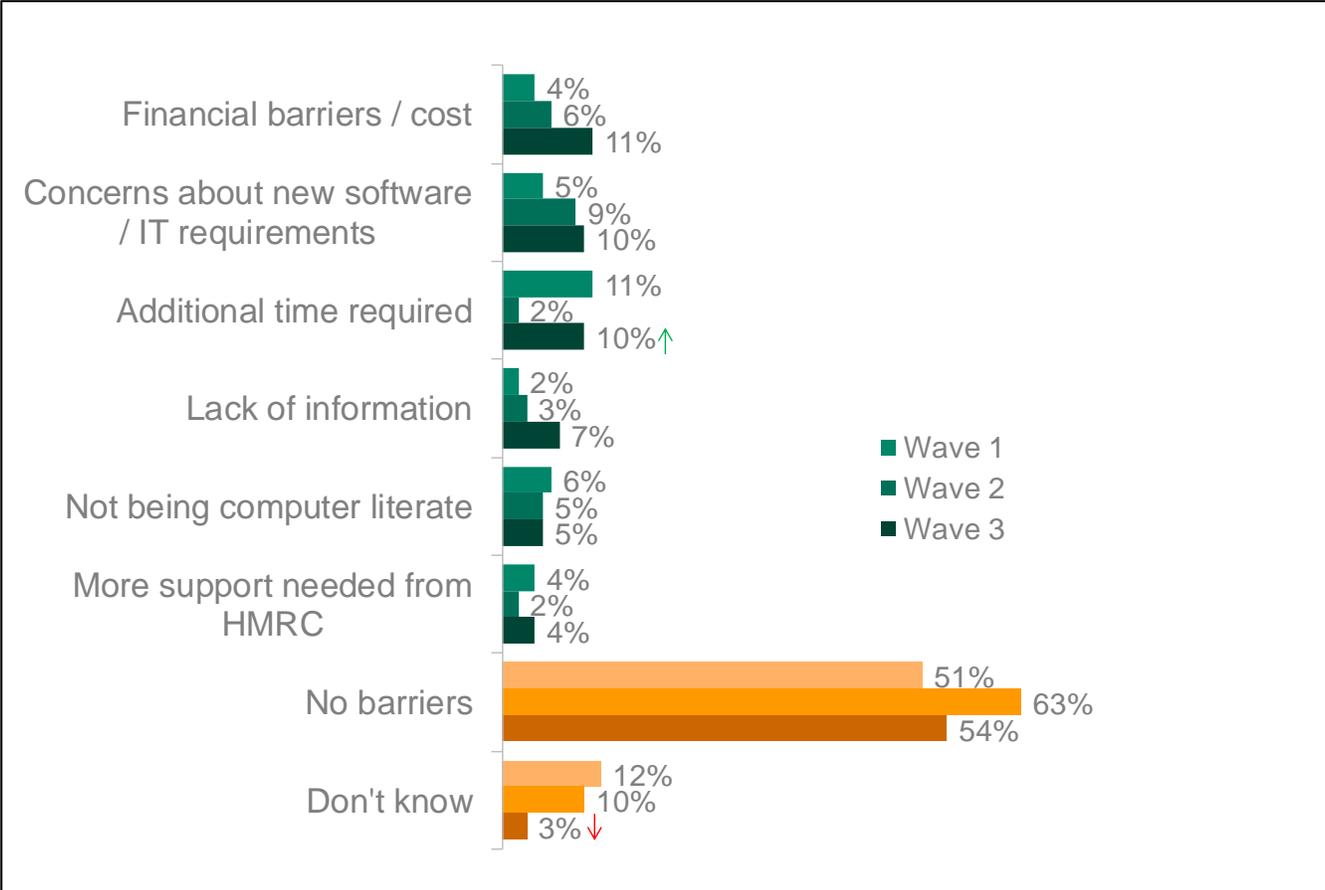
B4. Where did you hear about Making Tax Digital / the new HMRC changes?

As the base size of those who were aware of MTD was below 50 in Wave 1 (n=36) and Wave 2 (n=47), only figures for Wave 3 are shown.

### 3.8.4 Barriers to implementing Making Tax Digital

Just over half of ITSA businesses perceived no barriers to implementing changes related to Making Tax Digital (54%). One in ten cited financial barriers or costs (11%), concerns about new software or IT requirements (10%), or requiring additional time (10%). Figure 30 details the other barriers to implementing MTD that were perceived by ITSA businesses

Figure 30: Barriers to implementing Making Tax Digital among ITSA customers



Base: All businesses (ITSA: Wave 1: 77, Wave 2: 96, Wave 3: 95)  
 D6. Are there any barriers to implementing the changes related to Making Tax Digital?  
 ↑↓ = significantly higher or lower vs. previous wave

## 4. Findings from Wave 4

### 4.1 Awareness of Making Tax Digital among VAT mandated businesses

Awareness of Making Tax Digital (MTD) or the concept that HMRC are making changes to the way Income Tax and VAT information is sent, has continued the steady increase seen in previous waves, rising to almost all businesses in Wave 4 (98%) (Figure 31).

Figure 31: Awareness of MTD by name or concept among VAT mandated population



Base: All VAT mandated businesses (Wave 4: 364)

B1. Have you heard of Making Tax Digital?

B2. Are you aware that HMRC are making changes to the way businesses send Income Tax and VAT information to them?

↑↓ = significantly higher or lower vs. previous wave

The vast majority of those aware of MTD were aware by name in wave 4 (96% of all VAT mandated businesses), a significant increase compared to Wave 3. The remaining proportion of those aware of MTD (2%) said they were aware that HMRC is making changes to the way businesses submit Income Tax and VAT information after prompting.

VAT mandated businesses that only used spreadsheets or paper methods in their record keeping were as likely to be aware of MTD or the concept as those that used software or apps (97% vs. 98%, a different to pattern compared to previous waves).

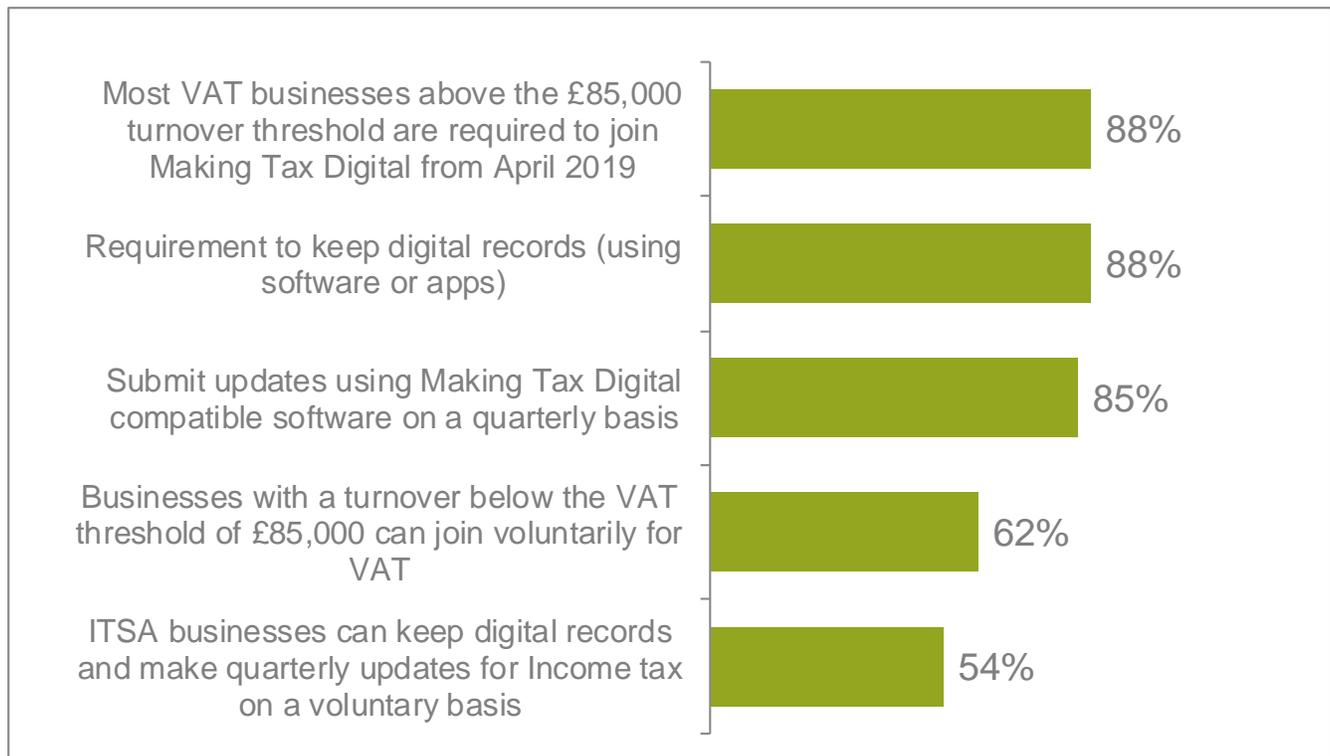
In Wave 4 the most commonly recalled features or requirements of MTD by VAT mandated businesses were as follows:

- 88% were aware that most VAT businesses above the £85,000 turnover threshold are required to join MTD from April 2019;
- 88% were aware of the requirement to keep digital records;
- 85% were aware of the requirement to submit updates using Making Tax Digital compatible software on a quarterly basis

There was lower awareness of features relating to non-mandated businesses. Around two-thirds of VAT mandated businesses were aware that businesses with a turnover below the VAT threshold can join voluntarily for VAT (62%), and more than half were aware that ITSA

businesses can keep digital records and make quarterly updates for income tax on a regular basis (54%) (Figure 32).

Figure 32: Awareness of features and requirements of MTD among VAT mandated population



Base: VAT mandated businesses aware of MTD or concept (Wave 4: 359)

B3. Which of the following do you think are the key features or requirements of Making Tax Digital/the new HMRC changes?

↑↓ = significantly higher or lower vs. previous wave

Experience with and perceptions of using technology to keep business records was related to awareness of the features and requirements of MTD, as in previous waves. In Wave 4, VAT mandated businesses that felt they were comfortable using technology were significantly more likely to be aware of four or more of the requirements or features of MTD (68%) than those that did not feel comfortable using technology (53%).

However, there is now less difference in knowledge of requirements between VAT mandated businesses who felt they would find it easy to use software to keep records compared to those who felt they would not find it easy. In Wave 4, 65% of those that would find it easy were aware of at least four requirements / features) compared to 61% of those that would not find it easy.

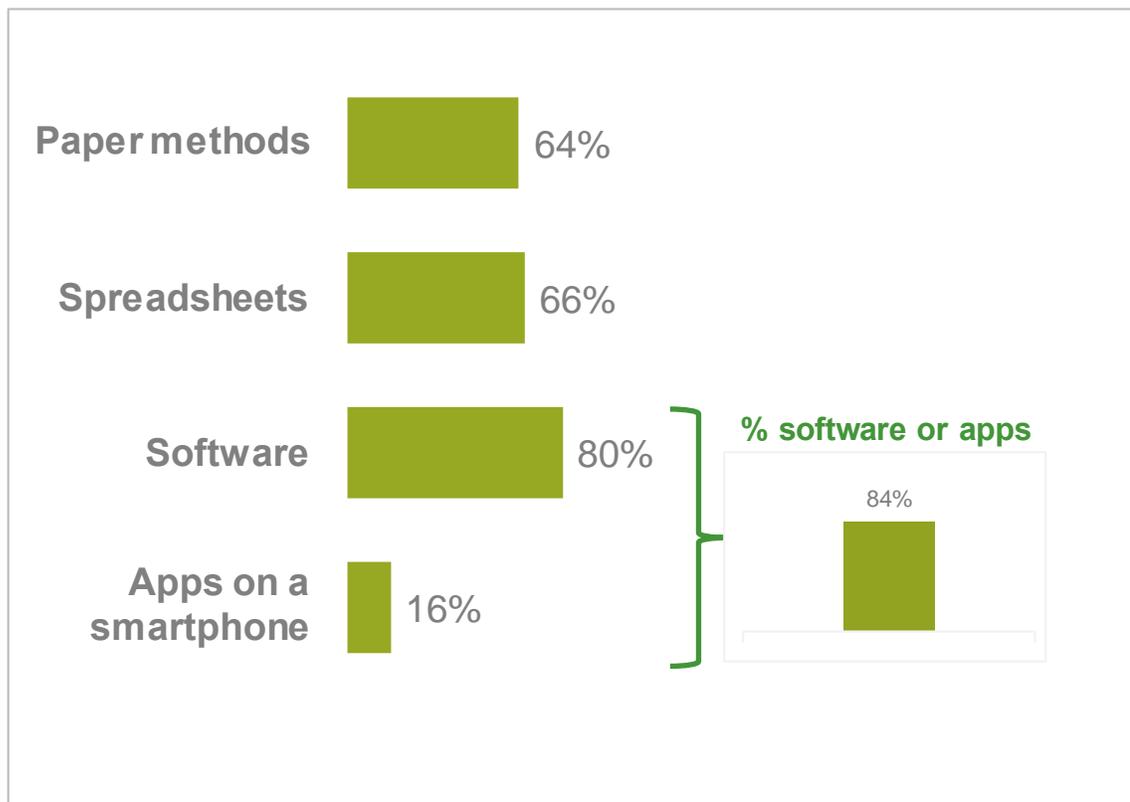
## 4.2 Current processes among VAT mandated businesses

### 4.2.1 Current record keeping methods

The most common form of record keeping used by VAT mandated businesses continued to be software, which was used by eight in ten businesses (80%). Spreadsheets and paper methods were the next most commonly used method of record keeping, used by two-thirds of VAT mandated businesses (66% spreadsheets, 64% used paper). As in previous waves, paper methods were mostly used in combination with other methods, with only 5% using paper methods in isolation. Smartphone apps continued to be the least frequently used method of record keeping, with less than one in five VAT mandated businesses using apps (16%) (Figure 33).

Less than one in five VAT mandated businesses used only paper or spreadsheet methods for record keeping (15%), smaller businesses with 1-9 staff were significantly more likely to use only paper or spreadsheet methods than those with 10-49 staff (16% vs. 7%).

Figure 33: Current method of keeping business records for VAT mandated businesses



Base: All VAT mandated businesses (Wave 4: 364)

C2. Does your business / do you use any of the following to keep business records?

↑↓ = significantly higher or lower vs. previous wave

More than four in five VAT mandated businesses were already using either software or apps for record keeping, a slight but not significant increase on the previous wave (84% vs. 80% in wave 3). As in previous waves, VAT mandated businesses with a turnover above £1 million were significantly more likely to use software or apps than businesses with a turnover of £250,000 or less (96% vs. 80%), and businesses that used an internal accountant to help with their accounts and tax were significantly more likely to use software or apps (94%) than businesses that used an external agent (85%).

The majority of VAT mandated businesses that use software or apps were already doing so before they were aware of MTD (87%). A fifth of these businesses needed to change the software they used because of MTD (19%).

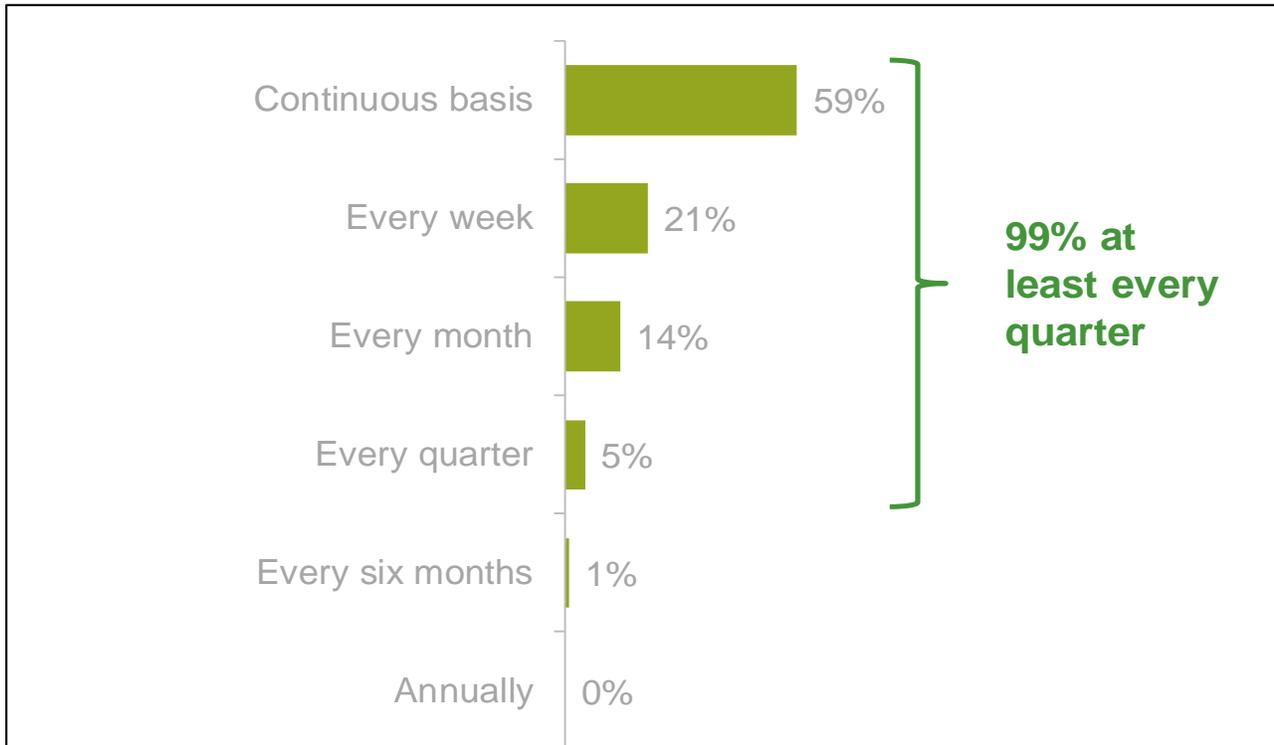
#### **4.2.2 Frequency of updating records**

Consistent with previous waves, virtually all VAT mandated businesses reported that they updated their business records at least once a quarter (99%), in line with MTD requirements (Figure 34).

Again consistent with previous waves, six in ten VAT mandated businesses kept their business records on a continuous basis (59%), with the following types of businesses statistically significantly more likely to do so:

- Businesses with a turnover over £1 million (87%);
- Businesses that said they would find it easy to use software to keep records were significantly more likely to update records continuously (66%);
- Businesses that used software or apps compared to those who used spreadsheets or paper only (62% vs. 41%).

Figure 34: Frequency of updating records for transactions, invoices and receipts for VAT mandated businesses



Base: All VAT mandated businesses (Wave 4: 364)

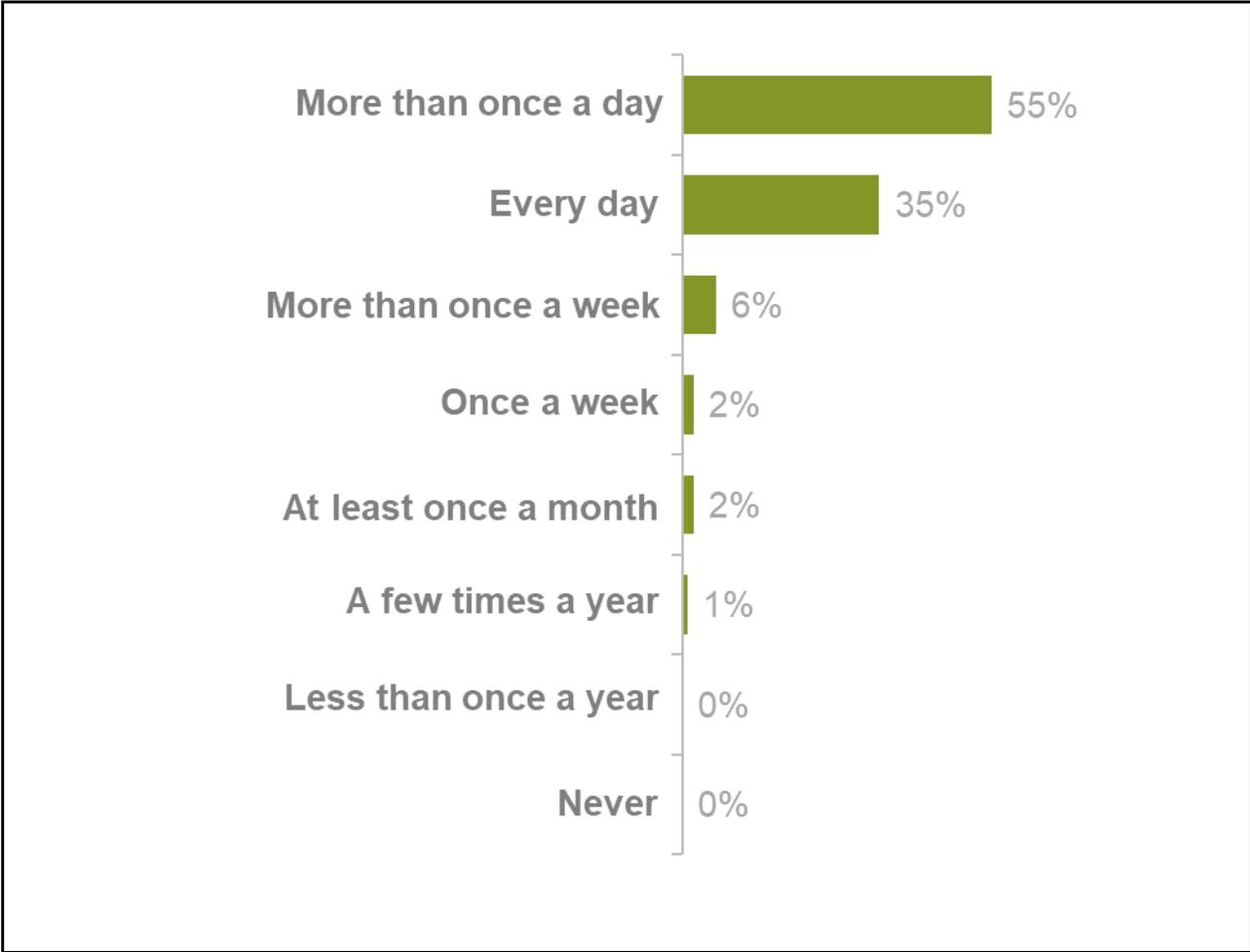
C3. How frequently are your records for transactions, invoices and receipts updated?

↑↓ = significantly higher or lower vs. previous wave

#### 4.2.3 Frequency of internet use

Frequency of use of the internet for VAT mandated businesses continued to be high in Wave 4. More than half used the internet more than once a day (55%), and a further third used the internet every day (35%). A minority of businesses used the internet less than once a week (3%) (Figure 35).

Figure 35: Frequency of internet use for business purposes by VAT mandated businesses



Base: All VAT mandated businesses (Wave 4: 364)  
D3. On average, how often do you use the internet for business purposes, either at your workplace or elsewhere?  
↑↓ = significantly higher or lower vs. previous wave

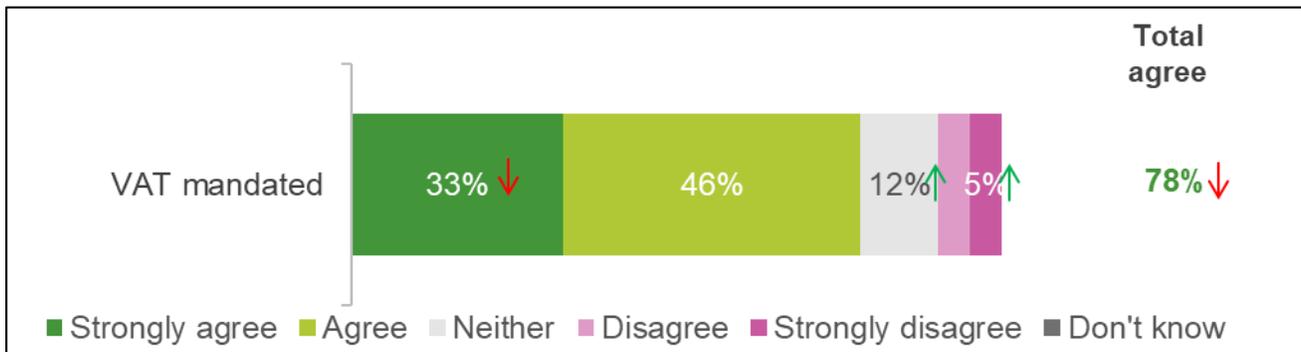
## 4.3 Readiness for Making Tax Digital among VAT mandated businesses

### 4.3.1 Level of agreement about readiness for digital tax records

Just under eight in ten VAT mandated businesses in Wave 4 agreed with the statement that they were comfortable using technology to manage business finances (78%), a significant decrease compared to Wave 3 (86%). One in ten disagreed (9%) or felt unable to agree or disagree either way (12%) (Figure 6).

As before, VAT mandated businesses who used software or apps were more likely to agree they were comfortable using technology to manage business finances (84%) than those who used spreadsheets or paper only (49%).

Figure 6: Level of agreement about readiness of digital tax records among VAT mandated businesses: "I am comfortable using technology to manage business finances"



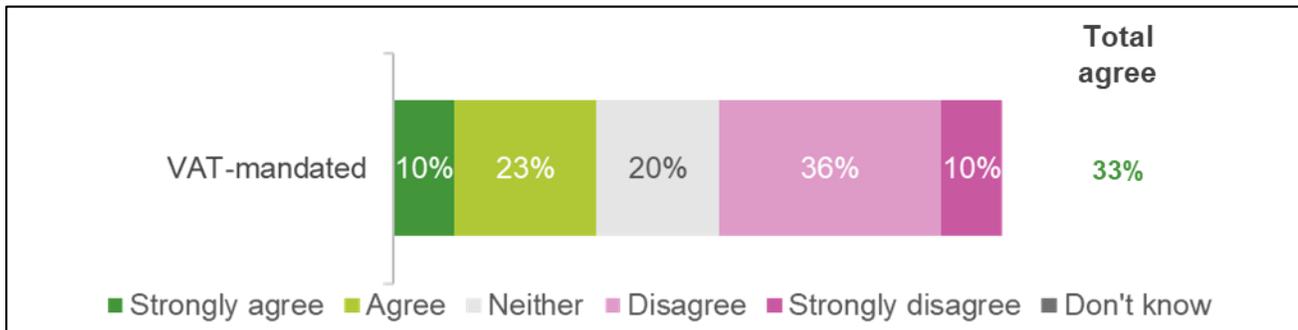
Base: All VAT mandated businesses (Wave 4: 364)

D1. To what extent do you agree or disagree with the following statements...?

A third of VAT mandated businesses in Wave 4 agreed with the statement that they were worried about the security of keeping business records digitally (33%) (Figure 37), a slight but not significant increase compared to Wave 3 (28%).

The trend for VAT mandated businesses who used only spreadsheets or paper to be more worried continued, with half (47%) agreeing they would be worried.

Figure 37: Level of agreement about readiness of digital tax records among VAT mandated businesses: "I would be / I am worried about the security of keeping business records digitally"



Base: All VAT mandated businesses (Wave 4: 364)

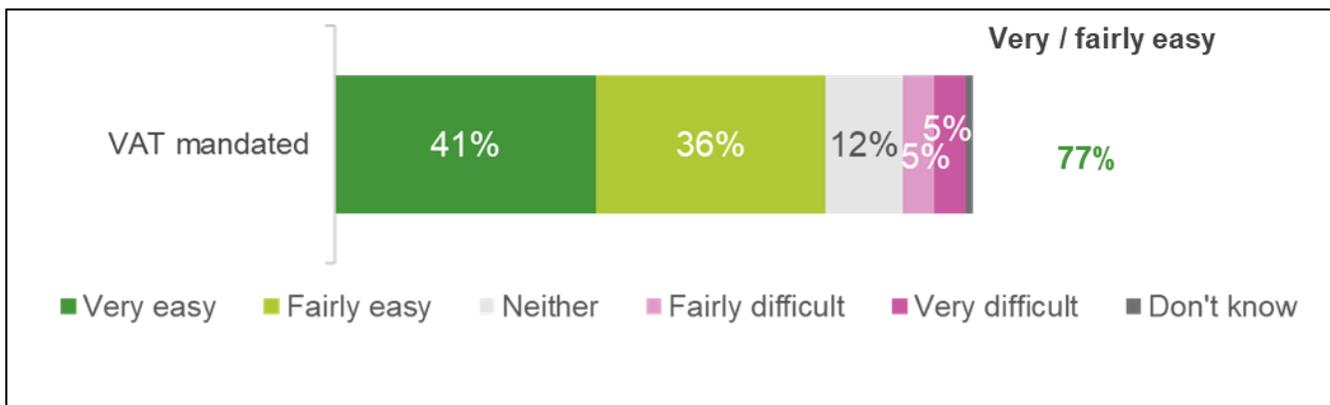
D1. To what extent do you agree or disagree with the following statements...?

↑↓ = significantly higher or lower vs. previous wave

### 4.3.2 Perception of ease of keeping digital records

Around four in five VAT mandated businesses felt that it is or would be fairly or very easy to use software to keep digital records of their income and expenditure (77%) (Figure 8). This was comparable to findings in Wave 3.

Figure 8: Perception of ease of keeping digital records among VAT mandated businesses: "How easy/difficult will it be to use software to keep digital records of your income and expenditure"



Base: All VAT mandated businesses (Wave 4: 364)

D2. How easy or difficult will it be/is it to use software to keep digital records of your income and expenditure?

Those already using software or apps were more likely to feel that it would be easy to keep digital records (85%) than businesses who used spreadsheets or paper only (32%). Additionally VAT mandated businesses in Greater London were more likely to feel that it would be easy (89%) compared to VAT mandated businesses overall (77%).

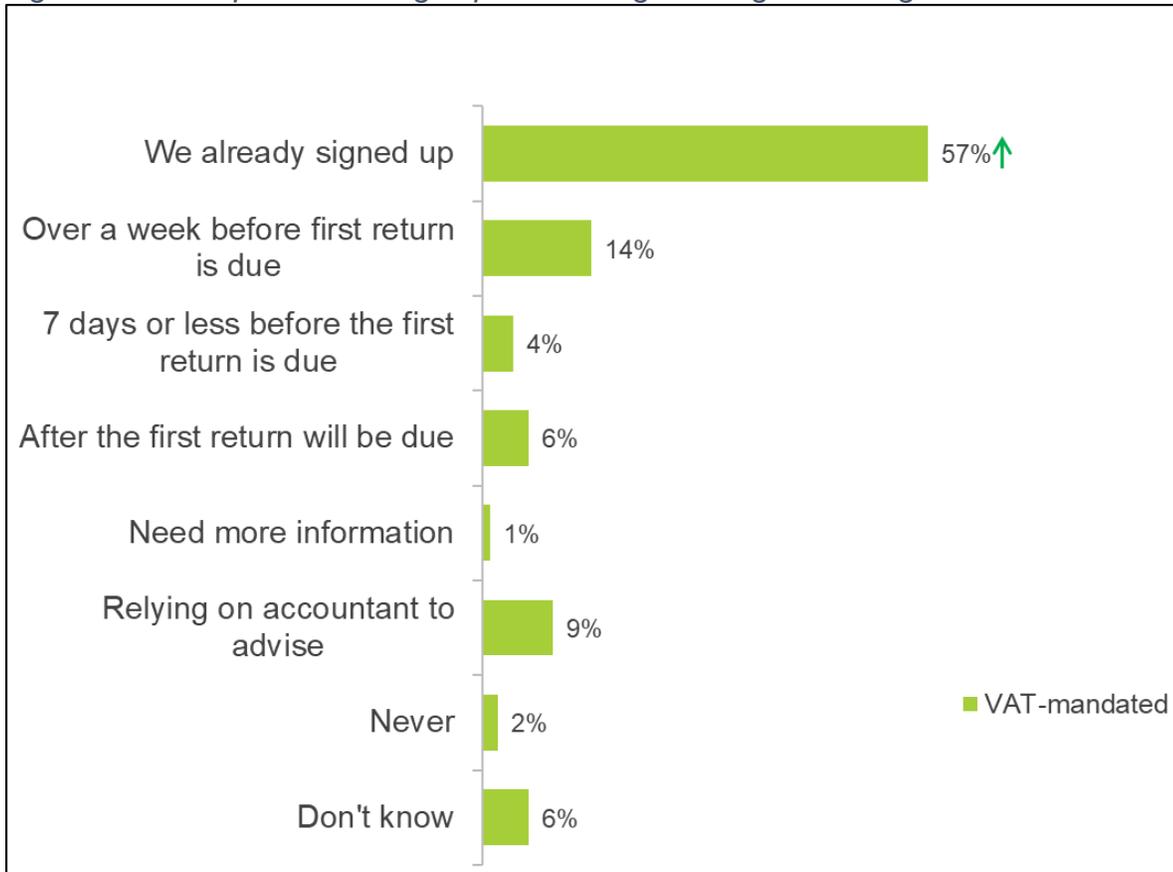
### 4.3.3 Date planning / planned to sign up for MTD

More than half of VAT mandated businesses said that they had signed up to MTD (57%) and a fifth plan to do so at least a week before their first return is due (18%) (Figure 39).

Additionally, half of VAT mandated businesses that had signed up had already made their first submission<sup>4</sup> (53%).

Only a third of VAT mandated businesses using only spreadsheet or paper methods had already signed up (36%), suggesting the transition to digital methods is still a barrier for some businesses. This also suggests that some businesses signed up before starting to keep digital records.

Figure 39: Date planned to sign up for Making Tax Digital among VAT mandated businesses



Base: VAT mandated businesses (wave 4: 364)  
 D4. When, if at all, does your business / do you plan to sign up for Making Tax Digital?

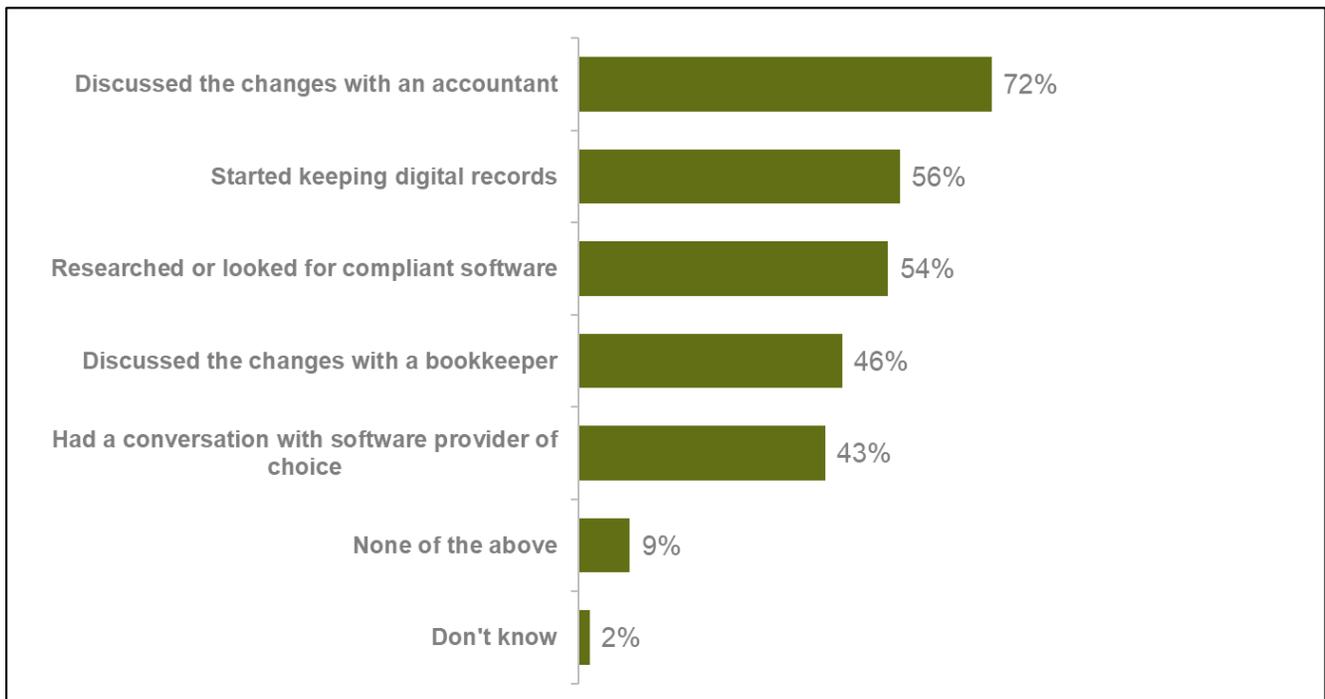
↑↓ = significantly higher or lower vs. previous wave

<sup>4</sup> Businesses are required to join MTD and submit their VAT returns for their first VAT period which begins on or after 1 April. For the majority, who file quarterly, they are not required to join MTD and file their first return until August 2019 or later.

#### 4.3.4 Activities to prepare for Making Tax Digital

The most common activities to prepare for MTD remained consistent with previous waves. Nearly three quarters had discussed the changes with an accountant (72%), and more than half had started keeping digital records (56%) or researched/looked for compliant software (54%) (Figure 40).

Figure 40: Activities to prepare for changes that Making Tax Digital will bring among VAT mandated businesses



D5. Base: VAT mandated and aware of MTD or concept: Wave 4: 359

↑↓ = significantly higher or lower vs. previous wave

## 4.4 How to engage VAT mandated businesses

### 4.4.1 Help with accounts and tax

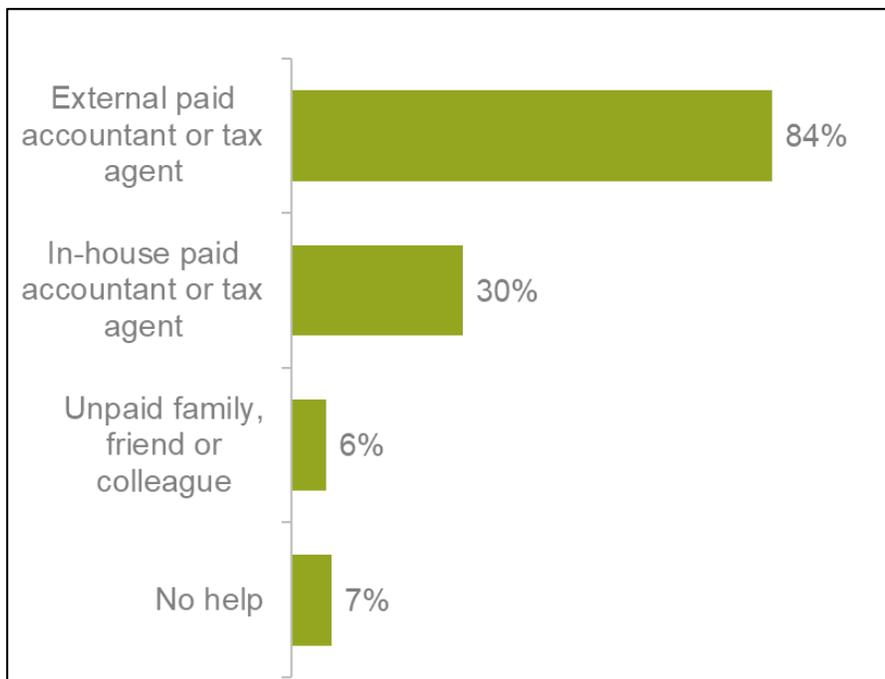
More than eight in ten VAT mandated businesses reported that they had an external paid accountant or agent (84%). Only a small minority of VAT mandated businesses had unpaid help (6%) or no help (7%) (Figure 41).

The proportion of VAT mandated businesses in Wave 4 having an internal or external accountant varied significantly by turnover:

- VAT mandated businesses with a turnover of £1 million or less were significantly more likely to have an external agent (86%) than VAT mandated businesses with a turnover of over £1 million (79%);
- VAT mandated businesses with a turnover above £1 million were significantly more likely to have an internal accountant or agent (56%) than VAT mandated businesses overall (30%).

This highlights the businesses most likely to be reached if external agents are to be used as a channel of communication.

Figure 41: Help with accounts and tax among VAT mandated businesses



Base: All VAT mandated businesses (Wave 3: 364)

C1. Firstly, does anyone help you with your accounts and tax either on a paid or unpaid basis?

↑↓ = significantly higher or lower vs. previous wave

#### 4.4.2 Membership of professional bodies or trade organisations

Four in ten VAT mandated businesses reported being members of professional or trade bodies in Wave (44%) (Figure 42).

*Figure 42: Membership of professional bodies or trade organisations among VAT mandated businesses*



*Base: All VAT mandated businesses (Wave 4: 364)*

*A3. Is your organisation a member of a representative body relating to the profession or trade of your business?*

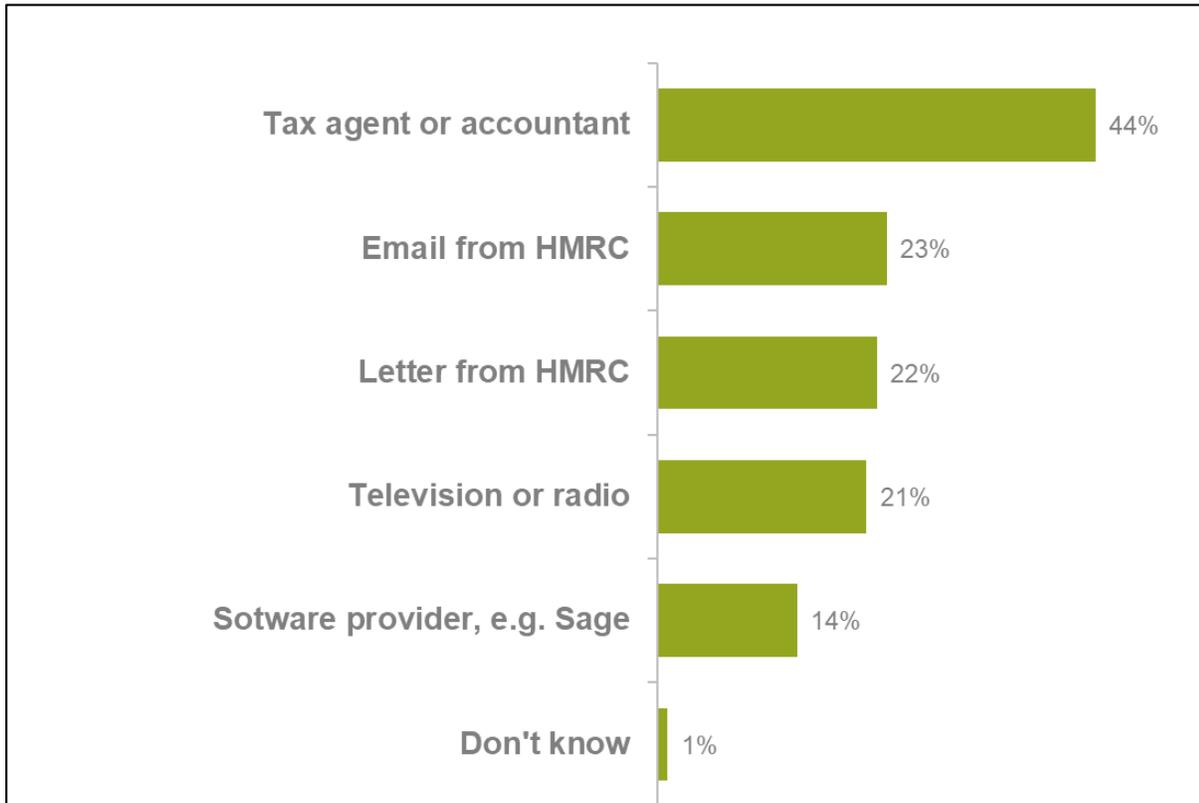
↑↓ = significantly higher or lower vs. previous wave

As in previous waves, there was a wide variety of bodies and organisations that VAT mandated businesses reported they were members of, with the Federation of Small Businesses the most frequently mentioned (14%).

#### 4.4.3 Source of awareness of MTD

The most common source of awareness of MTD for VAT mandated businesses continued to be a tax agent or accountant (44%) (Figure 43). Communications from HMRC were again the second most commonly cited source of awareness of MTD, around a quarter heard via Email or Letter from HMRC (23%; 22%).

Figure 43: Top sources of awareness of MTD among VAT mandated businesses



Base: VAT mandated businesses aware of MTD or concept (Wave 4: 359)  
 B4. Where did you hear about Making Tax Digital / the new HMRC changes?

↑↓ = significantly higher or lower vs. previous wave

The proportion that had heard of MTD through television or radio continued to rise, although not significantly compared to Wave 3. In Wave 4, businesses were as likely to hear through these sources as they were through HMRC communications.

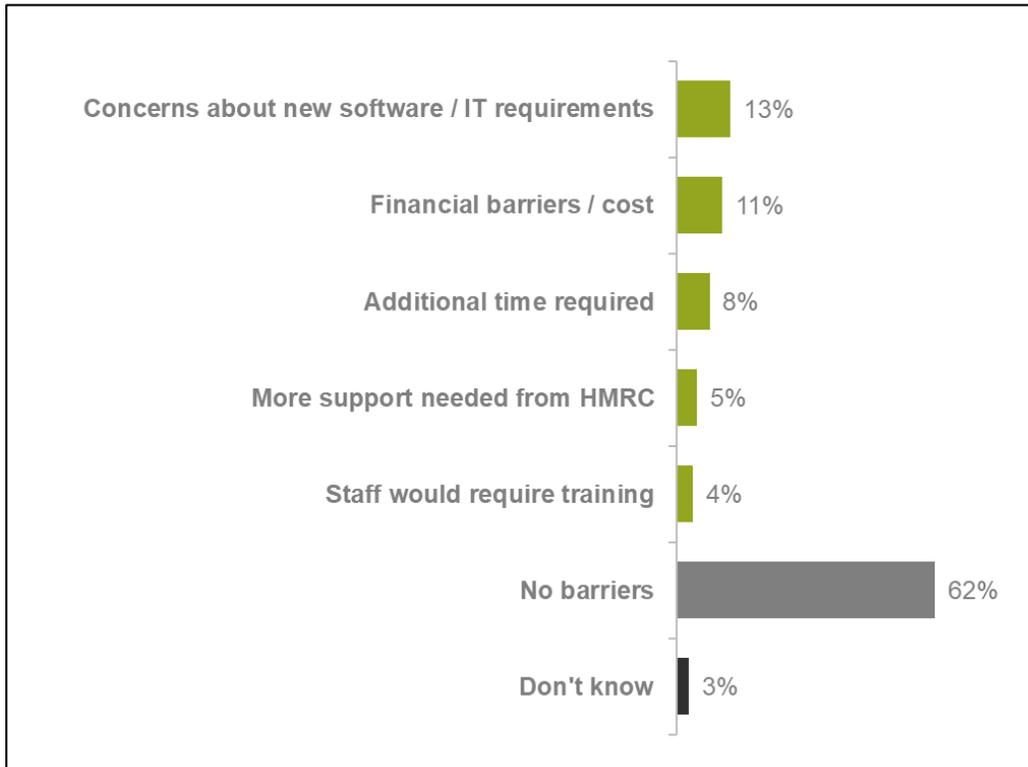
#### 4.4.4 Barriers to implementing MTD

Two-thirds of VAT mandated businesses reported that they could see no barriers to implementing MTD (62%), the same proportion seen in the previous two waves. As before, VAT mandated businesses using spreadsheets or paper methods only were more likely to perceive barriers than those already using apps (44% using spreadsheets or paper only perceived no barriers, compared to 65% of those using software or apps)

The most common concerns in Wave 4 continued to focus on new software requirements and cost. One in ten VAT mandated businesses had concerns about the new software / IT

requirements (13%) or were concerned about the cost of implementing MTD (11%). Fewer had concerns about the additional time required (8%), more support needed from HMRC (5%) or the need to train staff (4%).

Figure 44: Barriers to implementing MTD among VAT mandated businesses



Base: All VAT mandated businesses (Wave 4: 364)

D6. Are there any barriers to implementing the changes related to Making Tax Digital?

↑↓ = significantly higher or lower vs. previous wave

## 4.5 Awareness of Making Tax Digital among ITSA businesses

Three quarters of ITSA businesses were aware of MTD, either by name or the concept (75%) (Figure 35), a slight but not significant increase in overall awareness compared to Wave 3. Seven in ten ITSA businesses aware of MTD were aware of it by name (70%), and 6% were aware after prompting about HMRC's changes.

Figure 15: Awareness of MTD by name or concept among ITSA population

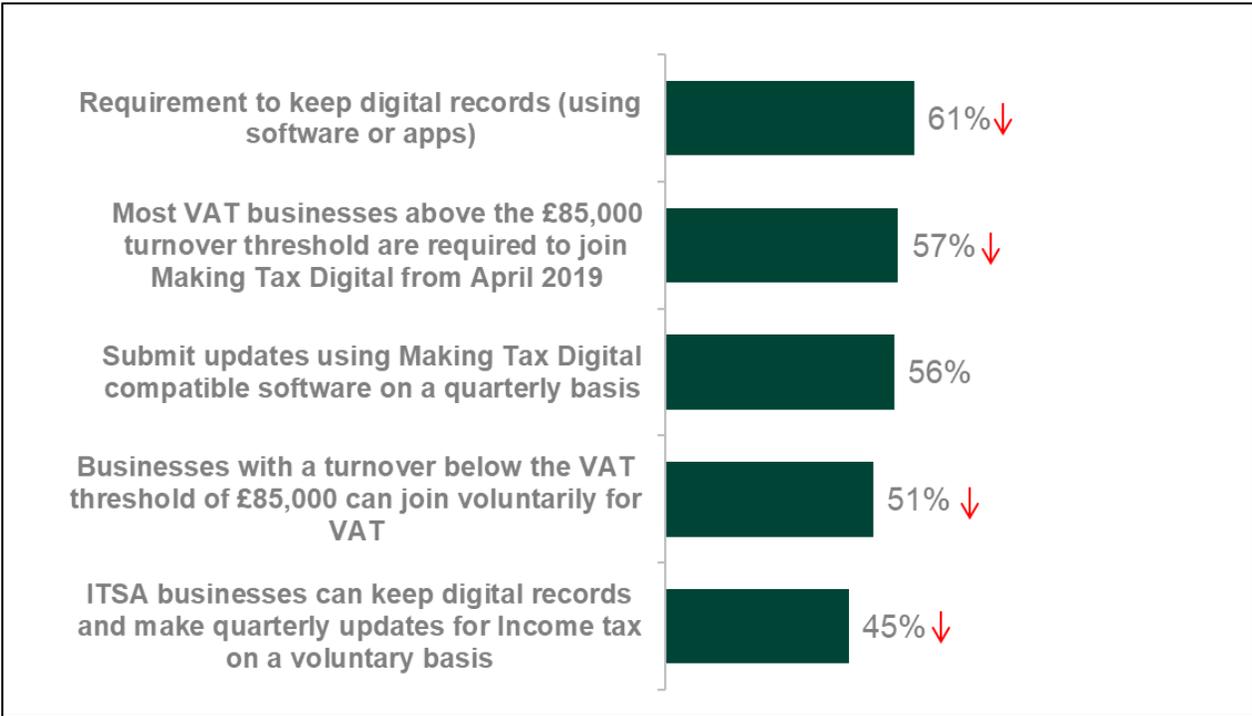


Base: All ITSA businesses (Wave 4: 75)  
B1. Have you heard of Making Tax Digital?  
B2. Are you aware that HMRC are making changes to the way businesses send Income Tax and VAT information to them?  
↑↓ = significantly higher or lower vs. previous wave

Similarly, to the VAT mandated population and to previous waves, ITSA businesses that use software or apps as part of their record keeping were significantly more likely to be aware of MTD or the concept than those using spreadsheets or paper methods only (88% vs. 71%).

Awareness of general requirements has reduced significantly amongst ITSA businesses. Half of those aware of MTD recalled that businesses with a turnover below the VAT threshold could join MTD voluntarily for VAT (51%), and less than half were aware that ITSA businesses can make quarterly updates for income tax on a voluntary basis (45%). (Figure 46).

Figure 46: Awareness of features and requirements of MTD among ITSA population



Base: ITSA businesses aware of MTD or concept (Wave 4: 59)

B3. Which of the following do you think are the key features or requirements of Making Tax Digital/the new HMRC changes?

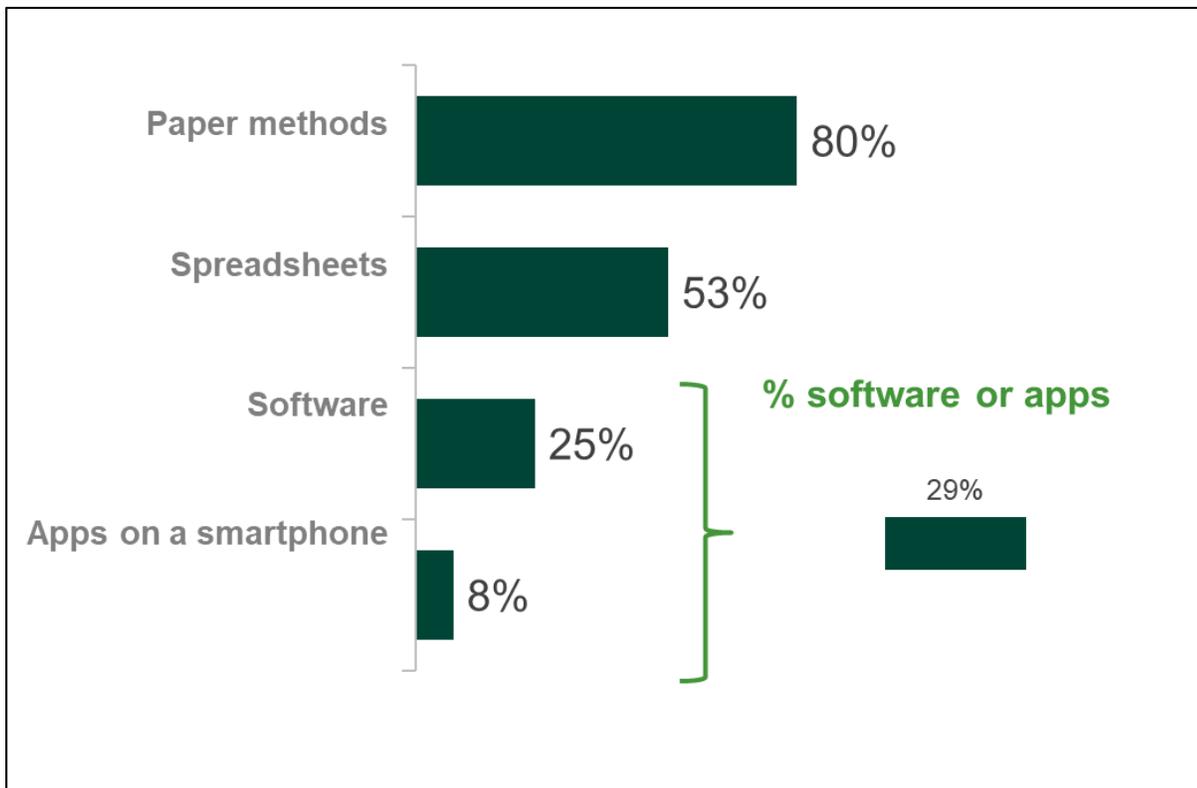
## 4.6 Current processes among ITSA businesses

### 4.6.1 Current record keeping methods

Paper methods were the most commonly used method of record keeping for ITSA businesses, which was consistent with previous waves, and used by four in five of these businesses (80%) (Figure 37). Four in ten (37%) ITSA businesses used only paper methods, with the remainder that used paper methods (43%) used them in combination with other methods. Around half of ITSA businesses used spreadsheets (53%), a quarter used software (25%) and around one in ten used apps (8%).

Three in ten ITSA businesses reported using software or apps in Wave 4. This is a decrease compared to Waves 2 and 3. Although the decrease since Wave 3 was not significant, the decrease since Wave 2 was a significant drop.

Figure 37: Current method of keeping business records for ITSA businesses



Base: All ITSA businesses (Wave 4: 75)

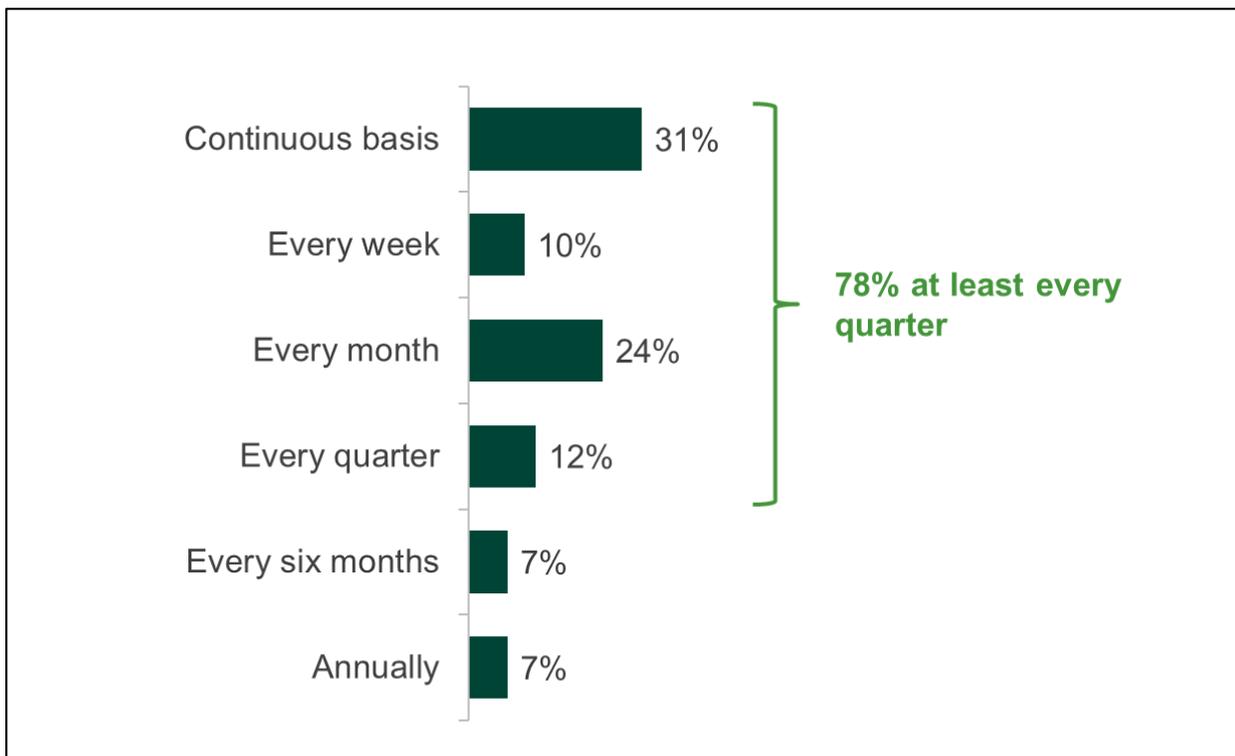
C2. Does your business / do you use any of the following to keep business records?

↑↓ = significantly higher or lower vs. previous wave

#### 4.6.2 Frequency of updating records among ITSA businesses

Eight in ten ITSA businesses updated their records for transactions, invoices and receipts at a frequency in line with MTD requirements (at least once a quarter) in Wave 4 (78%). This was made of up a third that updated records on a continuous basis (31%), one in ten that updated them weekly (10%) and just over a third that updated either monthly (24%) or quarterly (12%).

Figure 38: Frequency of updating records for transactions, invoices and receipts for ITSA businesses



Base: All ITSA businesses (Wave 4: 75)

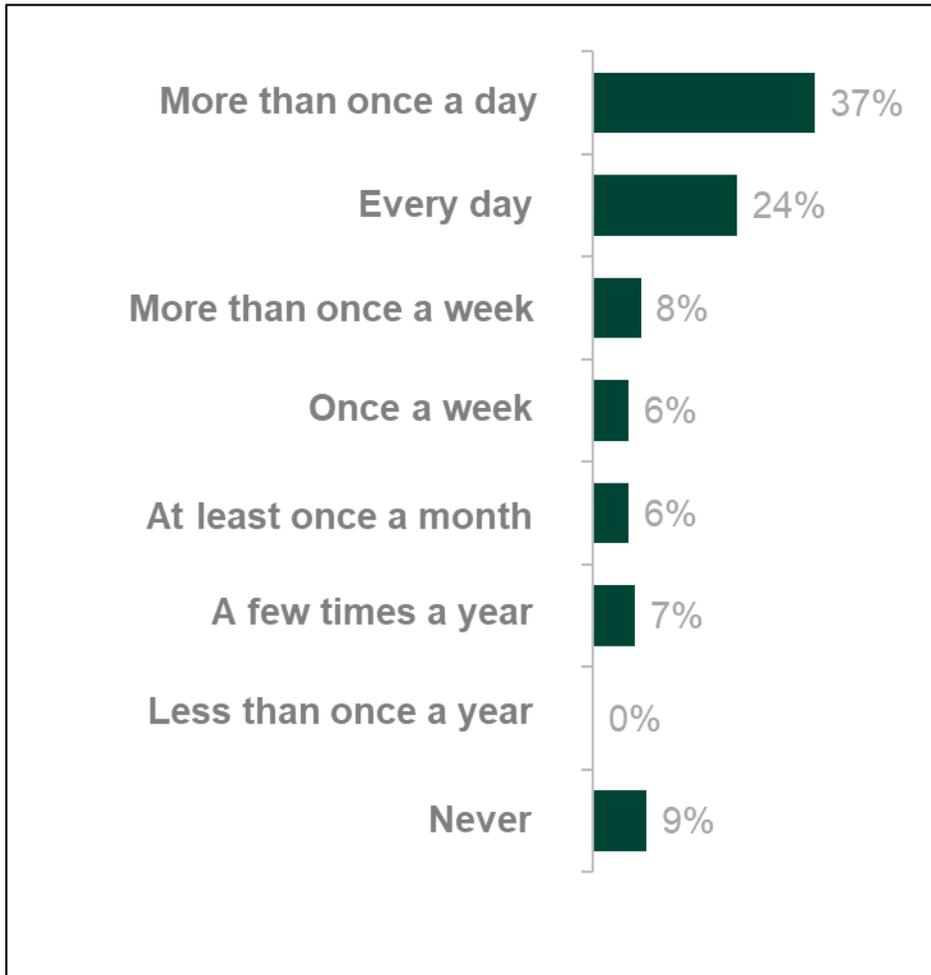
C3. How frequently are your records for transactions, invoices and receipts updated?

↑↓ = significantly higher or lower vs. previous wave

#### 4.6.3 Frequency of internet use

Six in ten ITSA businesses used the internet for business purposes at least once a day (62%). This is made up of almost four in ten that used the internet more than once a day (37%) and a quarter that use it every day (24%). One in ten ITSA businesses never used the internet for business purposes (9%), which could be a barrier to signing up to MTD for these businesses (Figure 39). This proportion of ITSA businesses who reported they never use the internet was similar to the proportion seen in Wave 3.

Figure 39: Frequency of internet use for business purposes by ITSA businesses



Base: All ITSA businesses (Wave 4: 75)

D3. On average, how often do you use the internet for business purposes, either at your workplace or elsewhere?

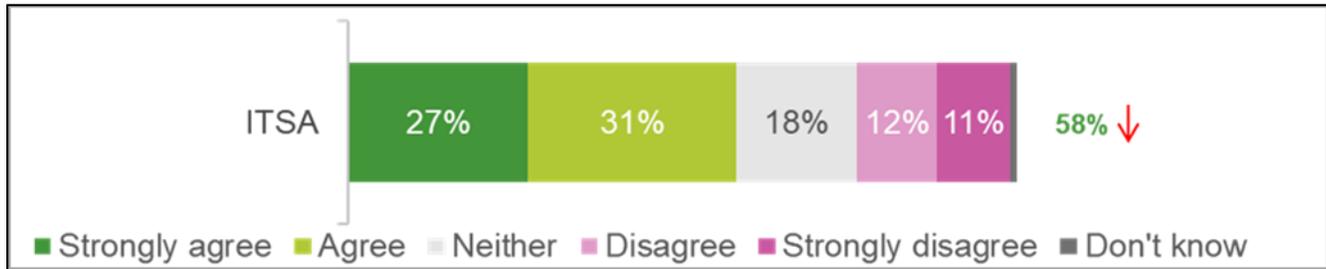
↑↓ = significantly higher or lower vs. previous wave

## 4.7 Readiness for Making Tax Digital among ITSA businesses

### 4.7.1 Level of agreement about readiness for digital tax records

Three out of five ITSA businesses either agreed or strongly agreed that they were comfortable using technology to manage business finances in Wave 4 (58%), a decrease from previous waves. One in ten (11%) strongly disagreed, and a similar proportion (12%) disagreed (Figure 40).

Figure 40: Level of agreement about readiness of digital tax records: "I am comfortable using technology to manage business finances"

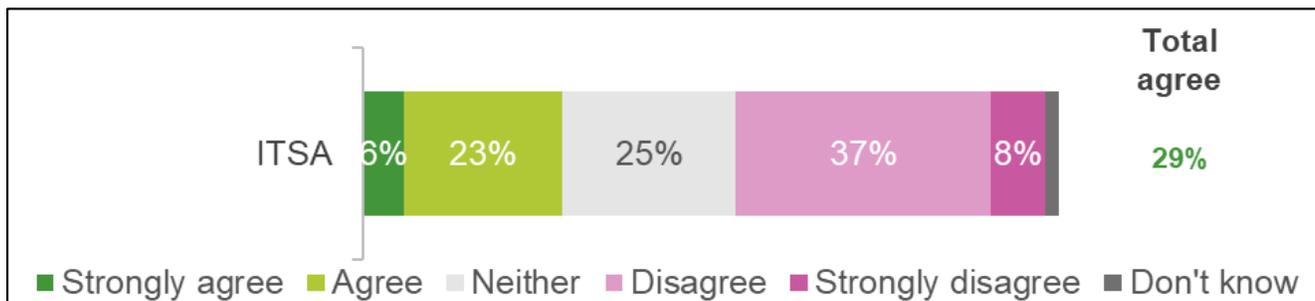


Base: All ITSA businesses (Wave 4: 75)

D1. To what extent do you agree or disagree with the following statements...?

Three in ten ITSA businesses agreed that they would be worried about the security of keeping business records digitally (29%), further suggesting that a subset of ITSA businesses require more reassurance. A quarter (25%) neither agreed nor disagreed. Nearly half of ITSA businesses disagree that they would be worried (44%) (Figure 41).

Figure 41: Level of agreement about readiness of digital tax records: "I would be / I am worried about the security of keeping business records digitally"



Base: All ITSA businesses (Wave 4: 75)

D1. To what extent do you agree or disagree with the following statements...?

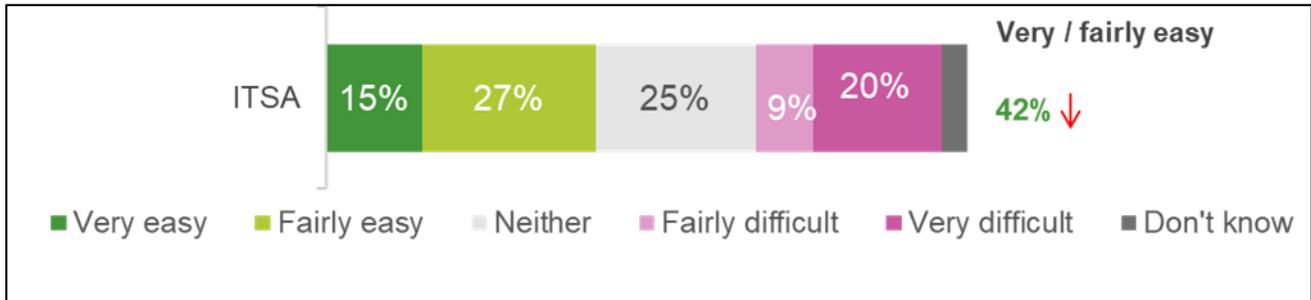
↑↓ = significantly higher or lower vs. previous wave

#### 4.7.2 Perception of ease of keeping digital records

Two out of five ITSA businesses felt that it is or would be very or fairly easy to use software to keep digital records of their income and expenditures (42%) and just under a third felt it is or would be very or fairly difficult (29%) (Figure 42).

As in previous waves, those using spreadsheets were more likely to feel that it is or would be very or fairly easy (62%) than those who use paper (36%).

Figure 42: Perception of ease of keeping digital records: "How easy/difficult will it be to use software to keep digital records of your income and expenditure?"



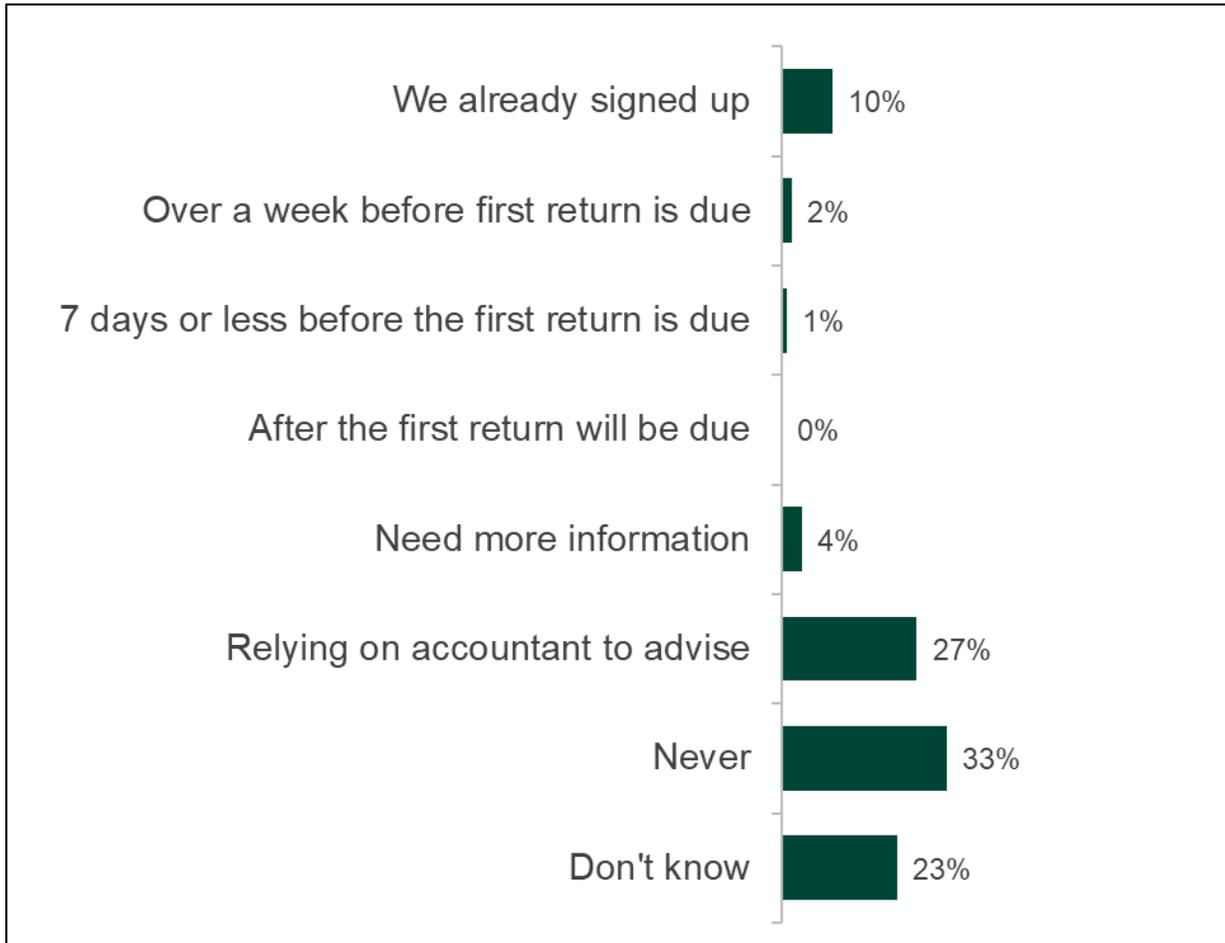
Base: All ITSA businesses (Wave 4: 75)

D1. To what extent do you agree or disagree with the following statements...?

### 4.7.3 Date planning / planned to sign up for MTD

One in ten ITSA businesses reported they had already signed up (10%). A third said they would never sign up (33%) and a quarter said they did not know (23%). More than a quarter of ITSA businesses were relying on an accountant to advise (27%). Throughout the four waves of research, participation in the ITSA service was voluntary and the future date for mandation had not been set.

Figure 23: Date ITSA businesses planned to sign up for MTD



Base: All ITSA businesses (Wave 4: 75)

D4. When, if at all, does your business / do you plan to sign up for Making Tax Digital?

↑↓ = significantly higher or lower vs. previous wave

#### 4.7.4 Activities to prepare for Making Tax Digital

Two in five of ITSA businesses who were aware of MTD or the concept had done something to prepare for MTD (40%).

Most commonly ITSA businesses had researched or looked for compliant software (20%) or discussed the changes with an accountant (19%).

Figure 44: Activities to prepare for changes that Making Tax Digital will bring among ITSA businesses



Base: ITSA businesses aware of MTD or concept: (Wave 4: 59)

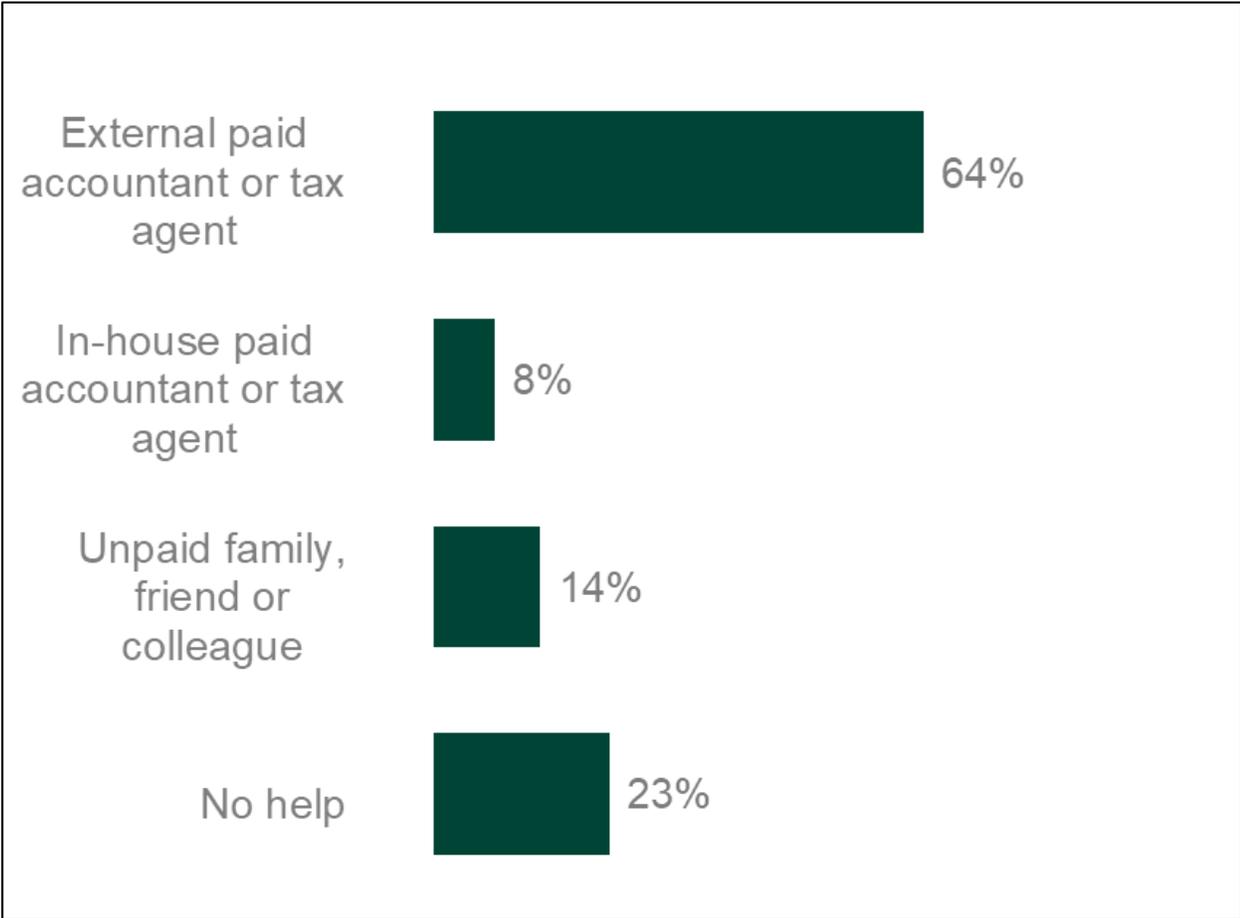
D5. What activities, if any, is your business / are you doing to prepare for the changes that Making Tax Digital will bring?

## 4.8 How to engage ITSA businesses

### 4.8.1 Help with accounts and tax

Two thirds of ITSA businesses used external paid accountants or tax agents for assistance with accounts and tax (64%) (Figure 45). Just under one in seven used an unpaid relative, friend or colleague (14%) and less than one in ten employed an in-house paid accountant or tax agent (8%). A quarter of ITSA businesses said they had no help with their accounts or tax (23%). These findings were all broadly consistent with previous waves.

Figure 45: Help with accounts and tax among ITSA businesses

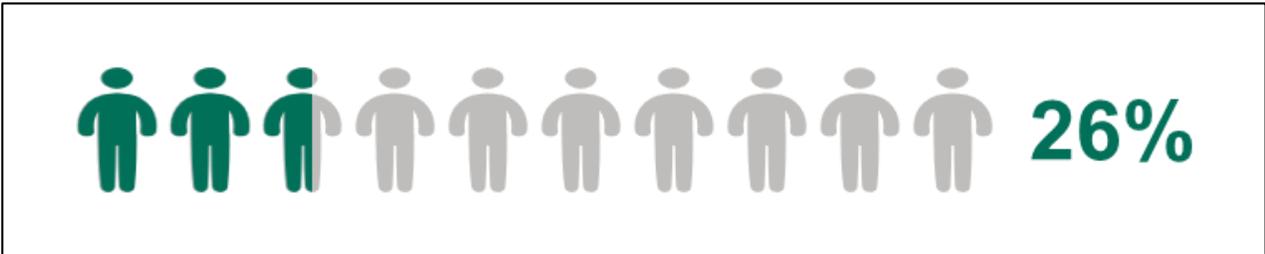


Base: All ITSA businesses: (Wave 4: 75)  
C1. Firstly, does anyone help you with your accounts and tax either on a paid or unpaid basis?

**4.8.2 Businesses that are a member of a professional body or trade**

A quarter of ITSA businesses said they were a member of a professional body or trade organisation (26%) a small but not significant increase on previous waves (Figure 46).

Figure 46: ITSA businesses that are members of a professional bodies or trade organisations

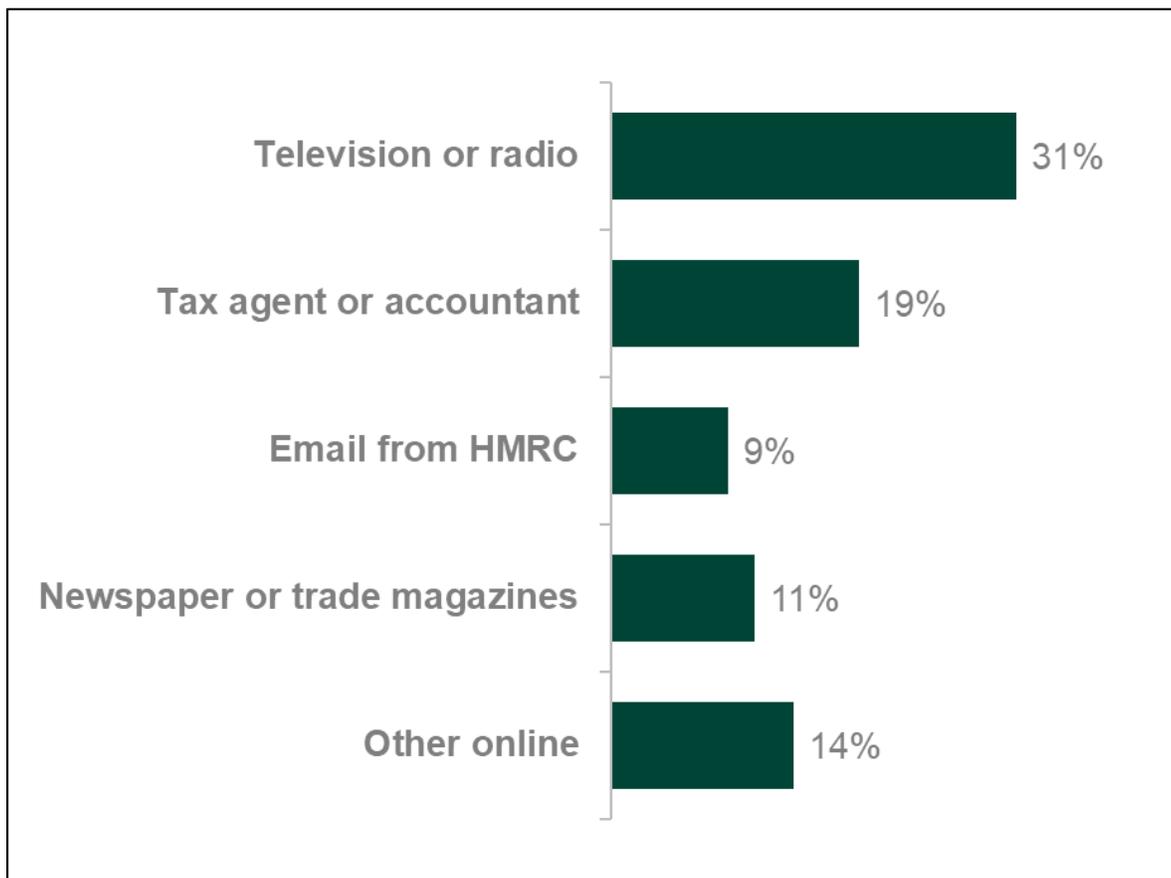


Base: ITSA businesses: Wave 4: 75)  
A3. Is your organisation a member of a representative body relating to the profession or trade of your business?

### 4.8.3 Where businesses heard about Making Tax Digital

Consistent with Wave 3, television or radio was the most commonly reported source of first hearing about Making Tax Digital amongst ITSA businesses, nearly a third heard of it through this route (31%). Around one in five ITSA businesses found out about MTD through a tax agent or accountant (19%); fewer found out via an e-mail from HMRC (9%) (Figure 27).

Figure 27: Where heard about Making Tax Digital among ITSA businesses



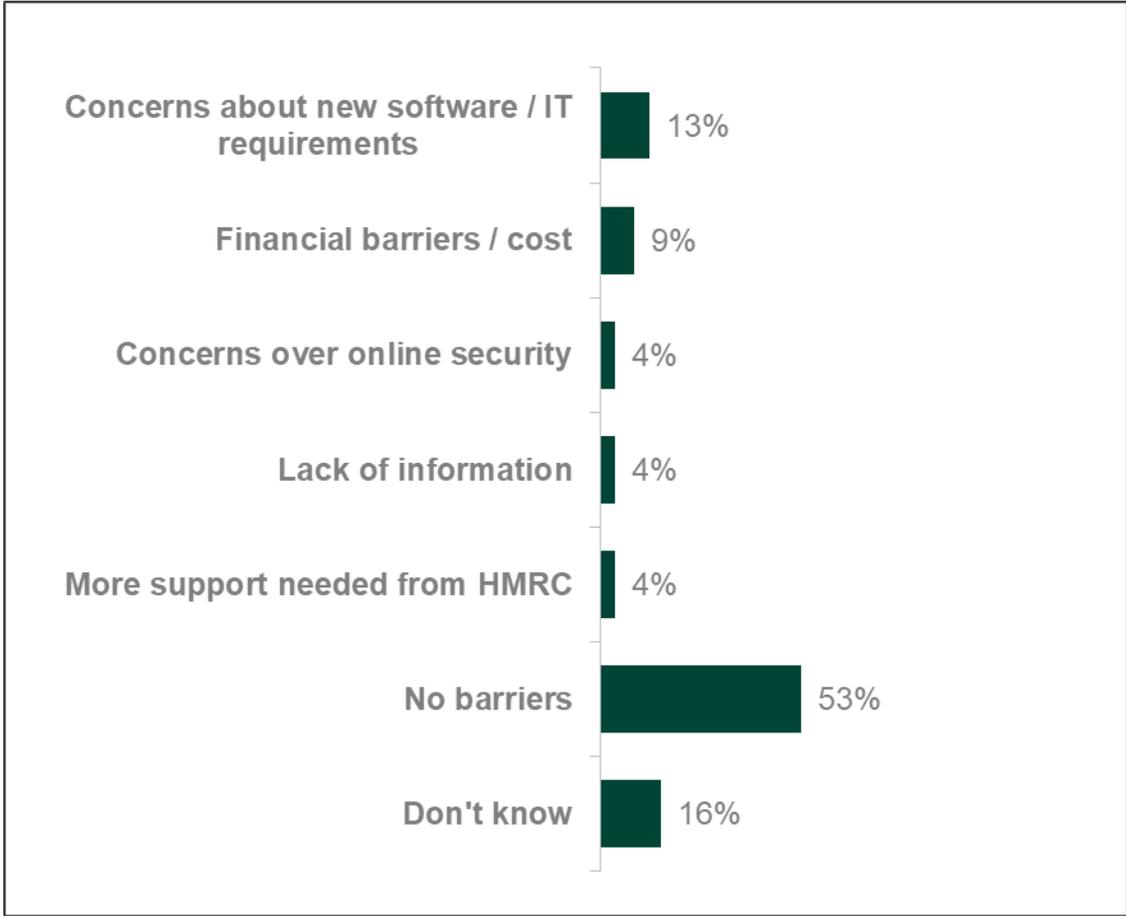
Base: All ITSA businesses aware of MTD or concept (Wave 4: 59)  
 B4. Where did you hear about Making Tax Digital / the new HMRC changes?

### 4.8.4 Barriers to implementing Making Tax Digital

Just over half of ITSA businesses perceived no barriers to implementing changes related to Making Tax Digital (53%), a similar proportion to previous waves. Also consistent with previous waves were the most common barriers amongst ITSA businesses: one in ten cited

financial barriers or costs (9%) or concerns about new software or IT requirements (13%) (Figure 48).

Figure 48: Barriers to implementing Making Tax Digital among ITSA customers



Base: All businesses (ITSA: Wave 4: 75)  
D6. Are there any barriers to implementing the changes related to Making Tax Digital?  
↑↓ = significantly higher or lower vs. previous wave