Making Tax Digital: Corporation Tax

Consultation document

Publication date: 12 November 2020

Closing date for comments: 5 March 2021

Subject of this consultation:	This consultation considers how the principles established for Making Tax Digital (MTD) could be implemented for those entities within the charge to Corporation Tax (CT).
Scope of this consultation:	This consultation considers the potential design of MTD for CT and provides information to customers, agents and intermediaries on what may be required of them following the introduction of MTD for CT.
Who should read this:	All entities that have, or may have, profits within the charge to CT, unincorporated businesses that are considering incorporating, agents, professional bodies and software developers.
Duration:	The consultation will run for 16 weeks from 12 November 2020 to 5 March 2021.
Lead official:	Jeff Worrell, Making Tax Digital for Business Programme, Customer Strategy and Tax Design
How to respond or enquire about this consultation:	Any responses or queries about this consultation should be sent by email to: makingtaxdigital.consultations@hmrc.gov.uk Or by post to: HM Revenue and Customs S1715 6th Floor Making Tax Digital for Business Policy and Design Team Central Mail Unit, Newcastle upon Tyne NE98 1ZZ
Additional ways to be involved:	HM Revenue and Customs (HMRC) welcomes discussions with interested parties, especially businesses, agents and representative bodies. There will be a series of online events during the consultation period providing the opportunity to discuss the proposals in more detail. If you would like to take part in these conversations, please contact HMRC using the above details. HMRC will also publish a simplified version of this consultation in the coming months aimed at small companies, which may need to transition to MTD compatible accounting software, but do not need to digest and respond to the full material in this consultation.
After the consultation:	The government will analyse the consultation responses and publish its response after the consultation closes. Following this, and a process of refinement of the MTD for CT requirements through collaboration with stakeholders, the government will provide entities with an opportunity to take part in a pilot for MTD for CT. The government will not mandate MTD for CT prior to 2026.

Getting to this stage:

The government published the 'Bringing business tax into the digital age' consultation on 15 August 2016. Royal Assent was granted to the Finance (No2) Act 2017 in November 2017 to provide the framework for MTD for Income Tax and VAT. MTD for VAT was mandated for most VAT registered businesses with a taxable turnover above the threshold (£85,000) from 1 April 2019. The mandation of a small number of businesses with complex requirements was deferred until 1 October 2019. In July 2020, in its 10-year strategy, *Building a Trusted, Modern Tax Administration System,* the government announced that:

- from April 2022, MTD will apply to all VAT-registered businesses for their VAT obligations
- from April 2023, businesses and landlords with business and property income over £10,000 per annum which are liable for Income Tax, will need to keep digital records and use software to update HMRC quarterly through MTD
- to ensure that the Making Tax Digital approach also evolves for those businesses that have incorporated to become companies, it would consult on the design of MTD for CT later in 2020.

Previous engagement:

The government has engaged with a wide range of stakeholders to further refine the principles of MTD and consider its approach. On CT, HMRC engaged with the largest and most complex businesses and their representatives during Summer 2017 to explore the additional issues and opportunities they may experience. HMRC has also continued to engage with stakeholders throughout the rollout of MTD for VAT.

Contents

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Foreword

In the March 2020 Budget, the Chancellor highlighted the government's intention to create 'a tax system fit for the challenges and opportunities of the 21st century'. In July 2020, this government published its ten-year vision for tax administration in the United Kingdom.

At the heart of that vision is a fully digital tax system that works closer to real time, allowing people and businesses to pay the right tax with ease as they live their lives and go about their business. One which is adaptable, resilient and responsive, enabling targeted support to people and businesses in the face of future national crises.

There is also a huge potential opportunity to use improvements in the tax system to improve our national resilience to economic shock, and to drive up levels of productivity and innovation. Businesses are increasingly using software to digitise core business tasks, and HM Revenue and Custom's (HMRC) plans can accelerate this process.

A core part of our vision is the progressive extension of Making Tax Digital (MTD). This is already transforming the way businesses and their agents keep records and use software to engage with HMRC and meet both VAT and Income Tax obligations. The use of record keeping tools and linked IT systems is helping businesses to reduce error and ensure they pay the right tax. This in turn is driving productivity improvements for businesses and building resilience of the wider tax system.

That is why the government is now consulting on the design of MTD for Corporation Tax (CT). Nearly three million businesses and other taxpayers are within the charge to CT, of which around half incur a CT liability every year. We are keen to get views at this early stage from all entities within the charge to CT, although full implementation of MTD for CT is more than five years away.

The whole point in thinking about the tax system in an inclusive way is to recognise the roles and functions of all the players involved. So I warmly thank business representative organisations, accountancy bodies and software developers for the commitment they have shown over recent months to work collaboratively on these reforms. It is right that we maintain momentum on this agenda, ensuring the UK remains competitive in an international marketplace in which other authorities are developing their own digital plans at pace. We are extending the consultation period to 16 weeks to reflect the present extraordinary circumstances, and to ensure that all businesses and representative bodies wishing to engage with these proposals can do so. HMRC will also stagger their follow-up engagement activity to ensure an accessible and rational consultation process.

This consultation is an example of the long-term, focussed, collaborative, and transparent approach we want to take to improving the tax administration system. By these means we are hoping to build the trust and consent of taxpayers for these strategically important changes.

The Rt Hon Jesse Norman MP, Financial Secretary to the Treasury

1. Introduction

Our vision for tax administration and the future of Making Tax Digital

1.1. Our tax system is constantly developing and COVID-19 has further reinforced the need for a more flexible, resilient and responsive tax system. To guide delivery of our core purpose in a changing world, HM Revenue and Custom's (HMRC) vision is to be a trusted, modern tax and customs department.

1.2. A trusted, modern tax and customs department will fit with the way our customers run their businesses and their lives, reduce the tax gap, enhance the customer experience, keep costs down, and operate in a transparent way that is recognised as fair. It means we'll make it easier for customers to pay the right tax, whilst tackling those who set out to cheat the system. A modern digital system, which works closer to real time, underpins this vision.

1.3. In July, the government published a 10-year tax administration strategy 'Building a trusted, modern tax administration system'[1]. It sets out some of the key reforms that HMRC will need to deliver, as part of this long-term transformation to realise our vision and develop a fully digital tax system that works closer to real time. A reformed tax administration system will also support the government's ability to respond flexibly to future unpredictable events, by collecting data more regularly and storing it in modern data systems. Making Tax Digital (MTD is a core part of this strategy.

1.4. The government has already made good progress by introducing the MTD for VAT service, supporting as many businesses as possible to benefit from productivity gains of using digital accounting systems. Since April 2019, over 1.4 million businesses have started using MTD for VAT, submitting over 7 million returns. Over 94% of these businesses successfully submitted their first return through the service on time and more than 30% of those who are not yet required to use MTD for VAT, chose to do so voluntarily.

1.5. HMRC was keen to hear from customers about their experiences of the introduction of MTD for VAT and so published an evaluation of the service.[2] Businesses reported that by integrating 'doing tax' into day-to-day record keeping, they spent less time overall dealing with their tax affairs. Generally, it found that many aspects of the introduction worked well but that there was important learning to apply before the scope of MTD is extended. HMRC is doing just that. We also know that some businesses found the transition to MTD VAT more challenging and required a greater degree of support, and that many have faced extra costs as a result.

1.6. MTD for Income Tax has been piloted since April 2017, with more than one million sole traders and landlords now eligible to volunteer. HMRC continues to build additional functionality in to the pilot and those businesses taking part are now able to meet their Income Tax obligations entirely through MTD. HMRC will continue to collaborate closely with customers, software developers and other stakeholders in the coming months to refine the service, ensure the costs of transitioning to MTD are minimised and ensure they have the right help and support.

[1] https://www.gov.uk/government/publications/tax-administration-strategy
[2] https://www.gov.uk/government/publications/making-tax-digital-review

1.7. The government has already confirmed, alongside the publication of the 10-year tax administration strategy that MTD will be extended to:

- the remaining VAT population from April 2022 (businesses with turnover below the £85,000 VAT threshold) for their first VAT return period starting on or after 1 April 2022
- unincorporated businesses and landlords with £10,000 or more total business and property income who file Income Tax Self Assessment returns, for periods of account starting on or after 6 April 2023.

1.8. These steps will improve the resilience and flexibility of the tax system. For example, with Making Tax Digital for Income Tax in place, HMRC will have access to up-to-date business information no more than 4 months old for up to 4 million small businesses and landlords. This allows for better targeted policy responses and makes the tax administration system more inclusive in responding to future crises.

1.9. The tax administration strategy also set out that HMRC would consult with stakeholders on MTD for Corporation Tax (CT) during autumn 2020. The government considers this is the right time to do so, as it wants a comprehensive collaboration with stakeholders on the design of MTD for CT and to provide businesses with as much time as possible to prepare for the proposed changes. This consultation therefore seeks feedback to inform the early-stage design of MTD for CT and get a better understanding of the transitional and ongoing costs and benefits for companies of different sizes.

1.10. HMRC welcomes the opportunity to continue working with external partners on the next stages of the rollout of MTD through this consultation. We consider this part of a wider intent to build deeper collaboration with our customers and stakeholders over several years.

How will Making Tax Digital for Corporation Tax impact your business?

1.11. If the principles and design proposed in this consultation are adopted, entities within the charge to CT would need to:

- maintain their records (e.g. records of income and expenditure) digitally
- use MTD compatible software to provide regular (quarterly) summary updates of their income and expenditure to HMRC – there will be some entities who won't need to do this
- provide an annual CT return using their MTD compatible software.

1.12. Many entities within the charge to CT are also registered for VAT and have been meeting MTD for VAT obligations since mid-2019. Small businesses that have not incorporated (sole traders, partnerships) are not impacted by this consultation, but will be moving to the MTD system for Income Tax by 2023. Many of these businesses are very similar to small companies.

1.13. For some entities, MTD for CT will mean choosing and adopting an MTD compatible accounting software system, although many will be using such products already. For some smaller companies, their main interface could be a smartphone app, which could also be used to raise invoices, receive payments and record purchases 'as they go'. Larger entities may be using an 'in house' software system or an 'off the shelf' third party package that they have customised to meet their specific needs. If an entity uses several software systems, they may need to ensure that these can communicate with each other digitally.

1.14. MTD compatible software will typically automatically prepare the updates for HMRC, making submission a straightforward process. Depending on their preference, entities will have the opportunity to make permitted adjustments during an accounting period or at the end of one. Accountants and agents will be able to provide a full service to their clients through MTD for CT.

1.15. The figure below shows the current customer journey for a small company which employs an agent, and how that would change following the introduction of the proposed design for MTD for CT.

HM Revenue & Customs

Rachael

48 Years old
From Leeds
Not Tax savvy
Uses an agent

Established small company owner
Running unlisted company 'Clothes for Everyone Ltd' for 15 years
Has previous experience of dealing with HRMC/other agencies

Current Customer Journey

April 1 – 31 March (12 month accounting period)

Rachael keeps track of all business income and expenditure in a ledger. Paper receipts and invoices are stored in a folder.

Rachael transfers this to a spreadsheet when she finds the time.

She sends it to her agent at the end of the accounting period.

9 months post accounting period

Rachael's agent uses software to prepare the company's annual accounts from the spreadsheet and records she supplies to him.

9 months after the end of the company's accounting period Rachael's agent submits the company accounts to Companies House.

The agent notifies Rachael to pay what they calculate to be the company's HMRC CT liability for the accounting period.

12 months post accounting period

Rachael's agent uses software to finalise the company's Self Assessment of its CT liability and 12 months after the end of the company's accounting period submits the Company Tax Return. This comprises a CT600 return form in XML and accounts and computations in iXBRL, filed using appropriate software.

The agent notifies Rachael to pay any further CT liability for the period.

Future Customer Journey via MTD for CT

Pre April 1

Rachael chooses suitable MTD compatible software, using HMRC's GOV.UK pages for support.

April 1 – 31 March (12 month accounting period)

Rachael maintains digital business records as part of her day-to-day management of the business. XBRL tagging is integrated into her MTD software. Using her digital records, she submits quarterly updates of summaries to HMRC, through her software. She is able to view her expected CT liability during the year and receives a 'nudge' if an entry appears to be wrong.

9 months post accounting period (subject to consultation)

Rachel's agent makes accounting adjustments before submitting the accounts to Companies House. After consultation with Rachael, her agent uses MTD compatible software to make tax adjustments, claim a relief and finalise the company's CT liability.

The benefits of Making Tax Digital for Corporation Tax

1.16. The fundamental benefits of a modern digital business model are well understood with millions of businesses routinely securing orders, banking, paying invoices, and filing their returns online. The Lloyds Bank UK Consumer Digital Index 2019[3] found that those businesses that are the most digitally engaged save a day a week in admin by going digital, whilst the Enterprise Research Centre found in 2018[4] that for micro-businesses, web-based accounting software delivered productivity increases of 11.8%. Businesses are increasingly using software to digitise core business tasks. Ensuring they can seamlessly interact with HMRC is a logical progression, which will enable them to spend less time on tax[5] and more on their core business activities.

1.17. The use of record keeping tools and linked IT systems help businesses to reduce error, ensuring that they pay the right tax and also bring productivity gains. A Thomson Reuters study of businesses who have started using MTD for VAT supports these views, finding that "…51% of respondents reported having simplified or more efficient processes, with 32% saying they now have more accurate VAT returns. Additionally, 19% of companies said they also have better visibility of their tax liabilities thanks to the scheme."

1.18. The move to MTD can act as a catalyst for wider digital integration, helping to eliminate existing paper-based processes, making it easier for businesses to pay their tax and allowing them to cut costs and devote more time and attention to maximising business opportunities, encouraging growth and fostering good financial planning. The government views this as an opportunity to help close the gap that has arisen between the UK and the most productive economies. The Confederation of British Industry estimates that boosting the productivity of UK small and medium-sized enterprises to match that of Germany could add as much as £100 billion to the economy[6].

1.19. Despite the increasingly digital environment, the amount of tax lost annually through avoidable error stands at £8.5bn[7]; HMRC estimates that around £2.1bn of this relates to CT alone. Extending MTD to CT will help reduce the volume of errors by requiring digital records; developing the tax administration in ways which reduce opportunities for error, carelessness and deliberate non-compliance and help to tackle the tax gap This will have the additional benefit of reducing the time that businesses spend on tax administration.

1.20. The collection of more real time data will allow the government to assess changes to the economy, at small or large scale, as those changes are happening. This will mean the government can act faster to address the challenges that we face and HMRC can risk assess and ensure taxpayers are paying the right tax closer to real time. The move towards real time information will ensure the tax administration system evolves and remains an important part of the UK's national resilience capability.

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[3] https://www.lloydsbank.com/assets/media/pdfs/banking_with_us/whats-happening/LB-Consumer-Digital-Index-2019-Report.pdf
[4] https://www.enterpriseresearch.ac.uk/wp-content/uploads/2018/06/SSBB-Report-2018-final.pdf
[5] https://www.gov.uk/government/publications/evaluating-making-tax-digitals-impact-on-record-keeping-behaviour-and-scope-for-error-among-small-businesses
[6] https://www.cbi.org.uk/media/1165/cbi-from-ostrich-to-magpie.pdf
[7] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/907122/Measuring_tax_gaps_2020_edition.pdf

1.21. Introducing MTD for CT builds on the foundations for VAT and Income Tax, allowing entities to meet their statutory tax obligations, including providing information to HMRC, directly from their business software. MTD for CT will bring about an improved experience for customers, making the tax system easier to navigate, ensuring the right tax is paid the first time. Real time information will give customers, especially the smallest companies, a more up-to-date understanding of and certainty over their tax position. 'Nudge messaging' will support customers, ensuring that errors are avoided and that businesses pay the right tax at the right time.

1.22. For those already maintaining digital records, including larger entities, there may be fewer benefits from a transition to MTD compatible software. However, digitally linking existing systems will reduce the opportunity for errors arising from the manual transfer of data. Software upgrades could also act as a catalyst for businesses to review their wider systems and consider the benefits of additional modernisation. The government also expects the software market for CT products to continue to develop which may bring efficiencies for businesses and agents. The delivery of MTD for CT will also support the creation of a single digital account that is easily accessible and secure for all taxpayers; a key component of the government's vision for a modern tax system. It is also a further step towards HMRC's ambition to make it feel for our business customers as if they are paying one tax not many.

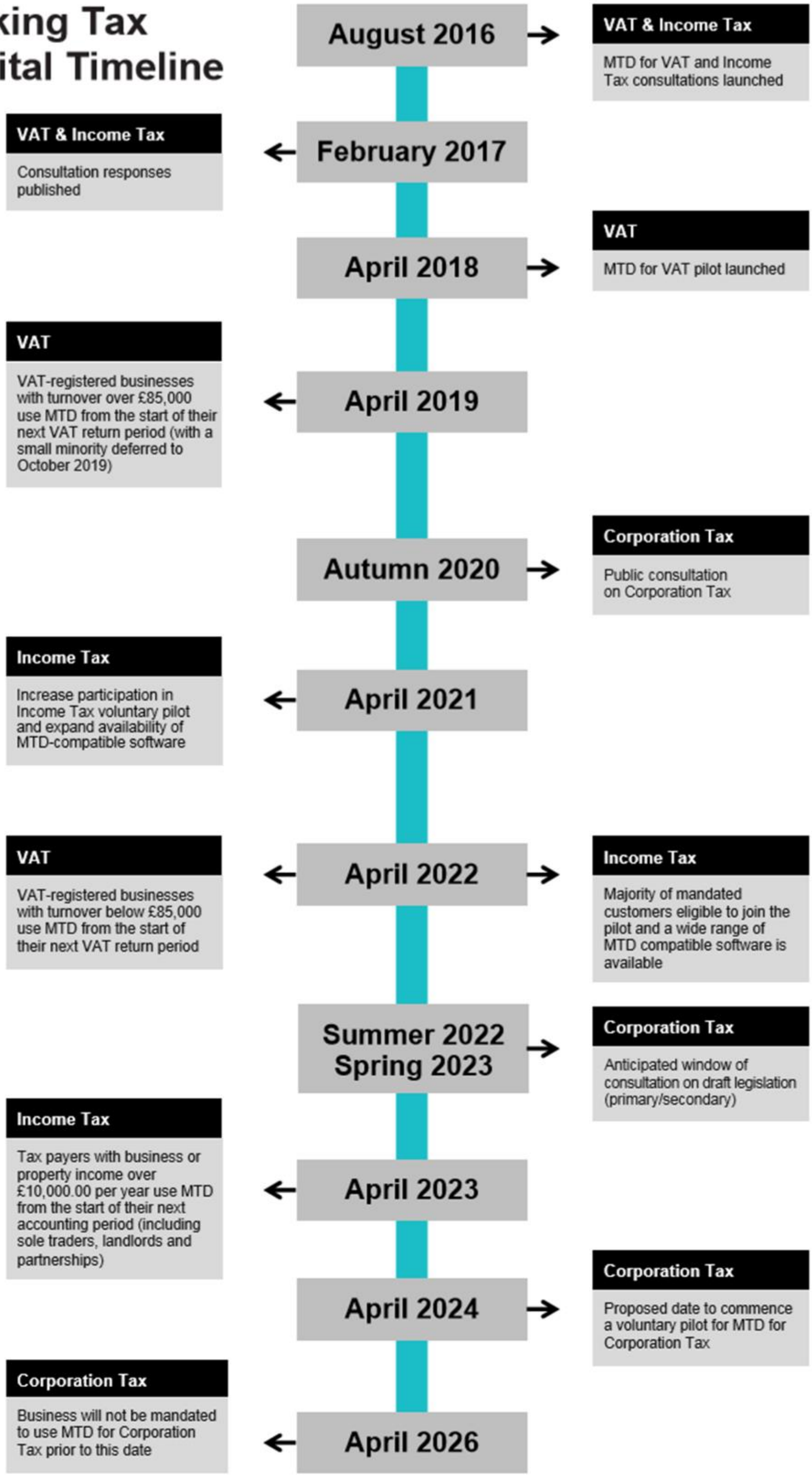
Next steps

1.23. The delivery of MTD for CT will benefit from the experience gained from the rollout of MTD for VAT and the pilot for Income Tax, delivering a consistent MTD design for incorporated and unincorporated businesses. Whilst many things went well for VAT, HMRC will continue to evaluate its delivery, as well as the rollout of MTD for Income Tax, to ensure these experiences contribute to the development of MTD for CT.

1.24. Following this consultation, the government will continue to refine the MTD for CT requirements by working collaboratively with stakeholders and will then provide entities with an opportunity to take part in a pilot. HMRC found that testing the MTD for VAT service through a pilot was invaluable both in identifying and resolving issues and in improving guidance and support, as was continuing to monitor and develop the service once larger volumes started to use it. This allowed HMRC to drive out issues based on real people's experiences of the service. HMRC initially introduced a limited small-scale pilot for MTD for Income Tax, before building in additional functionality and scaling up the numbers of eligible participants, and expects to follow a similar pattern for MTD for CT. The pilot will present HMRC with opportunities to check the proposed design of the system and learn lessons. The proposed date to commence the voluntary pilot for MTD for CT is April 2024, with mandation to follow from 2026 at the earliest.

1.25. The timeline below shows the progress that HMRC has made so far on Making Tax Digital and sets out future MTD milestones from 2020 to 2026.

Making Tax Digital Timeline



1.26. The government's 10-year tax administration strategy also explored how the payment of taxes can be brought into line with real time tax reporting and how tax legislation could be simplified, to allow HMRC to deliver MTD and other digital services. HMRC continues to explore how best to reform the tax administration framework and a call for evidence will be published in due course. The review will provide an opportunity to create a simpler, more transparent framework that helps build greater trust and provide greater certainty for taxpayers. To support the delivery of MTD, the government also remains committed to reforming the regime for late filing and late payment penalties, which will support compliance and introduce a simpler, fairer, approach to penalties[8].

The role of agents

1.27. Approximately 85% of entities within the charge to CT rely on agents to help fulfil their tax obligations. The government recognises the vital role that agents play in supporting greater tax compliance. As with MTD for Income Tax and VAT, authorised agents will be enabled to provide a full service in supporting their clients to meet their obligations. HMRC is committed to learning lessons from those agents who experienced difficulties in helping their clients' transition to MTD for VAT and delivering the full service for agents as smoothly as possible.

The Office of Tax Simplification (OTS)

1.28. In July 2017, the OTS published its review[9] on simplifying the computation of CT. In May 2019 it looked at *Simplifying everyday tax*[10] which considered CT and its interaction with MTD. In July it released a stock-take of its work[11], including its views on the introduction of MTD for CT; stressing the importance of integrating MTD for CT with iXBRL tagging and the benefits of automating the administration of tax repayments on loans to participators. More recently, the OTS published a report on claims and elections, which HMRC will consider as it works to implement its 10-year strategy on tax administration.

1.29. HMRC welcomes the OTS' views and will continue to work with it to develop the design of MTD for CT. The government remains committed to simplifying the UK's tax system and making it as competitive as possible. The government sees[12] a strong link between the accuracy of CT returns, the design of updates, and the OTS' work in this area.

Who should read this consultation?

1.30. This consultation considers the potential MTD design for those entities within the charge to CT. It aims to provide clarity for businesses, other CT customers, agents and intermediaries on what may be required of them by the introduction of MTD for CT as well as providing a vehicle to provide their views.

1.31. It is proposed that MTD for CT should apply, subject to some specific exemptions (see chapter 6), to all entities that are within the charge to CT. Recognising the

[8] https://www.gov.uk/government/publications/interest-harmonisation-and-sanctions-for-late-payment
[9] https://www.gov.uk/government/publications/ots-review-on-simplifying-the-ct-computation
[10] https://www.gov.uk/government/publications/simplifying-everyday-tax-for-smaller-businesses
[11] https://www.gov.uk/government/publications/ots-evaluation-and-stock-take-note
[12] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/640563/CX_letter_corporation_tax_August_2017.pdf

diverse nature of the population, the government encourages contributions to this debate from all stakeholders, specifically:

- any entity which has or may have profits within the charge to CT
- agents, intermediaries and tax advisers
- software developers
- representative organisations
- professional bodies.

1.32. In addition, it would be particularly helpful to receive responses on the following topics in the context of MTD for CT:

- regimes that follow the accounts (such as loan relationships, derivative contracts and intangible fixed assets)
- groups, consortia and issues that impact them
- international matters such as controlled foreign companies, foreign branches, corporate interest restriction and cross border transactions
- deemed disposals
- specific regimes such as tonnage tax, the bank levy and life insurance.

1.33. To support this, the government will conduct engagement events to gather the views of those who may be affected or who have a direct interest in the consultation.

1.34. HMRC will also publish a simplified version of this consultation in the coming months aimed at small companies, which may need to transition to MTD compatible accounting software, but do not need to digest and respond to the full material in this consultation.

Structure of this consultation document

1.35. Chapter 2 considers the scope and application of MTD for CT having regard to the range of entities that are within the charge to CT.

1.36. Chapter 3 explores what business records could be kept and maintained digitally.

1.37. Chapter 4 sets out how entities could provide information to HMRC through regular updates, how this information will be used and specifically considers how updates might work for the largest entities.

1.38. Chapter 5 describes how entities will use software to provide the equivalent information, accounts, statements and reports currently required as part of their obligation to file a Company Tax Return.

1.39. Chapter 6 examines whether alternative MTD processes or exemptions may be appropriate for some entities falling within the charge to CT.

1.40. Chapter 7 sets out HMRC's initial assessment of the impact on businesses of MTD for CT.

1.41. Chapter 8 provides a summary of the consultation questions.

1.42. Chapter 9 explains how to respond to the consultation.

2. The Scope of MTD for Corporation Tax

2.1. This chapter explores the scope of MTD and its application across entities within the charge to CT. In order to understand the impact of design options, the government has considered the diverse range of entities included within the charge to CT and the scope and detail of CT itself.

2.2. CT is charged on the taxable profits of a company. This includes the money that the company makes from its business (trading profits), investments, chargeable gains and any rental income from property.

2.3. The CT computation also includes amounts that are assessable or chargeable as though they are CT and are included within the Company Tax Return. Examples include the controlled foreign companies charge, supplementary charge in respect of ring-fenced trades (oil activities), bank levy, bank surcharge, and tax on loans and other benefits to participators.

2.4. For tax purposes, a company is defined as any body corporate or unincorporated association, but does not include a partnership, a co-ownership scheme, a local authority or local authority association[13]. There is specific tax legislation that additionally brings other entities or funds within the charge to CT.

Scope

2.5. It is proposed that all entities within the charge to CT should, in principle, be within the scope of MTD. Chapter 4 explores how the update obligation might be tailored for different customer segments and chapter 6 considers whether it might be appropriate to tailor MTD for CT for certain entities, such as charities.

2.6. The scope of MTD will therefore include all companies resident in the UK, as well as the activities of non-resident companies in the UK and other corporates that, under UK domestic legislation and tax treaties, are subject to a UK CT charge. This will ensure that the introduction of MTD for CT fully realises its potential to protect revenue, increase productivity and bolster the resilience of the tax administration system.

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

Public bodies

2.7. Most public bodies are exempted from CT either by the general Crown exemption or by specific statute, for example NHS foundation trusts or local authorities. However, some public bodies such as non-departmental public bodies are not exempt. Where a non-exempt public body and/or a corporate associate of any public body is within the charge to CT, it will be within the scope of MTD.

[13] https://www.legislation.gov.uk/ukpga/2010/4/section/1121

Size and segmentation of the population

1.1. CT is a direct tax charged on the profits made by companies, public corporations and unincorporated associations such as industrial and provident societies, clubs and trade associations. It makes up approximately 9% of the total receipts collected by HMRC. In 2018/19, HMRC estimates that there were 2.8 million entities within the charge to CT who submitted a return. The number of entities with gross taxable trading profits in accounting periods ending 2018/19 which incurred a CT liability was 1.5 million[14].

1.2. HMRC estimates that of the 2.8 million entities who submitted a CT return in 2018/19, approximately 1.1 million have a turnover in excess of the VAT threshold (£85,000). MTD for VAT was mandated for most VAT registered businesses with a taxable turnover above the threshold from 1 April 2019. These customers will be familiar with MTD requirements and a high proportion have been successfully meeting their new obligations.

2.8. Many small and micro-entities are very similar to unincorporated businesses in their day-to-day operation and compliance. Almost all entities within the charge to CT are already engaging electronically with HMRC at least once a year, with even the smallest filing their Company Tax Returns online. Since 2011 all are required to tag their accounts and computations in iXBRL format.

2.9. The majority of CT liabilities are accrued from a relatively small number of companies. In 2018/19, approximately 4,500 companies had liabilities over £1 million, yet these contributed 55%, or £30.2 billion, of the CT liability total. In contrast, just over 1 million companies had liabilities of less than £10,000 and these contributed just 6%, or £3.4 billion, of the CT liability total.

2.10. For around 2000 of these customers, companies with the largest and most complex businesses, HMRC allocates a Customer Compliance Manager (CCM). These businesses already have sophisticated financial control systems to enable them to meet not only the requirements placed upon them by company law but also those imposed by tax law, such as the Senior Accounting Officer (SAO) regime and the requirement to publish their tax strategy. An SAO's main duty is to take reasonable steps to ensure that the company establishes and maintains appropriate tax accounting arrangements. CCMs have regular contact and interaction with their businesses, ensuring a sound understanding of the business, its entities, structures and activities in a commercial context including attitude to risk and compliance. CCMs prepare an integrated risk assessment, sharing HMRC's view of risk with the business through the Business Risk Review process.

2.11. These additional requirements provide HMRC with enhanced levels of tax assurance on how the largest businesses manage their tax affairs and tax compliance. The government therefore proposes a modified design for MTD for CT for very large businesses which have profits at an annual rate in excess of £20 million and are required to pay their CT through the Quarterly Instalment Payments (QIPs) regime[15]. This modified design is addressed in detail in chapter 4.

2.12. Between the largest businesses and small or micro-entities there is a range of medium-sized entities, often organised as a group rather than a singleton company.

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[14] https://www.gov.uk/government/statistics/corporation-tax-statistics-2020
[15] https://www.gov.uk/guidance/pay-corporation-tax-if-youre-a-very-large-company

These display varying degrees of complexity in their tax and business affairs. The larger of these entities are also required to comply with the SAO regime.

2.13. The OTS published an update paper in July 2020[16] on its CT reports and its work on small company taxation. The report discusses a simpler CT computation for the smallest companies to more closely align the profits per accounts to profits for CT purposes by reducing the number of adjustments required.

2.14. Businesses which have operations both in the UK and abroad and are subject to specific rules within the CT system which determine how their profits are taxed. The application of MTD to these businesses is explored in chapter 4.

[16] https://www.gov.uk/government/publications/ots-evaluation-and-stock-take-note

3. Digital Record Keeping

3.1. Section 386 of the Companies Act 2006 requires entities within the charge to CT to keep and preserve any accounting records which may be needed to show and explain the company's transactions, to disclose the financial position of the company and to prepare accounts. Companies are also required to maintain such records that enable them to prepare a correct and complete Company Tax Return. This includes evidence of day-to-day transactions and trading activity such as details of invoices, receipts and cash takings records. Mandatory digital record keeping means that companies will be required to maintain their records digitally, rather than on paper and will facilitate the capturing of transactions in as close to real time as possible. This chapter explores how entities within the charge to CT will keep digital records, including how these should be categorised.

3.2. Software can help entities keep digital records of their trading and other transactions in real time. Many commercial software packages have the functionality to connect to third party data sources such as online platforms and/or banks, to ease the process of making accounting entries. Around 4 in 10 small businesses already use software for record keeping.[17] Under MTD, it is proposed that entities within the charge to CT will be required to use compatible software to keep digital records of their transactions.

3.3. MTD compatible software is a software program, or set of software programs, products or applications, that must be able to record and preserve digital records, provide information and returns predicated on those records to HMRC and receive information from HMRC using HMRC's secure Application Programme Interface (API) platform. Some entities are already experiencing the productivity benefits that electronic invoicing can deliver, whilst others scan paper invoices and receipts and categorise these automatically.

3.4. The government would encourage entities to take up the benefits of such integrated approaches. It is proposed that MTD for CT maintains the position established for Income Tax and VAT by accepting a range of software solutions to meet the digital record keeping requirement. We expect as the CT software market develops free software options may become available.

Transaction entries

3.5. The digital record keeping requirement for transactions will be a subset of the broader requirement described in paragraph 3.1. The government does not propose to define "transaction", instead relying on its commonly understood meaning to include any income the entity earns and any expense which the entity incurs. The preferred approach for all entities is that the following data fields are mandatory for each transaction. This is the minimum data to identify each transaction:

- date
- amount
- category.

Question 2: Do you agree that all entities should be required to record the date, amount, and category for all transactions within MTD compatible software?

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[17] https://www.gov.uk/government/publications/making-tax-digital-for-business-survey-of-small-businesses-and-landlords (page 21, 23)

Where this approach differs to your current approach to record keeping, please provide details of any additional one-off and ongoing costs or savings.

Digital record keeping for groups

3.6. The government recognises that entities that are grouped, may operate their accounting or tax function at a group, or subgroup, level rather than at an individual entity level.

3.7. The government would welcome views from groups on whether they would prefer to be able to fulfil the digital record keeping obligation on a similar basis. This would then enable one nominated entity to fulfil the digital record keeping obligation on behalf of other individual entities within their group. It would also be helpful to understand whether it may be desirable for a group to adopt a mixed approach, whereby some entities within the group have their obligation fulfilled by another whilst others maintain their own digital records.

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

Digital record keeping for non-financial data

3.8. There is a range of non-financial data which the government considers most entities will already be maintaining, which it would be beneficial to record digitally, both for the entity and HMRC. Some of this data would be necessary to administer an entity's CT affairs, whilst some would enable HMRC to better target its customer service and compliance activities. Examples of non-financial data includes the type of company, standard industry classification, details of property addresses, and the SAO.

3.9. The government also proposes that as part of a group's digital record keeping, they will be required to provide a breakdown of their group structure which identifies all group members that are within the charge to CT.

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

Income, expense and capital categories

3.11. Tax legislation contains a wide variety of rules regarding allowable and non-allowable expenses. To provide entities with tax estimates and help avoid the mistakes that contribute to the tax gap, it is proposed that MTD will require entities to categorise income and expenses within their compatible software. Such categorisation at this early stage would streamline the process for entities when it comes to providing updates to HMRC (described in chapter 4) and when they finalise their taxable profit (or loss) for the accounting period (described in chapter 5).

3.12. For MTD for unincorporated businesses, the government confirmed it would adopt the categories contained within the existing Self Assessment forms for income and expenses. As part of their Company Tax Return, entities already provide a breakdown of income and profit that is comparable, categorised under headings such as:

- trading profits

- bank, building society or other interest and profits from non-trading loan relationships
- income from a property business
- income not falling under other heading

3.13. However, with the exception of certain types of expenditure that must be identified for tax purposes, there is no equivalent standardised categorisation of expenses within the Company Tax Return (CT600) and supplementary pages.

3.14. Whilst it is already the case that software provides the ability to categorise income and expenses in greater detail, and it will be beneficial for some entities for the categorisation to be aligned to the detailed Profit & Loss Statement that currently has to be submitted alongside the company's accounts, the government considers it is necessary to specify a minimum level of categorisation for the purposes of MTD for CT. This would not preclude software developers from creating additional categories.

3.15. For smaller businesses, the government believes there should be some parity with the categorisation required for Income Tax under MTD, and therefore proposes the following minimum categories:

- trading income
- bank, building society or other interest and income and gains from non-trading loan relationships
- income from land and buildings
- income relating to finance
- income not falling under other heading
- costs of goods bought for resale or goods used
- payments made to CIS sub-contractors
- wages, salaries, pension and other staff costs
- car, van and travel expenses
- rent, rates, utilities and insurance costs
- repairs and maintenance of property and equipment
- phone, fax, IT stationery and other costs
- advertising costs
- business entertaining costs
- accountancy, legal and other professional fees
- expenses related to finance
- bank, credit card and other financial charges
- interest expense on bank and other loans
- other trading expenses
- property business expenses
- investment management expenses
- irrecoverable debts written off
- dividend payments
- loans and other benefits provided to directors, participators and others, including director loan account balances
- capital expenditure (split by land & property, cars & vans, other plant & machinery and intangibles)
- gains and losses on asset disposals, change of use, sales proceeds (split as for capital expenditure)
- depreciation
- gains not falling under any other heading.

Question 4: Do you agree with the minimum categorisation for MTD compatible software, as suggested above?

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

Preserving digital records

3.16. The government proposes to retain the provisions on the period for which an entity must preserve records in Part 3 of Schedule 18 of the Finance Act 1998, for the purposes of digital record keeping.

Correcting digital records

3.17. MTD will help more entities to improve the accuracy of their record keeping. However, there may still be occasions where an entity needs to correct a digital record which it has already created within its software. Such errors include recording a transaction in the wrong period, at the wrong amount or in the wrong category. The government considers that digital records should be corrected when the entity becomes aware that an error has occurred, regardless of whether an error has an effect on the tax position of the entity. The government proposes that an entity would use their MTD compatible software to provide corrections at the same time as the next update for that accounting period is due or, where no update is due, at the same time as the Company Tax Return.

4. Providing Regular Updates

4.1. One of the core principles of MTD, established for MTD for VAT and Income Tax, is the provision of regular updates to HMRC, through MTD compatible software. Quarterly updates underpin the objective of keeping business records digitally in as close to real time as possible (thus helping to reduce avoidable error), act as a prompt for information, and allow businesses and their agents to understand their emerging tax position and plan accordingly. By reducing error, quarterly updates will help to drive down the overall tax gap for CT.

4.2. This is a new reporting obligation for CT purposes. This chapter considers how entities will provide regular updates to HMRC and how they could work for different customer segments, including what would be required and when, and how that might affect the making of accounting and tax adjustments (including claims to reliefs and allowances). Costs to business of adapting to and applying this new obligation are considered in chapter 7.

Regular update process

4.3. An update will consist of summaries of information drawn from the expense and income categories which the entity has maintained within their software, as set out in chapter 3 (see paragraph 3.15). MTD compatible software will create the update from the information contained in the digital records and submit this to HMRC. This means that having created and categorised the necessary digital records, it will be a straightforward process for entities to provide quarterly updates to HMRC.

Regular updates for groups

4.4. As businesses grow, it is common for them to adopt a group structure to manage their more complex affairs. Chapter 3 explored the possibility of one nominated entity within a group maintaining digital records on behalf of other individual entities within the group. If a group were to adopt such an approach, the government is keen to understand whether they would also wish to provide their updates through a nominated entity.

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

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

Accounting and tax adjustments

4.5. In order to calculate accounting profits in accordance with Generally Accepted Accounting Practice (UK GAAP), entities consider a wide range of potential adjustments. The nature of these mean that entities will usually undertake them after their period of account has ended, although adjustments, such as provisions, may be included to provide interim profit figures.

4.6. The government recognises that adjustments are vital to establishing an entity's final tax liability. In the context of quarterly updates, the government proposes that accounting and tax adjustments should be optional.

Incentives, allowances and reliefs

4.7. There is a diverse range of incentives, allowances and reliefs a company may claim in order to arrive at their tax position. In most cases, these claims are required to be made through the Company Tax Return. The government sees strong arguments for retaining the link between entitlement to incentives, allowances and reliefs and the determination of an entity's annual tax position. Therefore, it is proposed that MTD for CT will maintain the current position, with claims required to be submitted when the entity submits their return to establish their CT liability. However, entities will have the option to include the indicative effect of anticipated claims to incentives, allowances and reliefs in the update they provide to HMRC.

4.8. Over time, HMRC will replace forms and various processes using MTD compatible software to facilitate claims, providing guidance and tailored assistance to make these interactions more efficient for both businesses and HMRC. The government is interested in understanding which areas of interaction with HMRC, businesses think would most benefit from digitisation.

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

Elections

4.9. As with incentives, allowances and reliefs, there are a wide range of elections which an entity may make under tax law. The government also considers entities should have the option of submitting them as part of a quarterly update or when establishing their annual CT liability. However, any specific restrictions on the submission of certain elections will continue to apply. For example, those elections that must be made before the start of an accounting period, will not be revocable during an accounting period.

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

Update periods

4.10. The government considers that an entity should have certainty on when updates would be due. The preferred proposal is for quarterly updates linking an entity's update cycle to its accounting period, the majority of which are 12 months long[18]. Where an entity has an accounting period which is not divisible into quarterly periods, it would have the choice of providing a separate update to conclude the period or waiting and splitting the next update between two accounting periods. This is the same design approach applied for Income Tax under MTD.

4.11. The government set out its approach to the submission of quarterly updates in its response to 'Bringing business tax into the digital age'**.** The deadline for provision of a quarterly update for Income Tax is one month from the end of the quarter and the

[18] Certain events, such as those set out in section 10(1) of the CTA can have the effect of ending an accounting period.

government believes that the same deadline should also apply to the provision of quarterly updates for CT[19].

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

Guiding principles for very large companies within the QIPs regime

4.12. The CT payment regime for very large companies[20] already provides an established cycle for entities within its scope to interact with HMRC on a regular basis. The regime requires that companies with profits at an annual rate in excess of £20 million[21] pay their CT in quarterly instalments during that accounting period. As noted in chapter 2 (paragraph 2.11), these businesses provide enhanced levels of tax assurance to HMRC through their CCM and the Business Risk Review process and pay the tax they owe much closer to real time, when compared to other companies. This means that the government is satisfied that these very large companies are already meeting many of the MTD principles in their business practices. It therefore proposes the following principles for very large companies:

- an entity that is already interacting with HMRC quarterly through either CT or ring-fenced CT instalment payments would not need to provide quarterly updates to meet MTD obligations
- entities within the payment regime for very large companies would still be required to keep digital records and submit their end of year return using MTD compatible software
- an entity would remain subject to either the payment regime for very large companies or MTD quarterly update requirements for the entirety of an accounting period
- an entity can transition between the payment regime for very large companies and MTD quarterly updates provided other relevant criteria are met and subject to QIPs threshold requirements
- the profit threshold for very large companies is reduced proportionately where the company has one or more group companies (of related 51% group companies), the QIPs regime for very large companies or MTD quarterly update requirements will therefore apply consistently across entities within groups.

4.13. The figure below shows the current customer journey for a very large company, and how that would change following the introduction of the proposed modified design of MTD for CT, for very large companies.

[19] Quarterly update deadlines are distinct from finalisation of liabilities. Proposed deadlines for the latter are discussed in more detail in chapter 5.
[20] https://www.gov.uk/guidance/pay-corporation-tax-if-youre-a-very-large-company
[21] This threshold is reduced proportionately where the accounting period is less than 12 months or where the company has one or more related 51% group companies.

HM Revenue & Customs

Farmsave PLC

An established supermarket PLC headquartered in Manchester.
Company is now more than 50 years old.
The annual rate of profits exceeds £20 million, so deemed a 'very large company' and required to pay Corporation Tax in quarterly instalments.
Has an experienced in-house accounting department that deals with HMRC.

Current Customer Journey for Very Large Companies within QIPs Regime

1 January – 31 December (12 month accounting period)

Farmsave PLC's accounting department keeps track of all business income and expenditure through their own custom software. During the year they engage with their HMRC Customer Compliance Manager (CCM) to check their proposed tax treatment of a company restructure.

They maintain the company's accounting records and prepare monthly management accounts and forecasts of profits chargeable to CT at each quarter. Quarterly instalment payments of CT are due on the 14th day of:

- March
- June
- September
- December.

6 months post accounting period

Farmsave PLC use software to produce accounts and computations including a detailed profit and loss statemen.

Farmsave PLC submit their company accounts to Companies House 6 months after the end of the accounting period.

As QIPs are based on an estimate of the CT liability, companies adjust payments where there have been under or over payments.

12 months post accounting period

Farmsave PLC use software to finalise the company's Self Assessment of its CT liability.

12 months after the end of the company's accounting period, Farmsave PLC submits the company tax return, comprising of a CT600 return form in XML and accounts and computations in iXBRL.

Future Customer Journey via MTD for CT

Pre April 1

Farmsave PLC upgrades its software so its MTD compatible and ensures its digital systems are linked. It uses HMRC's GOV.UK page and their CCM for support

1 January – 31 December (12 month accounting period)

Farmsave PLC maintains digital business records, such as receipts and invoices as part of their day-to-day accounting practices. XBRL tagging is now integrated into their MTD software and manual data transfers are no longer required. As Farmsave PLC is a very large company within the QIPs regime, they are not required to submit quarterly updates, but continue making QIPs.

6-9 months post accounting period (subject to consultation)

Farmsave PLC makes accounting adjustments to its digital records and produces its company accounts. As a PLC, these are subject to an audit, before they are submitted to Companies House. Farmsave PLC uses MTD software to make tax adjustments and finalise their CT liability through. They later wish to amend their return and do so through their MTD compatible software.

4.14. Some entities will be on the edge of the profits threshold for very large companies due to the consistent rate of their profits or because of fluctuations in their profits. Large companies may also fall below the threshold during a loss-making period. The government recognises that the approach described above could create additional burdens for these businesses, as MTD obligations would vary depending on their annual rate of profit. **The government welcomes views on the additional impacts these businesses might face and how the principles proposed above could accommodate this group.**

Question 11: Do you agree with the principles for very large companies within the QIPs regime?

Other scenarios

4.15. The government considers that all entities could benefit from the transformation that MTD can bring. At the same time, the government wishes to avoid unnecessarily adding to the range of statutory obligations already in place, for example for qualifying multinational enterprise groups that are required to meet country-by-country reporting requirements. The government also accepts that the regular update requirement may not be suitable for those companies that are dormant. Whilst entities registered for VAT and making taxable supplies above the threshold will already be meeting the MTD VAT obligations, regular MTD for CT updates will additionally provide record keeping assurance and an estimated final tax calculation for their accounting period.

4.16. We welcome views on whether the regular update requirements should be adapted for dormant companies and different business segments with additional statutory reporting requirements, such as those required to submit an annual country-by-country report.

4.17. Some multinational businesses have controlled foreign companies (CFCs), which may result in a tax charge on the water's edge company[22] controlling the CFC or may be partially or wholly exempt. Quarterly updates of transactions and trading activities would not be required in respect of all the activities of the CFCs themselves, but water's edge companies will continue to be required to provide a Company Tax Return which would reflect relevant activities of the CFC and preserve any records which may be needed to enable a return to be completed (see chapter 3).

4.18. Where a UK resident company is operating in a foreign tax jurisdiction through a permanent establishment and its profits and losses are chargeable to CT, quarterly updates would be required for the activities of those foreign permanent establishments. However, where an election for foreign permanent establishment exemption is in place, it is currently expected that quarterly updates would not be required.

4.19. For tax purposes, some companies may be resident in the UK as well as another country, for example where they are incorporated in a foreign tax jurisdiction, but their central management and control is located in the UK and there is no applicable tie-breaker in a tax treaty. These companies would be within scope of MTD and required to submit quarterly updates.

4.20. Where non-resident companies are within the charge to CT on their UK activity because of a UK permanent establishment they would be within the scope of MTD. Where there is a CT charge on UK activity but no UK permanent establishment (for

[22] https://www.gov.uk/hmrc-internal-manuals/international-manual/intm227100

example, a UK property business), they would be within the scope of MTD only to the extent of their UK activity which is within the charge to CT.

4.21. We welcome views on these and other areas of the international tax system, including how the rules for double taxation relief, hybrid entities and transactions, corporate interest restriction and transfer pricing might interact with the design of MTD for CT.

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

5. Establishing the Final CT Liability

5.1. This chapter considers how entities within the charge to CT would use their MTD compatible software to provide the equivalent information, accounts, statements and reports currently required as part of their Company Tax Return and in doing so establish their profits (or losses) for tax purposes. Throughout this chapter, the provision of this information is referred to as an entity making its return.

The current process

5.2. The vast majority of entities already submit their Company Tax Return electronically. MTD will not substantially change that or the requirement to supply accounts prepared under the Companies Act.

Fulfilling the obligations through MTD

5.3. Most businesses will meet their future MTD obligations on the existing basis on which a return is currently submitted, meaning individual entities will establish their CT liability on an individual company basis. This would mean that, in the case of a group entity where individual members of the group continue to report on an individual basis, the digital transfer of records held and maintained at group level would be needed to enable individual entities to provide quarterly updates and to prepare and submit their return through MTD compatible software. Entities would be able to continue to make adjustments to calculate accounting and taxable profit as they do now.

5.4. For those group entities that choose to meet their MTD obligations through a nominated entity, chapters 3 and 4 (paragraphs 3.7 and 4.4) explored how digital record keeping and the provision of regular updates might operate. For these taxpayers, the government also proposes aligning the process of establishing an entity's final CT liability. This would mean that the same nominated entity would be responsible for digital record keeping, quarterly updates and establishing final liabilities on behalf of other individual entities within their group or sub-group.

5.5. The government would welcome views on the alignment of these obligations from group members who would choose to meet their individual MTD requirements through a nominated entity. Please provide details of any increased or reduced administrative burdens or costs that could result from this.

5.6. The digital records kept within the entity's software may also form the prime record for their accounts. To comply with the obligations of MTD, accounting and tax adjustments relating to the period will need to occur either in that software or alternatively in linked software.

5.7. Entities will use their MTD compatible software to provide their Company Tax Return (to include, but not limited to the data provided through the CT600 and supplementary pages as well as the iXBRL tagged accounts and computation) direct to HMRC. As explained earlier, most entities are already required to provide the Company Tax Return electronically. Therefore, the government does not consider that this will represent a marked change in how entities provide their return. However, some entities may need to update or acquire new software to enable this link to HMRC.

Submission deadlines

5.8. The government has considered whether MTD for CT provides the opportunity to align filing dates for tax and company law purposes by bringing forward the Company Tax Return filing date. This would give entities earlier certainty and better alignment with other deadlines, thereby reducing administration for businesses and improving the ease of doing business in the UK.

5.9. Unlisted companies are generally required to submit accounts to Companies House within 9 months of their financial year end unless they are a Public Limited Company. Bringing forward the CT filing date would mean that entities that are not listed would need to ensure that the tax computation was carried out to the same timeline as production of their accounts. However, many entities already work on this basis as they are required to pay CT within 9 months and one day from the end of their accounting period. HMRC will work with Companies House and others across government to consider the best approach to filing alignment.

5.10. The Department for Business, Energy and Industrial Strategy (BEIS) will shortly be publishing a consultation containing proposals on ways to improve the value and quality of accounts information held at Companies House, including through harmonised filing standards and processes across government. HMRC has contributed to this and will work with BEIS to develop and implement the reforms as they are taken forward.

5.11. The government would also welcome specific responses on the alignment of the Company Tax Return filing date with other significant tax adjustments such as remuneration paid and the repayment of loans to participators.

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

Amendments

5.12. As part of MTD, the government does not intend to change the current window that an entity has to amend their Company Tax Return[23]. However, the mandatory electronic filing of Company Tax Returns does not extend to the making of amendments and entities are currently able to make these via other channels to HMRC.

5.13. The government considers that for most amendments this is no longer appropriate. Therefore, under MTD, where an individual entity wishes to amend its Company Tax Return, it will be required to do so through its MTD compatible software. The government notes the specific circumstances around groups and also invites views on whether processes such as the Joint Amended Returns for Group Relief Simplified Arrangements could benefit from a similar approach.

Question 14: Do you agree that amendments to an entity's Company Tax Return should be made through MTD compatible software?

[23] https://www.legislation.gov.uk/ukpga/1998/36/schedule/18/part/II/crossheading/amendment-of-return-by-company

MTD and Inline XBRL format (iXBRL)

5.14. Legislation, which became effective for returns delivered after 31 March 2011, has required most companies to file the accounts and tax computation documents submitted as part of their Company Tax Returns, in iXBRL. XBRL is now embedded in most commercial accounting and tax software used in the UK and is a globally recognised format for business reporting, used by a growing number of countries worldwide.

5.15. Receiving accounts data in iXBRL format means HMRC can make the best use of the data it receives through electronic technical risking and risk profiles. XBRL also makes it easier for HMRC to compare the information it receives to other accounts data filed in the same format, such as the accounts filed at Companies House. iXBRL also allows companies to vary the presentation of their financial information, without the need to overlay costly formatting or presentational structures.

5.16. XBRL involves the application of computer-readable tags to business data. This enables the data to be processed automatically by software. A company's financial statements, which have been converted into iXBRL, may appear unchanged to a human reader, but they contain tags which can be accessed and used by software. XBRL provides an identifying tag for each individual item of business data or 'concept'. For example, 'operating profit' has its own unique tag, as does 'current assets'.

5.17. Typically, entities tag concepts in their financial statements and tax computations after they have been produced. HMRC expects that following the introduction of MTD for CT, iXBRL tagging will be integrated into MTD compatible software and most concepts will be automatically tagged as part of an entity's ongoing digital record keeping. This may lead to an improvement in the efficiency and accuracy of iXBRL tagging. Whilst HMRC currently endeavours to accept returns where there has been a genuine attempt to comply with the filing requirements, the government is interested in views on measures it could take to strengthen these requirements. Accurate, complete and consistent tagging is important as HMRC uses this data to formulate and evaluate tax policy and to better target its compliance activities.

5.18. A more rigorous approach to tagging would involve tagging individual transactions. Whilst the technology exists to support this, most entities within the charge to CT do not adopt such an approach, due to the availability and cost of the software. In addition to this, the range and complexity of the existing taxonomies can make this challenging. MTD does not currently plan to require any entity to tag transactional level data, although doing so would present an opportunity to address some of the challenges around accurate and consistent tagging.

5.19. HMRC will continue to work with stakeholders including the Financial Reporting Council (FRC), Companies House and third party software providers, to ensure that the creation of a digital record and its association with a category for MTD purposes will also align with the content of HMRC's and the FRC's taxonomies. This will enable large amounts of data to be analysed, compared, and contrasted, and will also improve accuracy and compliance with accounting standards by ensuring the necessary components of a set of accounts are present.

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

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

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

Company Accounts and Tax Online (CATO) software

5.20. Currently, a small number[24] of entities within the charge to CT, use a free HMRC filing product known as CATO. The software market for account production and Company Tax Return preparation is already mature, with a wide range of diverse solutions to meet the population's needs. The government considers MTD will encourage the development of innovative solutions by both existing and new entrants to this market, as has been the case with the MTD compatible software provision for VAT.

5.21. The government has confirmed that it will not be providing software for businesses to meet their MTD Income Tax or VAT obligations. However, it has committed to ensuring that there is a free product available for the smallest and least complex businesses subject to Income Tax. The maturity of the existing software market for CT means that the government believes that over time it will be appropriate for HMRC to withdraw the CATO product.

Question 18: What do you think are the potential impacts of HMRC withdrawing the free filing product, known as CATO? Please provide any examples or evidence held including evidence relating to the potential impact on filing accounts with Companies House.

[24] 8% of Company Tax Returns are submitted using CATO (2019)

6. Special Cases and Exemptions

6.1. The earlier chapters set out the core CT design for MTD using software: digital record keeping, quarterly updates to HMRC and a return after the end of the accounting period. They also explored alternatives to some elements of the core design for the largest entities.

6.2. Given that Company Tax Returns have been filed online since April 2011, with very few exceptions, the government considers that exemptions from MTD for CT are likely to be rare. However, the government recognises that there may be entities, activities or circumstances where MTD may require tailoring to the needs of the customer.

6.3. This chapter considers whether a different approach is necessary, considering the lessons learnt and criteria for exemption under MTD for VAT[25], and the ambition to harmonise and converge processes across taxes.

Charities, Community Amateur Sports Clubs (CASCs) and other not-for-profit organisations

6.4. The government's 2017 response[26] to the 'Bringing business tax into the digital age' consultation stated that the non-trading activities of charities would be outside the scope of MTD. However, charitable trading subsidiaries would remain in the scope of MTD, to maintain parity with other trading entities with whom they are often in direct competition.

6.5. Many charities, CASCs and not for profit organisations are within the scope of the charge to CT but are exempted because of the tax reliefs available to them. However, on occasion, they are required to file a tax return. Other such entities have non-exempt income and currently need to complete a Company Tax Return and pay tax.

6.6. MTD for VAT has shown that, at least for larger charities, operating the MTD requirements has not proved to be more than difficult than for a comparable business. Moreover, discouraging some charities from joining MTD by in effect making it voluntary will mean many will not get the benefits of going digital that other entities will enjoy. There is also a risk that software developers will not deliver products that meet the specific needs of charities if demand is unnecessarily suppressed. Given this, the government now proposes that this consultation seeks views on extending the scope of MTD for CT to all charities that are within the scope of CT and who are required to file a Company Tax Return.

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

6.7. Whilst the aim in designing MTD for CT is to ensure that the obligations can be fulfilled by any entity within the charge to CT, the government is aware that some not for profit organisations may consider they require a tailored MTD service design. This

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[25] https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat#para-3

[26] https://www.gov.uk/government/consultations/making-tax-digital-bringing-business-tax-into-the-digital-age

tailored approach could be aimed at supporting the smallest entities in simplifying digital interactions with HMRC - in particular, filing returns.

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

Digitally excluded customers

6.9. The government has been clear throughout the development of MTD, that anyone who genuinely cannot engage with HMRC digitally will be exempt from having to do so. In order to align the approach across tax regimes, the government will apply the established criteria[27] for exemption from the obligations of MTD where a person is digitally excluded. You will be considered 'digitally excluded' if it is not reasonably practicable for you to use digital tools to keep your business records or meet the other requirements of MTD for CT because of age, disability, remoteness of location or for any other reason.

6.10. Where HMRC has previously agreed that a person is digitally excluded for one set of MTD obligations, for example MTD for VAT obligations, it will also be exempt from MTD for CT obligations.

Insolvency

6.11. There are a range of insolvency proceedings that can be relevant to entities within the charge to CT, including administration, company voluntary arrangements, various types of liquidation and receivership.

6.12. The government has considered the current position in relation to mandatory online filing of CT returns, in order to establish the impact of MTD and what variations may be required. In most insolvency scenarios there is an exemption from mandatory online filing where a company enters a formal insolvency process.

6.13. The government considers that where the insolvent entity retains its responsibility to file an online Company Tax Return, then MTD for CT obligations would continue to apply.

6.14. However, where an insolvency practitioner has been appointed to act on behalf of a company, and an existing exemption for online filing applies, it is unreasonable to require them to comply with MTD for CT. It is therefore proposed that MTD obligations would cease to apply at this point.

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

[27] https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat#para-3

7. Assessment of Impacts

7.1. This chapter explores the impacts and costs that might be incurred by businesses and other groups, in moving from manual or paper-based recording systems to digital. This initial assessment of those costs must be set against the broader efficiency and productivity gains that MTD for CT will offer, particularly for those smaller, less digitally engaged, entities. The government strongly believes that these proposals will support businesses in taking advantage of the broader benefits and cost-efficiencies that going digital offers.

Overall assessment of costs

7.2. Through MTD, HMRC is delivering a modern, digital tax service for businesses and their agents, making it easier for businesses to get their tax right, saving time which can be devoted to maximising business opportunities, increasing productivity and helping to foster good financial planning.

7.3. This is borne out from HMRC's research and findings from HMRC's evaluation of the MTD for VAT service in March 2020. Businesses reported productivity gains, found operating MTD easier than expected, and digital record keeping allowed management of finances in real time, with automated processes allowing them to do so. The experience from many businesses in MTD for VAT is that over the full cycle of a business year, by integrating 'doing tax' into day-to-day record keeping, businesses spend less time overall dealing with their tax affairs.

7.4. We recognise, however, that while some businesses, particularly those already using accounting software, found transitioning to the MTD for VAT processes very smooth, there were others that found the transition more challenging and required a greater degree of support.

7.5. Dependent on the final design of MTD for CT, many entities within the charge to CT will need to change processes to meet the new obligations and incur new costs as a result. This will be particularly relevant to those smaller entities that are not subject to current quarterly filing requirements and those which currently file online through CATO.

7.6. Inevitably, costs will differ from entity to entity, and are influenced by factors including size and complexity of the entity, specific obligations, degree of digital capability and cost and functionality of software solution employed. We recognise that many of those entities within the CT population with a turnover below the VAT threshold, are likely to undertake the biggest 'journey' to achieve MTD compliance, whereas many larger entities may already operate in a way largely akin to the MTD requirements.

7.7. In developing the MTD for CT system, we shall continue to learn from experience to date and work with stakeholders in the accountancy and software professions as well as businesses and their representatives to refine processes, minimise costs and ensure effective support is in place during the transition.

7.8. Most entities will incur some form of transitional costs, as they prepare for, and familiarise themselves with, change. An entity that was mandated to join MTD from April 2019 for its VAT obligations is however very likely to have incurred some of the costs already and be more digitally ready than the wider business population. Those entities with turnover below the VAT threshold that typically have less engagement with agents and accountants throughout the year, may seek additional agent advice around MTD compliance and seek additional reassurances when first making the quarterly summary updates.

7.9. Whereas a smaller entity's business and tax management may often be managed within a single system or application, larger entities may need to establish the digital links to manage data flows between multiple applications or systems that feed into the update and return figures in the same way that they have needed to for MTD for VAT.

7.10. Entities will potentially incur new, ongoing costs related to new software requirements and subscriptions, and for those entities newly required to operate a quarterly reporting obligation, there could be additional agent or accountancy fees if they use these services. Through our MTD for VAT live service we recognise that many entities value the reassurance that agents provide on ensuring MTD compliance. Such costs will qualify for tax relief.

7.11. We anticipate that for those entities not operating digital accounting systems, many of these costs will be offset in part or in full by the additional efficiencies that digitising manual processes brings. Whereas many large and mid-size businesses have already embraced digital processes, the COVID-19 pandemic has seen smaller businesses turning to digital tools and experiencing the significant benefits they can bring. MTD helps meet the needs of the UK's increasingly digital businesses. Ipsos MORI research[28] on the small business population shows businesses who fully integrate their accounting and tax software using MTD spend less time on their tax. As we have seen with MTD for VAT, MTD makes it easier for businesses to see and understand their tax affairs close to real time.

7.12. During the rollout of MTD for VAT, HMRC worked closely with the software industry to ensure that businesses needing to update their accounting systems have access to affordable software products, and products that meet specific business needs. Software developers responded positively by producing software at a range of price points, including free products, and offering different levels of functionality. That includes bridging software for those who want to continue to use spreadsheets for record keeping, as well as fully integrated accounting software that provides additional functionality to help users to better understand and plan for their business.

7.13. We expect similarly close collaboration for the further cohorts. Where software or hardware is purchased, businesses can claim a 100% deduction against their tax.

Software costs

7.14. The government encourages software developers to engage with the design of MTD for CT through this consultation. Based on the VAT MTD experience, it expects that as the policy development process continues, the software market will enhance their current offering of software solutions to meet MTD for CT requirements. The VAT market currently has around 400 commercial software products for businesses to choose from.

7.15. MTD compatible software will enable entities to share the details of digital records and updates made with their agent throughout the accounting period, facilitating the production of accounts and the making of a return. Existing software products are already capable of this, so the government does not consider this will represent a

[28] www.gov.uk/government/publications/evaluating-making-tax-digitals-impact-on-record-keeping-behaviour-and-scope-for-error-among-small-businesses

marked change for most entities, aside from the potential requirement to change software.

7.16. Recognising that software cost and capability is a significant factor in both user experience and overall cost, HMRC is continuing to evolve its software choices pages to improve searchability and help businesses - particularly smaller, unrepresented businesses - choose products that meet both their business needs and their budgets.

7.17. Larger and more complex entities will often have in-house software, which may have been customised from an 'off-the-shelf' commercial product or system. Some of these have already been adapted to comply with MTD for VAT requirements. The government acknowledges that these may need to be adapted further to meet MTD for CT requirements and that this will come at a cost. We saw with MTD for VAT, that bridging solutions could be developed and successfully employed to achieve MTD compatibility for such bespoke accounting systems.

7.18. We know that many different software solutions are currently employed by entities in compiling and submitting their CT returns. Depending on the size and complexity of the entity that may include multiple systems, both computerised and manual, feeding into the final figures. In addition, as they have done so for MTD for VAT, larger and more complex entities will need to ensure digital links exist where data flows between multiple applications or systems.

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

Other costs

7.19. Most entities will incur other transitional and ongoing costs as they prepare for, familiarise themselves with and start to operate the MTD for CT requirements. This could include costs incurred through time spent changing existing accountancy processes, new hardware to manage MTD, new training requirements and additional accountancy costs for advice specifically relating to MTD processes and obligations.

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

Summary of impacts

Exchequer impact (£m)	The Exchequer impacts of these MTD proposals will depend on the final and detailed policy design, which will be informed by this consultation. These proposals are expected to deliver a reduction in the tax gap caused by Error and Failure to Take Reasonable Care as a result of more timely and accurate record keeping and reducing error by electronic updating of HMRC systems directly from a business' digital records.

Economic impact	The government considers that these proposals could act as a catalyst for wider digital integration, particularly with the smaller, less digitally engaged entities, helping to eliminate existing paper-based processes, allowing businesses and their agents to cut costs and devote more time and attention to maximising business opportunities, encouraging growth and fostering good financial planning. The government views this as an opportunity to help close the gap that has arisen between the UK and the most productive economies.
Impact on individuals, households and families	It is not anticipated that there will be an impact on individuals, households and families. The measure is not expected to impact on family formation, stability or breakdown.
Equalities impacts	HMRC does not expect this measure to have any significant or disproportionate impact on groups with legally protected characteristics, as recognised in the Equality Act 2010. Individuals and businesses with protected characteristics under the Equality Act who fall within the current legislative definitions of 'digitally excluded' will be exempted from the digital record keeping and update requirements and HMRC will provide non-digital alternative channels to them.
Impact on businesses and Civil Society Organisations	HMRC expects these proposals to have an impact on businesses (including small and micro businesses) and civil society organisations only to the extent that they fall within the charge to CT. Dependent on the final design of MTD for CT, many entities within the charge to CT will need to change processes to meet new obligations and incur new costs. Invariably, costs will differ from entity to entity, and are influenced by factors including size and complexity of the entity, specific obligations, degree of digital capability and cost and functionality of software solution employed.
Impact on HMRC or other public sector delivery organisations	The IT cost and resource impact on HMRC will depend on the detailed policy design, which will be determined following consultation.
Other impacts	No other impacts have been identified.

8. Summary of Consultation Questions

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

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

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

Question 4: Do you agree with the suggested minimum categorisation for MTD compatible software?

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

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

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

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

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

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

Question 11: Do you agree with the principles for very large companies within the QIPs regime?

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

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

Question 14: Do you agree that amendments to an entity's Company Tax Return should be made through MTD compatible software?

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

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

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

Question 18: What do you think are the potential impacts of HMRC withdrawing the free filing product, known as CATO? Please provide any examples or evidence held including evidence relating to the potential impact on filing accounts with Companies House.

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

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

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

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

9. The Consultation Process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

Stage 1 Setting out objectives and identifying options.

Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.

Stage 3 Drafting legislation to effect the proposed change.

Stage 4 Implementing and monitoring the change.

Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 2 of the process. The purpose of the consultation is to seek views on the detailed policy design and a framework for implementation of a specific proposal, rather than to seek views on alternative proposals.

How to respond

A summary of the questions in this consultation is included at chapter 8.

Responses should be sent by **5 March 2021** by e-mail to makingtaxdigital.consultations@hmrc.gov.uk

or by post to: HM Revenue and Customs, S1715 6th Floor, Making Tax Digital for Business Policy and Design Team, Central Mail Unit, Newcastle upon Tyne, NE98 1ZZ

Please do not send consultation responses to the Consultation Coordinator.

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from HMRC's GOV.UK pages. All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act, General Data Protection Regulation (GDPR) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue & Customs.

Consultation privacy notice

This notice sets out how we will use your personal data, and your rights. It is made under Articles 13 and/or 14 of the General Data Protection Regulation.

Your data

The data
We will process the following personal data:
Name, email address, postal address, phone number, job title

Purpose
The purpose for which we are processing your personal data is:
Public consultation on: Making Tax Digital: Corporation Tax

Legal basis of processing
The legal basis for processing your personal data is that the process is necessary for the exercise of a function of a government department.

Recipients
Your personal data will be shared by us with
HM Treasury, Department for Business, Energy and Industrial Strategy and Companies House

Retention
Your personal data will be kept by us for six years and will then be deleted.

Your rights

- You have the right to request information about how your personal data are processed, and to request a copy of that personal data.

- You have the right to request that any inaccuracies in your personal data are rectified without delay.

- You have the right to request that any incomplete personal data are completed, including by means of a supplementary statement.

- You have the right to request that your personal data are erased if there is no longer a justification for them to be processed.

- You have the right in certain circumstances (for example, where accuracy is contested) to request that the processing of your personal data is restricted.

Complaints

If you consider that your personal data has been misused or mishandled, you may make a complaint to the Information Commissioner, who is an independent regulator. The Information Commissioner can be contacted at:

Information Commissioner's Office
Wycliffe House
Water Lane
Wilmslow
Cheshire
SK9 5AF
0303 123 1113
casework@ico.org.uk

Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

Contact details

The data controller for your personal data is HM Revenue and Customs. The contact details for the data controller are:

HMRC
100 Parliament Street
Westminster
London SW1A 2BQ

The contact details for HMRC's Data Protection Officer are:

The Data Protection Officer
HM Revenue and Customs
7th Floor, 10 South Colonnade
Canary Wharf, London E14 4PU
advice.dpa@hmrc.gsi.gov.uk

Consultation principles

This call for evidence is being run in accordance with the government's Consultation Principles.

The Consultation Principles are available on the Cabinet Office website:
http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance

If you have any comments or complaints about the consultation process, please contact the Consultation Coordinator using the following link:

https://www.tax.service.gov.uk/submissions/new-form/make-a-comment-or-complaint-about-hmrc-consultations

Please do not send responses to the consultation using this link.