

HM Revenue and Customs (HMRC) Research Report No. 605

Exploring the costs and benefits of Making Tax Digital for VAT experienced by small businesses

Prepared by Kantar Public for HMRC

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Disclaimer

The views in this report are the authors' own and do not necessarily reflect those of HM Revenue and Customs.

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Glossary of terms

Making Tax Digital: Making Tax Digital (MTD) is the strategy through which HMRC aims to transform the tax system. Under the first stage, since April 2019 most VAT-registered businesses with taxable turnover above the VAT threshold (currently £85,000) have been required to keep records in digital form and file their VAT returns directly from their records using software. Businesses below the threshold are not required to comply but can participate voluntarily.

Bridging software: Bridging software is an additional software program that extracts data from another piece of software (e.g. a spreadsheet or legacy software) in a format that enables the VAT return data to be submitted to HMRC via an application programming interface. It does not deal with any of the other requirements of MTD for VAT such as digital record-keeping. Some bridging software is free of charge, some free for a limited period of time, some charge by use, others charge a monthly subscription or license fee.

MTD for VAT compatible accounting software: Commercial software products which are designed to meet MTD for VAT requirements for digital record-keeping, digital links and submission to the MTD application programming interface, the mechanism by which data flows between software and HMRC systems.

Small business: For the purposes of this report, small businesses were defined as being businesses with a turnover of below £10 million and fewer than 30 employees. The HMRC definition of a small business is one with a turnover of below £10 million and fewer than 20 employees.

Executive summary

Making Tax Digital (MTD) is a key part of the HMRC's ambition to become one of the most digitally advanced tax administrations in the world. MTD aims to make it easier for individuals and businesses to get their tax right first time and keep on top of their affairs. Since April 2019, most VAT-registered businesses with taxable turnover above the VAT threshold (currently £85,000) have been required to keep records in digital form and file their VAT returns directly from their records using software. Businesses below the VAT threshold are not required to comply but can participate voluntarily. These MTD requirements aim to address the part of the tax gap that is attributable to error and failure to take reasonable care by significantly reducing the opportunity to make some types of mistake in tax returns, principally simple arithmetical and transposition errors.

HMRC commissioned qualitative research to explore how MTD for VAT has affected mandated businesses in terms of costs and benefits (both financial and non-financial). The research focused on small businesses (defined here as having fewer than 30 employees and an annual turnover of less than £10 million) who had signed up for MTD for VAT and involved 31 in-depth interviews with participants responsible for fulfilling the business's VAT obligations.

Interviews for this research were conducted and completed in February and March of 2020, prior to the Covid-19 lockdown and prior to the July announcement regarding future expansion of MTD.

The businesses we spoke to varied widely, in terms of how receptive they were to change, the extent of change required to comply with MTD for VAT and their motivation to change. This had implications for how businesses perceived and experienced the costs and benefits of MTD.

- The businesses varied in size, structure and products and in their business outlook. Most businesses in our sample were focussed on maintaining the status quo rather than on growing. Those with an ambition to grow tended to be more proactive about embracing change.
- How businesses managed their finances also varied, in terms of their financial expertise, time available to devote to financial management, the complexity of their VAT obligations, their digital confidence and any bespoke financial practices. All of these affected how easily businesses could adapt to changing financial requirements.
- VAT was generally considered to be a straightforward and relatively small part of running a business. However, this perception of ease was based on familiarity and a change to the process could trigger any latent anxieties about making mistakes.

Businesses' journeys to MTD for VAT – from first becoming aware through to ongoing use – highlighted perceived costs and benefits at each stage. **Overall, costs were more keenly felt at the point of transition, but less so as time progressed. Benefits were felt less tangibly than costs, and tended to emerge with regular use of MTD for VAT compatible software.**

- The introduction of MTD for VAT was thought to be well publicised by participants. Despite this, a common response was to delay engagement until it was absolutely necessary, reflecting concerns that the change would be overwhelming, time

consuming and expensive, particularly for those currently using paper records and spreadsheets.

- At the point of engaging with MTD for VAT, businesses started to incur tangible costs, for example, time spent familiarising themselves with the requirements and investigating software options. Previous record-keeping was a factor in how significant these costs were: the greater the changes incurred, the greater the costs.
- When preparing for MTD for VAT, businesses incurred further software costs, consulting with agents and upgrading IT systems. However, the benefits resulting from these costs did not begin to materialise until later in the journey when confidence and familiarity had been built.
- Those who were new to software felt the need to practice submissions. This incurred further time costs, but also caused some participants to realise that they could benefit from receipt capturing software. Accountancy fees were also incurred by those who required additional support from their agents (such as checking submissions and training on how to use software).
- The first submission under MTD for VAT was a point of increased cost in terms of time and stress, particularly for those making the greatest adjustment who were concerned about making mistakes. This was affected by how significant the change had been from their previous record-keeping method.
- Ongoing costs associated with MTD for VAT included software subscription costs and ongoing intangible costs of stress and anxiety about potential errors. Some businesses were also able to identify ongoing benefits, including finding VAT returns quicker and easier with compatible software, increased tax confidence and improved business operations.

When considering businesses' experiences of costs and benefits, four distinct categories emerged:

- **Costs outweigh benefits:** These participants tended to be older, lacking in digital confidence, or planning to retire in a few years. Their existing processes had been in place for many years and had always worked satisfactorily – the need to change them was not apparent. Although MTD for VAT had the potential to help them improve their processes, the short-term costs of time and money to make these changes were not seen as being a worthy investment. For these participants, their priority was to ensure that their business was 'ticking along' with 'business as usual'. Spending money on MTD for VAT compatible software was therefore not appealing, as bridging software allowed them to continue almost as before.
- **Neutral costs and benefits:** For many participants in our sample, changing to MTD for VAT had resulted in no notable net costs or benefits. For those already using software to keep their business records, only minor upgrades were needed to become MTD compatible. For others, the costs of new software and the effort of familiarising themselves with MTD were balanced by benefits from software, such as automatic calculations, error spotting and faster returns. It was felt by many participants that whilst MTD for VAT was still 'bedding in' the outcome was neutral, although they anticipated more benefits emerging as time progressed.

- **Benefits slightly outweigh costs:** For these participants, MTD for VAT was a prompt that nudged them into making positive changes, such as spreadsheet users who had outgrown spreadsheets and software users who had outgrown their software. While they experienced transitional costs as a result (time spent researching and adjusting to new software), they felt that the long-term benefits of having their processes run more smoothly would ultimately offset these costs.
- **Clear benefits:** Finally, there were participants who recognised clear and substantial benefits from MTD for VAT. These businesses tended to have high volumes of invoices and felt able to capitalise on specific features of MTD-compatible software (for example, error spotting, receipt capture), making it easier to send out and track invoices and payments. Despite being content with their previous processes, they were open to adopting new processes when pushed and MTD for VAT proved to be the catalyst for change for the better.

For the participants in this research, the extent to which mandated businesses thought MTD had generated benefits varied according to their relative 'starting points' – their receptiveness to change, the extent of change required and their motivation to change. Businesses that were better able to capitalise on MTD for VAT and realise benefits tended to be open to improving their record-keeping, were technologically confident and faced minimal changes to be compliant.

Perception of benefits was also affected by the fact that at the time of interview, participants were at a relatively early stage of engagement with MTD for VAT, having only submitted a small number of returns. Changing to MTD for VAT was typically seen as a burden by participating small businesses, whose focus tended to be elsewhere. As time passed and familiarity built, benefits of faster submission, greater accuracy in the figures recorded and confidence began to emerge. It is likely that as more time passes the benefits will begin to outweigh the costs for increasing numbers of users of MTD for VAT. However, it is important to note that this balance is dependent upon users being willing and able to adapt to the required changes. Those who had not been able to adapt with ease are the least likely to move along the spectrum towards viewing the benefits as outweighing the costs. For a small number of these businesses, MTD for VAT has resulted in significant costs as they now rely upon an accountant for their VAT submissions.

The key finding that HMRC could learn from this research is that there are opportunities for improving small businesses' perceptions and experiences of MTD for VAT. These include: priming them for acceptance of the change by giving a clear rationale for the switch; communicating potential benefits upfront; making it clear that these benefits can apply to small businesses as well as to larger ones; and supporting businesses through the navigation and familiarisation stages.

It is also important to remember that the research project was qualitative in nature. Qualitative research is primarily exploratory, used to gain an understanding of underlying reasons, opinions and motivations. Due to the sampling limitations of qualitative research, findings cannot be used to generalise across the population.

1. Introduction

1.1. Background and objectives

HMRC's ambition is to become one of the most digitally advanced tax administrations in the world. One of the major elements of working towards this ambition is the introduction of Making Tax Digital (MTD). MTD is making fundamental changes to the way the tax system works, transforming tax administration so that it is more efficient, more effective, and easier for both individuals and businesses to get their tax right.

Under the first stage – MTD for VAT – VAT registered businesses, with a taxable turnover above the VAT registration threshold¹, are required to use MTD compatible software to keep records digitally and use that software to submit their VAT returns direct from those records. Alternatively, they can use digitally-linked spreadsheets combined with bridging software to submit their returns. MTD was mandated from each businesses' first VAT period starting on or after 1 April 2019. A smaller group of businesses with more complex requirements were not mandated to join MTD for VAT until 1 October 2019 and were not included within this research.

The research aimed to develop a better understanding of how MTD for VAT has led to (transitional and ongoing) costs and benefits amongst mandated businesses. As well as tangible and direct financial costs and benefits, non-financial and intangible costs and benefits were also explored. This project focused on small businesses (defined in this report as having fewer than 30 employees and an annual turnover of less than £10 million). For HMRC, the successful implementation of MTD services will be critical in addressing that part of the tax gap arising due to error and failure to take reasonable care.

Specifically, the research looked to understand:

- What transitional and ongoing *costs and benefits* mandated businesses perceive MTD has generated for them in the first year of MTD, if any? How does this picture of benefits vary by business type and previous record-keeping behaviour? Where businesses do not perceive benefits from MTD currently, why not, and do they see scope for benefits in the future?
- Can businesses see any *wider benefits* from MTD beyond immediate tax-related benefits?
- How do businesses perceive the *balance* of costs and benefits and does this vary across business types and previous record-keeping behaviour?
- Are there any policy/operational lessons that could *improve the balance* of costs/benefits? How does this vary across business type and previous record-keeping behaviour?

¹ The VAT threshold was £85,000 in tax year 2019 to 2020

1.2. Methodology

A qualitative in-depth study was conducted with small businesses with a turnover of less than £10 million and fewer than 30 employees that had made the change to MTD for VAT following mandation. In-depth interviews took place with individuals who were responsible for fulfilling the business's VAT obligations. Businesses who completely outsourced their VAT submissions to an agent were excluded, although participants who used an agent for other aspects of tax compliance (e.g. Corporation Tax) were included within the sample.

Between 17 February and 5 March 2020, a total of 31 telephone interviews were conducted with the relevant individuals within small businesses. Interviews lasted for 45 minutes. Participants were recruited from a sample randomly drawn from MTD for VAT customers provided by HMRC. All businesses within the sample received a letter explaining the purpose of the research and giving them the option to opt out over a two-week period.

To inform the research questions, Kantar and HMRC held a benefits generation session to develop a list of anticipated costs and benefits for use in the research. Additionally, a journey map tool was used within the interviews. This encouraged participants to reflect and identify details of the various costs and benefits experienced over time.

1.3. Sample

The sample consisted of 31 telephone in-depth interviews in total.

- 11 x Nano businesses (No employees)
- 11 x Micro business (1-9 employees)
- 9 x Small businesses (10-30 employees)

Across the sample there was:

- A mix of record-keeping methods prior to MTD – software/paper/spreadsheets
- A spread of sole traders, partnerships, limited/not limited businesses
- A spread of industries, including those which have mobile workers as well as premises/or which are office based
- A spread of the length of time businesses had been registered for VAT
- A spread of locations across the UK

A full sample breakdown is included within Appendix 1.

The research project was qualitative in nature. Qualitative research is primarily exploratory, used to gain an understanding of underlying reasons, opinions and motivations. Due to the sampling limitations of qualitative research, findings cannot be used to generalise across the population.

1.4. Anticipated costs and benefits identified prior to research fieldwork

It was anticipated that participants would find it challenging to articulate the costs and benefits they had experienced. Kantar and HMRC therefore held a benefits generation session prior to fieldwork. The session anticipated that the following costs and benefits (financial and non-financial) would emerge from the research:

- **Costs:** Software fees; hardware upgrades; time to familiarise with new processes and ways of working; training on software.
- **Benefits:** Greater tax confidence and fewer errors; MTD for VAT being a catalyst for wider changes within the business.

The costs and benefits generated were used to inform probes within the discussion guide (which is included within the report appendices). The following chapters of the report will explore how these costs and benefits, (as well as other additional costs and benefits which were not identified in the benefits generation session) were experienced by participants within the sample.

2. Context to businesses' experiences of MTD for VAT

This section explains some of the common and differentiating features of the small businesses interviewed, providing context to their varied experiences of MTD for VAT (outlined in later sections). This includes businesses' outlook and ambition for growth, their financial management, previous record-keeping behaviour and views on VAT.

Key findings:

- The businesses varied in size, structure and products and in their business outlook, in particular their ambitions for growth.
- The majority of businesses in our sample were focussed on maintaining the status quo rather than on growing. Those with an ambition to grow tended to be more proactive about embracing change.
- How businesses managed their finances also varied, in terms of their financial expertise, time available to devote to financial management, the complexity of their VAT obligations, their digital confidence and any bespoke financial practices. All of which had implications for how easily businesses were able to adapt to changes to financial requirements.
- VAT was generally considered to be a straightforward and relatively small part of running a business. However, this perception of ease of completion was based on familiarity and a change to the process could trigger any latent anxieties about making mistakes.

2.1. Business outlook and ambition for growth prior to the Covid-19 lockdown

As noted in section 1.2., fieldwork was completed in February and March of 2020, prior to the Covid-19 lockdown. At the time of interview, the majority of businesses in our sample were focussed on maintaining the status quo rather than on growing. Those with an ambition to grow tended to be more proactive about embracing change. Outlook and ambition for growth impacted the extent to which businesses were receptive to investing time and effort in new processes.

The sample covered a range of businesses in terms of business size and operation, from consultants to high street shops and maintenance companies. The number of employees ranged from sole proprietors to tens of employees. The age of companies also varied; some were well-established whilst others were recently formed. However, regardless of their size, structure or product, they held a common priority in wanting to keep their business operating successfully.

'We plan on growing. Soon, hopefully!' (Micro)

'We are busy and we want to stay busy!' (Micro)

How businesses in the sample defined ‘success’ differed. Most businesses in our sample were focussed on maintaining the status quo rather than on growing, although there were examples of businesses wanting to grow. Reasons for focussing on the status quo varied: a number of businesses were focused on staying afloat due to challenges in the economic climate, whereas others were motivated to do so because they wanted to keep a healthy work life balance and did not want to add stress by employing more people and growing the business.

‘Things are ticking along. I don’t want to take on anyone else, we’re fine as we are.’ (Nano)

It was noticeable that those businesses whose priority was to maintain, rather than to grow, did not see themselves as being particularly dynamic or proactive about embracing change. Given this inherent reluctance to embrace change and innovation, they were often also resistant to investing in new processes.

‘I don’t have any particular future plans, just keep getting the work in.’ (Micro)

‘We don’t have much room to expand, just want to keep the status quo.’ (Small)

2.2. Financial management

How businesses managed their finances also varied, in terms of their financial expertise, time available to devote to financial management, the complexity of their VAT obligations, digital confidence and their bespoke financial practices. All these factors had implications for how easily businesses could adapt to changes to record-keeping requirements. These are discussed further below.

Financial expertise



Variations in financial expertise affected how easily businesses could adapt to changes in financial requirements. Within the sample, the personnel responsible for managing finances in the business varied widely. In some cases, the business owner managed finances as part of their job, whereas in others there was a dedicated employee or an accountant. The time and tax-related confidence of the individual responsible varied widely too. Typically, those businesses with higher numbers of staff had a dedicated individual with experience and confidence, managing the business’s financial responsibilities.

Time available



The time businesses had available for meeting their tax obligations varied across the sample and was influenced by the time of year and set up. The main priority for businesses was their day-to-day operations; for example, dealing with customers, securing and fulfilling sales. This could leave little time for administrative tasks, such as handling VAT. This approach led to increased pressure experienced as a result of adjusting to a change in requirements.

Invoicing frequency



Some businesses dealt with daily invoices, multiple receipts and expense claims, whereas others had only occasional invoices and few or no receipts or expense claims. This impacted on record-keeping behaviour and how difficult they found the task of

handling VAT. The nature of invoicing also had an impact on which software businesses opted for and whether they chose particular features, such as receipt capturing software.

Digital confidence



Variations in digital confidence affected how easily businesses were able to adapt to new online processes. Digital confidence within businesses varied depending on how much IT and digital approaches were part of their business operations and the level of digital confidence of individuals working within the businesses. Those who were digitally confident had the capability to engage with new online processes, navigate sites and software programs, and had a greater level of motivation to understand how to get the best out of a new process. In contrast, those who lacked digital confidence described finding it difficult to complete tasks online and perceived any changes to online processes as a source of stress.

Bespoke practices



The research also identified that within small businesses, financial management processes could be highly tailored and deeply embedded. Businesses' primary focus tended to be on delivering a service or product, and so to minimise the amount of administration required to be compliant, systems and processes were often developed to suit particular needs. Financial management could therefore be both idiosyncratic and embedded within the running of the business. Examples of this included choice of financial software, frequency of record-keeping and delegation of tasks. A bespoke system was cited as giving businesses a sense of control and comfort, with most participants feeling that 'their way' worked well for them.

'We have our bespoke systems which work for me and the business' (Nano)

'I'm quite particular, I like to have control of things' (Small)

'My husband compiled the spreadsheets and they work fine for us.' (Nano)

As a result of this, small businesses could find adapting to process and regulation changes onerous. As previously explained, most businesses in the sample were focused on maintaining operations and being compliant rather than accelerating growth by making changes to the way they worked. This, combined with bespoke processes of financial administration, meant they could lack the inclination to change from a familiar system to a new one. Embracing a new system was thought to require investments of time and money and impact on their day-to-day role, taking away from other aspects of the business and potentially having a short-term financial impact.

2.3. Record-keeping prior to MTD for VAT

As has been noted, businesses were purposively sampled to include a range of record-keeping behaviours prior to MTD for VAT, including paper, spreadsheets and software. Understanding how and why businesses were keeping records in this way provides an indication of how easily businesses are likely to adapt to the new requirements.



Paper

Within the sample, there were both full paper users and participants who used paper to support other record-keeping processes. Any reference to paper users within this

report refers to full paper users. Within the paper user sample there were paper users with low and high digital capability. Participants with low digital capabilities were over 65 and although they had access to computers, actively chose not to use them, aside from for very limited purposes (such as checking the weather forecast). The digitally able participants were confident using computers but had not used them for accounting purposes and were actively resisting this approach.

All of the full paper users were using ledger books to maintain their accounts. Whilst not all had low digital capabilities, none of them were working in industries where digital skills were an essential requirement. Examples of the types of business included a dog kennels and a high street shop. For those who had some digital capabilities, continuing to use paper records was indicative of resistance to change. They were happy with their processes, saw no reason to change them and were opposed to moving outside of their comfort zone.

Spreadsheets



Spreadsheets were commonly used prior to the change to MTD for VAT. Spreadsheets were seen as a convenient, user-friendly way of keeping track of VAT for free. Aside from the cost of purchasing a program which provides spreadsheets, there were no fees. Many participants had used spreadsheets since they first set up their business and had built up a great deal of familiarity and confidence with them over the years. With spreadsheets, participants felt that once it had been set up and the relevant formulas entered, record-keeping was then a straightforward process. Each quarter, all that was required was to enter the right figures without any need to worry about the calculations. It was not uncommon for participants to have gone to the effort to design their spreadsheet so that it worked to their specific requirements for their business. Prior to MTD for VAT becoming mandatory, spreadsheet users were happy to continue using spreadsheets even if affordable VAT accounting software alternatives were available. This was indicative of some resistance to this change.



Software

The sample included participants who were already using software to prepare their VAT returns before MTD for VAT became mandatory. These businesses were generally digitally confident. Given that they had voluntarily chosen to use software of their own accord, it could be inferred that they were prepared to embrace technology as a way of making their business run as smoothly as possible. Those using software already had more accounting confidence and experience and it was often the case that the finances of their business were too complex to be easily handled in spreadsheets.

2.4. Perceptions of VAT

Understanding participants' perceptions of how they found the processes of being compliant with VAT is important in order to contextualise how the costs and benefits of MTD for VAT were perceived.

Participants generally saw the value in VAT as a part of contributing to society. In general, participants also felt that calculating VAT and completing VAT returns was straightforward and something that was part of their working routine.

However, there were some participants with negative perceptions of VAT as a tax. These participants had always seen VAT as an inconvenient and tedious chore. They also held some

anxiety around following a set of rules that they found confusing and complex; for example, when processing payments to and from the EU. One participant expressed resentment over their perception of taking on the role of 'unpaid tax collector'. Another felt that VAT presented an unnecessary administrative burden given the requirement to add VAT to client invoices, which the client may then claim back themselves. These participants could not see the point of having to handle VAT when they thought there was no clear revenue stream being generated to HMRC.

However, within our sample, these were views of the minority. The majority of participants found VAT to be a straightforward and simple process; one which they could easily manage in-house without having to outsource. Once the requirements and relevant calculations were familiar and embedded, completing a return was seen as being uncomplicated.

'[VAT] is pretty straightforward when you know what you're doing' (Micro)

'It's just part of our process' (Nano)

2.5. Implications of context on perceived costs and benefits of MTD for VAT

The points above highlight the varied nature of small businesses and the differing contexts into which MTD for VAT was introduced. Considering these variations highlights possible implications for how businesses perceive the associated costs and benefits.

- **Receptiveness to change** – as noted above, variations in businesses' outlook and their ambitions for growth resulted in differing attitudes towards embracing change, innovation and their openness to investing in new processes. For MTD for VAT, this meant businesses had different starting points with regards to the prospect of changing how they met their VAT obligations, particularly if it incurred additional costs. In most cases the reaction was to see it as a compliance-related task rather than an opportunity to profit, with the intention being to 'get it done' rather than 'make the most of it'.
- **Ease of adapting** – certain business characteristics affected the perceived ease of adapting to new requirements to meet their VAT obligations. For example, the degree of change required to their current system of record-keeping, their financial capability and their digital confidence all affected the perceived difficulty of adapting and therefore the perceived costs of doing so.
- **Motivation to change** – perceptions of the fairness of VAT and the burden of meeting VAT obligations also influenced attitudes towards the changes. While the move to MTD for VAT was seen as positive for businesses which were motivated by growth and efficiency, there were more negative associations for those who saw VAT as unnecessary or unnecessarily complicated. It is also worth reflecting that for many small businesses, the prevailing attitude towards VAT was 'if the system isn't broken, don't fix it'. In this context, any disruption to what they were accustomed to risked creating feelings of resentment or frustration.

These contextual considerations are revisited in relation to businesses' experiences of MTD for VAT in section four.

Having explored the context which businesses were operating within, the following section will use the journey from first hearing about MTD for VAT to using it, drawing out costs and benefits over time.

3. Costs and benefits during the change to MTD for VAT

In this section, we look at the costs and benefits experienced during the change to MTD from VAT.

We provide a descriptive account of businesses' change to MTD and the costs and benefits they experienced over different stages of that change. For each stage, we identify the costs experienced and the point at which benefits were initiated – even if this was not acknowledged or experienced as a benefit until later in the journey. We consider variations in how businesses experienced those costs and benefits, particularly in relation to previous record keeping behaviour, as this was a key distinction within the sample. We highlight further variations where they occur.

We also reflect on the different types of costs and benefits that emerged during the change to MTD for VAT, which varied in terms of timings, permanence and nature.

Then in section four we reflect on how businesses assessed the balance of these costs and benefits.

Key findings:

- Overall, costs tended to be more tangible and transitional whereas benefits were both tangible and intangible and only ongoing, rather than transitional.
- The introduction of MTD for VAT was thought to be well publicised. Despite this, a common response was to delay engagement until it was absolutely necessary, reflecting concerns that transitioning would be overwhelming, time consuming and expensive, particularly for those currently using paper records and spreadsheets.
- At the point of becoming aware of MTD for VAT, businesses started to incur costs, including time spent familiarising themselves with the requirements and investigating software options. Previous record-keeping behaviour played a factor in how significant these costs were.
- When preparing for MTD for VAT, businesses incurred costs of purchasing software, consulting with agents and upgrading IT systems. Foundations were laid for benefits, but these did not begin to materialise until later in the journey.
- Those who were new to MTD for VAT compatible software felt the need to practice submissions. This incurred further costs of time, stress and anxiety, but also caused some participants to realise that they could benefit from software features, such as receipt capturing software.
- The first submission led to a cost of time and stress, particularly for those making the greatest adjustment who were concerned about making mistakes.
- Subsequent usage of MTD for VAT incurred costs of software subscriptions, accountancy fees, and for a small number of participants, ongoing stress and anxiety about potential errors – although these were anticipated to recede with time. However, some businesses were also able to identify ongoing benefits, including

finding VAT returns quicker and easier with compatible software, increased tax confidence and improved business operations. Additionally, to align with purchased software, there were participants who changed and streamlined other areas of their business so that their software could be as compatible as possible with their business.

3.1. Overview of the costs and benefits experienced

As referenced in Section 1.4, the following costs and benefits were anticipated through a generation session:

- **Costs:** Software fees; hardware upgrades; time to familiarise with new processes and ways of working; training on software.
- **Benefits:** Greater tax confidence and fewer errors; MTD for VAT being a catalyst for wider changes within the business.

The research confirmed these anticipated costs and benefits, as well as identifying previously unanticipated costs (such as accountancy fees). Furthermore, the research identified the two types of costs and benefits: *transitional* (defined here as those associated with making the changes required to be MTD compliant which were time-limited) and *on-going* (defined here as those associated with making the changes required to become MTD compliant which will continue in the foreseeable future).

Costs and benefits were also either *tangible* or *intangible*. Tangible costs and benefits were easily identified, defined and quantifiable, such as the price of purchasing new software or additional time spent submitting VAT returns. Intangible costs and benefits were less easily identified, defined or quantified and included softer outcomes, such as increased or reduced stress or anxiety.

Overall, costs tended to be more tangible and transitional. Benefits were both tangible and intangible and were realised with regular usage of MTD for VAT compatible software and were expected to be ongoing.

The tables below summarise costs and benefits experienced against these descriptors.

Costs

Costs	Transitional	On-going
Tangible	Time (to adjust to change / build familiarity) Accountancy fees for additional support (checking etc) Training fees Upgrade hardware	Software fees Accountancy fees (for those who rely on accountants for submission)
Intangible	Stress / anxiety	None

Benefits

Benefits	Transitional	On-going
Tangible	None (acknowledged)	Upgraded hardware Software features that improve record-keeping and reduce error Saved time
Intangible	None (acknowledged)	Increased tax confidence (due to training, confidence in software) Streamlined record-keeping (due to software)

3.2. Costs and benefits experienced during different stages of the change to MTD for VAT

There were five key stages which participants went through during the change to MTD for VAT and these are each discussed below. The five stages were:

- Become aware: When participants first heard about MTD for VAT
- Engaging with MTD for VAT: When participants began to engage with the requirements of MTD for VAT
- Preparing for MTD for VAT: When participants took steps to enable themselves to be compliant with MTD for VAT
- First time submission using MTD for VAT: When participants familiarised themselves with submissions under MTD for VAT and submitted their first return
- Subsequent use of MTD for VAT: When participants continued to prepare and submit returns through MTD for VAT (up to the point of interview for this research)

3.3. Becoming aware of MTD for VAT

The first stage of the journey to MTD for VAT was participants becoming aware that the requirement was being introduced. At this stage, intangible costs included stress and anxiety about the anticipated disruption of adapting to MTD for VAT. No benefits were realised at this stage.

The point at which businesses became aware of MTD for VAT influenced the degree of stress and anxiety experienced by businesses. Those who became aware early experienced less stress and anxiety compared to those who found out later and had less time to prepare for the change.

Generally, businesses in our sample thought the introduction of MTD for VAT was well publicised. Accountants were typically a key source of raising awareness that MTD was coming in and that action would need to be taken.

'My accountant told me it was coming in... I saw it as progress, I understand why they have to do these things.' (Nano)

Awareness was further built by communications directly from HMRC. Participants saw alerts on the website when they were submitting their VAT returns, advertisements on the television and in public spaces, and direct letters to businesses informing them of the need to prepare for a change in how they manage VAT. Those already using software received notifications from their software provider regarding the compatibility of their software with MTD for VAT.

'I couldn't tell you exactly when I heard of it, but I must have had a letter. I blatantly ignored it until I had to do something about it. And obviously I saw it on TV with the ads.' (Micro)

Whilst most participants thought that information about MTD for VAT was widespread and hard to miss, there were examples of businesses who first heard about it via a letter from HMRC shortly before implementation. These participants tended to have accountants who had not proactively communicated the change. This led them to experience greater stress and anxiety than those who had more notice and time to acknowledge and prepare for the change.

In addition to the timing and means of being informed of the change to MTD, how records were kept was also a key variable in how a business perceived the costs and benefits of MTD for VAT during this stage. We will therefore explore the costs experienced by previous record-keeping type:

Paper users were the most apprehensive and negative about the change and therefore experienced the greatest stress and anxiety. Having actively rejected spreadsheets and software up to the point that MTD for VAT was introduced, they recognised the significance of the potential upheaval to their processes. In particular, participants who were less digitally capable or who had limited access to a computer or the internet recognised that this would be a particular pain point for them.

'We received both an email and a letter from HMRC about it. Our initial reaction was that it would require extra work as our previous paper accounts were so easy' (Micro)

Spreadsheet users were similar to paper users in that they recognised that MTD for VAT would require embracing changes in order to be compliant and were therefore similarly anxious and stressed about this. Additional stress was incurred particularly amongst those who had developed bespoke systems for their businesses. They assumed that the software available would be unable to provide as tailored a process as they were accustomed to.

Spreadsheet users were also similar to paper users in that they included businesses who had actively chosen not to use software. However, there were also spreadsheet users who had been unaware that software was an option and so this anticipation led to some anxiety over having to familiarise themselves with a new tool.

'I was scared at first because I didn't really understand it and how it was going to work. It's not until you actually do it once, and it's ok... thinking you've got to learn something new and do it differently, when you're used to doing it a certain way.' (Small)

Software users experienced the least anxiety as they anticipated minimal disruption as a result of the change. Those who were already using commercial software that was then

upgraded by the provider to become MTD for VAT compatible were informed by their software provider of this and therefore knew there was going to be minimal change for them. Those who were not using MTD for VAT compatible software were confident with software in general. Although they anticipated that moving to a new software provider could cause a level of upheaval, they were confident that they would be able to adapt. For these participants, the costs were therefore minimal.

3.4. Engaging with MTD for VAT

Despite the long lead in time for many businesses, a common response to the information was to delay engagement until it was absolutely necessary. This was due to a dislike of change and an anticipation that transitioning would be overwhelming, time consuming and expensive. There were also participants with a demanding workload who found it challenging to find the time to engage with MTD for VAT until it became a pressing requirement. All participants reached the point of engaging with the requirements of MTD for VAT, regardless of how much they deferred this. At this stage, costs related to two elements: first, costs incurred investigating and understanding MTD for VAT and second, in considering what they would need to do specifically as a business to be compliant for MTD for VAT. A benefit initiated (but not necessarily acknowledged) at this stage was purchasing MTD for VAT compatible software, which could subsequently help to save time, build tax confidence and increase accurate record-keeping.

Costs associated with investigating and understanding MTD for VAT varied according to previous record-keeping method. For those already using **software** that was compatible with MTD or which had been upgraded to be compatible, little effort was required to confirm this was the case and therefore costs were small. Those transitioning from **paper** and **spreadsheets** incurred a cost of time investigating and understanding what would be needed. To understand what would be required and therefore how their processes would change was a time-consuming process, which also caused stress and anxiety for those who were most resistant to the change. Some of those who were most anxious about the change also incurred additional costs in the form of increased expenditure on accountancy support to help them identify the best software for their needs.

'I buried my head in the sand until I couldn't do it. I just said to my husband that I physically couldn't do it. I saw the software ads on TV and found them overwhelming. I saw it on TV and that was very off-putting, mind-blowing, it all seemed quite daunting. I couldn't face it on top of everything else and the thought of changing was just too much' (Micro)

Costs of time and stress were experienced when considering what they would need to do specifically as a business to be compliant with MTD for VAT. A response from **paper** and **spreadsheet** users who felt uncertain or who were seeking reassurance, was to seek advice and guidance from their accountant. This resulted in both increased expenditure on accountancy support, and also a cost of time.

'I had a look at the HMRC MTD for VAT website and didn't know where to start with such a long list so I ended up asking my accountant' (Micro)

Some previous **paper** and **spreadsheet** users incurred stress whilst researching compatible software. The number of software options felt overwhelming. Understanding what the different

features and benefits of each software option were, combined with determining whether this option was good value for money and whether it would be suitable for the business required investing costs of time and effort. Participants also needed to make the decision between bridging software and full software. For those who decided without guidance from an accountant, there was a cost of additional time understanding the limitations and benefits of both along with the cost implications.

'I googled the different kinds of software and read about the pros and cons of each' (Micro)

'We just asked our accountant what to use, he said we weren't the only ones' (Nano)

The decisions which participants made at this stage would later emerge for some as beneficial. Those who decided to use software (rather than bridging software) ultimately benefitted from the features of the software, although this may not have been anticipated or fully appreciated at this point in their journey.

For **software** users, the costs experienced depended upon their software's compatibility with MTD for VAT. The majority of software users within the sample were already using compatible software and so experienced few, if any changes. Although there was for some a small cost of time to confirm that the software was compatible, this was negligible.

However, participants who had been **using software which was not MTD for VAT compatible** experienced several costs. The first was the emotional stress of waiting to hear whether the software they were using would or would not be MTD for VAT compatible. This was a particular stress point as not all providers declared their status until 2019. Where this happened, businesses experienced a second instance of stress as there was less time to research and select a new software provider. They also incurred further costs in time as they wanted to move all of their accounting history from one software provider to another for their own financial continuity. This was not always a smooth, automated process and it took time to ensure that all data was successfully transferred. However, for these participants, a benefit was initiated at this stage (realised later in their journey) for those who decided to upgrade their software and switch to a provider with more features.

'We were only told 6 weeks before that [our provider] wasn't going to be MTD compatible' (Nano)

'Transitioning from one software to another has been very costly.' (Nano)

3.5. Preparing for MTD for VAT

This stage was when businesses took concrete steps to become MTD for VAT compliant including changing to compatible software. Costs incurred at this stage included purchasing software, accountancy fees for additional training on how to use the software, upgraded computer hardware, as well as continuing costs of time, and intangible costs of stress and anxiety. A few benefits also began to emerge at this stage, associated with the upgraded software and hardware, which would prove to be time-saving, user friendly and offer benefits to other parts of the business in later stages of the journey. There were also participants who

would later benefit from increased tax confidence as a result of the accountancy support and training they had received.

The first cost in this stage for **spreadsheet** users related to software. The costs of purchasing software ranged significantly. Bridging software was typically the cheapest option, costing around £40 a year. Those who selected it saw it as an affordable and 'straightforward' option which allowed spreadsheet users to maintain their familiar processes. For those resistant to MTD for VAT and who were opposed to investing in both new software and the skills required to use it, bridging software offered a cost-effective alternative.

For those who opted for full software (rather than bridging software), the price ranged widely. Basic packages were reported to cost a minimum of £6 a month, whereas full accountancy packages (where MTD compatibility was included as part of broader accountancy functions) were reported as costing up to £3,500 a year. Those using these types of packages were already software users, typically with relatively complex accountancy needs who understood that they needed to spend more to manage their finances. In the middle of these were intermediate packages, costing approximately £30-40 a month. These packages provided additional functionality in addition to MTD compliance, such as allowing more user access and the ability to work across different currencies.

Those changing from **paper** and **spreadsheets** to software sometimes incurred costs of time in seeking advice from their accountants on the most suitable software. Whichever software they were recommended by their accountant, combined with cost, were the key influencing factors affecting decisions on how much to spend and with which provider. For those who did not seek advice from their accountants, suitability was determined by a preference for ease of use, so software which was intuitive and easy to use, and which offered good 'value for money' for the functionality provided was favoured.

Once the software was purchased, it meant that participants could, at a later stage, change and streamline other areas of their business so that their software of choice could more easily align with other areas of their business. This was a benefit which was not actualised until after the change to MTD for VAT had been completed, participants felt confident with the software and the familiarisation costs began to decrease.

A number of these businesses who were new to software also needed to upgrade their computers and computer operating system as their previous system was too outdated to be able to support MTD for VAT compatible software. Whilst this invariably meant costs to purchase new equipment, it was also a future benefit in saved time and efficiency for those who did upgrade their hardware. The investment in new hardware and systems often resulted in their processes being quicker and easier than was possible on their old and dated machines.

Software users who had to move from using non-compatible software incurred costs of time, and intangible costs of stress and anxiety. Having to transfer their records from one software system to another required migrating a considerable amount of valuable financial data. It took time to understand how to do this securely and thoroughly and this created a cost of time and intangible costs of stress and anxiety.

There were also **spreadsheet and paper users** who incurred costs associated with training to prepare for their first submission; both in terms of training fees and time spent. A number of software providers offered video tutorials on how to use their platforms. The majority of participants who were using software (either bridging or full) for the first time invested time in watching tutorials and understanding how the software worked. There were a small number

of participants who felt particularly anxious about the change and so paid for specialised training from their accountants on how to use the software. The training familiarised them with the different functionalities of the software and any idiosyncrasies they should be aware of, prior to submission. This additional support from accountants helped to build confidence in the software. This evolved later into an ongoing benefit of having greater tax confidence, as participants became even more familiar with the software.

3.6. First time submission using MTD for VAT

In this stage, businesses prepared and submitted a VAT return under MTD for VAT for the first time. Cost incurred during this stage included time, additional accountancy fees and a cost of stress. A benefit initiated at this stage for some businesses was the purchase of receipt capturing features which would ultimately save time and increase the accuracy of records.

For those using software (including bridging) for the first time, there was a period of familiarisation required. It took time to understand where and how to enter relevant information and how calculations were then made. Participants using full software for the first time encountered challenges in understanding how the software sometimes interpreted data, particularly when it pointed out potential errors.

Practicing for the first submission also caused some participants to realise there was an ongoing benefit to be had in receipt capturing features. This then resulted in the additional transitional cost of time spent researching the various options available as well as the cost of the receipt capturing feature. Receipt capturing software was then appreciated as a benefit for those who used it on an ongoing basis.

For **paper** users who continued to rely upon their accountants to submit their VAT returns, some additional costs were incurred as they built familiarity with new processes for preparing a submission. Previously, the participant would complete the VAT paperwork themselves and their accountant would merely submit the figures on their behalf. Under MTD for VAT, their accountants now required full jurisdiction over the figures entered. This had resulted in MTD increasing participants compliance as they now needed to provide comprehensive invoices and paperwork to satisfy the accountant, which on occasion incurred time costs to recontact suppliers to reissue old invoices. However, it was anticipated that as more returns were prepared and submitted, the cost of preparation would subside as it becomes possible to anticipate what the accountant will need and provide this in advance.

The first submission under MTD for VAT for former **paper** and **spreadsheet** users who were now using software incurred a cost of additional time and increased stress. These costs were incurred due to the burden of using an unfamiliar tool for the first time. Learning how the software worked, what data should be entered where and how took additional time. Unfamiliarity also led to stress and anxiety over misunderstanding how the software worked and inadvertently making a mistake. As with previous stages, the first submission under MTD for VAT was frequently put off until 'as late as possible' due to anxiety over the changes.

These costs were particularly felt by those making the greatest adjustment. Submitting VAT returns via software for the first time led to greater anxiety and stress that mistakes had been inadvertently made. For those who were low in tax confidence and who felt anxious using unfamiliar software, anticipation of making mistakes led more time being invested to build familiarity with the software features. For those who were least confident about the change, this was a more significant cost in time as well as a cost of emotional stress.

*'You press a button and it goes and you think has it worked, is it accurate?
Do I trust it? Trepidation!' (Small)*

*'I found the first one difficult as [I was] getting used to the terminology with
the software. I felt more comfortable after that.' (Nano)*

There were also participants who reached out to their accountants for support and additional checking for mistakes in their returns. These participants incurred additional costs of accountancy charges for these services.

3.7. Subsequent use of MTD for VAT

This stage involved participants continuing to prepare and submit returns through MTD for VAT up to the point of interview for this research. As was experienced at previous stages, participants continued to incur the same costs of accountancy fees and time, as well as intangible costs of stress and anxiety at this point. Benefits (typically initiated in earlier stages) began to be acknowledged by participants during this stage, as ongoing usage led to increased familiarity with the software. As familiarity and confidence in the software built, participants realised that preparing and submitting a VAT return could be faster and easier. Furthermore, it was also realised by some participants that MTD for VAT compatible software could be aligned with other areas of the business to create smoother, more streamlined processes.

Accountancy fees were particularly noted as a cost at this stage for the small number of **paper** users who were less digitally capable and so relied upon their accountants to submit their VAT returns for them (for which there was a charge). Some **spreadsheet** users also incurred ongoing accountancy fees related to their reliance on accountants. These participants lacked confidence in the software and so were contacting their accountants to double check and verify their VAT returns, thereby incurring ongoing financial costs for the additional support as well as the cost of time of communicating with their accountant and providing the relevant data.

Time was a particular cost for **paper** and **spreadsheet** users now using software. It took time to build familiarity with the software and the new submission process. For many of these participants it was a steep learning curve.

Subsequent use of MTD for VAT also incurred emotional costs for former **paper** and **spreadsheet** users; for example, intangible costs of stress and anxiety which can arise when processes are changed and there are consequences for making mistakes. For those participants who already had an existing anxiety over making mistakes and 'being in trouble' with HMRC, the change to MTD for VAT magnified these. This resulted in additional time costs, as participants described checking and double-checking figures entered and steps taken to ensure correctness. However, as will be seen, with the increase of time spent on submitting returns, as familiarity and confidence built, these emotional costs were felt to have decreased.

Benefits tended to emerge during this stage, as participants adjusted to using compatible MTD for VAT software. A key benefit was that using MTD for VAT compatible software could make preparing and completing a VAT return quick and easy thereby saving time. The software provided features and capabilities which spreadsheets or paper could never provide; for example, receipt capturing software and the ability to generate invoices. It was seen as beneficial that bank accounts could be linked to software allowing reconciliations to be done

automatically, which helped to reduce anxiety about inadvertent human errors as the data was being drawn directly from the source.

Participants began to acknowledge that software could simplify and automate processes which, although not complex, could be arduous and time consuming. Looking back on how their processes had been prior to MTD for VAT, it was possible for some participants to fully appreciate how much improvement had been made. When participants reflected back, they were able to identify a clear difference in the time it previously used to take them and the time it now takes them. Within this context, the time saved due to how easy VAT returns had become was seen as being a benefit – one which was continually being realised, increasing each quarter.

An additional benefit realised during this stage was increased tax confidence. This was similarly tied to the features of software, which could highlight errors or inconsistencies within data. Even if the inconsistencies were intentional (for example, because of international tax rules), it was reassuring that the software could spot them. This gave businesses greater confidence and less anxiety around completing VAT returns – making quarterly returns less stressful and easier to complete, with added reassurance that this approach would help to avoid error related fines.

The final key benefit identified during this stage related to seeing MTD for VAT as a catalyst for wider change and improvement. For some participants, making this switch illuminated how other areas of their business could be made faster and easier with the aid of software or with a change in processes. This was a benefit which was often only identified when reflecting on how MTD had prompted them to look at other processes within their business.

Participants understood that ongoing costs would be experienced for as long as they need to comply with MTD for VAT. Most participants perceived the ongoing costs to be manageable and a relatively small financial outgoing. Those who felt most negatively about these ongoing costs were those who now relied upon their accountants to submit their VAT returns on their behalf and so had high quarterly accountancy fees for this additional service.

Whilst benefits were often initiated during early stages in businesses' journey to MTD for VAT, they were often not fully appreciated as benefits until after some familiarity had built. Benefits tended to be less tangible than costs and to emerge once the costs were beginning to fade away. Businesses which were able to adjust to MTD for VAT quickly and which started to capitalise on the features offered through the software, were those who realised the most benefits. Those who struggled to adapt were more likely to experience a longer transitional period and its associated costs which delayed the opportunity to realise benefits.

4. Weighing up the costs and benefits of MTD for VAT

Four key benefit areas were identified as a result of transitioning to MTD for VAT. These were: time, ease, MTD for VAT as a catalyst for wider business process changes and MTD for VAT being the cause of increased confidence in getting tax right.

Reflecting different businesses' experience of these benefits, weighed against the costs incurred, four distinct categories emerged with regards to the costs and benefits of MTD for VAT, ranging across a spectrum from negative to positive. In answer to the question, 'have the benefits of MTD for VAT outweighed the costs?' the four categories which emerged were:

- No, MTD is costing me more
- There is no difference to my overall costs and benefits as a result of MTD for VAT
- There have been small benefits which have outweighed the costs
- Yes, there are clear benefits which clearly outweigh the costs of MTD for VAT

In this section, we explain each category and illustrate it using pen portraits of participants.

Key findings:

- The individual's level of acceptance of the change impacts on how the costs and benefits are perceived.
- The transition feels particularly costly when people experience anxiety about making a mistake and being penalised for it.
- Participant's negativity about the time and emotional cost required to engage with choice of software was greater than about the financial cost.
- This research identified some businesses low in digital skills and confidence who have struggled more with MTD for VAT.
- This research is reflective of participants' opinions and perspectives at a single point in time. The more time that passes since the change took place may have a significant impact upon how the costs and benefits of MTD for VAT are viewed. The four categories are fluid and where individuals sit within them can be changed and influenced.

In this section we consider businesses' perceptions of the costs and benefits associated with MTD for VAT and how participants perceived the overall balance of costs and benefits for their business. We do not attempt to provide an objective assessment of the balance of costs and benefits, and indeed the research objectives and methodology would not permit this.

It should also be noted that this research is reflective of participants' opinions and perspectives at a single point in time. The more time that passes since the change took place may have a significant impact upon how the costs and benefits of MTD for VAT are viewed.

4.1. Understanding the factors which influence the weighing up of costs and benefits

There are a number of factors which impacted upon how participants viewed the costs and benefits they experienced as a result of MTD for VAT. As previously referenced in the context section, there were three factors which impacted upon how participants perceived the associated costs and benefits. These were:

- Receptiveness to change
- Ease of adapting
- Motivation to change

Receptiveness to change

A business's ambition to grow and innovate played a role in how they weighed up the costs and benefits of MTD for VAT; for example, participants who were older, closer to retirement and happy to 'tick along' felt that some of the benefits were less applicable to them.

Participants who were prepared to fully embrace a move to MTD for VAT may also have been willing to spend slightly more on their software of choice than those who were resistant and who tended to opt for the cheapest option. This included purchasing software with more accountancy features and receipt capturing software which, although an additional tangible cost, were felt to be outweighed by the benefits the features enabled.

Those who were the least receptive towards MTD for VAT typically perceived the costs and benefits poorly. These participants felt they had only experienced costs as a result of the change and were continuing to only experience costs with no benefits.

Ease of adapting

While VAT was generally seen as being a relatively straightforward task to complete, the introduction of MTD for VAT disrupted this familiarity and highlighted any underlying anxiety around submitting VAT returns correctly. For those who managed finances themselves, MTD for VAT therefore presented a new task to familiarise themselves with, incurring extra time and, in some cases, extra stress. This additional requirement on top of running a business caused some participants to have a more negative starting point with regards to MTD for VAT. Any benefits which they experienced had to be all the more impactful to counteract this.

How significant the change which MTD for VAT had upon record keeping was a key factor in determining how easy it was for businesses to adapt. Those businesses who faced a big change and struggled to adapt to MTD experienced intangible costs such as stress and anxiety for longer compared to those who were able to adapt more easily. For those who adapted to MTD for VAT, these transitional costs had faded away as familiarity and confidence had built.

Digital confidence also impacted on how well businesses understood the options available to them. For example, some participants did not grasp the difference between bridging software and MTD compatible software and were therefore unable to benefit from the advantages offered by the latter.

Motivation to change

A further implication of VAT being seen as a relatively minor and straightforward part of running a business was that participants generally did not see a need to streamline or change the process. They did not have a sense of how MTD for VAT could improve their processes and did not feel there was a need to make it easier. In addition, there was some confusion over the concept of making tax 'digital' because it was already considered to be a digital process due to returns being submitted via the HMRC website.

MTD for VAT was more strongly associated with submitting VAT returns rather than as a direct enabler of better record-keeping. Participants therefore did not always recognise that as a result of the change to MTD for VAT, other processes, such as record keeping would also be impacted. This influenced participants' motivation to change as the benefits were hard to

identify. If record keeping was considered as well as submission, they may have felt more motivated to change.

'The old system wasn't broken so why fix it? The new system has no advantages at all as far as I'm concerned' (Small)

'My initial thoughts were what a big deal, why? Because most of it is digitised anyway' (Small)

4.2. Weighing up the costs and benefits of MTD for VAT

As referenced above, how a participant perceived the costs and benefits of using MTD for VAT aligned with how significant the change had been from their previous record-keeping method. The feelings spanned a spectrum: at one end were those who were struggling to come to terms with the change, whereas at the other end, were those who had no issues using MTD for VAT.

Former **paper** users were at the more negative end of the spectrum. **Paper** users in particular found it the hardest to come to terms with MTD, given that the change required of them was significant and disruptive. **Software users** who previously used software which was not MTD for VAT compatible were less accepting and so still felt as if they were experiencing more costs than benefits.

Reflecting different businesses' experiences of the benefits weighed against the costs incurred due to MTD for VAT, four distinct categories emerged across a spectrum from negative to positive. In answer to the question, 'have the benefits of MTD for VAT outweighed the costs?' the four categories were:

- No, MTD is costing me more
- There is no difference to my overall costs and benefits as a result of MTD for VAT
- There have been small benefits which have outweighed the costs
- Yes, there are clear benefits which clearly outweigh the costs of MTD for VAT

It is important to bear in mind that overall, these categories sit within a spectrum and that each category has nuances with regards to the costs and benefits experienced. Individuals experienced the impacts of costs and benefits differently. As has been referenced, the positives of the change were typically slower to emerge and more subtle. Furthermore, this research is reflective of participants' opinions and perspectives at a single point in time. The more time that passes since the change may have a significant impact upon how the costs and benefits of MTD for VAT are viewed. These four categories are fluid and where individuals sit within them can be changed and influenced.



No, MTD for VAT is costing me more

There were commonalities amongst participants who saw MTD for VAT as having more costs than benefits. These participants tended to be older, lacking in digital confidence, or planning to retire in a few years. The processes they had implemented had been in place for many years and had always worked satisfactorily – the need to change them was not apparent. Although MTD for VAT had the potential to help them improve their processes, the short-term costs of time and money to make these changes were not seen as being a worthy investment.

For these participants, their priority was to ensure that their business was 'ticking along' with 'business as usual'. Spending money on MTD for VAT compatible software was therefore not appealing, as bridging software allowed them to continue almost as before.

The commonalities with regards to the three factors outlined above and participants who belonged in this group are as follows:

Receptiveness and motivation to change: These participants were not receptive to change. They considered their processes to work smoothly and effectively and saw no need to alter them. As they were starting from a position of resistance, their priority was to do whatever was required to be compliant rather than seizing upon an opportunity to overhaul any processes.

Bridging software users tended to perceive more costs than benefits. These businesses experienced transitional costs, such as spending time identifying suitable software and adjusting to using it for their returns. This also led in some cases to anxiety over making mistakes in an unfamiliar system; although the emotional cost of this was felt to have decreased over time. While others in the sample saw these transitional costs as being a part of the process and not as overly burdensome 'costs', bridging software users perceived them as being more significant. When combined with the ongoing cost of software, it amounted to a very negative view of how much MTD for VAT was costing compared to the benefits experienced.

Ease of adapting: For bridging software users, the change to MTD for VAT cost them time, money, emotional wellbeing and effort. Although they had the ability to keep using their spreadsheets, this came with costs. Their frustration was magnified by a sense of unfairness. In practical terms, little had changed for these participants. How they kept their records had not changed, it was only within the submission that there were differences (where they had to use the software), and yet in order to be compliant with HMRC's processes, they had to experience these costs.

This frustration was an extra cost shared by participants who now relied upon their accountants more and who found the change challenging. They similarly felt they had only experienced costs, and no benefits, as a result of the change. These participants were typically elderly and digitally unconfident. Such significant changes were required to their systems and investments in, for example, computers, Wi-Fi, and time and effort to use them that ultimately it was easier to outsource their VAT submissions to their accountants. For these participants, the sole anticipated benefit of this change was that having additional oversight from their accountants may help to mitigate against and reduce errors. However, this benefit was felt to have been significantly outweighed by the other costs.

'We now have to pay our accountants an awful lot of money just to submit these forms' (Small)

'When I found out about [MTD for VAT] I jumped up and down in a filthy temper. I don't understand why it's been necessary to do all of this.' (Micro)

'For a business such as mine which is basically just me, I don't understand why it's been made mandatory.' (Nano)

Pen portrait: Paper user feeling the costs

Jean is 80.² She runs an independent shop in a small market town selling cards, knick-knacks and jewellery. Her business has been struggling in recent years due to the cost of rent and factors such as roadworks in the town impacting on foot traffic.

Jean has run the shop for 24 years and has always been responsible for the book-keeping and managing of the accounts. She has a computer and an iPad but does not use them for anything 'complex' such as spreadsheets. Prior to MTD for VAT she paid her accountant to do her year-end accounts. She submitted her VAT returns herself.

She received a letter from HMRC informing her about MTD for VAT and due to her lack of confidence with computers and having very intermittent WIFI in the shop, she asked her accountants to take over her VAT submissions.

She had seen her accountancy bill more than double as a result of this and struggled to adapt to the way her accountants wanted her records presented. This had cost her additional time as she continued to keep her own paper records but must now produce additional invoices and receipts to satisfy her accountants.

She has found the change stressful, costly and in her view, unnecessary.

'Small businesses like mine are often run by rather mature people who have to pay other people to comply with the rules'

'I'm not bad at figures but I don't like change. I've found it very difficult to go from my system to [the accountant's] system'

Pen portrait: Bridging software user pays an 'additional tax'

Sarah is 60 and has been running her limited consultancy company for 12 years. Her business is successful, but she has no plans to grow as she is perfectly happy to 'tick along' until she retires.

She received a 'flow of emails' about the change to MTD for VAT but tried to ignore them for as long as possible. She could not understand why HMRC required the same data to be provided in a different format to how it had been.

Her accountant gave her some advice on the different kinds of software available and she spent some time researching the different choices.

Her main assessment criteria were cost and ease of use. Since she has been running her business, she has always used a spreadsheet which she designed bespoke to her business needs. Her preference was to be able to continue using this and so she chose to use bridging software. This decision was driven by her resistance to abandon her bespoke process and by the cost of accounting software which she felt she was being forced to use. The cost of bridging software at £40/year was considered to be tolerable.

Sarah felt there had been no benefits as a result of the change. There had been no significant change to her systems aside from submitting through the bridging software. She saw the cost for the software as an additional tax.

'It hasn't saved me any money, in fact it's cost me, it's a tax for me'

² Given Jean's age, she could have applied for exemption from MTD for VAT. However, it was evident during the course of the interview that she was unaware of her exemption status.

'There are no benefits to me, there's nothing in there that I didn't have before. I was doing it digitally before so I don't understand why it needed to change. I said I wasn't happy to my accountant, he said tough.'



There is no difference to my overall costs and benefits as a result of MTD for VAT

For most participants, including spreadsheet and software users, transitioning to MTD for VAT had resulted in no notable net costs or benefits.

Ease of adapting: For those who were using software which was upgraded to be MTD compatible, adapting to MTD for VAT was a straightforward experience which had no impact on their business. They were already familiar with the costs and benefits of using software and had already made the decision that using software would be best for their business. These participants also recognised the overall benefit to HMRC of having businesses change to MTD for VAT. They anticipated that it would help businesses to pay their tax on time and with fewer errors which was viewed as being of wider benefit.

Receptiveness and motivation to change: Those who transitioned from spreadsheets to MTD compatible software, instead of using bridging software, identified themselves as being willing to try to adapt to new processes in the belief that it might benefit them overall. Initially, when going through the change to MTD for VAT they experienced more costs than benefits, such as the cost of software and the added stress and time required to become familiar with it. However, it was also acknowledged that the software could do calculations, spot errors and make completing their returns significantly faster.

Whilst MTD for VAT was still 'bedding in' participants felt that the overall outcome was neutral. However, participants felt that more benefits would emerge over time. All of the participants within the sample were completing quarterly VAT submissions. Therefore, the opportunities for 'practice', up until the point of interview, were relatively limited. However, it was recognised by those participants who were amenable to embracing the change that with time each submission would become quicker. They appreciated that benefits could emerge as their familiarity with and confidence in MTD for VAT compatible software became greater. Whilst MTD for VAT currently felt costly in time and additional guidance from accountants (which incurred additional financial costs), as time passes and the transitional costs experienced recede, participants recognised that they may move into the next category of seeing the benefits as having outweighed the costs.

'It's had no real impact. It's not necessarily saved me money but it's not cost me money either.' (Small)

'It sounded like it was going to be a lot more effort than it turned out to be.' (Micro)

'I found the first [submission] difficult as I was getting used to the terminology with the software. I felt more comfortable after that.' (Nano)

Pen portrait: *Adjusting to a change*

Ben runs a landscaping business. He has been working in the industry for 30 years and is constantly in demand for his services.

He was aware of MTD for VAT being introduced because of adverts and because his accountant told him. He had been using the same software since he started his business in 1999. In order to be compatible his software provider required an upgrade costing £9,000 which was significantly more than Ben was willing to pay. Ben therefore spent time researching different software options. He took (charged) advice from his accountant over what might be most suitable for his business. Once he found one which was suitable however, he incurred additional costs as he needed to purchase a new computer which could handle the updated software.

Currently he feels frustrated that he has had to go through so much change and 'hassle' in order to comply with MTD for VAT. He also now has ongoing costs for his software which he previously didn't have. However, he recognises that it's a benefit to now have access to the Cloud and to have some security against any data losses and has some reassurance from that. He also likes that the software has additional features which his previous software didn't, such as being able to raise invoices directly.

'I didn't see the point of having to change it as everything was working fine before'

'It's taken me a while to get used to the new system but overall, it's not been a massive outlay. I have to raise invoices every day and I like that I can do that through the [new] software'



There have been small benefits which have outweighed the costs

There were participants for whom MTD for VAT was a prompt which nudged them into making changes which participants found to be positive. This included spreadsheet users who had found their spreadsheet to have limited functionality compared to their requirements.

Motivation to change: Spreadsheet users who had 'outgrown' spreadsheets were nudged into using record-keeping software as a result of MTD for VAT. These participants recognised they would have otherwise been unlikely to 'make the leap' to software but embraced the opportunity when pushed. As they adjusted to MTD for VAT, they found that the software had improved the process of preparing and submitting their returns which improved accuracy. Although the change had incurred costs of time, and for some additional accountancy fees in order to be supported through the change, overall, it was felt that there had been small benefits which outweighed the costs.

Receptiveness to change and ease of adapting: This group also includes participants who had already been using software prior to MTD for VAT. However, despite the fact they had already taken the step previously to use software, this did not mean that they were using the best software for their business. They may have been using the same product for some years without ever being prompted to consider that there could be more suitable options available. MTD for VAT was that prompt for these participants, and the increase in advertising around MTD for VAT made them appreciate that there were other options available. As a result, they chose to switch to software which was more suited to their business and which was better suited to their accountant's needs. Often, the software they changed to was actually cheaper

than their original provider. They did still experience transitional costs as a result (time spent researching software and adjusting to a new software). However, ultimately it was felt that the long-term benefits of smoother processes would offset these costs. Other costs associated with making the change to MTD for VAT were relatively limited for these participants as they were already familiar and confident with using software and so adapting to a new software package was generally straightforward.

'MTD has given us a bit of a nudge to upgrade the software and it is now cheaper than the one we were using previously.' (Micro)

'It's opened my eyes to a service that I hadn't really considered using and probably wouldn't be using now had it not been forced upon me, but I see that as a positive.' (Micro)

Pen portrait: A timely nudge for change within a business

Robert runs a high street jewellery store. His business is steady but has faced challenges from online retailers. He finds VAT a stressful thing to do as it needs to be fitted around running the shop and is always a secondary priority to customers. He was previously using spreadsheets and used to take paper documents to his accountant to put into a spreadsheet for reconciliation.

He heard about MTD for VAT through alerts on the HMRC website and his immediate reaction was that it was going to be expensive to switch to software. As well as the cost of software, Robert has also had the cost of fees for his accountant's additional support and checking. However, he recognises that using software is ultimately better for his business as it helps him to keep 'more on top of things'. He also acknowledged that they should have been using it anyway, regardless of MTD for VAT, due to the growth of the business and because the cost of software was smaller than he expected. For Robert, MTD for VAT was the nudge he needed to make the move away from spreadsheets.

'Because we're reconciling it as we go along rather than at the end of the year, we've got a much better idea of where we are...The software is something we would probably have done by the end of the year anyway, but MTD made us do it sooner'



Yes, there are clear benefits which clearly outweigh the costs of MTD for VAT

Finally, there were participants who recognised that as a result of MTD for VAT, there were clear benefits which clearly outweighed the costs. Those businesses which felt the benefits outweighed the costs had seen changes across the four key areas identified of time, ease, a catalyst for change and increased tax confidence.

Motivation to change: The businesses which felt that MTD for VAT was saving them time and making their VAT submissions easier had some factors in common. Typically, they tended to have a high number of invoices and receipts. Keeping track of these in spreadsheets, although feasible, was not always efficient. Using software under MTD for VAT had helped to streamline previously arduous processes and was now saving time and making processes easier. Capitalising on the features of the software had made it easier to send out and track

invoices and payments. With MTD for VAT compatible software, invoices could be sent out automatically or with the click of a button, rather than having to create these manually.

Receptiveness to change and ease of adapting: Prior to MTD for VAT, these participants had been content with their processes – they were familiar and there was no pressing demand to change. Nevertheless, they were open to adopting new processes when pushed and MTD for VAT proved to be the catalyst for change to some of these processes for the better.

As their familiarity with MTD for VAT developed, it enabled them to recognise that other areas of their business could be improved. Fundamentally, these participants were open and willing to make changes which might improve their business. For example, one participant described that they had realised that instead of continually paying individual expenses, it was easier to create a system whereby payments were made at the end of each month, in a single lump sum. This made it much easier for reconciliations with the bank rather than searching through hundreds of payments for each individual reconciliation. Within our sample, these participants had high numbers of receipts and invoices. They were therefore able to benefit from the features of the software which is designed to support businesses with high volumes of invoices.

'It was scary, but it will make us work more efficiently. It's probably a good thing we were forced to do it.' (Micro)

Software that helps spot errors helped to build confidence in how businesses were managing their taxes and reduced the risk of errors being made in the first place. This was felt most acutely amongst previous spreadsheet users. Previously, they had been reliant upon their own calculations and now felt at less risk of inadvertently making mistakes.

'I feel a lot more secure, as HMRC have got first-hand information from my receipts uploaded and all my income stuff is transported across rather than me inputting it individually, there's much less room for error to occur' (Nano)

The use of receipt capturing software was also a point of considerable improvement. Although typically an additional cost to the price of software, participants felt that, overall, they now saved money because of this feature, as receipts which were otherwise lost or forgotten could now be dealt with quickly and easily. The immediacy of the feature also took away a point of stress at the end of the month of having to search for receipts.

Pen Portrait: A catalyst for smoother process

Jane works for a maintenance company servicing commercial properties. She has worked for the company for five years and is responsible for all of the administration and finance. The company has huge expenses as there are constant purchases of materials and receipts from plumbers and workers with their personal expenses.

Prior to MTD for VAT, Jane was using a spreadsheet. She was comfortable and confident with this as it was familiar. However, she did find that keeping track of all the receipts she was handed and reconciling them was time consuming and that there were probably receipts which she never claimed the VAT back on.





She was initially very anxious about MTD for VAT because of the change it required and invested time and money in having training from her accountant on how to use her new software. She is now much more confident and is finding that the software is saving

considerable time and has helped her to streamline processes within the business. She acknowledges that if MTD for VAT had not been a mandatory requirement she probably would not have made the change to software.

'The company is running more efficiently and it's saving money in my time and all the receipts we previously missed'

'It's much quicker for me to look for invoices now so if a client calls, I can deal with it immediately. It looks more efficient to our clients and we look more professional'

The table below summarises the different responses with each of the categories.

	Receptiveness to change	Ease of adapting	Motivation to change
 No, MTD for VAT is costing me more	Are not receptive to change	Have not found it easy to adapt	Have no motivation to change
 There is no difference to my overall costs and benefits as a result of MTD for VAT	Are open to change	Have found it straightforward	Are passive about change
 There have been small benefits which have outweighed the costs	Are open to change	Found it challenging initially but it has become easier with familiarity	Are open to change but passive
 Yes, there are clear benefits which clearly outweigh the costs of MTD for VAT	Are open to embracing changes	Variable levels of ease but these are countered by pro-activity	Are proactive about implementing changes

5. Conclusions and implications for HMRC

This qualitative research sought to develop a better understanding of how MTD for VAT has led to (transitional and ongoing) costs and benefits amongst mandated businesses. In this section we reflect on the research questions, key findings from the research and consider implications for HMRC.

It is important to remember that the findings from the research are based on a qualitative sample with responses representing the full range of previous record-keeping behaviour of the participants. The findings can therefore not be generalised for the wider population.

5.1. Conclusions

To recap, the aims of the research were to understand:

- What transitional and ongoing *costs and benefits* mandated businesses perceive MTD has generated for them in the first year of MTD, if any? How does this picture of benefits vary by business type and previous record-keeping behaviour? Where businesses do not perceive benefits from MTD currently, why not, and do they see scope for benefits in the future?
- Can businesses see any *wider benefits* from MTD beyond immediate tax-related benefits?
- How do businesses perceive the *balance* of costs and benefits, and does this vary across business types and previous record-keeping behaviour?
- Are there any policy/operational lessons that could *improve the balance* of costs/benefits? How does this vary across business type and previous record-keeping behaviour?

And across these aims, to understand how experiences and perceptions varied among small businesses and to identify lessons to improve the balance of costs and benefits.

Transitioning to MTD for VAT was perceived initially as a burden by small businesses whose focus tended to be elsewhere. It brought to the fore any latent resentment around dealing with VAT or anxiety around getting it right. It was during the change to MTD for VAT that costs were felt most acutely, with the nature of the change not initially presenting any benefits to participants whilst they adjusted to the new process. Whilst there were some tangible ongoing costs (such as software fees), the majority of the other costs were only experienced during the change.

It was only after usage of MTD for VAT was occurring regularly that benefits started to emerge. As time passed and familiarity built, benefits of faster submission, greater accuracy in the figures recorded and confidence began to emerge. The weighing up of the costs and benefits experienced could therefore only be fully assessed once the journey to familiarity with MTD for VAT had been fully experienced.

Within this context, the majority in the sample found themselves in a neutral position, where a small number of transitional costs experienced during the change were offset by some slight ongoing benefits. However, it is likely that as more time passes since the change (when the costs were both numerous and acute for some) that the benefits may begin to outweigh the

costs for the majority of users of MTD for VAT. However, it is important to note that the determination of balance is dependent upon users being willing and able to maximise the opportunities presented by adapting to the required changes.

Those who had not been able to adapt with ease were the least likely to move along the spectrum towards a more positive view of the benefits outweighing the costs. Within the sample, these participants were lacking in digital confidence and had not coped with the change – and, in a worst-case scenario, had to delegate more to their accountant incurring significant ongoing costs as a result.

Users of bridging software were also found to be at the more negative end of the spectrum. Unlike those who were using MTD for VAT compatible software, their options for benefits were limited and they were therefore unlikely to move towards a more positive view of the balance of costs and benefits. Whilst bridging software enables its users to be compliant with MTD for VAT, it does not offer any of the additional benefits which MTD for VAT compliant software does.

At the furthest end of the positive spectrum, where the benefits clearly outweighed the costs, were those who had capitalised on MTD for VAT, using it as a nudge to improve software and, at best, a catalyst to improve business processes beyond this. A common factor amongst those businesses which experienced the greatest benefits was that they were willing to look at how they could innovate and change their processes.

MTD for VAT was more closely associated with submitting VAT returns rather than a direct enabler of better record-keeping. Whilst many of the benefits of MTD for VAT related specifically to record-keeping, they were not initially recognised or associated with MTD for VAT without discussion.

In summary, costs and benefits varied and this was largely influenced by previous record-keeping behaviour. This in turn was reflective of characteristics of the businesses, such as growth ambitions and receptiveness to change. Ultimately, whilst MTD for VAT offers the potential for businesses to embrace this and make significant changes, the majority are more likely to be slightly further down the spectrum – benefitting from the change but not dramatically.

5.2. Implications

As noted above, a primary aim of the research was to identify lessons to improve the balance of costs and benefits for small businesses.

HMRC took a number of actions to try and create conditions which would encourage positive take up of MTD for VAT. These included providing advance notice of the change and offering a penalty-free period to ease into the adjustment.

However, small businesses' reactions to the change suggest that more could have been done to create the conditions for positive usage of MTD for VAT from the start: priming them for acceptance to the change by giving them a clear rationale for the switch, communicating potential benefits upfront and making it clear that these benefits can apply to small businesses as much as to larger ones. Understanding the 'starting point' which small businesses may be coming from with regards to using MTD for VAT could also help to target any communications appropriately.

The journey to joining and submitting via MTD for VAT feels particularly costly when people experience anxiety about making a mistake and being penalised for it. It can't be assumed that people will intuitively trust software, as the initial change can make them feel a loss of control compared to their previous bespoke processes. For any future changes, acknowledging this upheaval and concern would be reassuring – if this could be underpinned by any practical interventions (such as a grace period when mistakes are not penalised during the first year of mandate, a trial run, a longer lead time) that would reduce the burden. It would also be critical that any interventions are successfully promoted and effectively communicated to participants so they appreciate the options they have available. It was evident from the research that even though a grace period was offered by HMRC, the response from participants suggested that the communications were not effective enough to garner sufficient traction around this support measure.

We did not find a great deal of negativity around the financial costs of software, rather the time and emotional cost required to engage with making a choice of bridging software or full software and which brand or package within this. Whilst the overwhelming array of software options may not be in HMRC's hands, providing more guidance and signposting on how to navigate this would help to reduce a significant transitional cost and to support small businesses who feel out of their comfort zone.

This research identified a cohort of businesses within the sample who were low in digital skills and confidence, who struggled the most with MTD for VAT and found it a step too far for them to cope with. In some cases, this had resulted in significant costs as they now needed to rely upon an accountant for their submissions. Although they would find support online if they engaged with this, they were disinclined to do so. This group clearly did not understand or know that they could in fact have applied for exemption status. HMRC should consider how to make sure their communications have the ultimate cut through so appropriate support can be provided to those who need it.

Appendix 1: Sample tables

Primary Quotas

Interviews	Quota	Completed
All	30	31

Recordkeeping behaviour	Quota	Completed
Paper	10	7
Spreadsheets	10	11
Software/apps	10	13

Business size	Quota	Completed
Nano (no employees)	10	11
Micro (1-9 employees)	10	11
Small (10-30 employees)	10	9

Secondary Quotas; mix required

Involvement in tax returns	Completed
Since April 2019	0
Between 1 – 5 years	11
Between 5 – 10 years	10
More than 10 years	10

Length of time since VAT registration	Completed
Since April 2019	0
Between 1 – 5 years	11
Between 5 – 10 years	10
More than 10 years	10

Legal structure	Completed
Sole trader	9
Partnership	2
Limited small business	20
Non-limited small business	0
Charity	0
Other	0

Using Bridging software	Completed
Yes	12
No	18

Software Complexity	Completed
Basic	2
Standard	2
Advanced	1
Don't know	5

Mobile Workers	Completed
Yes	8
No	23

Sector	Completed
Professional, Scientific and Technical Activities	7
Wholesale and Retail trade; Repair of Motor Vehicles and motorcycles	9
Construction	4
Accommodation and Food Service Activities	0
Manufacturing	1
Administrative and Support Service Activities	3
Transportation and Storage	0
Agriculture, Forestry and Fishing	1
Arts, Entertainment and Recreation	0
Real Estate Activities	1
Human Health and Social Work Activities	0
Education	0
Financial and Insurance Activities	0
Water Supply; Sewerage, Waste Management and Remediation activities	1
Mining and Quarrying	0
Other Service Activities	2
Electricity, Gas, Steam and Air Conditioning Supply	0
Public Administration and Defence; Compulsory Social Security	0
Information and Communication	0
Other	0

Region	Completed
Greater London	6
South East	10
South West	1

West Midlands	4
North West	3
North East	0
Yorkshire and the Humber	0
East Midlands	1
East of England	3
Scotland	1
Wales	1
Northern Ireland	1

Appendix 2: Discussion Guide

1. Introduction

- **Thanks & Introduction:** Introduce yourself and Kantar, Public Division – independent research agency
- **About the client:** Research on behalf of HMRC
- **Purpose of discussion:** We are going to be discussing their approach to managing VAT with a particular focus on how they have found the transition to Making Tax Digital (MTD)
- **How their information will be used:** Their views and experiences will be looked together with views of others taking part in interviews across the country. These views will be analysed by theme then a report written based on those themes
- **Ethical considerations:** Anonymity, confidentiality, voluntary participation
- **Duration:** 45 minutes
- **Reassurances:** No right or wrong answers - we are simply asking for people's views
- **Reminder about audio recording:** The discussion will be recorded so that we can accurately capture their views, and so researchers can listen back when analysing the data. The recorder is encrypted and only the research team will have access to the recordings
- **Any questions/concerns?**
- **Start recording:** Acknowledge consent for being recorded

2. Background and context

- **Participant introduction**
 - Name
 - Role, length of time in business
- **Business introduction**
 - Type of business/sector
 - Size of business
 - Growth rates
 - Key business priorities/future plans
 - Any recent changes in business circumstances
- **Exploring positive change**
 - Any changes to the way they run their business over the last year which has had a positive impact
 - Why made this change
 - *Moderator to listen out for language used and benefits mentioned*

3. Introduction to VAT

Moderator to explain that we are going to focus the discussion about their experiences of VAT

- **Introduction to topic of VAT**
 - First words that come to mind when thinking of VAT
 - Probe for each word:
 - Positives
 - Negatives
 - Concerns / Anxieties
 - Challenges of handling VAT
 - What and why

- Which is the most difficult/concerning and why
- Will concerns lessen/increase over time – why

Moderator note: Listen out throughout for any spontaneous references to MTD, make a note of these to revisit and probe further

4. Journey mapping transition to MTD

Moderator note:

- *Throughout the rest of the guide, discuss the participant's experiences of transitioning to MTD for VAT - establish rough timings for each stage and record this on the map*

Moderator note: Introducing the journey map

- *Tell the participant that we will be creating a journey map to understand their experience of transitioning to MTD. This map will be used to establish relative timings of key events and can be added to or amended throughout the discussion.*

Moderator to explain that we are going to focus on switching to MTD and the experience of using MTD for the rest of the discussion. Moderator to explain that we will be referring to the figures they have collected in the pre-interview exercise shortly.

- Record-keeping practices prior to MTD
 - What were these
 - Were they using a computer / are they digitally confident
- Transitioning to MTD
 - When/how did they first hear about this
 - Initial reaction
 - Anticipated impact of transition
 - Preparation – what/how
- Current record-keeping practices
 - Has this changed since MTD - how / why
 - Positives/negatives
 - Challenges
 - Does it make life easier
- Preparing their first digital return
 - [If not – how has the experience been, positives/negatives]
 - Positives/negatives of process
 - Expectation versus experience
- **[For those using bridging software]**
 - What is the reason to use bridging
 - How has it been – positives /negatives
 - What is the barrier to using full MTD software
- Filing their first digital VAT submission under MTD
 - Expectation versus experience
 - Positives/negatives compared to previous process of submitting
- Expectations for future MTD for VAT submissions filings
 - Lessons learnt
 - Differences now compared to first return
- **Perceptions of the transition looking back**

- Experience of transition
 - Expectations versus experience
 - Positives and why
 - Negatives and why
- Biggest change in terms of transitioning
 - Changes to record-keeping
 - One-off financial costs
 - Ongoing financial costs
 - Time/process burden
 - Stress
- **Ask participant to refer to pre-task - use of software in MTD**
 - How did they select this software
 - Why
 - Did they consider cost v benefit
 - Any cost outlaid in the decision – explore
 - Does your software do more than was absolutely needed to meet MTD requirements e.g. digital record-keeping and digital links?
 - Explore their decision to choose software which does/doesn't go beyond – cost related?
 - The amount they have spent/are spending on the transition to MTD for VAT
 - What do they get for that money, is it more than they need to the MTD return
 - Reasonable/unreasonable – explore
 - Worthwhile, value for money / not – explore
 - [If using receipt capturing software] – does this help/add value or not
- **[If they are desktop based]**
 - Explore impact if any, of this
 - Time/effort/any additional costs
- **Doing a VAT return through MTD**
 - Positives/negatives
 - Points for improvement
 - Advice they would give someone transitioning to MTD
 - Information/advice/support needed
 - **[If not already covered]** Changes to their business as a result of transitioning to MTD
 - Explore
 - Positives/Negatives

5. Current feelings about MTD

- **Explore perceived benefits experienced so far**
 - Recap on spontaneous benefits of transitioning to MTD
- **Probe further around perceptions of:**
- **Greater ease**
 - Process (data input, calculations)
 - Any difficulties (technology?)
 - Impact on efficiency

- Impact on day to day operations
- Impact on confidence with VAT filings
- If submitted multiple – has it gotten easier with use?
- **Cost savings**
 - Responses to cost outlay required to transition to MTD (*moderator to reference pre-task figures*)
 - Inexpensive / value for money
 - Expensive / poor value for money
 - Has their business saved money as a result of transitioning - explore
 - **Do you think that MTD for VAT has saved you more money than it has cost you?**
 - Agree/disagree
 - Impact of one-off costs
 - Impact of ongoing costs
- **Time**
 - Does MTD save time/not - explore
 - Has their opinion changed on this
 - If MTD is saving time what are they using the saved time on
 - Improved productivity
 - Better work life balance
 - Anything else
 - **Would you agree that MTD for VAT can give people more time to get out and grow their business...**
 - Agree/disagree with this statement, explore
- **MTD as a catalyst for change**
 - Any changes to their IT processes/business processes
 - Why
 - Positives/negatives
 - Impact on their view of MTD
 - **Would you agree that MTD can help to make a whole business run more smoothly and to get people thinking about how to change other finance or business processes...**
 - Explore responses to statement

Impact of MTD on business and tax confidence

- Explore why / why not
- *Probe if necessary:*
 - Accurate information is more/less accessible
 - Easier to check figures/stay up to date
 - Feel more/less on top of things
- **We believe that MTD has made some individuals feel much more in control and has taken away a lot of stress**
 - Explore responses to statement
 - Explore impact MTD has had on feelings about tax and HMRC

6. Reflection on transition to MTD

- If not covered already, probe for:
- Biggest challenges of transitioning to MTD and using MTD on an ongoing basis

- What
- Why
- Cost outlay required to transition to MTD versus the benefits
 - Biggest benefit
 - Biggest ongoing cost
 - Biggest transitional cost
 - On balance, do you think it's been good for you/your business and worth the transition

7. Future projection

Explore hopes/expectations for future benefits from using MTD

- Most important benefit
- Why
- Any benefits which feel less relevant to them
 - Which ones
 - Why
- Impact of future benefits on cost v benefit
 - What
 - Why
- For those who are positive – explore what could change to move from negative to positive

Service optimisation

- Improving the experience
 - What
 - How
 - Why

7. Close

- One piece of advice for HMRC about how to make the experience of MTD as good as possible for businesses
- Final thoughts / comments
- Explain incentive process
- Thank and close