

Making Tax Digital

Scottish Land & Estates is a membership organisation representing landowners, land managers and rural businesses across Scotland. A high proportion of rural businesses owned and managed by our members are unincorporated, being carried on by individual sole traders or family partnerships.

Scottish Land & Estates has a Taxation Group within our organisation and has long been interested in the operability of taxation policy and guidance as it affects our membership. We therefore welcome the opportunity to respond to the six consultation documents on implementing HMRC's strategy for "making tax digital" (MTD).

We have kept our comments to general areas of interest and concern to our members. However, we are supportive of the views expressed in the separate submission put forward by the Country Landowners' Association.

Timescale

We do have concerns about the lack of detail in the consultation documents and in particular how MTD will impact on businesses. Software will need to be thoroughly tested by users. The implementation and management of any changes will be important and in order to ensure adequate support and smooth transition, we believe that the timescale for the project ought to be delayed. Specifically the apparent intention to publish draft clauses within the next month is of concern. For MTD to successfully operate there requires to be "buy-in" from taxpayers and mandatory MTD without regard to the additional costs and burdens businesses may potentially face will not encourage "buy-in". Smooth operation rather than an inflexible timetable is important.

Rural businesses have faced a number of challenges over recent years and are keen to focus on economic growth and exploiting opportunities to the benefit of the rural communities in which they are based. Additional compliance based burdens are therefore an internal distraction to the priority of business efficiency in a competitive and uncertain global market.

"Tax Gap"

It is suggested that MTD will reduce the "tax gap", but we are not entirely clear that this point is fully substantiated. A better solution to the tax gap is have a system of making all payments electronic and getting rid of the cash economy as many developing countries have achieved successfully. If there are genuine errors, then one would suppose that these are evenly distributed between over and under payments of tax; also if MTD reduces the requirement for businesses to rely on professionals such as accountants, potentially more errors may result. Has the potential for businesses simply fading into the 'shadow economy' to avoid MTD been considered, thus enlarging the tax gap?

Technology

We have serious concerns too about the data protection and security risks which may be faced by businesses through MTD. The consultation documentation does not particularly consider this. Cybercrime is a significant issue and small businesses may have neither the skills nor resources to manage or control such risk. While not technological experts, we do recognise that developments and changes take place at a swift pace and will divert valuable business time. MTD will therefore mean an imposition on businesses in terms of keeping pace with HMRC requirements and best practice, both in terms of time and cost and may mean investment in particular hardware and software or other services which may not be required for any other purpose. We also understand that recently a number of providers have announced steep price rises for UK technological products and consequently costs estimated by HMRC will require to be revised in an upwards direction, meaning a longer “payback period” for investment by businesses. There may also be data access implications where a provider becomes insolvent.

We believe that digital record keeping will not necessarily increase the quality and accuracy of information provided. No system is likely to be foolproof and with technological systems there is often a “one size fits all” approach. Some flexibility will be required. There have of course been well documented issues with technology in terms of rural payments and other governmental systems.

UK GAAP Accounting

A particular concern arises for our farm members in relation to stock accounting and the other requirements of UK GAAP (Generally Accepted Accounting Practice). Farmers generally only count their stock once a year in terms of accurately recording harvested crops or livestock numbers. Our members do not stock account within their management accounts eg when wheat is sold an entry is made to release it from closing stock and convert it into sales. The practicalities of this do not warrant the time and effort involved. Therefore farm management accounts are largely cash based and do not comply with UK GAAP until the year end figures are produced with stock, depreciation, lease accounting, accruals, prepayments, bad debts, private use adjustments etc etc etc. Reporting under UK GAAP is a fundamental requirement of the tax system. If they have to make quarterly submissions under MTD, and those quarterly submissions require to comply with UK GAAP, we do not believe that many, if any farm businesses, will be able to comply properly. Furthermore the work involved in producing UK GAAP compliant figures 4 times a year rather than once a year is unduly onerous with no benefit to the taxpayer. It is another piece of red tape that our rural business members could do without. They will likely have to outsource this to accountants to get it right.

At an estate level, with multiple trades such as House Opening, Farm Shop, Farming, Renewables, woodland, property rental, holiday cottages etc etc, the annual tax return has to split all of these trades/ businesses into separate pages on the Self Assessment return with add backs for non allowable expenses. If under MTD a business owner ends up having to make 4 submissions a year on the same basis, this is a serious additional cost and onerous accounting requirement. There is no software that does this automatically even annually let alone 4 times a year and we not believe it will be easy for any software developer to produce a bespoke estate accounts/ tax product. If MTD is simply to be done on a combined basis until the “5th return” is done, we do not believe the MTD submissions form an acceptable basis require taxpayers in the future to pay tax “in year”.

Connectivity

Our members are concerned about internet connectivity and specifically in the period prior to each quarterly deadline when there is a spike in traffic. It is vital that rural businesses will not be unfairly penalised as a result of poor connectivity.

In summary we believe there are serious extra cost and administrative issues involved with MTD in its current form which ultimately detract from the government's aims of making tax administration simpler and encouraging investment. Until the compliance cost, UK GAAP and simplicity issues are resolved, the requirements of the MTD system on our members are not going to be a vote winner for any government introducing them.

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