

Rt Hon Andrew Tyrie MP
Chair of the Treasury Select Committee
Treasury Select Committee
Committee Office
14 Tothill Street
London
SW1H 9NB

8th February 2017

Dear Mr Tyrie,

Re: Making Tax Digital

Thank you for your letter regarding the Treasury Select Committee's intention to explore the estimated costs of Making Tax Digital in more detail, which the Federation of Small Businesses (FSB) welcomes. I set out below the methodology behind our own estimates.

FSB members were concerned by the initial decision to not publish a detailed impact assessment of such a major change, at the time of the Autumn Statement 2015. A year later, that concern had escalated, compounded by the knowledge that an impact assessment had been carried out, but not shared with the business community, taxpayers or indeed MPs.

In response to the serious delays to the publication of this impact assessment, on behalf of our members, FSB wanted to estimate the costs that mandatory quarterly online tax reporting would impose upon small businesses. We subsequently commissioned an external economics consultancy, the Centre for Economics & Business Research (CEBR), to carry out the work to provide an independent estimate for the average potential cost to a UK small business. Their calculations were restricted by the limited amount of data HMRC had made available on Making Tax Digital at that stage. However, these were based on sensible assumptions built upon small business's existing tax administration burden.

CEBR noted that the costs to business would vary considerably depending on the final shape of the scheme, such as the final turnover exemption threshold which the Government sets for quarterly tax reporting. This is of course yet another decision which has still not been taken, even now in early 2017.

CEBR first looked at the total time and money businesses spend on their current annual tax reporting. There is no data to suggest that those who currently get all their information together to complete their tax return online spend any less time than those who do the same process in paper form. At the time, the average business owner spent just over three hours on their tax reporting, and based on average wages, this cost the average business £401 over the course of a year, which works out at £100 per quarter, or £33 per month.

CEBR then looked at the cost of additional staff working on tax reporting – this could be someone already working at the company, or a specialist who is hired for the task. The

average business requires over three and a half hours of additional staff time for tax reporting, on top of the time spent by the owner. Based on the pay of the additional staff, businesses spent an additional £152 per quarter on tax reporting, or £51 per month

Added together, the average cost of tax reporting was around £252 per quarter for UK businesses, or £84 per month. Over a year, a business will therefore spend £1,008 on average on tax reporting.

For the purposes of projection, CEBR estimated that businesses would spend three times as long on their tax reporting each year under Making Tax Digital. They based this multiple of three on the assumption that, although reporting will be completed four times as often, the Government's literature makes a point of the simplification of the digital process, and they estimated that this would decrease the time spent on the reporting.

Therefore, our figure of £2,770 is a scalable one subject to further information from HMRC being published. This additional time spent is scalable from the previously identified cost of annual tax reporting (£1,008).

However, these costings do not include the following:

- The additional cost of installing the system – it may take time and money to install the software;
- The potential cost of buying computers (or upgrading computers) to use the software – many small businesses report taxes with pen and paper, and these businesses would need a computer to complete the reporting;
- The ongoing costs of software and apps (including updates);
- The cost of training staff to use the software;
- The cost of IT support if the system does not work or is experiencing difficulties.

I hope this answers your questions but please do not hesitate to contact me if you would like to discuss this issue further.

Yours sincerely,



Mike Cherry AIMMM FRSA
FSB National Chairman