



Treasury Committee

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Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

27 October 2016

Dear Philip,

Making Tax Digital

The Committee was extremely concerned by the evidence it heard on Tuesday from accountancy representative bodies and the Federation of Small Businesses (FSB) about Making Tax Digital (MTD).

Among other things, it heard the FSB's estimate that implementing MTD will cost £2,770 per business per year on average. This is in addition to the £3,600 that they already spend on help and advice with tax compliance. For businesses above the VAT registration threshold, this is a sizeable sum. As for those below the threshold, witnesses pointed out that MTD may trigger their closure. Even worse, some may elect to continue trading in the hidden economy. Both closure and hidden economy trading would result in revenue loss. Even for those businesses which continue to trade legally, MTD will bring additional costs in both time and money, which might reduce their taxable profits. Has your estimate of the exchequer impact taken account of each of these three likely effects of MTD?

A fully costed impact assessment is essential. The Government published a Tax Information and Impact Note (TIIN) alongside the consultation papers, but this fell short in a number of respects and it provided insufficient detail to support the claimed benefits to business. A new impact assessment is needed to reflect the information that is now available.

It is essential that it reflects the specific impact on seasonal businesses, the lack of digital skills among small businesses and the impact of unreliable broadband connectivity. It is also essential that it provides detailed information on:

- the cost of software (and upskilling to use it) and hardware (for those businesses who do not currently maintain accounts electronically);
- the impact on business productivity;
- the cost of migrating on to new accounting systems;
- the time that businesses will need to meet the additional administrative burden and to deal with queries etc. from HMRC; and
- the cost of employing tax agents and accountants.

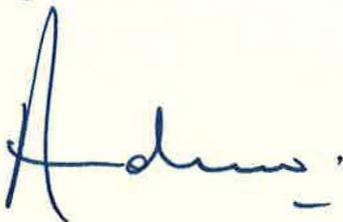
It is clear from the evidence that the Committee heard that HMRC needs mandatory MTD to fulfil its business case for much needed investment in its IT. But it is equally clear that businesses will have to pick up the bill for this. The measure is therefore a transfer of the cost from HMRC to businesses.

Given these points, the evidence we heard suggests that the introduction of MTD should not be rushed. Every effort should be made fully to pilot its introduction, perhaps over several years. Only after the lessons have been learned from the pilot should consideration be given to a mandatory scheme.

I originally wrote to you on MTD on 15 September. I would be grateful for a prompt reply to both my letters.

I will be placing this letter, and your reply in due course, into the public domain.

Yours ever,

A handwritten signature in blue ink, appearing to read 'Andrew', with a horizontal line underneath.

**RT HON ANDREW TYRIE MP
CHAIRMAN OF THE TREASURY COMMITTEE**