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The Rt Hon Philip Hammond MP,
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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16 March 2017

Dear Philip,

**House of Lords Economic Affairs Committee, Finance Bill Sub-Committee:
Report on the draft Finance Bill 2017**

Each year the House of Lords Economic Affairs Committee appoints a sub-committee to scrutinise selected aspects of the draft Finance Bill. In deference to the House of Commons the Sub-Committee considers issues of tax administration, simplification and clarification rather than the rates or incidence of tax.

This year the Sub-Committee examined the clauses of the draft Bill which implement the Government's policy of *Making Tax Digital for Business*. As you will be aware, this policy will require small businesses, self-employed individuals and residential landlords to interact with the tax authorities digitally; keep digital records in a form compliant with HMRC systems; submit digital records quarterly; and provide an annual statement, again online.

HMRC estimate that those affected by these changes will include 1.6 million businesses, 2.4 million self-employed taxpayers, and 900,000 residential landlords.

The digitalisation of tax is to be welcomed. However the evidence heard by the Sub-Committee led us to the unanimous conclusion that the implementation of the policy is being rushed; it will impose unnecessary burdens on small businesses; and it will yield little benefit to the Government. The 12 month delay in the roll out to the smallest businesses, announced by the Chancellor in the Spring Budget, addresses a small part of these concerns but does not go far enough.

The Sub-Committee also noted that these changes coincide with other alterations to the way some small businesses and sole traders are taxed, such to business rates and dividend taxation.

The difficulties we foresee can be averted if the Government is prepared to respond to businesses' concerns. We recommend the following changes which we consider would alleviate many of the problems raised before us in evidence:

(1) Delay the timetable for implementation until 2020.

The scheme is not ready for roll out in 2018 for larger businesses and 2019 for businesses with a turnover above £10,000. The pilot of the software will not be completed before the scheme is launched. Therefore there will be no opportunity to review the policy in the light of the findings of the pilot.

(2) Improve the analysis of the costs and benefits drawing on the findings of a full pilot.

The claims by HMRC that the policy will close the tax gap are based on fragile foundations which do not, we conclude, justify the compulsory measures contained in the proposals. The claims of the cost businesses will incur – in particular the initial cost of £280 – were also almost universally disbelieved by witnesses to the Sub-Committee.

(3) Align the threshold for inclusion in the scheme with the VAT threshold.

In the light of the difficulties with the evidence base, we consider that the case for extending the scheme to the smallest businesses is not made. We recommend that those business with a turnover above the VAT threshold are required to enter the scheme from 2020, but no such requirement is imposed on smaller businesses.

(4) Raise taxpayer awareness.

One witness told us that many businesses are “blissfully unaware” of these changes. A change on this scale requires, we recommend, a proactive, thorough public information campaign.

I have also written to Prime Minister to alert her to our concerns and I am sending a copy of this letter to Jane Ellison MP in view of her responsibilities for HMRC as Financial Secretary.

I look forward to receiving your response to our conclusions.

Yours sincerely



(HOLLICK)

Enc: Finance Bill Sub-Committee Report.