



HM Revenue
& Customs

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The Rt Hon. The Lord Forsyth of Drumlean
Chair, House of Lords Economic Affairs Finance Bill
Sub-Committee
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Dear Lord Forsyth,

Making Tax Digital for VAT

I am writing to inform you that today HMRC has met a key milestone in the delivery of Making Tax Digital (MTD) for VAT.

HMRC started technical testing of the service with software developers at the end of last year. In April 2018 the live pilot began on a small-scale with invited participants. This has gone well, and we have now opened it up to enable around half a million businesses within the scope of MTD for VAT to join. This allows HMRC to test on a larger scale and develop its customer support offer to ensure it is right for businesses and agents before they are required to use the service. Customers will have the opportunity to experience how MTD will work in practice, ahead of mandation from April 2019. We have also set out further details on when others will be able to join the pilot on Gov.uk:

<https://www.gov.uk/government/publications/making-tax-digital>

As part of our planning for the pilot, HMRC has listened to concerns about business readiness and will give a small minority of customers with more complex requirements a further six months to prepare for the new service before they are required to use it. This will ensure there is sufficient time for testing the service with them in the pilot before they are required to join. This deferral will apply to around 3.5% of mandated customers overall.

The deferral will apply to customers with the most complex VAT affairs. The group consists of trusts, 'not for profit' organisations that are not set up as a company, VAT divisions, VAT groups, those public sector entities required to provide additional information on their VAT return (such as Government departments and NHS Trusts), local authorities, public corporations, traders based overseas, those required to make payments on account and annual accounting scheme users. We will be writing directly to all customers within this group to inform them before the end of 2018.

HMRC recognises that businesses will require time to become familiar with the new requirements of MTD. During the first year of mandation, HMRC will not pursue filing or

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record keeping penalties where businesses are doing their best to comply with the law. HMRC will continue to take action to safeguard VAT revenue, and sanctions remain possible in cases of deliberate non-compliance.

We expect the software market for MTD to be competitive with a wide range of products at a range of price points, from the more basic 'bridging' products which will work with spreadsheets (some of which will be free in certain circumstances) through to premium products with additional business functionality.

The largest and most prominent software providers in the existing VAT market are working on ensuring their products are MTD compatible, providing an easy upgrade path for those businesses which already use software and want to remain with their current provider. Over 300 developers have registered an interest in developing VAT products for MTD, and 70 developers already have products in testing.

HMRC is significantly increasing its communications activity to ensure that those businesses who are required to use the MTD for VAT service from April 2019 are aware of their obligations, know what they need to do to get ready, and how to access help if they need it.

In July we published a package of further information on Gov.uk, including a VAT Notice providing guidance on the digital record keeping and return requirements of MTD for VAT; and a communications pack to support our partnership working arrangements with stakeholders, including software providers and representative bodies.

HMRC will be using social media more regularly, launching a series of YouTube clips, and providing content for trade press and local radio alongside the publication of case studies with pilot participants.

HMRC will also be writing direct to all businesses within scope of MTD, once they are eligible to join the pilot, advising them of the action they need to take to get ready for MTD.

This increase in communications will provide businesses with the information they need to be ready for April 2019.

Yours sincerely

A handwritten signature in blue ink that reads "Ruth Stanier". Below the signature is a horizontal blue line.

RUTH STANIER

Director General, Customer Strategy and Tax Design