

James Murray MP  
Parliamentary Secretary (Exchequer Secretary to the Treasury)  
HM Treasury  
1 Horse Guards Road  
London, SW1A 2HQ

30 August 2024

Dear James

Thank you for your letter, received on 17 August, outlining key points about the next stages of Making Tax Digital (MTD) for Income Tax.

As a chartered body ACCA operates in the public interest; we ensure our members operate to the highest technical and ethical standards and we conduct independent research globally to advance the profession for the public good.

As shared with your officials, we do have concerns that MTD in its current proposed form will have a detrimental impact on productivity and growth, disadvantage many smaller businesses, and further impact HMRC's very poor service levels.

Our main area of concern relates to quarterly reporting requirements. For some small businesses reporting will be straightforward but many, including businesses with seasonal trade, are likely to face a high level of additional complexity, and associated cost, from gathering information - accurate for reporting purposes - in comparison to the day-to-day business income and expenditure data which is currently routinely gathered during the year.

Noting the fluctuations that will almost certainly arise from an incomplete quarterly picture, such additional information being submitted during the year is likely to trigger unnecessary queries and communication back and forth between HMRC and businesses. As you aware HMRC already struggles to deal with the current level of queries. A further deterioration in service levels would, in our opinion, further harm our tax system and businesses.

Furthermore, as we expect ACCA members to operate to the highest standards, our rules require they are not associated with any information or returns which might be misleading and, and based on discussions thus far, we do have concerns about whether they would be able to meet this requirement in relation to the quality of the information proposed for quarterly returns. Accordingly, while we recognise the

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government is keen to secure support for the pilot, it would be fair to acknowledge that we do have some concerns about the scope and design of the current pilot.

We would recommend a further review of the detail of the quarterly reporting requirement and cost benefit analysis on the impact. We would suggest either pausing the quarterly reporting requirement or simplifying it, for example recording income and total expenditure reconciled to a bank account, while deeper analysis is undertaken. In terms of wider impact on tax receipts, it is worth noting that the recent Tax Gap report shows high SME non-compliance. However, most of this appears to be attributed to incorporated SMEs, which are not within the scope of the MTD quarterly reporting regime.

In relation to the wider issue of HMRC operations, you will have noted in the recent HMRC Charter report, service levels at HMRC continue to be poor. We have repeatedly highlighted the need for investment in HMRC to tackle this area. A recent survey of our members, gathered in recent days, shows the following:

		Oct 2023	Mar 2024	Aug 2024 (Poll still open)
<b>To what extent, if any, have HMRC services levels impacted on productivity and efficiency for your organisation and/or your clients' organisations?</b>	<b>Positive impact</b>	4%	2%	1%
	<b>No impact</b>	33%	25%	7%
	<b>Negative impact</b>	52%	66%	89%
	<b>N/A</b>	10%	7%	3%

We would, of course, welcome the opportunity to further discuss the specifics of MTD and plans to improve service levels within HMRC with you, or your team.

Separately, we wanted to take the opportunity to highlight two areas of concern where we fear unintended consequences may arise from design and practical mechanisms envisaged for two government proposals, principally in relation to the potential distortion of taxpayer behaviour.

Regarding any potential reforms to pensions, the mechanics of how employee and employer contributions are dealt with are complex. There is a risk that the addition to basic rate and restriction on higher rate may fail, due (in part) to potentially increased use of salary sacrifice and incorporation options for those at higher rates and use of increased employee contributions at the lower rates, with a knock-on impact on monies raised and thus, the policy intention of the proposal.

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Similarly, in the context of proposed changes to employment legislation to improve the UK's labour market, it is worth considering the fiscal environment and how this can support, or antagonise efforts to boost fair, well-paid employment. For example, for some employers, the threshold for Employers NICs can incentivise part-time/low hours contracts.

We would be happy to discuss any of these issues in more detail.

Yours sincerely,



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