



Making Tax Digital – Corporation Tax

Consultation Response

HMRC outlined its proposals for the introduction of Making Tax Digital (MTD) for corporation tax (CT) on 12 November 2020 and invited all entities within the charge for CT as well as agents, professional bodies and software developers to respond by 5 March 2021.

As providers of both MTD and corporation tax software, we wanted to share our views from a technical perspective on how the proposed changes would impact the process. We believe that as the provider of choice for CT filings for 70% of large corporates and advisory firms in the UK, we had a unique insight to feed back to HMRC. We welcome the opportunity to help shape this exciting piece of legislation.

Key strategic messages we chose to convey were:

1. Overall, we believe that these measures from HMRC are a significant step in the right direction for the digitisation of the tax regime in the UK. However, we believe HMRC have been too generous in terms of timescales with measures not becoming mandatory before 2026. We recommend accelerating the timescale to 2023 on the basis that this would give taxpayers more than enough time to prepare and, as a technology vendor in this market, we believe that the technology exists now to deliver what HMRC require – why wait 5 years especially given the momentum with VAT?
2. We do not believe that the use of the proposed list of categories for data collection (detailed in section 3.15) would be the best option. We believe that the XBRL Detailed Profit & Loss (“DPL”) has been in place for most businesses since 2014 and could form a much better basis for a minimum requirement. This would drive consistency across the market and create a much more valuable dataset for HMRC.
3. We believe that MTD for CT represents a great opportunity for HMRC to standardise the approach for incentives, allowances and reliefs. If a universally digital approach is adopted, HMRC would create a rich dataset that would inform future policy decisions around how to best target these measures going forward. In a post-COVID world, more detailed information



about these items would better enable HMRC to aid recovery through the tax system. In addition, such systemisation would make it easier for HMRC to warn taxpayers earlier in the submission process around possible errors and reduce the volume of errors in returns, which in turn would help to reduce the tax gap.

4. Whilst we agree with the contention that larger taxpayers are lower risk, we do not believe that using the VL QIPs scheme is the correct criteria for having businesses fall in or out of scope of MTD for CT. The VL QIPs scheme does not cover large loss-making businesses and the way in which companies fall in/out of scope of VL QIPs could mean businesses moving in/out of MTD for CT on a frequent basis. We believe that this requirement could be significantly simpler; exclude businesses with a customer compliance manager (CCM). This would achieve the same desired result whilst not introducing practical difficulties in the process.
5. Whilst not mentioned explicitly in the consultation, we believe that the extension of certain Tax Risk measures, such as the Business Risk Review ("BRR") and Senior Accounting Officer ("SAO"), to a wider population of organisations, would be beneficial. We have seen these measures focus on systems and processes, and help to ensure that organisations get the best out of digital investments. For example, reducing the turnover threshold for SAO from £200m to £50m would be an impactful measure to ensure that once MTD for CT is in place, that businesses and HMRC realise the full value of the mandate.
6. For small and medium sized businesses, we would recommend HMRC help organisations fund digital tax technology in year 1 to accelerate adoption. We believe that this would pay off significantly for HMRC in the medium-term and enable a much quicker and stronger adoption of digital technology for CT.

Answers to the questions posed in the consultation document:

Question 1: Do you think there are any reasons why an entity within the charge to CT (or a sum assessable as though it were CT), should not fall within the overarching scope of MTD?

- As a principle we agree that most companies within the charge to CT (or a sum assessable as though it were CT) should fall within the scope of MTD.
- HMRC has identified that very large companies provide enhanced levels of tax assurance to HMRC through their CCM and the Business Risk Review process and pay the tax they owe much closer to real time when compared to other companies, therefore addressing many of the risks targeted by MTD already. We would agree with this broad assessment, however we would disagree that the VL QIPs criteria proposed by HMRC does not work for several reasons. More detail as to why we believe this to be the case can be found in our response to Question 11.
- We suggest that the application of separate qualifying limits for MTD for VAT and MTD for CT would be confusing for taxpayers at the smaller end of the size spectrum. Under the current proposal small companies could be required to file quarterly returns for CT but not VAT under the existing MTD rules, until they reach a size where both apply. In our opinion this is problematic given both regimes require similar electronic records to be maintained, and the qualifying criteria should be aligned (note that the partnership tax return SA800 already borrows the VAT limit for the purposes of defining a small partnership). We would recommend that HMRC should look to remove differences in treatment where possible.
- Considering the chargeability rules more specifically, there may be certain types of company within the charge to corporation tax for whom the requirements of MTD are perhaps not appropriate. One example being non-resident companies who dispose of an interest in UK land and are accordingly chargeable to corporation tax on the chargeable gain for a one-day accounting period. Our recommendation would be to create a list of sensible exclusions for such niche situations to ensure that all edge-cases are properly catered for.

Question 2: Do you agree that all entities should be required to record the date, amount, and category for all transactions within MTD compatible software? Where this approach differs to your current approach to record keeping, please provide details of any additional one-off and ongoing costs or savings.

- Yes, we agree that entities should be required to record this data. In our opinion companies should also be required to record a description of the expenditure & any identifying transaction reference (e.g., invoice number) to definitively identify the item of expenditure.
- In terms of benefits and costs:
 - Smaller companies, and those using software suites from single providers with tax and accounting modules (such as Xero or Quickbooks) would benefit from the ability of software providers to embed the information throughout their platform.



- Any one-off and ongoing costs would be minimal with this approach, and the benefit would be realised on an ongoing basis.
- Larger companies (smaller than very large QIP payers) are more likely to have separate accounting and tax systems that are not provided and managed by a single provider. Practically the reason for this is that such entities are more likely to have complex requirements than single provider software suites are not able to handle, or legacy systems from previous mergers and acquisitions. These companies may need to incur significant costs to update their underlying systems to firstly allow transactions to be captured in the required manner, and secondly to link the disparate systems in an appropriate manner to meet MTD requirements. As an example, we recently worked with a company that incurred in excess of £250,000 as a one-off cost to resolve the digital records & digital links requirement for MTD for VAT.
 - However, we believe that as this requirement is also part of the MTD for VAT mandate, which is already in place for most businesses that would be subject to MTD for CT. Therefore, we believe that the overall impact of this requirement over and above those imposed by MTD for VAT would be limited.

Question 3: Would group companies value the ability to keep digital records at group level? Are there any additional benefits to utilising a mixed approach?

- We do not believe group companies would value this.
- In our experience few if any groups of companies maintain [transactional] digital records at a group level. Indeed, many larger organisations align around a divisional structure with multiple divisions per legal entity, which is an additional level removed from a group filing. As such we do not believe that such a mechanism is likely to be a popular option with most groups.
- It is worth noting that most CT software products that we are aware of treat the company and group as two separate software 'modules' with different features and functionality. Tried and tested submission mechanisms will currently sit in the 'company module'. The impact of supporting group submissions alongside submissions by individual companies could necessitate material changes to existing software packages. The general impact of any such change would be an increase in complexity and cost to the software providers, and therefore the cost passed on to end users.
- In addition to the costs, we do not believe that there would be much in the way of benefit to users of having these digital records kept at group level, and therefore believe that the costs would outweigh the benefits in this instance.
- The government would welcome the views of businesses on the type of data they currently maintain and the proposal for group structure data. Please provide details of any increased or reduced administrative burdens of recording and providing such data through MTD compatible software.
- This data will generally be in the form of non-financial data. These are typically stored outside of the software products used for compliance submissions, and therefore this would represent a change for most larger businesses.
- For larger businesses, some of this data (e.g. group structure) could be quite complex and lengthy. For example, a large Bank would have a group structure involving a significant volume of entities, well into the thousands.
- Non-financial data generally will not be stored on the same systems as the financial data being collected as part of this initiative. If the intention is to collect information from non-financial systems to maintain a digital link in the same manner as financial data, then this would introduce additional cost and complexity to any taxpayer implementation.
- We would suggest that the information listed, especially details such as details of the type of company, standard industry classification and the SAO are likely to remain relatively static and we therefore suggest that this type of data should be captured via additional information requirements on the annual CT600 return, or similar.
- The requirement to provide a breakdown of group structure is likely to increase administrative burdens with little evidence of any benefit. We would note that there is presently no single definition for what a group is in the Taxes Acts – for example group relief, s171A chargeable gains transfers, related 51% group companies and corporate interest restriction all use different definitions. Business will already be required to consider these definitions as part of preparing their company tax returns and will likely have some level of internal records with this information. The intricacies of different share classes and holdings, overseas entities, dormant companies, and non-corporate vehicles such as partnerships, to list a few, could make this exercise time consuming for some companies, and possible changes to the group structure within a period could compound this.

Question 4: Do you agree with the suggested minimum categorisation for MTD compatible software?

- We do not agree that the suggested minimum categorisation is an appropriate classification scheme to use to collect data about a company's financial records.
- In our opinion the applicable Detailed Profit and Loss 'DPL' account XBRL taxonomy would be a more appropriate



classification scheme to capture data on a company's financial records. Introducing another set of labels to be applied to company data to submit to HMRC would in our opinion be counter-productive, and in our opinion HMRC should settle on a definitive set of business records for businesses to file. It is our contention that aligning MTD submissions to the XBRL DPL taxonomies (or a minimum tagging set) would be the best practical approach.

- The key reason for taking this position is that companies have been required to file using the DPL in either their computation or statutory accounts since 2014. All software providers in the corporation tax space already support the XBRL Detailed Profit and loss account.
- The production of the XBRL DPL in their end of year submissions has prompted some companies to review and align their accounting systems to this requirement, but many medium-sized companies with multiple systems have not aligned these systems to work with the XBRL DPL standard as the end filing is seen as a 'tax issue'. Requiring companies to maintain a digital link to their underlying accounting systems, via DPL classification offers an opportunity to create a common end-to-end standard, which would offer a common integration point for the disparate accounting and tax software solutions used by companies in the real world.
- If there are concerns about the number of elements in the XBRL DPL taxonomies, then HMRC can address this simply by defining a minimum set of tags that must be applied. Minimum tagging requirements could apply across all companies, or if necessary, could be flexed by HMRC based on appropriate criteria (such as size) to ensure that micro entities are not overburdened with detail but are reporting on a comparable basis as larger entities.
- It is also important to note that HMRC hold comparative XBRL DPL data from 2014 onwards meaning that actionable insights should be easier to uncover in the early years of MTD for CT. Given the richness in analytics technologies already, and additional functionality no doubt available by 2026 (and beyond), we believe that adding another data source, rather than convening onto one standard, would be a material mistake.

Question 5: Are there further categories or alternative approaches to the categorisation of records within MTD compatible software that you consider would be appropriate?

- We do not agree with the approach proposed and would encourage the use of the XBRL DPL as opposed to this list of categories.
- Our answer to Question 4 gives more detail on this.

Question 6: Would group companies value the ability to provide regular updates through a nominated company? Please provide details of any increased or reduced administrative burdens or costs that could result from this.

- There is a small, limited value for business from an administrative point of view, i.e. one single submission rather than multiple.
- However, we believe that the costs for many businesses would outweigh the benefits. This isn't something that happens in practice at present and we do not believe there would be a demand to do so, given the limited benefit to customers.

Question 7: Do you foresee any constraints to providing updates at group level and how do you think these could be addressed?

- Yes, there are several constraints that may apply:
 - Larger groups & especially groups who have grown through acquisition are likely to contain group members who are not on the same accounting systems as the rest of the group. Consolidation of data from different platforms into a single submission may prove technically challenging & expensive to achieve.
 - As noted in Question 3, we believe that most software providers deal with companies and groups in different software modules. Supporting filings from both groups and companies could require fundamental changes to the submission mechanisms in existing software, the costs of which would end up being borne by taxpayers.

Question 8: Which forms and processes around incentives, allowances and reliefs would you most like to see digitised? Please provide details of the guidance and/or tailored assistance that would help this process.

- We believe that as part of MTD for CT, HMRC need to digitise all processes around incentives, allowances and reliefs.



Without a universal and consistent approach, the data received by HMRC will not be comparable between businesses, significantly reducing the value of the dataset.

- Systemisation of claims for incentives, allowances and reliefs offers several benefits to taxpayers and HMRC, and that without this HMRC have no clear basis for comparing between companies making tax adjustments and those that are not in the current MTD proposals. Without standardisation, HMRC will miss out of the significant value of having a single dataset across all businesses to compare how incentives, allowances and reliefs are being utilised by businesses across the UK. Such a dataset would enable HMRC to understand which allowances are working most successfully (and which are not), which would benefit future policy-making in this area.
- Overall, the situation is better for reliefs and allowances than for claims & elections in the end of year return, as XBRL tags exist for many of the available incentives and reliefs. We note however that these tags are not part of the proposed filings under MTD for CT. Therefore, the benefit would only be limited even for reliefs/allowances.
- The potential benefits of standardising how these items are claimed & notified in the tax return offers considerably more benefit than simply moving a given form online. Having this data in a consistent format across all UK CT-filers would give HMRC a rich dataset from which they could inform future policy decisions.
- We note in our other responses that we believe there is a fundamental issue with the current proposals around the concept of allowing taxpayers to make MTD submissions under two different bases: namely with & without tax adjustments, with no discussion of any method proposed to flag the basis being reported.
- We believe that HMRC's intentions for the outcomes of this initiative should be twofold:
 - 1) Improve business record keeping; &
 - 2) Ensure that information received is structured in such a way that it facilitates comparability between different periods and across taxpayers to ensure that HMRC get an early view of issues and can intervene earlier with affected taxpayers compared to the current system.
- It is our contention that the proposals as drafted do not address the second of those two outcomes and that without clear flagging of key supporting elections and claims, HMRC will receive an undifferentiated mixture of submissions (tax adjusted and non-tax adjusted) which will prevent further analysis and targeted action. This was raised as a comment during the developer round table. For the avoidance of doubt, it would render any analysis of the iXBRL data in these areas as redundant, as you would be comparing tax adjusted and non-tax adjusted data.

Question 9: What practical benefits do you think could result from standardising how entities submit claims and elections through software? Please provide details of any increased or reduced administrative burdens or costs that could result from this.

- We believe that there are considerable benefits to HMRC in standardising this information. In doing so, HMRC ensure that they have a single dataset of comparable data across all CT-filers, meaning that further analysis on this information can be undertaken. If HMRC do not standardise this approach, we feel this is a key missed opportunity.
- We also believe that standardising will have benefits for CT filers. It will ensure a consistent approach is taken industry-wide, rather than having a variety of interpretations taken across taxpayers and ultimately, different data reported to HMRC.
- In our opinion the current reporting system for claims and elections within the corporation computation lacks systemisation that would support both taxpayers and HMRC in reporting and understanding the impact of incentives, allowances and reliefs claimed.
- Currently there is no centrally maintained list of potential claims and elections that companies could make. Maintaining a definitive list of all claims and elections may not be possible or desirable to HMRC, but maintaining a list of key claims and elections, and requiring these to be reported in submissions would in our view be sensible for the reasons outlined below.
- Currently many claims are made in software and reported to HMRC primarily in text in the form of a note to the return and a visual representation of the impact in the computation. Some claims are made through the attachment of supporting documents typically in the form of PDFs. A small number of claims are reported on the face of the CT600 in a defined manner.
- Claims could be systemised through the application of a standard set of claims and elections (defined by HMRC) that would need to be reported via the MTD submission &/or end of year computation using defined tags, e.g., XBRL tags.
- It is our contention that systemising the way in which claims & elections are made would provide several benefits to both HMRC and taxpayers, namely:



- Exposing agreed 'hooks' to use as part of the HMRC digital 'nudges' agenda. i.e., 'You have made a claim for X. Have you checked Y and provided evidence in the following format []?'
- Review tools in software to ensure that taxpayers are applying claims in a consistent way across a group of companies, reducing errors.
- Highlighting claims for analytical review by HMRC.

Question 10: Do you agree that an entity's update cycle should be based upon its expected accounting period with updates due one month after each quarter end?

- We believe this is a sensible requirement.
- Whilst we believe this is achievable through the correct technical solutions, we must recognise that this will be a material change for taxpayers in the corporation tax sphere. Careful consideration must be given to minimising the additional information and rework required whilst maximising the value achieved.
- To earlier responses we believe that aligning with existing disclosure requirements under XBRL, or a sub-set of these provides the best balance of value versus effort and would also achieve additional benefits to leverage for HMRC and taxpayers.

Question 11: Do you agree with the principles for very large companies within the QIPs regime?

- We do not agree that the VL QIPs criteria is the correct criteria to use here.
- Whilst we accept HMRC's contention that larger companies represent a lower risk we do not agree with determining the boundary for companies to file under MTD using the QIPs regime as it stands at the current time. There are several key issues with this approach:
 - The current QIP regime for very large companies does not include a 'grace period'. 'Standard' QIPs payers have a period of grace of 12m before entering the regime (where the £10m limit is not exceeded).
 - In the absence of any changes to the very large company QIP regime, and as the test is based upon taxable profits, any loss-making company would be required to make submissions under MTD for CT, as the qualifying criteria relate to taxable profits.
 - Companies may not know until the end or well after the end (where R&D claims or group relief amounts are to be finalised for example) whether they are very large or not. This is a feature of the existing rules, but the impact presently is limited interest on late payments of tax (and certain rules such as GPA are available to mitigate this). Were this test to be used for MTD for CT however, this would create uncertainty over whether a company should or shouldn't be making quarterly submissions within the period.
 - The effect of the related 51% group company rules – which include for example dormant or overseas companies are included – on the QIPs limits can also have the effect of bringing companies with taxable profits significantly lower than £20m into the very large QIPs rules, and a single group structure can have some companies within the rules and others outside.
- Combining the application of a taxable profit-based approach and together with the lack of a grace period would lead to scenarios where very large companies could find themselves falling into the MTD for CT regime at very short notice and be unable to make the required changes to their underlying systems to enable them to tag data.
- The consultation document explicitly notes in para 2.10 that taxpayers with the largest and most complex businesses are allocated a Customer Compliance Manager ('CCM') by HMRC. From Tax Systems' point of view, we believe that a better criteria for exclusion from the regime would be to simply exclude those businesses with a CCM from the requirements.
- We welcome views on whether the regular update requirements should be adapted for dormant companies and different business segments with additional statutory reporting requirements, such as those required to submit an annual country-by-country report.
- Tax Systems would not expect dormant or non-active companies to be subject to the regular update requirements since, by definition, they should not have any transactions to report. Any unnecessary filings are likely to introduce cost and administrative complexity for no net gain.
- We view Country-by-country reporting as quite separate to the company tax return and so we would not necessarily expect relaxations in the case of this requirement.



Question 12: We welcome views on these and other areas of the international tax system, including how the rules for double taxation relief, hybrid entities and transactions, corporate interest restriction and transfer pricing might interact with the design of MTD for CT. Do you consider that any of these other scenarios require a different approach to the process of updating HMRC? If so, please provide details of any barriers and how these could be addressed within the overall approach outlined in this chapter.

- We concur with the suggestions for CFCs, foreign PEs, and overseas incorporated and UK tax resident entities in general.
- We would note however that the effect of a foreign PE exemption is not straightforward – there is an involved legislative calculation that must be performed in the tax computation to determine the quantum of taxable profits that are exempt in the computation, and it could be suggested that such companies should have to go through the process of MTD to ensure that they are meeting the accurately requirements of the exemption calculation.
- We have noted elsewhere that non-resident companies disposing of an interest in UK land will be chargeable to corporation tax for a one day accounting period, and we would suggest should not fall within the rules.
- For double taxation relief, hybrid entities and transactions, corporate interest restriction, we note that these particular areas are under-represented on the company tax return submission at present; only one (DTR) has its own box on the CT600 and there is nothing in the way of supplementary pages as exist for other areas of the taxes acts (such as CFCs, mentioned in para 4.17), nor much detail in the XBRL computational taxonomy.
- Corporate interest restriction does already have a requirement for a separate, group-level IRR return, which must be submitted by the nominated company withing 12 months of the end of the group period, and we understand HMRC are presently in the process of creating a new API based submission mechanism for this.
- These calculations in general require a level of tax analysis that is not otherwise suggested in this consultation however. Hybrids, CIR and transfer pricing all require a tax view to be applied to accounting transactions, to decide what amounts of interest in the accounts are 'loan relationships' for tax purposes for example, or what transactions were not in accordance with the arm's length principle for transfer pricing. They also require a level of non-financial information particularly around the definitions of connected parties or groups (for which there is no single definition for tax purposes). DTR credits are calculated based upon the final corporation tax liability of a company. So whilst these would all be required in order to arrive at an accurate view of a business's corporation tax liability, it is difficult to see how the requirements of these calculations could be driven from digital record keeping.
- Our view is that the theme of MTD for CT presented in this consultation would have to be significantly extended to capture details of these international areas in any meaningful way.

Question 13: Do you agree it is appropriate to align the filing dates for tax and company law purposes? If not, what difficulties do you foresee?

- We do not believe that aligning the filing dates for tax and company law is appropriate.
- We believe that a key objective of MTD for CT is for HMRC to get data about CT-filers in a much timelier manner than they do at present. We believe that this is achieved already by the imposition of quarterly filings of key business data. We believe moving the CT filing date forward by 3 months would only have limited benefit, compared to the cost involved for some businesses to comply with this requirement.
- At present, in many instances, businesses use their statutory accounts as the start point for the CT computation, as several of the figures are required to either be used as the start point, or at the very least are required to be reconciled against the computation.
- As a vendor, we submit nearly 200,000 CT returns annually to HMRC at present, and as part of that process the iXBRL accounts are filed. Based on our analysis of those accounts, roughly 80% of them are produced using accounts production software (where iXBRL tags are automatically applied), with the remaining 20% being tagged post-production using iXBRL tagging software.
- In a scenario where the stat accounts and CT deadlines are aligned, post-production tagging would not be practically possible.
- Whilst we believe accounts production software have moved on considerably in the past few years, and continues to do so, we do not believe that post-production tagging will be entirely defunct by 2026.
 - Separately, for certain businesses in certain industries, producing accounts in Word is the best option, given complexity, legacy ERP systems, changing business imperatives, etc.



- This means that should the stat accounts and CT deadline be aligned, the result for some businesses would be that they have to prepare their accounts earlier than they do at present, to be able to work with the CT return. This would be an unintended consequence of this change.
- We therefore do not believe that this alignment makes sense and would suggest that the current period of 12 months should suffice. Given that HMRC have an increased line-of-sight on data much sooner through the proposed quarterly submissions, we do not believe that these additional three months would add as much benefit.

Question 14: Do you agree that amendments to an entity's Company Tax Return should be made through MTD compatible software?

- In general, we agree with these proposals.
- Requiring amended company tax returns to be submitted electronically seems reasonable in providing a more formal process for the submission. However, for larger groups submitting, for example, joint amended returns for group relief might be significantly adversely affected by this proposal as individually submitting amended company tax returns electronically will be more time consuming than preparing a single update.
- We would have reservations about any requirement for an amended return to be submitted "through MTD compatible software". The MTD proposals do not indicate that the original company tax return has to be submitted "through MTD compatible software". There is also no explicit indication within the consultation document that the corporation tax return should be prepared directly from the digital records (as we have seen for MTD for VAT). We would like to see the definition of "MTD compatible software" more clearly stated in the context of existing software packages that are designed to prepare and submit company tax returns.

Question 15: How can MTD for CT ensure that accounts and tax computations submitted as part of a Company Tax Return, are fully and accurately tagged in iXBRL format?

- We believe that this could be easily remediated by imposing penalties for poor quality tagging. The reason for poor tagging at present is due to the lack of reprimand for those businesses who submit poor quality data. However, it should be noted that this could be addressed entirely separately from the MTD for CT process. Indeed, we would recommend imposing penalties sooner than 2026 if HMRC wish for the quality of tagging to be improved.

For this question, there are two salient parts to consider, as the processes for iXBRL tagging for CT and for accounts are markedly different.

CT computations:

- The CT computational XBRL taxonomy relates to the tax treatment of amounts in the accounts, and as such has no direct link to either the suggested minimum categorisation in this consultation, or the existing XBRL DPL.
- Most, if not all corporation tax products apply the CT XBRL computational tags automatically to their calculations. If there are deficiencies in this tagging, then HMRC should proactively take this up with individual suppliers as they are defining this content rather than taxpayers.
- If there are continuing deficiencies, then HMRC should also consider extending the minimum categorisation list to consider tax analysis in order to ensure that the tax computations are accurately and fully tagged.

Statutory Accounts:

- Accounts tagging falls outside the scope of most company tax return software, other than some basic checks which can be performed on the tags at the point of including in the company tax return, such as that the company registration number matches the computation and the DPL is included once only.
- We believe that the reason that some of the tagging is of poor quality is due to the lack of any reprimand for poor submissions. It is possible to submit just the 11 minimum tags and not be reprimanded by HMRC for doing so. We believe that a combination of penalties for poor quality filing as well as the introduction of a minimum tagging requirement would combat this problem.
- It should be noted that this process could happen entirely separately from MTD for CT, and could be bought in earlier should HMRC choose. Companies have been doing iXBRL tagging as part of "Business as Usual" for some time now.



Question 16: Do you think HMRC should reject returns or charge penalties where the XBRL tagging is incomplete or inaccurate?

- Given the aims of the initiative we believe that charging penalties is an appropriate response to an inadequate level of XBRL tagging. Indeed, we believe that the lack of penalties in the current regime is the key reason as to why the quality of some submissions is so poor.
- The inclusion of a minimum tagging set would help improve the quality too; we would recommend introducing this in addition to introducing penalties.

Question 17: What hurdles do you think would need to be overcome should HMRC want businesses to tag data at a transactional level?

- We believe that there would be a significant number of hurdles to overcome with this approach, even though we believe that the associated benefit is also significant.
- In our opinion the key hurdle that will need to be overcome relate to problems with sensitising company accounting systems to allow them to tag data at a transactional level. Company accounting/ERP systems are critical business systems and companies can therefore be reticent to update these systems, or find the process cost prohibitive. In practice this inertia can lead to companies using accounting systems that are no longer actively supported by software providers, and which would not receive updates to support any new functionality.
- We consider that there are likely to be a material number of companies in the tax-paying population who are unable to update their accounting systems in a timely manner due to one or more of the above factors.
- We would be interested to understand HMRC's opinion on potential software 'bridging' solutions in this scenario and whether a programmatic approach to bridge gaps in the end-to-end electronic audit trail would be an acceptable solution.
- Whilst we believe that this goal from HMRC would bring considerable benefits, we also believe that the practicalities in implementing such a regime would be cumbersome for some reporters.

Question 18: What do you think are the potential impacts of HMRC withdrawing the free filing product, known as CATO? Please provide any examples or evidence held including evidence relating to the potential impact on filing accounts with Companies House.

- We have seen with MTD for VAT that at the micro end of the market, where CATO is used at present, that simple, free "bridging tools" have been produced. By removing CATO, we believe that a similar practice would be followed, i.e. that a range of free/inexpensive options would be created to fill the gap.
- We would encourage a consistent approach between MTD for CT and MTD for VAT, so would agree that removing support for CATO is a sensible approach.

Question 19: Should charities, CASCs and other not for profit organisations, be within the scope of MTD for CT where they have income within the charge to CT and required to complete a Company Tax Return? If not, please explain why you consider an alternative approach is necessary for charities and what criteria should be applied to assess eligibility for this?

- Tax Systems does not have an opinion on this question because we do not deal with the charitable sector.

Question 20: Do you agree that MTD obligations should cease where a company is exempted from mandatory online filing of CT returns due to insolvency?

- Yes, we would agree that this proposal is sensible.

Question 21: What timescales and costs do you consider would be involved in acquiring, updating, replacing or adapting existing software in order to be MTD-compliant? Please provide details of one-off and ongoing costs and benefits you think may arise.



- We believe that the timescales for adoption will be significantly less than HMRC might expect. Nearly all CT-filers either already use dedicated software in-house, or outsource their return process to an accountancy firm.
- Therefore, unlike with MTD for CT, where most processes were Excel-based, in this instance you are replacing software with software. This means the adoption process and timeline will be easier.
- In addition, software in this market is already being offered via a software-as-a-service (“SaaS”) model, meaning that vendors are responsible for software updates and they are pushed out automatically to users. This means that there is no time required from customers in terms of updating or replacing software on an ongoing basis.
- We believe that the timelines for an in-house tax function will be in the order of 1-3 months to adopt the new technology required to file under the new MTF requirements.
- We believe that for accountancy firms who provide outsourced services, that they will need longer to make changes to their processes to accommodate, but even so, should be able to comply with the new requirements comfortably within a 12-month period.
- From a cost perspective, there will no doubt be incremental cost increases, both in terms of software licence fees and implementation fees to get the new process set-up. We do not believe that these technology cost increases will be material, and we believe that the benefit of technology in this area will more than offset these fees in terms of additional efficiencies realised in the process.
- It should be noted that we believe that the MTD for CT imperative will drive businesses further along the technology adoption model. At present, Tax in general is “behind the curve” in adoption of technology compared to other areas of businesses, and other industries. We have already seen the MTD for VAT agenda drive significant benefits to organisations in terms of improved operational efficiency and control. We believe that MTD for CT will drive similar benefits in those areas too.

Question 22: Apart from software costs, what timescales and costs do you consider would be involved in making the transition to MTD for CT? Please provide details of one-off and ongoing costs and benefits you think may arise.

- For businesses that carry out CT compliance in-house, we believe that the main cost will be the training/upskilling required for those staff members involved in the process. We believe that the requirements are not overly onerous and therefore for most organisations this would amount to a few days of time. This could incur external spend, but again, we do not believe that this would be a material investment.
- Whilst we do appreciate that these requirements will result in additional time being required by in-house staff in terms of preparing CT computations, we believe that the adoption of technology to cater for MTD for CT will more than offset this time in terms of increased efficiency throughout the tax department.
- For businesses that outsource the CT compliance to an accountancy firm, we would expect an increase in the fees charged. This is simply due to the additional requirements taking staff time to process, prepare and submit for their clients. As we are not an accountancy firm, we cannot comment on the quantum of these fees.

About us:

Tax Systems are the market leader in corporation tax software in both the UK & Ireland. We have over 30 years’ experience, a 70% market share in the large and extra-large company segment, 1,300 clients and 30,000 users producing close to 200,000 of the largest Corporation Tax returns to HMRC. We have a strategic position in the industry in the sense our software (AlphaTax) is used by virtually all of the accountancy firms in their outsourced practices as well as 43% of the FTSE 350 corporates who use our software in their in-house tax functions.

To find out more about our Alphatax platform and/or MTD for CT please contact us at enquiries@taxsystems.com or call us on **01784 777 700**.

