

Making Tax Digital – time for more simplification...

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I thought it worth sharing what follows on HMRC's Making Tax Digital programme, [on which I wrote quite a lot earlier this year](#). Making Tax Digital was stalled by the general election and has now been deferred and will only apply to businesses that are VAT registered, both of which developments make sense. However as Bob Edwards, [who wrote the blog that follows](#), points out, with a little more thought from HMRC the burdens of Making Tax Digital could be reduced considerably with almost all the benefits being retained. That is why I thought his proposal worth sharing, with his permission, of course:

Introduction

Last week, an announcement on the future roll-out of Making Tax Digital for Business (MTDfB) was posted on the Gov.uk website, it said:

Under the new timetable:

- * only businesses with a turnover above the VAT threshold (currently £85,000) will have to keep digital records and only for VAT purposes**
- * they will only need to do so from 2019**
- * businesses will not be asked to keep digital records, or to update HMRC quarterly, for other taxes until at least 2020**

Making Tax Digital will be available on a voluntary basis for the smallest businesses, and for other taxes.

This means that businesses and landlords with a turnover below the VAT threshold will be able to choose when to move to the new digital system.

As VAT already requires quarterly returns, no business will need to provide information to HMRC more regularly during this initial phase than they do now.

Source:

<https://www.gov.uk/government/news/next-steps-on-the-finance-bill-and-making-tax-digital>

Like many UK tax professionals, I greeted this announcement with a mixture of relief (previous implementation announcements had mandated that every business with turnover of more than £10,000 would need to comply with the MTDfB quarterly filing obligations, and the reporting process would start April 2018) and itchy feet, for goodness sake let's get on with it.

But on reflection, the final part of the above announcement opened my eyes to other possibilities, and, as we have more time, are we not missing a trick or two? This paper discusses my ideas as a contribution to the wider debate on the scope and impact of MTDfB.

VAT, Income Tax, CGT, Corporation Tax place holders

At present, three labels are attached to these taxes:

- * All VAT registered businesses have a VAT registration number.
- * All self-employed Income Tax (IT) and CGT payers who file a tax return have a Unique Tax Reference number (UTR).
- * All companies and other organisations subject to Corporation Tax (CT) have a CT UTR.

My first suggestion, is that VAT registration numbers are abolished and replaced by adding a "V" to businesses' UTRs.

There is an OECD convention that controls the use and changes to Tax Identification Numbers (TINs), see https://ec.europa.eu/taxation_customs/tin/pdf/en/TIN_-_subject_sheet_-_2_structure_and_specificities_en.pdf for a list of current TINs across Europe. ***However, Cyprus and Spain use TINs with a combination of numbers and letters so I am assuming there would be flexibility here to adopt my suggested approach.***

Transforming the VAT return into an MTDfB Tax Return

There is already a collection system in place to file and pay a quarterly VAT return (unless Annual Accounting is adopted) in which case see later comments. For now, it is sufficient to say that the data collected does the job, and most accounting software suppliers (if not all) provide an adequate system for tagging accounting transactions to populate the form. The present Boxes 1-9 are:

Box 1 VAT due this period on sales and other outputs

Box 2 VAT due in this period on acquisitions from other EC Member States

Box 3 Total VAT due (the sum of boxes 1 and 2)

Box 4 VAT reclaimed in this period on purchases and other inputs (including acquisitions from EC)

Box 5 **VAT to Pay Customs**

Box 6 Total value of sales and all other outputs excluding VAT (including supplies to EC)

Box 7 Total value of purchases and all other inputs excluding VAT (including acquisitions from EC)

Box 8 Total value of all supplies of goods, excluding any VAT, to other EC Member States

Box 9 Total value of all acquisitions of goods, excluding any VAT, from EC Member States

Transforming these numbers into a profit statement is remarkably easy. In my opinion, it can be done by adding three new lines to the VAT return.

Most accounting software has a “No VAT” or “Outside the scope of VAT” or “Exempt” category. Transactions tagged with these codes would not be drawn into the VAT return, specifically, boxes 6 and 7. Obviously, income and revenue expenditure items that are subject to VAT are accumulated in boxes 6 and 7 together with sales and purchases of capital items that are subject to a VAT charge.

I propose adding a Box 10, 11 and 12 to the return, to complete the data required to produce a realistic, pre-tax profit figure:

Box 10 Sales and other outputs not subject to VAT

Box 11 Purchases of goods, services and other costs not subject to VAT

Box 12 Purchase of assets not subject to AIA or FYA

To facilitate the collection of the Box 10, 11 and 12 data, software producers would need to standardise the treatment of none VAT transactions. I suggest:

- * All businesses should enter their UTR into their accounts software.
- * If the UTR entered does not have the “V” suffix — 12345616780V — then all transactions that involve the sale or purchase of costs and services will automatically be treated as non-VAT and allocated to Box 10 or Box 11. This would include wages and other revenue costs not published to a VAT return, but would exclude non-revenue costs such as proprietors or partners’ drawings. Nominal coding tags in accounts software could easily be adapted to achieve this result.
- * Any journal entries to introduce accounting only adjustments, depreciation, reserves for taxation and so on, would auto-generate a code that would not be added to Box 10 or Box 11. For the sake of this report, let’s call this code NP (Not taxable profit related).
- * If posting capital acquisitions that do not qualify for the AIA or a FYA, then software suppliers would need to add a category that included the purchase in Box 7 and in Box 12.

This return is now primed to produce a realistic estimate of taxable profit. The calculations are simple enough:

Box 6 + Box10 + Box 12 — Box 7 — Box 11

No doubt there are further tweaks required to take more obscure transactions into account, but in my opinion this revamped MTDfB tax return would provide data for the quarterly VAT return and the quarterly upload for MTD purposes with very few changes to government or client software.

All that is required to remove any unwanted coding errors or other mistakes, is the ability for taxpayers or their agents to file a fifth return addressing add backs, capital allowance claims, or other matters before certifying that the return for a tax year is complete. This, I would suggest, is where tax practitioners can step to add value to the whole process and ensure that their clients only pay taxes to the limit imposed by legislation. There is a more wholistic feel to this annual audit as it will, of necessity, include a review of all taxes charged in the year: VAT, IT, NIC, CGT and/or CT.

VAT special scheme complications

But what about VAT traders registered for Cash Accounting, or the Flat Rate Scheme, or Annual Accounting, or special retailer schemes? My observations are set out below.

Cash Accounting (CA)

If HMRC are content that businesses who are registered for CA, pay VAT based on money received and expended, then why not simplify assessment of tax (IT/NIC/CT) to apply the same criteria. In this way, the data reported on the VAT return would also apply to the calculation of taxable profits on a cash basis.

Instead of having a separate Cash Basis for VAT and tax, why not use the same?

Flat Rate Scheme (FRS)

As far as I can tell, two changes are required:

- * To show Box 6 as VAT exclusive, not inclusive, and
- * To include all VATable purchases in Box 7 and not limit this to capital purchases.

Annual Accounting (AA)

As MTD for businesses over the VAT registration threshold will possibly be obligatory from April 2020, then I see no future for this scheme. Leaving matters as they are would mean AA traders having to report MTD data quarterly and VAT data annually.

Better to offer all VAT traders the option to pay by monthly DD for 9 months, with a balancing payment once a year (this balance, by the way, could be displayed in the business owners or company's Personal Tax Account (PTA), so no surprises), and scrap the AA scheme.

Retailer schemes (RS)

Most retailer schemes concentrate on quantifying the amount of output VAT included in mixed rate sales, so the quarterly reporting should be acceptable for VAT and MTDfB purposes with no changes.

Advantages of the combined VAT and MTDfB tax return

I have summarised the advantages that I can see from adopting my suggestions set out in this paper. At this stage, they are purely speculative and obviously subjective, my opinion has, after all, only shaped the narrative.

Benefits claimed are:

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Radical government cost savings.

- * Simplification by merger of VAT and MTD reporting.
- * Huge cost savings for the accounting software industry. For example, there is no need to adapt software to use an exclusive MTD API link, the present VAT API will do the trick.
- * Easy to understand user changes, basically, the VAT return is being adapted to incorporate MTDfB reporting.
- * Simplification and unification of VAT special schemes and assessment for other taxes.

I've no idea how much government have invested in MTD technology and systems changes. I have a sneaking suspicion that it will be £ millions.

Unless I am wildly optimistic, I would expect that my suggestions can be achieved at modest cost. Accordingly, if the ideas pass muster, why not give them a try?

I offer my services, if my ideas are found to have legs, as I would like to see this digitisation process work for the general benefit of government — and therefore the State as it seeks to recoup public expenditure as taxation — as well as the confused and beleaguered business community and their over-worked professional advisors.

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