

## Is Making Tax Digital going to destroy the UK tax system...

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[Jean-Baptiste Colbert](#) (1619–1683), the Comptroller-General of Finances under Louis XIV of France, is widely credited with saying:

*“The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing.”*

It's one of the most enduring summaries of fiscal pragmatism. It neatly summarises the difficulty in maximising revenue extraction from a particular tax base whilst minimising political resistance.

Usually, I would dismiss this as not being descriptively accurate of modern tax practice, but a report in the Financial Times has made me reconsider that. [As they note:](#)

*Only a quarter of the landlords and sole traders who need to sign up for the UK's new digital tax system have done so, new figures show, despite the scheme coming into effect this month.*

*From April 6, anyone who earned more than £50,000 in the 2024-25 tax year from self-employment or property income was required to use authorised software to keep digital records and send HM Revenue & Customs quarterly updates on their income and expenses, as part of the authority's Making Tax Digital for Income Tax scheme.*

HMRC's plans for Making Tax Digital have been known for almost a decade now.

In summary, sole traders who are VAT-registered have already been required to report, in addition to their VAT declarations, their underlying accounting data that supports those declarations, and which also provides a real-time indication of their income and expenditure during the course of each quarter, so that HMRC are, supposedly, possessed of real-time data that will let them appraise the likely ongoing taxation liabilities.

This information is supposed to increase the likelihood that HMRC will both be able to recover the sums due to them and to do so on an accurate basis.

HMRC's claimed logic is that, by imposing this obligation on businesses, with serious penalties soon to be attached for failure to comply, businesses will secure a supposed benefit as a result of them knowing their own real-time accounting performance. This claim by HMRC embraces, with an arrogance that borders on the profoundly presumptuous, the claim that these businesses would not otherwise know how they were doing financially, when, as I well know from my own experience of working with them, a simple range of heuristics is normally enough for most small businesses to be able to completely appreciate the performance of their businesses.

And let's not pretend the requirement isn't extremely onerous. Instead of having to file one tax return a year, the reality is that self-employed people will now have to submit at least five tax returns a year. One of these will be submitted each quarter, with the requirement that a further return still be submitted after each tax year end to advise HMRC of accounting adjustments to the data already submitted, and additional information that will still form part of the self-employed person's tax return. The inevitable consequence is that their accounting costs will rise considerably.

Despite this, HMRC claims that the cost of submitting these returns will be inconsequential because they suggest that the data can all be automatically extracted from a person's books and records, which they now demand must all be maintained electronically.

I discussed this and other aspects of this matter when [giving evidence on HMRC's plans for Making Tax Digital to the House of Lords](#) as long ago as 2017, when I [submitted 10,000 words of evidence](#) on this subject to their Lordships, which I summarised on this blog at the time by saying:

*I can only describe the numbers presented by HMRC as incompetent. HMRC say 5.9 million businesses will submit four extra tax returns a year, let's not beat about the bush: that is the reality of this programme. That's 23.6 million submissions. And they say they will cost a maximum of £170 million. Divide one by the other and that is £7.20 each, or less than an hour of time at national minimum wage, as it was in 2017. But HMRC say the £170 million also covers all extra accounting and software costs.*

*I took a strictly marginal approach to costs here. I ignored all accountancy costs and simply looked at how many additional businesses might need new software and estimated it might be 925,000 at £72 a year, the cost of a QuickBooks subscription in 2017, or £67 million a year. That reduced the amount available to cover the cost of submission to £4.36 a return, or 35 minutes of time to undertake these tasks that are bound to be necessary.*

To be candid, HMRC lied at the time and revealed gross incompetence in their workings. Since then, the House of Commons Public Accounts Committee has found that Making Tax Digital has not worked for the larger organisations to which it has been applied, because the tax gap has not been closed as a result, and there is no evidence

of greater tax compliance as a consequence, whilst significant additional costs have been imposed on the business community.

And right now, and utterly bizarrely, Making Tax Digital is being extended to all small traders, but now to partnerships, LLPs and to all small limited companies, where the real tax evasion problems in the UK economy are.

It is as if HMRC are deliberately pursuing a policy that they know cannot work by picking on the most vulnerable targets in the world of self-employment, represented by those who are usually struggling to get by in a world that provides them with little other chance of doing so, while deliberately avoiding challenging the real issues in tax collection in the UK.

So let me suggest what is really required to tackle tax abuse in the UK, which Making Tax Digital will not in any way solve, because HMRC do not have the time, people, or skills to appraise the data they are being sent. Instead, they need to:

- \* Require that all UK financial institutions advise HMRC annually of all the entities to which they know they supply business banking services, delivering information on:
  - \* Total sums banker per annum
  - \* Year-end bank balances
  - \* Who the owners and managers of the entity really are
  - \* Where they are located.
  
- \* Reinstate the requirement for an accountant's report on the accounts of all limited liability entities recording income of more than £250,000 a year.
- \* Require that all limited liability entities file full accounts on public record, which is now being abandoned again.
- \* Require that all tax returns of any sort that record business activity include a list of the top ten customers by turnover. Nothing could do more to disclose hidden and fake employment. And by proxy, this would require that records be kept
- \* In the case of cash-based businesses, they should supply a 52-week taking summary as an alternative. That will also be telling.

Do this, and HMRC would have all the data it needs to start investigations in many cases, whilst the goal of requiring records would also be achieved without all the onerous workload that Making Tax Digital totally unnecessarily imposes.

Simultaneously, data on where the real risks lie would be exposed, which is what is really necessary in a risk appraisal system, and the public would be protected as well, and the additional cost would be small.

As it is, HMRC have forgotten Jean-Baptiste Colbert's maxim. Making Tax Digital will be the disaster I always suggested it would be. People will be driven into the shadow economy as a consequence, real risk will remain unappraised, and all that whilst the take of feathers will probably not increase, but the scale of hissing will most probably increase considerably.

If you had set out to destroy trust between a tax system and taxpayers, Making Tax Digital might have been the best way to do it. Asking the impossible and deliberately sanctioning vast numbers of people for failing to comply is not the way to create tax compliance; it is the way to destroy it. Is that what HMRC want? And what is the political agenda in play here? Very few are asking that, and the answers are quite unappealing. If you want to destroy the state, first you destroy its ability to tax.