

Impact of Making Tax Digital for VAT

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Glossary of terms

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| Bridging software | An additional software programme that takes data from another piece of software (e.g. a spreadsheet or legacy software) in a format that enables the VAT return to be submitted to HMRC via an application programming interface. It does not cover any of the other requirements of Making Tax Digital for VAT such as digital record-keeping. |
| Legacy software | Accounting software packages, often downloaded onto computers and systems, which predate Making Tax Digital for VAT and have not been updated to provide access to the Making Tax Digital platform. |
| Making Tax Digital for VAT | Making Tax Digital for VAT requires VAT registered businesses with taxable turnover above the VAT registration threshold to keep records in digital form and file their VAT Returns using software. Throughout this report, where we have referred to Making tax Digital that refers to Making Tax Digital for VAT. |
| Software that is fully compatible with Making Tax Digital / fully compatible software | VAT record keeping software that fulfils all the requirements of Making Tax Digital within a single application. |

1 Executive summary

Background

- 1.1 Since April 2019 all VAT registered businesses with VAT taxable turnover above the VAT registration threshold (currently £85,000) have been required to keep records digitally and use software to submit their VAT returns. Digital links between records have been required since April 2021. Making Tax Digital (MTD) is a key part of HMRC's ambition to become one of the most digitally advanced tax administrations in the world. Making Tax Digital aims to make it easier for individuals and businesses to get their tax right first time and keep on top of their affairs. HMRC commissioned this research to:
- evidence the extent to which Making Tax Digital for VAT is achieving its objectives, including:
 - reducing scope for error
 - making it easier for businesses to get their tax right
 - improving certainty and control
 - supporting digital integration
 - understand the extent of costs and benefits experienced by businesses as a result of their response to Making Tax Digital for VAT
 - understand the extent of wider impacts of Making Tax Digital for VAT on businesses
 - understand the factors most likely to lead to positive outcomes following Making Tax Digital
- 1.2 This was a quantitative study comprising of 2,005 interviews with randomly sampled mandated businesses that had submitted a VAT return via Making Tax Digital. Interviews were completed between 9th November and 14th December 2020 using a combination of Computer-Assisted Telephone Interviewing (CATI) (1,960 interviews) and an online survey (45 interviews).

Key themes around experience of benefits and costs of Making Tax Digital

- 1.3 Use of software that is fully compatible with Making Tax Digital was associated with experiencing benefits. Businesses using fully compatible software were more likely to report that: benefits outweighed costs, increased confidence in getting tax right, reduction in time spent checking submissions, and benefits that increase over time.
- 1.4 Businesses that used paper or spreadsheets as their main method of record keeping (as opposed to software or apps) prior to Making Tax Digital were more likely to report costs associated with Making Tax Digital, and that the costs outweighed the benefits.
- 1.5 The minority of businesses that reported they were not comfortable with technology were less likely to use fully compatible software, which may explain why they were also less likely to experience benefits from Making Tax Digital.

Changes to record-keeping behaviour

- 1.6 The proportion of businesses using software and/or apps in record keeping has increased from 72% of businesses prior to the introduction of Making Tax Digital to 87% currently. Since moving to Making Tax Digital 18%¹ of businesses that weren't using software or apps have started to do so.
- 1.7 Just under three-quarters of all businesses (74%) reported that they submit via Making Tax Digital using fully compatible software. However, this was less likely among self-employed (64%) and businesses with 250 or more employees (42%). Just over one in seven (14%) businesses reported they are submitting via Making Tax Digital using bridging software that either links to spreadsheets (11%) or to legacy software (3%).
- 1.8 Making Tax Digital appears to have had an impact on businesses' record-keeping frequency. The proportion of businesses updating their records on a continuous basis has increased since the introduction of Making Tax Digital, from 38% to 48%, with nearly all businesses (97%) updating their VAT records at least once a quarter (up from 95%).
- 1.9 Most businesses found the process of transitioning to submitting under Making Tax Digital easy. Two-thirds stated that signing up (67%) and making their first submission (63%) was easy, while four-fifths (80%) said the same about making ongoing submissions.

Costs of Making Tax Digital for VAT to businesses

- 1.10 Businesses were asked about activities undertaken and financial costs incurred moving to Making Tax Digital. When asked about the costs incurred this was the cost of activities prompted by Making Tax Digital and not limited to compliance. Additionally, the data collected were reliant on respondent memory, so should be treated as estimates only.
- 1.11 Nearly all businesses (93%) carried out at least one activity to prepare for Making Tax Digital with just over half (55%) of all businesses reporting financial costs as a result of their activities. Transitional financial costs were reported by 25% of businesses, and 38% reported financial costs on an ongoing basis. Businesses that were using spreadsheets or paper methods to keep VAT records prior to Making Tax Digital were more likely to incur costs.
- 1.12 The mean average total transitional cost for businesses that reported them was £411, equating to £65 across all businesses. The higher cost figure is based on businesses that reported a cost greater than zero. The lower cost figure also includes businesses that said the cost was zero.
- 1.13 The most commonly reported activities that businesses undertook that resulted in a transitional financial cost were discussing changes with an accountant, experienced by 12% of all businesses, and introducing training for relevant staff, experienced by 9% of all businesses.
- 1.14 The mean average total ongoing cost per quarter for businesses that reported them was £172, equating to £49 across all businesses. The higher cost figure is based on businesses that

¹ Some businesses (3%) reported using software apps as a secondary method before, but not after, Making Tax Digital

reported a cost greater than zero. The lower cost figure also includes businesses that said the cost was zero.

- 1.15 The most common activities that businesses undertook that resulted in ongoing financial costs were introducing a new accounting software package, experienced by 21% of all businesses, increasing use of an existing agent, experienced by 12% of all businesses, and discussing changes with an accountant, experienced by 9% of all businesses.
- 1.16 Just over a quarter (27%) of businesses that used software prior to Making Tax Digital paid more for their current software than previously. Amongst those that paid for software, half (50%) were not aware free options were available, compared to 46% that were.
- 1.17 Of the businesses that were using agents prior to Making Tax Digital, 20% stated that they currently use their agent more, equivalent to 13% of all businesses. Meanwhile, 7% of these businesses have decreased their use of agents while 69% currently use their agents the same amount as they did prior to Making Tax Digital.

Benefits of Making Tax Digital for VAT

- 1.18 Almost seven in ten (69%) businesses have experienced at least one benefit from Making Tax Digital. Experiencing benefits was more common for those businesses using fully compatible software (76%), those that started using software for record keeping since the introduction of Making Tax Digital (80%), those that have submitted more than 7 returns via Making Tax Digital (76%), and businesses with an annual turnover exceeding £250,000 (71%).
- 1.19 The most common benefits reported were that Making Tax Digital made preparing and submitting VAT returns faster (55%), and that it made businesses feel more confident they are getting tax right (53%). Of those businesses that reported a benefit, over three-quarters (78%) stated that at least one benefit had increased over time. Most commonly reported as increasing were increased confidence getting tax right (76%), speed of returns (74%), and confidence using technology (72%).
- 1.20 Two-thirds (67%) of businesses also noted at least one way they thought Making Tax Digital had reduced the potential for mistakes. The most commonly reported ways were in the process of making the return (61%), calculating the amount owed (48%), and checking for errors in the calculation (46%).
- 1.21 One in three (31%) businesses reported spending less time on their record keeping and tax returns since Making Tax Digital, increasing to 35% of businesses using fully compatible software. Conversely, 16% reported spending more time, increasing to 36% of businesses using bridging software. For those businesses that have experienced a reduction in the time spent on their tax returns, time savings have been found in inputting financial data (67%), checking for errors (67%), and calculating the amount of tax owed (65%).
- 1.22 Three in ten (30%) businesses felt that the benefits of Making Tax Digital outweighed the cost and effort associated with it, almost double the proportion that found the reverse (14%). Businesses using fully compatible software were more likely to find benefits outweighed costs and effort (35%) while those using bridging software were more likely to find the costs and effort to outweigh the benefits (33%). A quarter (25%) of businesses found that the costs and effort were balanced out by the benefits, while a similar proportion (26%) stated that they did not experience costs or benefits.

2 Introduction

Background

- 2.1 Since April 2019 all VAT registered businesses with VAT taxable turnover above the VAT registration threshold (currently £85,000) have been required to keep records digitally and use software to submit their VAT returns for VAT periods that started on or after 1 April 2019.
- 2.2 Making Tax Digital is a key part of HMRC's ambition to become one of the most digitally advanced tax administrations in the world. Making Tax Digital aims to make it easier for individuals and businesses to get their tax right first time and keep on top of their affairs.
- 2.3 HMRC commissioned this research to produce robust quantitative evidence on the impact of Making Tax Digital across a range of metrics, including record-keeping behaviour, scope for error, costs of compliance, benefits to business and customer experience.
- 2.4 The core objectives of this research are:
 - To evidence the extent to which Making Tax Digital for VAT is achieving its objectives:
 - reducing scope for error
 - making it easier for businesses to get their tax right
 - improving certainty and control
 - supporting digital integration
 - to understand the extent of costs and benefits experienced by businesses as a result of their response to Making Tax Digital for VAT
 - to understand the extent of wider impacts of Making Tax Digital for VAT on businesses
 - to understand the factors most likely to lead to positive outcomes following Making Tax Digital
- 2.5 The research aims to answer the following questions:
 - What impact has Making Tax Digital for VAT had on the frequency and methods of record-keeping?
 - How have changes in record-keeping behaviour been mediated by contextual factors?
 - What factors influenced choice of software and to what extent has this resulted in an effective solution?
 - How easy did businesses find the transition to Making Tax Digital for VAT and what factors predict greater ease?
 - What have been the costs and benefits of changes driven by Making Tax Digital for VAT?

- What impact has Making Tax Digital for VAT had on ease of meeting VAT obligations for businesses, including confidence in getting tax right?
- Has Making Tax Digital for VAT increased digital confidence?
- To what extent has Making Tax Digital for VAT affected businesses' overall financial confidence and security?
- What factors predict (more) positive outcomes in terms of reduction in scope for error and benefits for business?

Methodology

- 2.6 This was a quantitative study comprising of 2,005 interviews with businesses that had submitted a VAT return via Making Tax Digital. Interviews were mainly completed using Computer-Assisted Telephone Interviewing (CATI), with 1,960 interviews completed via this method. Businesses were also offered the chance to complete the survey online if they were not able to complete over the telephone, with 45 interviews completing the survey this way. CATI interviews lasted an average of 22 minutes.
- 2.7 The sample for the research was supplied by HMRC comprising of VAT registered businesses mandated to use Making Tax Digital for VAT. Businesses were drawn randomly to ensure a representative sample, however medium sized businesses (according to their turnover) were boosted to enable a sufficient sample base for statistical comparison by business size. All businesses were screened at the beginning of the interview to confirm they had submitted a VAT return digitally via Making Tax Digital. Interviews were completed with the person within the business with the knowledge and authority to answer on behalf of their business regarding tax issues, excluding any external agents.
- 2.8 Fieldwork was conducted between 9th November and 14th December 2020, during the COVID-19 pandemic. To mitigate against disruption of fieldwork various measures were taken including offering the online version of the survey for businesses to complete in their own time and identifying businesses in industries and areas affected by changing restrictions to ensure sensitive treatment. Initially, a pilot phase was undertaken between 9th and 11th November 2020 to test: the length of the survey; respondent understanding of the questions; and whether the questionnaire flowed smoothly and logically from the perspective of respondents (with refinements made prior to launching the mainstage survey).
- 2.9 The questionnaire was divided into the following sections: screening questions including confirming sample information such as number of employees and turnover; business behaviour regarding VAT submissions prior to Making Tax Digital; changes businesses had made due to Making Tax Digital and the costs associated with those changes; and benefits experienced by the business as a result of Making Tax Digital. It should be noted that when businesses were asked about the costs they had incurred as a result of Making Tax Digital this was the cost of activities prompted by Making Tax Digital, rather than being limited to what was necessary to be compliant. It should also be noted that the costs relied on the memory of respondents, so should be treated as estimates only.
- 2.10 To correct for the boost to medium-sized businesses in sampling, the final data was weighted according to the latest available HMRC population data, which uses imputed turnover as a

proxy for size, to ensure it was representative of the business population. Table 2.1 displays the profile of businesses according to HMRC data on turnover before and after weighting.

Table 2.1 Weighting profile

| Turnover | Proportion unweighted | Proportion weighted |
|------------------------|-----------------------|---------------------|
| Total | 100% | 100% |
| £85,000 to £2m | 65% | 90% |
| £2m to £10m | 17% | 7% |
| £10m to £200m | 17% | 2% |
| More than £200m | <1% | <1% |

Base: All businesses (2005)

Reporting conventions

- 2.11 Throughout the report, survey data may not always sum to 100% due to rounding (meaning that some totals may add to slightly higher or lower than 100%).
- 2.12 Turnover levels were collected as part of the survey process. Where data are discussed by turnover the current collected splits are used. These differ from the historical total population data used for weighting.
- 2.13 Significance testing to a 95% confidence level was carried out on the survey data. This is in order to establish whether differences between sub-groups are statistically significant or not. In other words, whether we can be certain that a difference is sufficiently large to be considered a genuine difference.
- 2.14 Outlier values were removed from the calculations of averages for the cost estimates provided by businesses. Outliers were defined as values that were more than three times the inter-quartile range higher or lower than the median.

3 Key themes around experience of benefits and costs of Making Tax Digital

3.1 This chapter outlines the relationships that were found between business characteristics and behaviours associated with experiencing benefits and costs of Making Tax Digital.

Type of software used for submissions

Use of software that is fully compatible with Making Tax Digital (as opposed to bridging software) is associated with experiencing benefits, but businesses that used spreadsheets for record keeping prior to Making Tax Digital were more likely to use bridging software.

3.2 Businesses that used software that is fully compatible (n=1,468) were more likely to report experiencing benefits from Making Tax Digital: 76% reported experiencing at least one benefit of Making Tax Digital, compared to 54% of those that used bridging software that links to spreadsheets (n=271). In turn, businesses that used fully compatible software were more likely to report experiencing each of the benefits they were prompted with, most notably those around reducing the potential for mistakes (Table 3.1).

Table 3.1 Proportion of businesses reporting that Making Tax Digital reduced the potential for mistakes at different points split by software type used

| Type of software used for submissions | Fully compatible | Bridging to spreadsheets |
|--|------------------|--------------------------|
| <i>Making the return</i> | 69% | 43% |
| <i>Calculating the amount owed to HMRC</i> | 54% | 31% |
| <i>Checking for errors in the calculation</i> | 51% | 33% |
| <i>Correcting errors</i> | 46% | 23% |
| <i>Inputting data from receipts and invoices</i> | 43% | 26% |
| <i>Managing adjustments</i> | 43% | 26% |

B11. Which, if any, of the following areas has Making Tax Digital helped reduce the potential for mistakes? Base: Businesses that used software that is fully compatible (1468); Business that used bridging software that links to spreadsheets (271)

3.3 Businesses that used bridging software that links to spreadsheets were also more likely to have a negative perception of the overall experience of Making Tax Digital. These businesses were more likely to feel that the costs of Making Tax Digital outweighed the benefits (33% compared to only 11% of businesses that used fully compatible software).

3.4 Additionally, businesses that used bridging software that links to spreadsheets were more likely to have used spreadsheets as their main record keeping method prior to Making Tax Digital (49% compared to only 14% of those that used fully compatible software). Some businesses may have chosen bridging software to enable them more continuity in the transition to Making Tax Digital, but this may have simultaneously reduced their likelihood of experiencing the potential benefits.

Main record keeping method used prior to Making Tax Digital

Businesses using paper or spreadsheets as their main method prior to Making Tax Digital were more likely to experience a range of costs. This may have been because they had more changes to make than those already using software. These businesses were more likely to report that the costs of Making Tax Digital, for them, outweighed the benefits (despite being as likely to experience the benefits).

- 3.5 Businesses that used paper methods or spreadsheets as their main method of record keeping were more likely to report ongoing costs. Ongoing costs were reported by 53% of businesses that used paper methods prior to Making Tax Digital and 51% of businesses that used spreadsheets prior to Making Tax Digital. In comparison, 31% of businesses that used software prior to Making Tax Digital reported ongoing costs. Similarly, transitional costs were reported by 27% of businesses that used paper methods prior to Making Tax Digital and 32% of businesses that used spreadsheets prior to Making Tax Digital. In comparison, 22% of businesses that used software prior to Making Tax Digital reported transitional costs.
- 3.6 The increased likelihood of experiencing ongoing costs may account for the increased likelihood of feeling that the costs of Making Tax Digital outweighed the benefits (20% and 21% respectively, compared to 11% of those that used software).

Level of comfort with everyday technology and digital change

The minority of businesses that reported they are not comfortable with technology in everyday life and/or digital change were less likely to experience the benefits. This was possibly linked with them also being less likely to use fully compatible software.

- 3.7 While only a small proportion of businesses reported they were not comfortable with technology in everyday life (n=60) or digital change (n=115), these businesses stand out as a group less likely to experience the potential benefits of Making Tax Digital (Table 3.2).

Table 3.2 Whether the costs/ effort involved with using Making Tax Digital outweigh the benefits – comparison according to agreement with statements about technology comfort level

| Whether comfortable using technology in everyday life | Agree | Disagree |
|---|-------|----------|
| Costs outweigh benefits | 13% | 28% |
| Experienced at least one benefit | 71% | 50% |

C6. Taking everything into account, both the benefits and costs, overall, which of the following do you feel most applies to your business? Base: Businesses that agreed they were comfortable using technology in everyday life (1867); Businesses that disagreed they were comfortable using technology in everyday life (60)

| Whether comfortable with digital change | Agree | Disagree |
|---|-------|----------|
| Costs outweigh benefits | 10% | 44% |
| Experienced at least one benefit | 73% | 46% |

C6. Taking everything into account, both the benefits and costs, overall, which of the following do you feel most applies to your business? Base: Businesses that agreed they were comfortable with digital change (1782); Businesses that disagreed they were comfortable with digital change (115)

- 3.8 Additionally, these businesses were less likely to use fully compatible software and more likely to have used paper or spreadsheets as their main record keeping method, both of which were associated with not experiencing benefits as discussed above.
- 3.9 The types of businesses more and less likely to fall into this category is discussed in paragraphs 4.16 to 4.18.

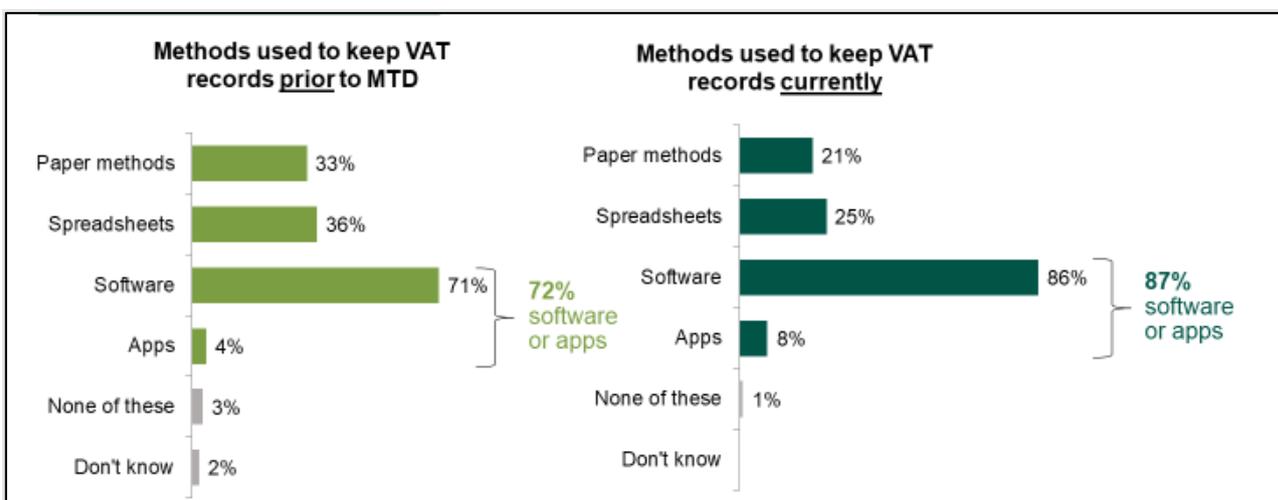
4 Changes to record-keeping behaviour

4.1 This chapter analyses the reported changes in record keeping practices before and after signing up to Making Tax Digital, including use of software and frequency of updating VAT records. It also investigates how different types of businesses have found the process of signing up for Making Tax Digital and using it to submit returns.

Use of software for record keeping

4.2 Businesses were asked what Making Tax Digital record keeping methods they used before the introduction of Making Tax Digital, and what methods they currently use under Making Tax Digital. Overall, as shown in Figure 4.1., use of specialised software, apps, or both for VAT record keeping has increased from just over seven in ten (72%) businesses before Making Tax Digital, to almost nine in ten (87%). Before Making Tax Digital, just over a quarter of businesses (28%) were not using any software or apps. Almost two thirds (64%) of those businesses started using one or both after the introduction of Making Tax Digital.

Figure 4.1 Record keeping methods used before and after Making Tax Digital



A3. Prior to Making Tax Digital's introduction, which of the following methods did your business use to keep VAT records? Base: All businesses (2005)

B1. Which of the following best describes the method you currently use to keep VAT records? Base: All businesses (2005)

Table 4.1 Record keeping methods used before and after Making Tax Digital

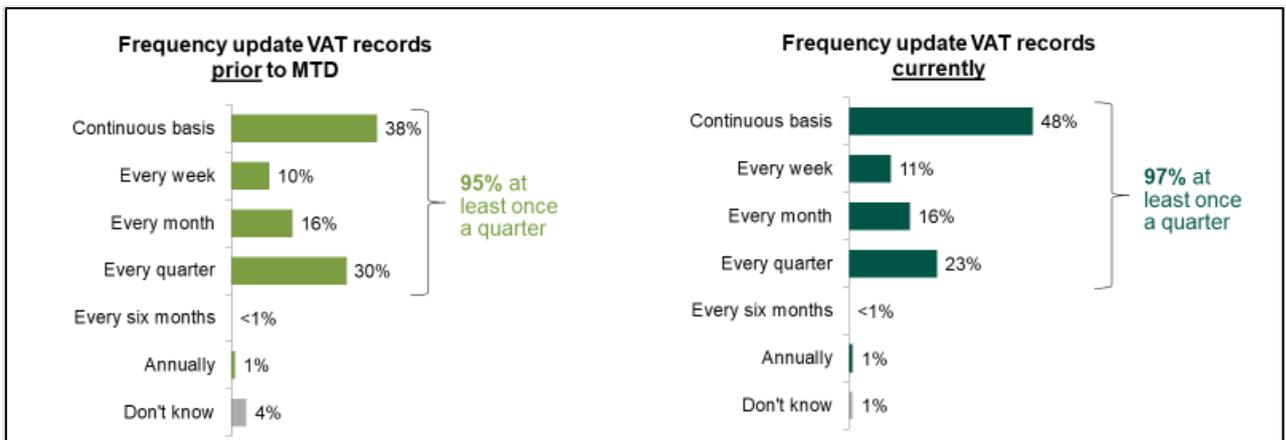
| Methods used to keep VAT records | Prior to MTD | Currently |
|----------------------------------|--------------|------------|
| Paper methods | 33% | 21% |
| Spreadsheets | 36% | 25% |
| Software | 71% | 86% |
| Apps | 4% | 8% |
| SUMMARY: Software or apps | 72% | 87% |
| None of these | 3% | 1% |
| Don't know | 2% | 0% |

- 4.3 The businesses that did not use an external agent were more likely to use software or apps for record keeping after Making Tax Digital (92% of them use software or apps currently). As were those that had submitted a higher number of returns (7 or more) via Making Tax Digital (91%).
- 4.4 Businesses that were more likely to still use paper methods for record keeping (alongside digital record keeping) after the introduction of Making Tax Digital include:
- businesses that used paper as their main method of bookkeeping before Making Tax Digital (50%)
 - businesses in the accommodation and food service sector (31%)
 - businesses with fewer than 10 employees (22%)
- 4.5 Non-profit organisations and charities (68%), companies with more than 50 employees (37%) and companies in the real estate sector (38%) were more likely to use spreadsheets as a current record keeping method.

Frequency of updating VAT records

4.6 Alongside more businesses using software for record keeping, there was an increase in the frequency with which businesses update their VAT records. This manifests as a move towards updating more often than quarterly. While most businesses (95%) already updated their VAT records at least once a quarter before Making Tax Digital, that percentage increased to 97%. Additionally, there has been an uplift in the proportion that update their records on a continuous basis since Making Tax Digital was introduced, from 38% to 48%, as shown in Figure 4.2.

Figure 4.2 Comparison of frequency of VAT records updates



A5. Prior to Making Tax Digital's introduction, how frequently did your business update its VAT records? Base: All businesses (2005)

B8. Since the introduction of Making Tax Digital, how frequently has your business updated its VAT records? Base: All businesses (2005)

Table 4.2 Comparison of frequency of VAT records updates

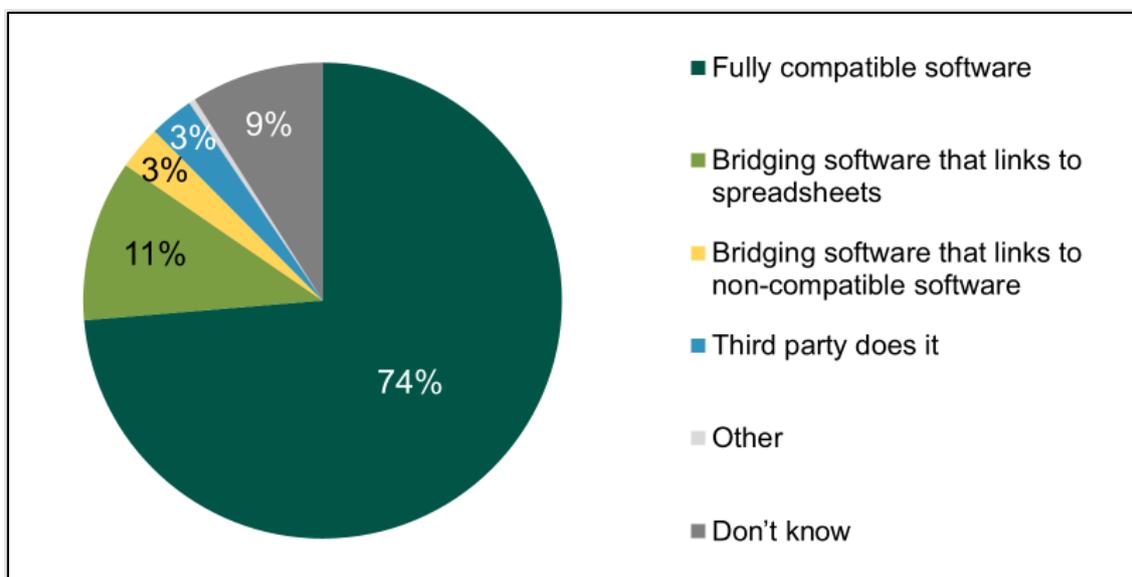
| Frequency update VAT records | Prior to MTD | Currently |
|---|--------------|------------|
| Continuous basis | 38% | 48% |
| Every week | 10% | 11% |
| Every month | 16% | 16% |
| Every quarter | 30% | 23% |
| SUMMARY: At least once a quarter | 95% | 97% |
| Every six months | <1% | <1% |
| Annually | 1% | 1% |
| Don't know | 4% | 1% |

- 4.7 Businesses more likely to update their records on a continuous basis were those with turnovers of more than £1 million (71%), more than 50 employees (77%), non-profit organisations and charities (74%), and those that do not use an external agent (59%).
- 4.8 On the other hand, nine in ten (92%) of those updating their VAT records less than every quarter do so on a yearly basis (1% of all businesses).

Type of software used for Making Tax Digital submissions

4.9 When making submissions, almost three-quarters (74%) of businesses used software that is fully compatible with Making Tax Digital (Figure 4.3). Just over one in ten (10%) used bridging software that links to spreadsheets and three in one-hundred used bridging software that links to non-compatible software. The remaining participants did not know (9%) or said a third party does it (3%). Table 4.1 outlines the types of businesses that were more and less likely to use fully compatible software.

Figure 4.3 Software currently used to submit through Making Tax Digital



B1a. Which of the following best describes the method you currently use to submit your business's VAT returns to Making Tax Digital? Base: All businesses (2005)

Table 4.3 Types of businesses significantly more likely and less likely to use fully compatible software

| Business subgroups | Base | % |
|--|--------------|------------|
| Proportion of all businesses that used fully compatible software | 2,005 | 74% |
| More likely to use compatible software | | |
| Businesses with an annual turnover £1 to 5m | 385 | 84% |
| Businesses that do not use external agents | 1,143 | 82% |
| Businesses that update their VAT records on a continuous basis | 1,097 | 81% |
| Businesses that used software or apps as main method of record keeping prior to Making Tax Digital | 1,208 | 84% |
| Less likely to use compatible software | | |
| Businesses with 250 or more employees | 313 | 42% |
| Self-employed | 243 | 64% |
| Businesses that use an external agent | 862 | 66% |
| Businesses that used spreadsheets as main record keeping method prior to Making Tax Digital | 366 | 54% |

B1a. Which of the following best describes the method you currently use to submit your business's VAT returns to Making Tax Digital? Base: See table

4.10 Bridging software was used by 14% of all businesses. Three quarters of these (77%) used bridging software that links to spreadsheets (equivalent to 11% of all businesses). Less than a quarter (23%) bridged to legacy software that is not compatible with Making Tax Digital (equivalent to 3% of all businesses).

Features of software used

4.11 When asked about the features of their current software, businesses reported that they did not use all the features which are available to them. As shown in Figure 4.4, the most common (and commonly used) features were extra management tools not directly related to tax. These were available for three out of five businesses (64%) and used by half of them (49%). The next most used software features were cloud-based record keeping (48%), E-invoicing (39%), and automatic bank reconciliation (38%), which are available for just over half of businesses.

Figure 4.4 Features of software used

B9. Does your business use software that has any of the following features? Base: All businesses

B10. Which of these features does your business make use of? Base: All businesses (2005)

Table 4.4 Features of software used

| Features of software | Included in current version | Made use of by business |
|---|-----------------------------|-------------------------|
| Extra management features not directly related to tax | 64% | 49% |
| E-invoicing | 57% | 39% |
| Cloud-based record keeping | 56% | 48% |
| Automatic bank reconciliation | 52% | 38% |
| Receipt scanning | 33% | 19% |
| Smartphone app | 32% | 16% |
| None of these | 14% | 9% |
| Don't know | 3% | 1% |

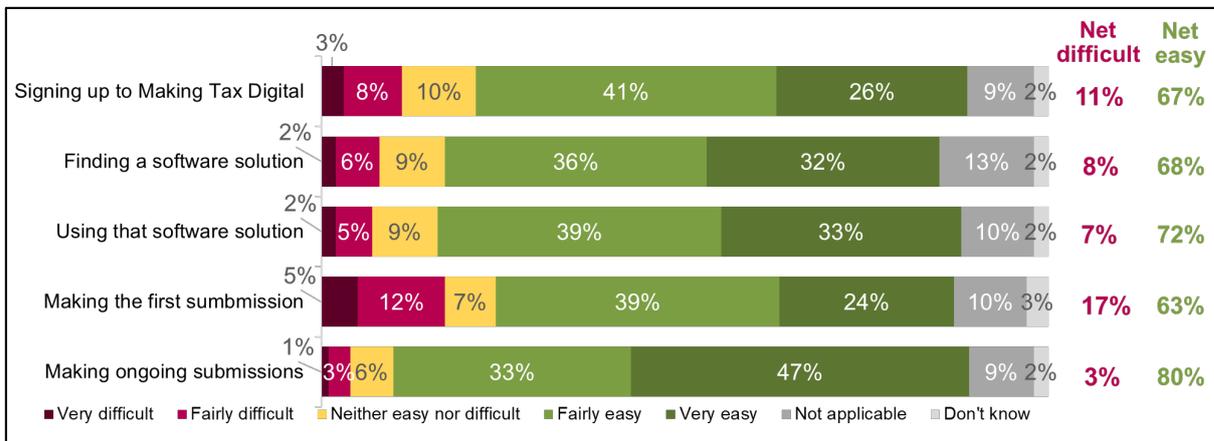
4.12 Types of businesses more likely to use the extra management options can be found in Table 7.1, in the Appendix.

Experience of starting submissions

4.13 Most businesses found the process of signing up for Making Tax Digital and changing their practice to accommodate this easy (63% to 80% at every stage of the process), as shown in Figure 4.5. Businesses seemed able to easily navigate through the signing up process for Making Tax Digital (67%) and finding a software solution (68%) as well as using the new software solution (72%), with a third (33%) considering finding and using software very easy. The stage more businesses found difficult was making the first Making Tax Digital submission. Almost a fifth of businesses (17%) found this difficult (5% finding it very difficult). This proved a

transitional difficulty, however, as four in five businesses (80%) reported they found making the following submissions easy, with almost a half (47%) finding it very easy.

Figure 4.5 Experience of starting submissions



D1. How easy or difficult did you find the following? Base: All businesses (2005)

Table 4.5 Experience of starting submissions

| | Very difficult | Fairly difficult | Neither easy nor difficult | Fairly easy | Very easy | N/A | Don't know | NET: Difficult | NET: Easy |
|---|----------------|------------------|----------------------------|-------------|-----------|-----|------------|----------------|-----------|
| Signing up to Making Tax Digital | 3% | 8% | 10% | 41% | 26% | 9% | 2% | 11% | 67% |
| Finding a software solution | 2% | 6% | 9% | 36% | 32% | 13% | 2% | 8% | 68% |
| Using that software solution | 2% | 5% | 9% | 39% | 33% | 10% | 2% | 7% | 72% |
| Making the first submission | 5% | 12% | 7% | 39% | 24% | 10% | 3% | 17% | 63% |
| Making ongoing submissions | 1% | 3% | 6% | 33% | 47% | 9% | 2% | 3% | 80% |

4.14 Larger companies (more than 10 employees, more than £1 million turnover) were more likely to find each stage of the process easy. Businesses that used software as the main method of bookkeeping before Making Tax Digital, those currently using fully compatible software, those doing all their accounting in house, and those updating their VAT records on a continuous basis were also more likely to find each stage of the process easy. Detailed percentages can be found in Table 4.6.

Table 4.6 Types of businesses significantly more likely to find each of the stages of the process easy.

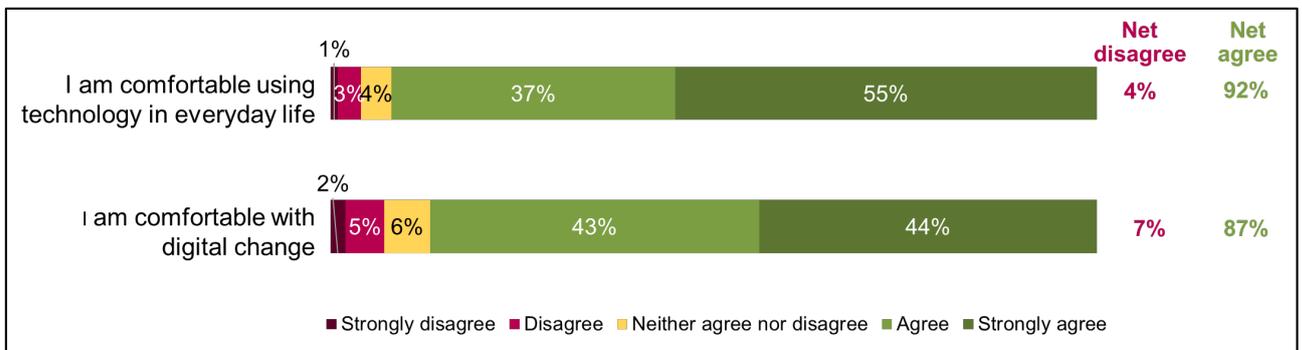
| Business subgroups | All businesses | Businesses with 10 or more employees | Businesses with more than £1m turnover | Previously used software as the main method of book-keeping | Currently using fully compatible software | Do not use an external agent) | Update VAT records on a continuous basis |
|----------------------------------|----------------|--------------------------------------|--|---|---|-------------------------------|--|
| Base sizes | 2,005 | 882 | 778 | 1,208 | 1,468 | 1,143 | 1,097 |
| Signing up to Making Tax Digital | 67% | 73% | 75% | 72% | 72% | 76% | 73% |
| Finding a software solution | 68% | 73% | 75% | 74% | 76% | 77% | 75% |
| Using that software solution | 72% | 81% | 81% | 78% | 78% | 82% | 80% |
| Making the first submission | 63% | 69% | 70% | 68% | 71% | 71% | 70% |
| Making ongoing submissions | 80% | 88% | 88% | 85% | 88% | 92% | 87% |

D1. How easy or difficult did you find the following? Base: See table

Digital capability and attitude to change

4.15 When asked how comfortable they were using technology in their everyday life and digital change, just over nine in ten businesses agreed they were comfortable with technology (92%) and just under nine in ten with digital change (87%). Moreover, Figure 4.6 shows that about half agreed strongly that they were comfortable with each situation.

Figure 4.6 Digital capability and attitude to change



A6. To what extent do you agree or disagree with the following statements? Base: All businesses (2005)

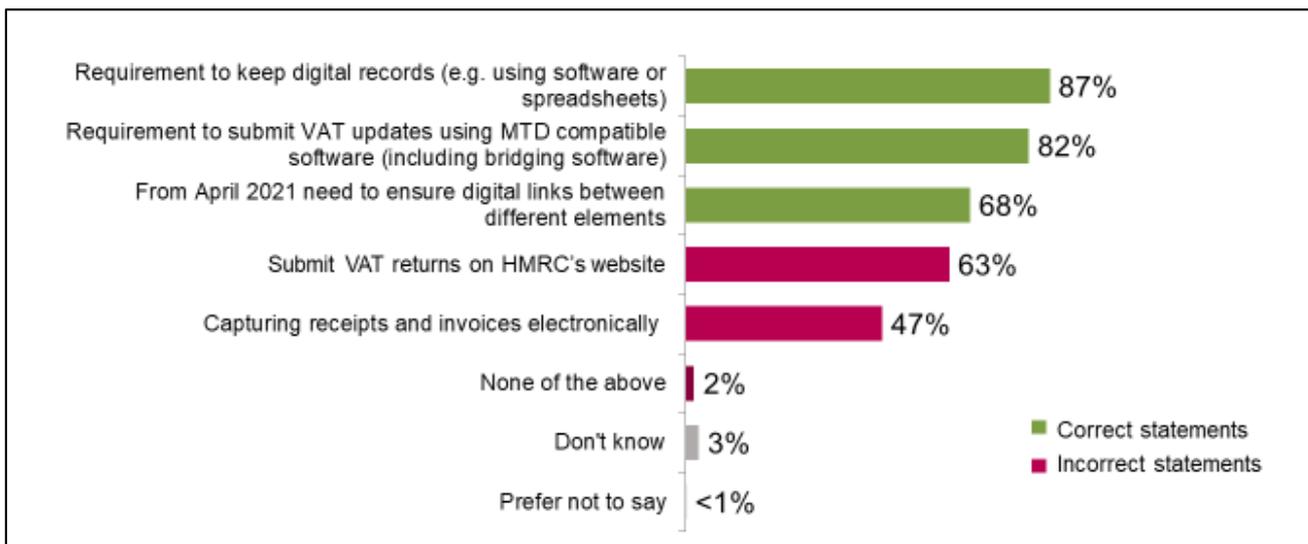
Table 4.7 Digital capability and attitude to change

| | Strongly disagree | Disagree | Neither agree nor disagree | Agree | Strongly agree | NET: Disagree | NET: Agree |
|---|-------------------|----------|----------------------------|-------|----------------|---------------|------------|
| I am comfortable using technology in everyday life | 1% | 3% | 4% | 37% | 55% | 4% | 92% |
| I am comfortable with digital change | 2% | 5% | 6% | 43% | 44% | 7% | 87% |

- 4.16 The businesses most likely to be comfortable with both using technology and digital change were businesses with 50 to 249 employees (97% and 96% respectively).
- 4.17 Businesses more likely to be comfortable with using technology in everyday life were those doing their bookkeeping in house (95%) and updating their records on a continuous basis (94%).
- 4.18 Among the companies most comfortable with digital change were companies with over £1 million turnover (91%), and those that use fully compatible software (91%).

Awareness of requirement to ensure digital links

- 4.19 Businesses were prompted with a series of descriptions of requirements of Making Tax Digital (some true and some untrue) and they were asked to identify which they thought were the key requirements.
- 4.20 As illustrated in Figure 4.7, the need to ensure digital links from April 2021 had a significantly lower level of awareness than the other true statements. Just under seven in ten (68%) of businesses correctly identified it as a requirement of Making Tax Digital, while the need to keep digital records and to update VAT records with Making Tax Digital compatible software were identified by 87% and 82% of businesses respectively.
- 4.21 More likely to be aware of the need for digital links were businesses with 50 to 249 employees (75%), those in the manufacturing sector (74%), as well as those that use fully compatible software (71%), and that are comfortable with technology and digital change (70% and 71% respectively). On the other hand, businesses that use bridging software that links to spreadsheets (58%) and those that are uncomfortable with technology and digital change (47% and 50% respectively) were significantly less likely to be aware of this requirement.

Figure 4.7 Awareness of key requirements of Making Tax Digital

D2. What do you think are the key requirements of Making Tax Digital? Base: All businesses (2005 – apart from the statement “Submit returns on HMRC’s website” which was not added until after pilot, so base is 1975)

Table 4.8 Awareness of key requirements of Making Tax Digital

| Requirements of Making Tax Digital | % |
|---|-----|
| Correct: Requirement to keep digital records (e.g. using software or spreadsheets) | 87% |
| Correct: Requirement to submit VAT updates using MTD compatible software (including bridging software) | 82% |
| Correct: From April 2021, using digital links between the different elements of process | 68% |
| Incorrect: Submit VAT returns on HMRC’s website | 63% |
| Incorrect: Capturing receipts and invoices electronically | 47% |
| Incorrect: None of the above | 2% |
| Don't know | 3% |
| Prefer not to say | <1% |

4.22 Just over three in five businesses (63%) interpreted the need to submit VAT returns on HMRC’s website as a requirement, despite this not being one. This was more prevalent among those relying on an external agent for their tax submissions (66%). However, the statement could have easily been interpreted to mean submitting data online, so is not a clear indication of misinformation on the part of Making Tax Digital users.

5 Costs of Making Tax Digital for VAT to businesses

5.1 One of the main objectives of the research was to assess the cost to businesses of changes driven by Making Tax Digital for VAT. This chapter outlines the activities completed by businesses in preparation for Making Tax Digital and whether these activities incurred financial costs. It also examines the types of businesses most affected and the impact on use of both software and external agents. The costs are self-reported and retrospective and reflect the cost of activities prompted by Making Tax Digital rather than being limited to just those activities that were absolutely necessary to comply with Making Tax Digital. Additionally, the data collected were reliant on respondent memory and perceptions of what constituted a cost, so should be treated as estimates only.

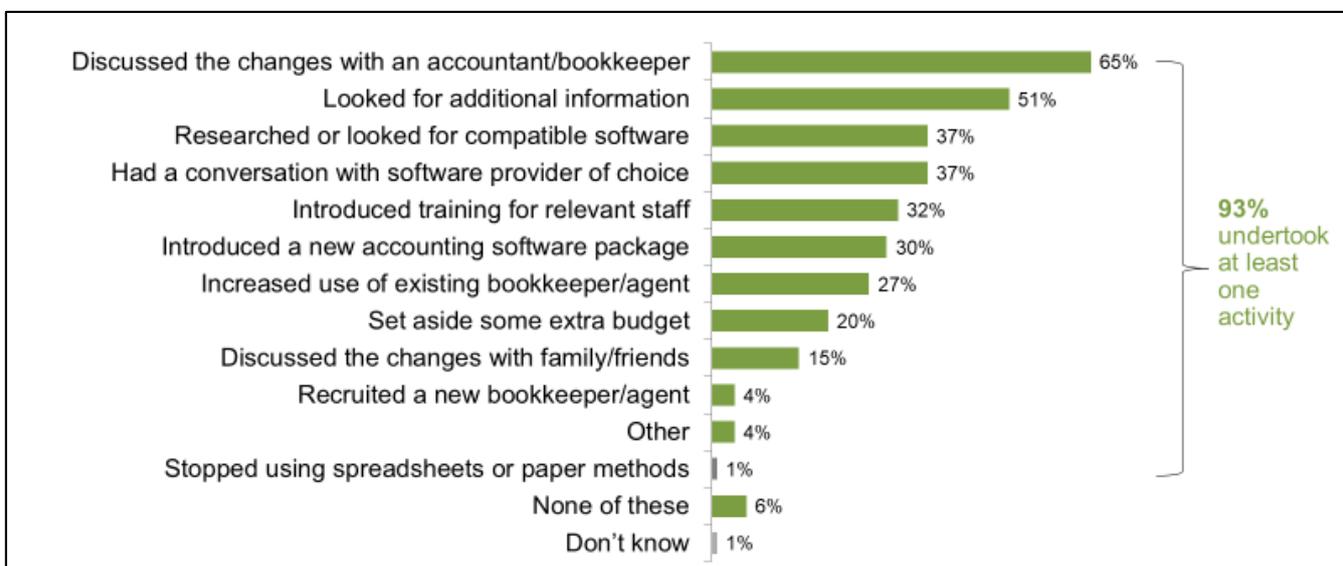
Preparing for Making Tax Digital

5.2 Almost all (93%) businesses reported undertaking an activity to prepare for Making Tax Digital; most commonly discussing the changes with an accountant or bookkeeper (65%) or looking for additional information, e.g. on gov.uk or from trade bodies (51%).

5.3 A range of activities were undertaken in preparation for Making Tax Digital relating to the required software, with more than three in ten businesses investigating compatible software (37%), talking to a software provider (37%), or introducing a new accounting software package (30%).

5.4 Just under a third of businesses (32%) introduced training for relevant staff to prepare for Making Tax Digital. There is a partial overlap here with the 30% of businesses which introduced a new software package, with 16% of all businesses selecting doing both. A quarter (27%) took the step of increasing their use of an existing bookkeeper or agent and one in five businesses (20%) set aside extra budget.

Figure 5.1 Activities done to prepare for Making Tax Digital



B2. Which of the following activities did your business do to prepare for Making Tax Digital? Base: All businesses (2005)

Table 5.1 Activities done to prepare for Making Tax Digital

| Activities | % |
|--|------------|
| Discussed the changes with an accountant/bookkeeper | 65% |
| Looked for additional information, e.g. on gov.uk, from trade bodies, etc. | 51% |
| Researched or looked for compatible software | 37% |
| Had a conversation with software provider of choice | 37% |
| Introduced training for relevant staff | 32% |
| Introduced a new accounting software package | 30% |
| Increased use of existing bookkeeper/agent | 27% |
| Set aside some extra budget | 20% |
| Discussed the changes with family/friends | 15% |
| Recruited a new bookkeeper/agent | 4% |
| Other | 4% |
| Stopped using spreadsheets or paper methods | 1% |
| SUMMARY: Undertook at least one activity | 93% |
| None of these | 6% |
| Don't know | 1% |

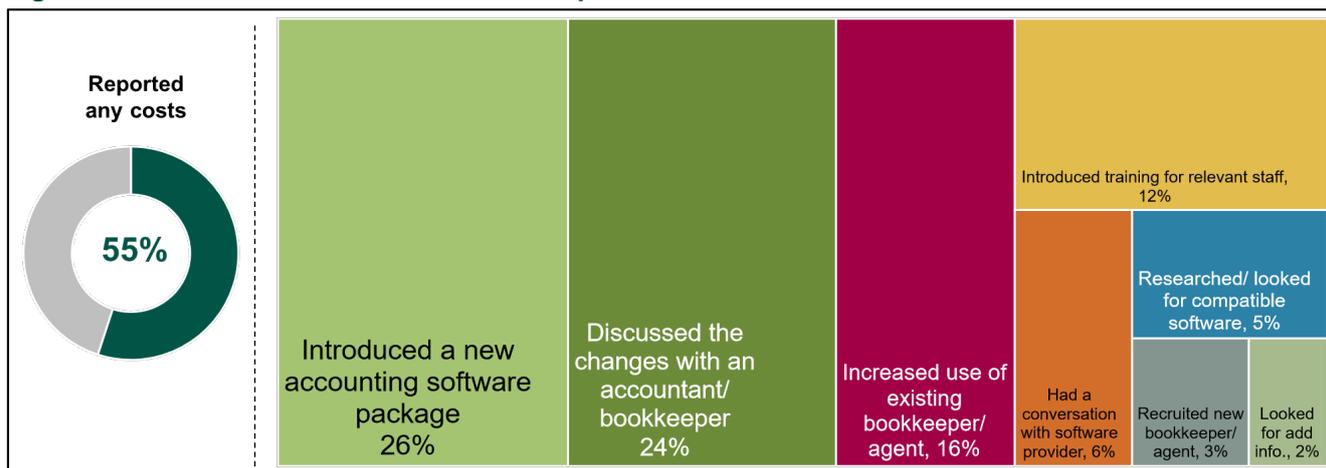
- 5.5 There was considerable variation in the activities different types of businesses undertook in preparation for Making Tax Digital, reflecting their size, turnover, sector and methods used to keep VAT records prior to the introduction of Making Tax Digital.
- 5.6 For businesses with a higher number of employees the focus of activities was to look for additional information (mentioned by 66% of those with 50 to 249 employees and 75% of those with 250+ employees) and liaising with a software provider of choice (mentioned by 68% of those with 50 to 249 employees and 74% of those with 250+ employees).
- 5.7 For the businesses with smaller numbers of employees, the main activity undertaken in preparing for Making Tax Digital was to discuss the changes with an accountant/bookkeeper; just under two-thirds of self-employed (64%) and business with fewer than 10 employees (67%) mentioned this. These businesses were also more likely to introduce a new accounting software package, than businesses with more employees; 33% of self-employed and 33% of those with fewer than 10 employees cited this activity. In addition, they were more likely to speak to friends and family about the implications of Making Tax Digital changes (19% of self-employed businesses and 16% of businesses with fewer than 10 employees). However, one in ten self-employed (11%) did not undertake any of the activities listed in preparation for Making Tax Digital.
- 5.8 The most frequently reported activity undertaken in preparation for Making Tax Digital by businesses with a turnover of more than £5 million was to discuss the implications with a software provider (mentioned by 66%). In comparison, just 25% of businesses with a turnover under £85,001 did the same.

- 5.9 The focus for organisations with turnovers between £85,001 and £1 million, compared with those with a turnover of more than £5 million, was to consult with bookkeepers or agents. Around two-thirds discussed the changes with an accountant/bookkeeper (66% of businesses with a turnover of £85,001 to £250,000 and 67% of those with a turnover of £250,001 to £1 million) and just under three in ten increased their use of a bookkeeper or agent (29% of both businesses with a turnover of £85,001 to £250,000 and 28% of those with a turnover of £250,001 to £1 million). Businesses with turnovers of more than £5 million were less likely to either discuss the changes with an accountant/bookkeeper (52%) or increase their use of a bookkeeper or agent (18%).
- 5.10 Variations by sector in the preparation for Making Tax Digital tend to reflect the number of employees and turnover of the businesses. However, it is interesting to note how the introduction of Making Tax Digital impacted on businesses associated with real estate. The average number of activities undertaken in preparation for Making Tax Digital by real estate businesses was higher than all other sectors (with a mean of 4.2, compared to the overall average of 3.5). Over six in ten real estate businesses (62%) discussed their requirements with a software provider, compared with 37% of all businesses, and almost half (45%) looked for compatible software, compared with 37% of all businesses. Staff training was also a priority for the real estate sector; over half (55%) looked to provide relevant training, compared with 30% of all businesses.
- 5.11 Businesses using paper or spreadsheet methods to keep VAT records as their main method prior to the introduction of Making Tax Digital were more likely to undertake several of the activities. This group were more likely to discuss the changes with an accountant/bookkeeper (83% of those using paper methods and 75% of those using spreadsheets) and look to introduce a new accounting software package (41% of those using paper methods and 48% of those using spreadsheets), alongside an increase in use of existing bookkeepers/agents (38% of those using paper methods and 31% of those using spreadsheets).
- 5.12 Businesses already using software or apps prior to the introduction of Making Tax Digital focused their preparation on looking for additional information (55%) or talking to their software provider of their choice (44%).

Costs associated with Making Tax Digital

- 5.13 Respondents were asked to consider the activities they had undertaken in response to the introduction of Making Tax Digital and highlight which of these had resulted in a financial cost to their business. Just over half (55%) reported costs associated with getting ready for Making Tax Digital; the most significant being the introduction of a new accounting software package, mentioned by 26% of businesses. However, a similar proportion (24%) highlighted costs associated with discussions they had with an accountant or bookkeeper or increased use of a bookkeeper or agent (16%).
- 5.14 As illustrated in the Figure 5.2, just over one in ten businesses reported financial costs through introducing training for relevant staff (12%). One in twenty highlighted the expense of liaising with a software provider (6%) or researching compatible software (5%). A small proportion reported costs associated with recruiting extra agent or bookkeeper support (3%) or looking for information (2%).

Figure 5.2 Activities for which businesses reported a financial cost



B2a. Which, if any, of these activities cost money to your business, i.e. were not free? Base: Businesses that have undertaken activities to prepare for Making Tax Digital (1881)

- 5.15 The activities that businesses reported as a financial cost varied according to number of employees, turnover, and methods used to keep VAT records prior to the introduction of Making Tax Digital.
- 5.16 Looking at business by number of employees, businesses with fewer than 10 employees (28%) were more likely than businesses with 250 or more employees (5%) to incur costs from introducing a new software package. This mirrors the finding that businesses with small to medium turnovers are more likely to cite new software as a cost incurred in the preparation for Making Tax Digital, than businesses with high turnover (30% of those with a turnover of £85,000 to £250,000, compared with 13% of those with a turnover of £5 million+).
- 5.17 For businesses with a current turnover of under £85,001, the most common cost highlighted was discussions with an accountant or bookkeeper (mentioned by 37%). In contrast, businesses with a turnover of more than £5 million were more likely to highlight the impact of the cost of staff training (19% compared with 12% overall).
- 5.18 Businesses that used paper methods or spreadsheets as their main method of record keeping prior to Making Tax Digital were more likely to report financial costs relating to a range of preparation activities, as illustrated in Table 5.2.

Table 5.2 Significant differences in the proportion of businesses that undertook activities to prepare for Making Tax Digital, according to main method of record keeping prior to Making Tax Digital

| Activities undertaken | All businesses | Paper main method before | Spreadsheets main method before | Software or apps main method before |
|---|----------------|--------------------------|---------------------------------|-------------------------------------|
| Discussed the changes with an accountant/bookkeeper | 24% | 35% | 31% | 19% |
| Introduced a new software package | 26% | 34% | 40% | 20% |

| | | | | |
|---|-----|-----|-----|-----|
| Increased use of existing bookkeeper/agent | 16% | 23% | 19% | 12% |
|---|-----|-----|-----|-----|

B2a. Which, if any, of these activities cost money to your business, i.e. were not free? Base: All businesses that have undertaken activities to prepare for Making Tax Digital (1881); Businesses that undertook activities and used paper methods prior to Making Tax Digital (182); Businesses that undertook activities and used spreadsheets prior to Making Tax Digital (355); Businesses that undertook activities and used software or apps prior to Making Tax Digital (1128)

Ongoing and transitional costs associated with Making Tax Digital

5.19 Respondents were asked to consider whether the activities that incurred costs for their business were a transitional cost or an ongoing cost. Transitional costs were defined as time-limited and associated with making changes prompted by Making Tax Digital. Ongoing costs were defined as those that will not stop in the foreseeable future.

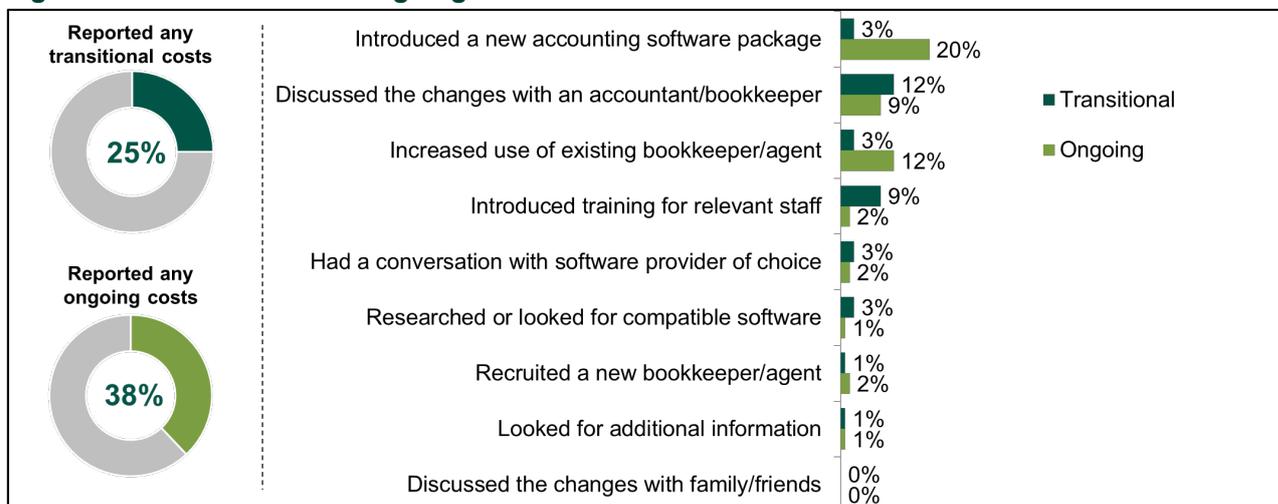
5.20 As shown in Figure 4.3, a quarter (25%) of businesses experienced costs while transitioning to Making Tax Digital, and just under two in five (38%) experience costs on an ongoing basis. 13% of all businesses reported both transitional and ongoing costs.

5.21 Businesses that reported transitional costs were more likely to be those firms with a turnover of over £5 million, and by sector those working in real estate.

5.22 In comparison, businesses with fewer than 10 employees, those using paper or spreadsheets as their main method for VAT records prior to Making Tax Digital and those that use external agents were more likely to incur ongoing costs. However, those that were using spreadsheets as their main method before Making Tax Digital and those that were uncomfortable with digital change appear more likely to be affected by both transitional and ongoing costs.

5.23 The most common transitional costs were discussions with accountants/bookkeepers (12%), followed by training for relevant staff (9%). Ongoing costs most commonly related to the introduction of a new accounting software package (20%), the increased use of an existing bookkeeper (12%) or discussions with an accountant or bookkeeper (9%).

Figure 5.3 Transitional and ongoing costs to the business



B2a. Which, if any, of these activities cost money to your business, i.e. were not free? Base: All businesses (2005).

B2b. Which of these were a transitional cost and which are an ongoing cost to your business? Base: All businesses (2005).

Table 5.3 Transitional and ongoing costs to the business

| Transitional and ongoing costs | Transitional | Ongoing |
|--|--------------|---------|
| Introduced a new accounting software package | 3% | 20% |
| Discussed the changes with an accountant/bookkeeper | 12% | 9% |
| Increased use of existing bookkeeper/agent | 3% | 12% |
| Introduced training for relevant staff | 9% | 2% |
| Had a conversation with software provider of choice | 3% | 2% |
| Researched or looked for compatible software | 3% | 1% |
| Recruited a new bookkeeper/agent | 1% | 2% |
| Looked for additional information, e.g. on gov.uk, from trade bodies, etc. | 1% | 1% |
| Discussed the changes with family/friends | 0% | 0% |
| SUMMARY: Reported any transitional cost | 25% | NA |
| SUMMARY: Reported any ongoing cost | NA | 38% |

Amount spent on transitional costs

- 5.24 Figure 5.4 presents the average transitional costs among businesses that reported known financial costs for the activities, as well as the average total transitional cost of those that reported a financial cost. The averages in Figure 5.4 exclude those businesses with zero transitional financial costs, as well as any outlying values.² Figure 5.5 shows the average transitional costs among the whole business population, which includes those businesses that did not report a transitional financial cost, but still excludes any outlying values.
- 5.25 On average, the amount spent on activities that were defined as transitional costs was £411 in total for those businesses that incurred them as presented in Figure 5.4, while the average amongst all businesses, including those that did not incur a transitional cost, was £65 as shown in Figure 5.5. The average transitional cost of training for relevant staff was £306 for those that reported the cost, and £17 across the whole population. Businesses that had discussions regarding the changes with accountants or bookkeepers spent an average of £295 on this activity, equivalent to an average of £23 among all businesses.

² For this research, outlying values were defined as those more than 3x the interquartile range above the upper quartile, or those more than 3x the interquartile range below the lower quartile

Figure 5.4 Transitional costs of Making Tax Digital (amongst those that reported them) – total and by activity^{3 4}



B2bi. Approximately how much did each of the transitional activities cost your business?

Base: Businesses that reported transitional costs and knew the costs, excluding any outlying values (283); Training for relevant staff (110); Discussed with accountant (146).

Table 5.4 Confidence intervals of transitional costs among businesses that reported a financial cost (shown in Figure 5.4)

| Costs excluding £0 | Base (excluding outliers and don't know) | Mean | 95% Confidence Interval - Lower limit | 95% Confidence Interval - Upper limit | 95% Confidence interval (+/-) |
|-----------------------------|--|------|---------------------------------------|---------------------------------------|-------------------------------|
| Discussed with accountant | 146 | £295 | 258 | 333 | 37 |
| Training for relevant staff | 110 | £306 | 273 | 339 | 33 |
| Total transitional cost | 283 | £411 | 370 | 453 | 53 |

³ Chart only shows activities which were reported to have a known financial cost by more than 100 businesses.

⁴ Charts on costs display the 95% confidence intervals. This is the range of values we can be 95% confident the true mean lies within. The full table of confidence intervals is included in the appendix.

Figure 5.5 Transitional costs of Making Tax Digital (amongst all businesses) – total and by activity



B2bi. Approximately how much did each of the transitional activities cost your business?

Base: All businesses including those without a cost, excluding any outlying values and those that did not know their cost: Total costs (1,794); Training (1,934) Discussed with accountant (1,905).

Table 5.5 Confidence intervals of transitional costs among all businesses (shown in Figure 5.5)

| Costs excluding £0 | Base (excluding outliers and don't knowK) | Mean | 95% Confidence Interval - Lower limit | 95% Confidence Interval - Upper limit | 95% Confidence interval (+/-) |
|--------------------------------|---|------------|---------------------------------------|---------------------------------------|-------------------------------|
| Discussed with accountant | 1,905 | £23 | 18 | 27 | 5 |
| Training for relevant staff | 1,934 | £17 | 13 | 21 | 4 |
| Total transitional cost | 1,794 | £65 | 55 | 74 | 10 |

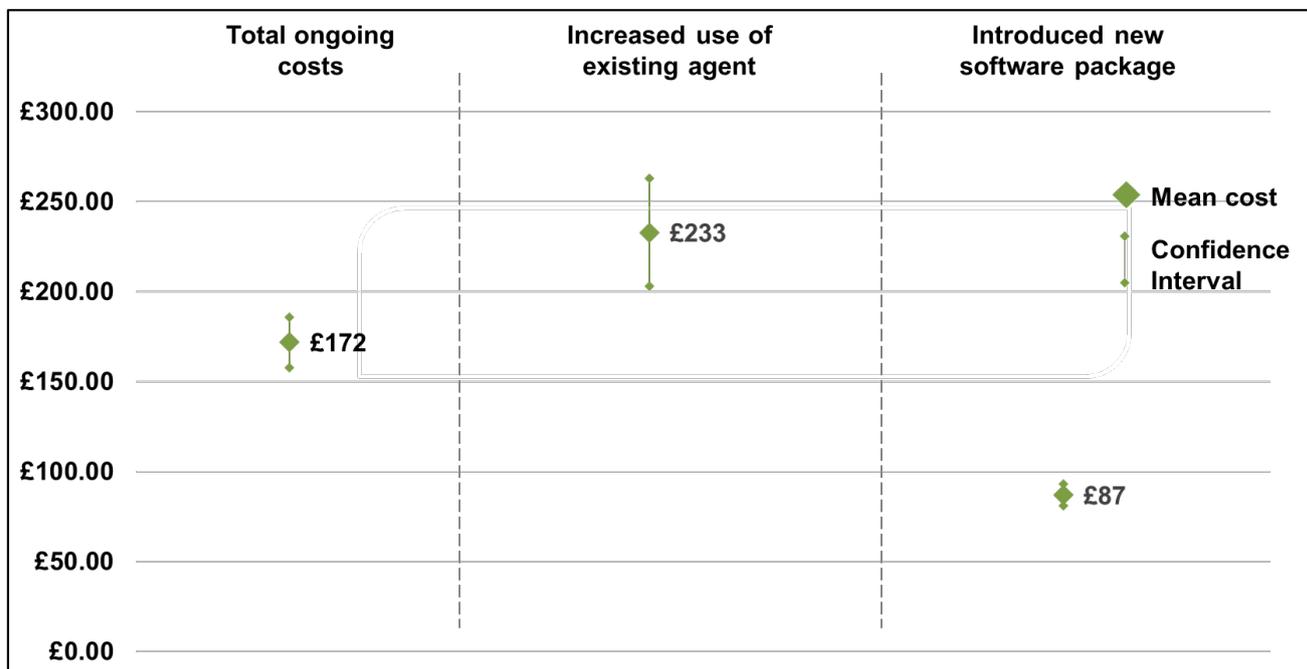
Amount spent on ongoing costs per quarter

5.26 Figure 5.6 presents the average ongoing costs among businesses that reported financial costs for the activities, as well as the average total ongoing cost of those that reported a financial cost. The averages in Figure 5.6 exclude those businesses with zero ongoing financial costs, as well as any outlying values. Figure 5.7 shows the average ongoing costs among the whole business population, which includes those businesses that did not report an ongoing financial cost, but still excludes any outlying values.

5.27 The amount spent on ongoing costs associated with making businesses compliant for Making Tax Digital (for those that experienced them) was, on average, £172 in total per quarter as highlighted in Figure 5.6, equivalent to £49 per quarter for all businesses as shown in Figure 5.7.

5.28 The largest ongoing cost was increasing use of existing bookkeepers or agents (£233 on average per quarter). Among all businesses the average cost of these activities was £20 per quarter. The ongoing cost of a new software package was on average £87 per quarter for those businesses that reported it, averaging as £14 across the whole population.

Figure 5.6 Ongoing costs of Making Tax Digital (amongst those that reported them) – total and by activity⁵



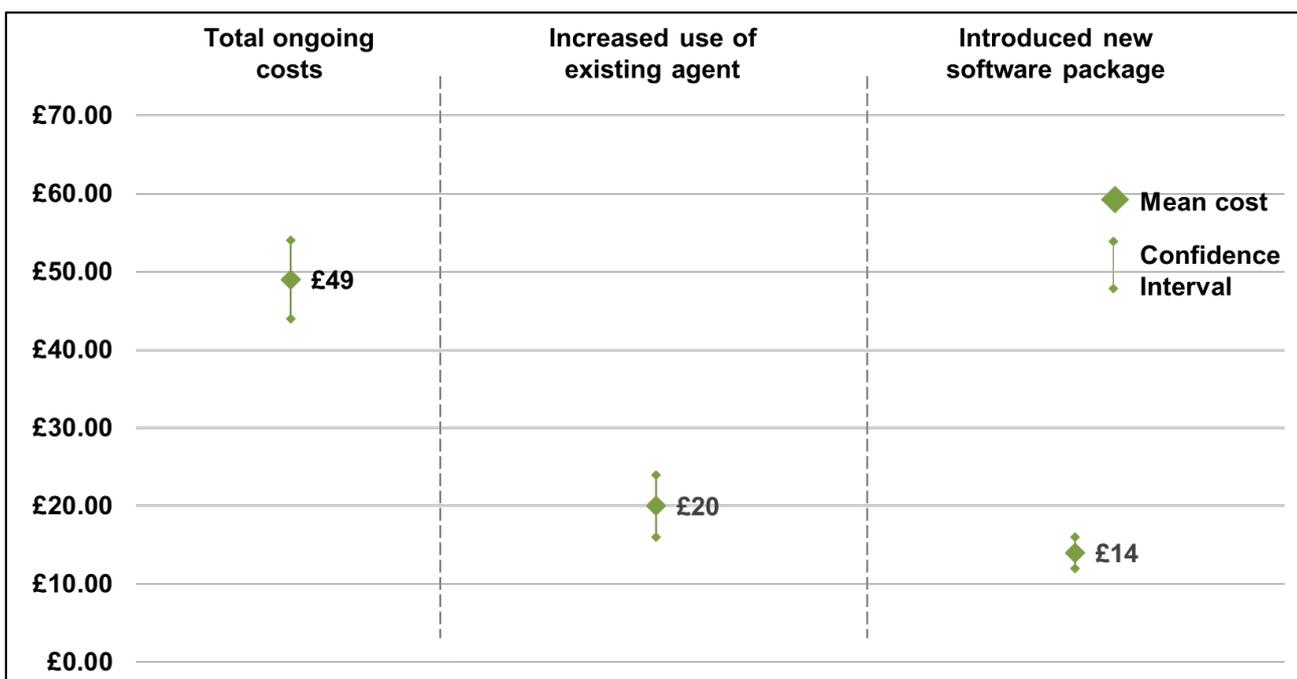
B2c. Approximately how much did each of the ongoing activities cost your business? Base: Businesses that reported ongoing costs and knew the costs, excluding any outlying values (422); Increased use of existing agent (133); Introduced new software package (249).

Table 5.6 Confidence intervals of ongoing costs among businesses that reported a financial cost (shown in Figure 5.6)

| Costs excluding £0 | Base (excluding outliers and don't know) | Mean | 95% Confidence Interval - Lower limit | 95% Confidence Interval - Upper limit | 95% Confidence interval (+/-) |
|---------------------------------|--|------|---------------------------------------|---------------------------------------|-------------------------------|
| Discussed with accountant | 97 | £191 | 161 | 220 | 30 |
| New accounting software package | 305 | £87 | 81 | 93 | 6 |
| Increased use of existing agent | 165 | £233 | 203 | 263 | 30 |
| Total ongoing cost | 493 | £172 | 158 | 185 | 14 |

⁵ Chart only shows activities which were reported to have a known financial cost by more than 100 businesses.

⁵ Charts on costs display the 95% confidence intervals. This is the range of values we can be 95% confident the true mean lies within.

Figure 5.7 Ongoing costs of Making Tax Digital (amongst all businesses) – total and by activity

B2c. Approximately how much did each of the ongoing activities cost your business? Base: All businesses including those without a cost, but excluding any outlying values and those that did not know their cost (1,727); Increased use of existing agent (1,925); Introduced new software (1,898)

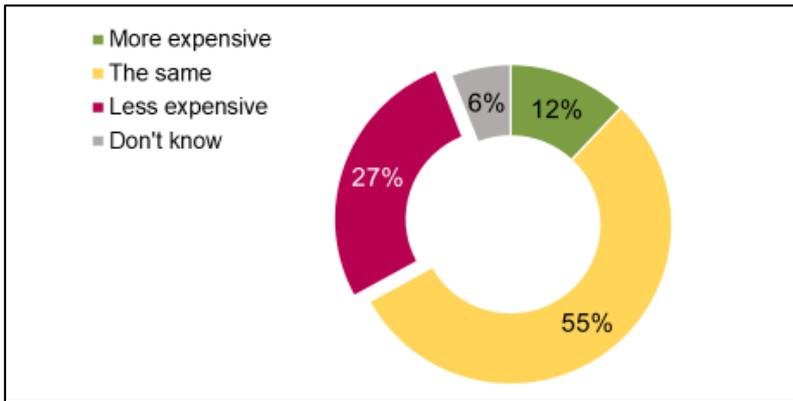
Table 5.7 Confidence intervals of ongoing costs among all businesses (shown in Figure 5.7)

| Costs excluding £0 | Base (excluding outliers and don't know) | Mean | 95% Confidence Interval - Lower limit | 95% Confidence Interval - Upper limit | 95% Confidence interval (+/-) |
|---------------------------------|--|------------|---------------------------------------|---------------------------------------|-------------------------------|
| Discussed with accountant | 1,915 | £10 | 7 | 12 | 3 |
| New accounting software package | 1,899 | £14 | 12 | 16 | 2 |
| Increased use of existing agent | 1,925 | £20 | 16 | 24 | 4 |
| Total ongoing cost | 1,728 | £49 | 44 | 54 | 5 |

Cost of previous record keeping software compared to current software

- 5.29 Businesses that were already using record keeping software, prior to the introduction of Making Tax Digital, were asked to compare the cost with their new software. For just over half the costs were the same (55%), as shown in Figure 5.8.
- 5.30 However, just under three in ten (27%) businesses found themselves paying more for their current software than they had paid for their previous package. A minority (12%) stated that their previous record keeping software was more expensive and 6% did not know.

Figure 5.8 Cost of previous software compared to current software



B6. Was the record keeping software your business was using previously more expensive, less expensive, or cost the same as your new software? Base: Businesses using software prior to Making Tax Digital (1510)

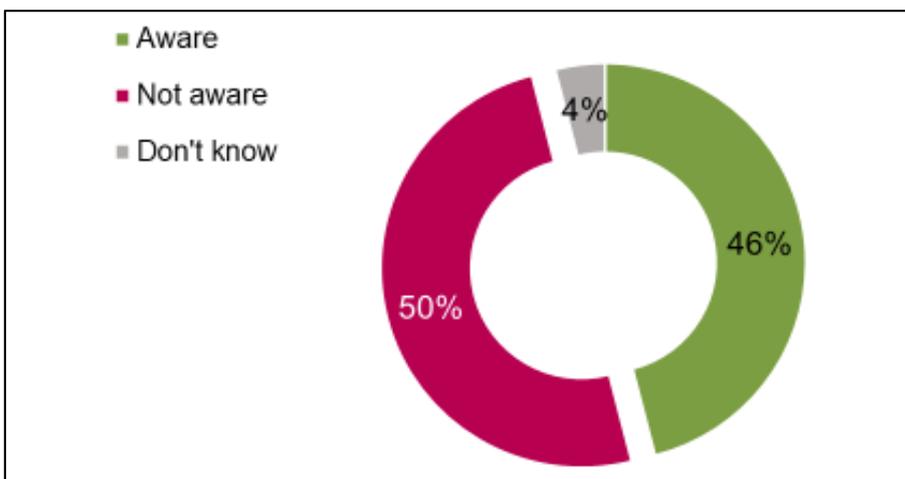
5.31 Looking across all types of businesses, those that were likely to pay more for software since Making Tax Digital was introduced include:

- businesses with fewer than 10 employees (30%)
- businesses with turnover between £85,001 and £250,000 (28%) when compared with businesses with 50 to 249 employees (15%) and those with a turnover of more than £5 million (18%)
- businesses working in the wholesale and retail trade (34%), compared with other sectors

Awareness of free software options

5.32 Half (50%) of those businesses that had paid for a new accounting software package in preparation for Making Tax Digital were not aware that free software options were available, 46% were aware and 4% did not know (Figure 5.9).

Figure 5.9 Awareness of free software options (amongst those that had paid for software).



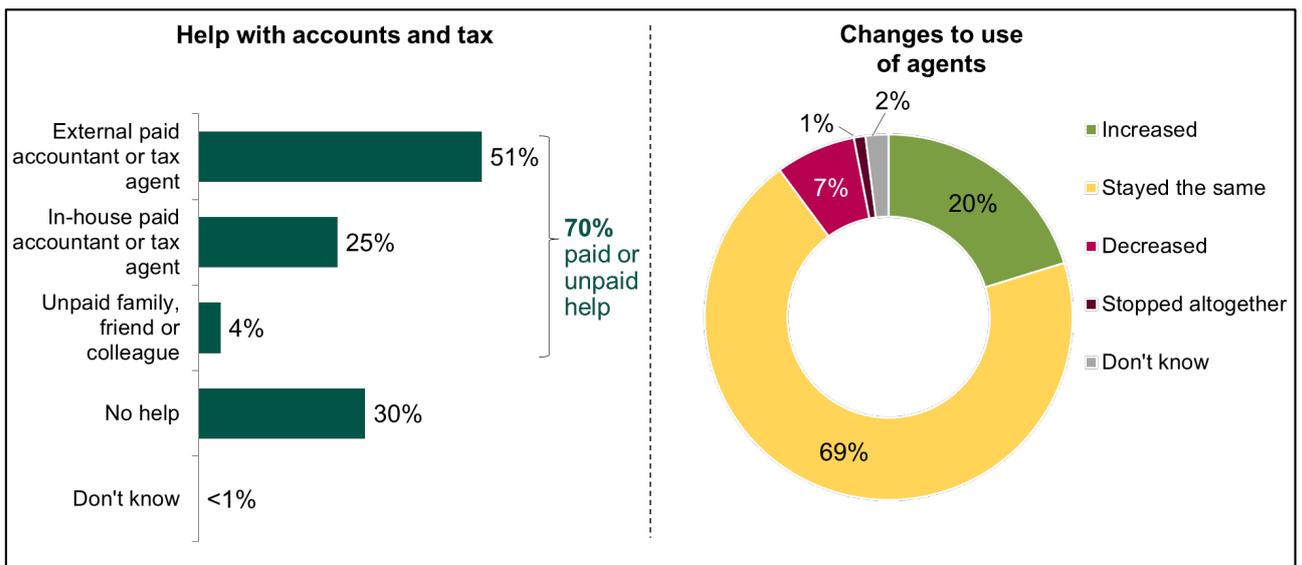
B7. Were you aware that free software options were available? Base: Businesses that paid for software (422)

5.33 Awareness of the availability of free software was particularly low among businesses working within the wholesale and retail sector (63% were not aware) and individuals who are not comfortable with digital change (74%).

Change in use of tax agents since the introduction of Making Tax Digital

5.34 Most businesses that employ external tax agents have not increased their use since the introduction of Making Tax Digital. While 70% of businesses used some form of paid or unpaid help, as shown in Figure 5.10, just 20% of them stated that their business' use of external tax agents or advisors had increased. The majority (69%) reported that their use had stayed the same and just 7% highlighted a decrease.

Figure 5.10 Help with accountants and tax issues, and whether this has changed since the introduction of Making Tax Digital



A1. Does anyone help your business with any aspect of your VAT returns, either on a paid or unpaid basis?

Base: All businesses (2005)

B12. Since the introduction of Making Tax Digital, has your business' use of external tax agents or advisers...

Base: Businesses that used agents prior to Making Tax Digital (1243)

Table 5.8 Help with accounts and tax

| Help with accounts and tax | % |
|--|------------|
| External paid accountant or tax agent | 51% |
| In house paid accountant or bookkeeper | 25% |
| Unpaid family, friend or colleague | 4% |
| Summary: Any help | 70% |
| No help | 30% |
| Don't know | <1% |

Table 5.9 Changes to use of agents

| Changes to use of agents | % |
|--------------------------|-----|
| Increased | 20% |
| Stayed the same | 69% |
| Decreased | 7% |
| Stopped altogether | 1% |
| Don't know | 2% |

5.35 While the overall use of tax agents has largely stayed the same since the introduction of Making Tax Digital, there are variations by types of businesses. Those businesses most likely to have seen an increase in use are:

- self-employed: 41% of self-employed increased their use of agents since the introduction of Making Tax Digital whereas 51% stated that there had been no change
- businesses incurring ongoing costs: 38% of businesses that reported ongoing costs ensuring compliance with Making Tax Digital reported an increase in use of external agents
- those who are not comfortable with digital change: 62% of those who described themselves as not comfortable with digital change have increased their use of tax agents compared with 16% of those who are

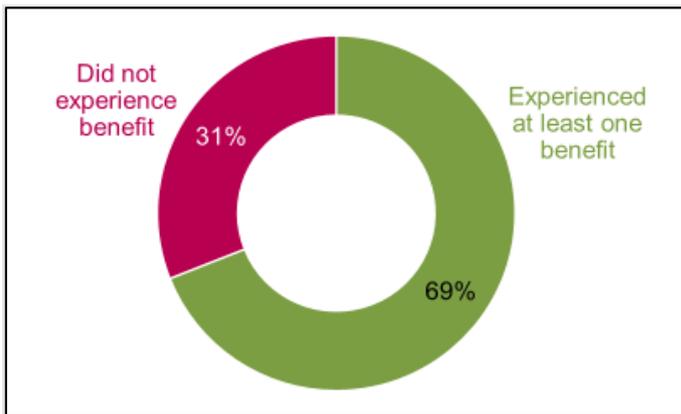
6 Benefits of Making Tax Digital for VAT

6.1 This chapter explores the benefits of Making Tax Digital for VAT and digital record keeping that businesses have experienced. It also considers whether businesses perceive that these benefits outweigh the costs and effort.

Experience of the benefits of Making Tax Digital

6.2 Most businesses (69%) reported at least one benefit of using Making Tax Digital and digital record keeping. However, a third (31%) did not experience any of the benefits listed.

Figure 6.1 Whether experienced at least one of the prompted benefits of Making Tax Digital



C1. To what extent do you agree or disagree that you currently experience the following benefits? Base: All businesses (2005)

6.3 The types of businesses that were more and less likely to have experienced a benefit of Making Tax Digital are outlined below.

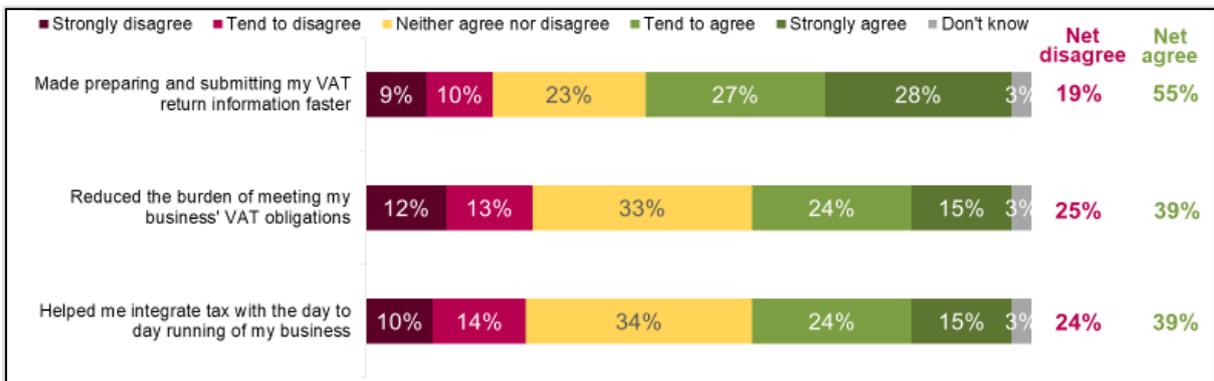
Table 6.1 Types of businesses significantly more and less likely to have experienced at least one benefit of Making Tax Digital

| Business subgroups | Base | % |
|---|--------------|------------|
| Proportion of all businesses that have experienced a benefit | 2,005 | 69% |
| Businesses more likely have experienced a benefit | | |
| Annual turnover £250,000-£1m | 457 | 74% |
| Comfortable with digital change | 1,782 | 73% |
| Submitted 7 or more returns | 733 | 76% |
| Use fully compatible software | 1,468 | 76% |
| Started using software after introduction | 326 | 80% |
| Businesses less likely to have experienced a benefit | | |
| Non-profit organisations | 35 | 50% |
| Not comfortable with digital change | 115 | 46% |
| Use bridging software that links to spreadsheets | 271 | 54% |

C1. To what extent do you agree or disagree that you currently experience the following benefits? Base: See table

6.4 There is a mixed picture regarding benefits that Making Tax Digital can offer businesses, although reactions were more positive than negative. Making Tax Digital has made preparing and submitting VAT faster for more than half (55%) of businesses. Just a fifth (19%) disagree. More businesses agreed this was a benefit than others, as shown in figures 6.2 and 6.3 below.

Figure 6.2 Extent businesses agree or disagree that Making Tax Digital... (1)



C1. To what extent do you agree or disagree that you currently experience the following benefits? Base: All businesses (2005)

Table 6.2 Extent to which businesses agree or disagree that Making Tax Digital...(1)

| | Strongly disagree | Tend to disagree | Neither agree nor disagree | Tend to agree | Strongly agree | Don't know |
|--|-------------------|------------------|----------------------------|---------------|----------------|------------|
| Helped me integrate tax with the day to day running of my business | 10% | 14% | 34% | 24% | 15% | 3% |
| Reduced the burden of meeting my business' VAT obligations | 12% | 13% | 33% | 24% | 15% | 3% |
| Made preparing and submitting my VAT return information faster | 9% | 10% | 23% | 27% | 28% | 3% |

6.5 Just under two in five (39%) agreed that Making Tax Digital helped reduce the burden of meeting VAT obligations and helped to integrate tax within the day-to-day running of businesses.

6.6 Two in five (44%) businesses agreed that the transition to Making Tax Digital has had a positive effect in terms of keeping on top of their business tax liabilities and confidence in using technology. However, fewer businesses (34%) acknowledged that the transition to Making Tax Digital had helped them to feel on top of other financial affairs.

Figure 6.3 Extent businesses agree or disagree that Making Tax Digital... (2)



C1. To what extent do you agree or disagree that you currently experience the following benefits? Base: All businesses (2005)

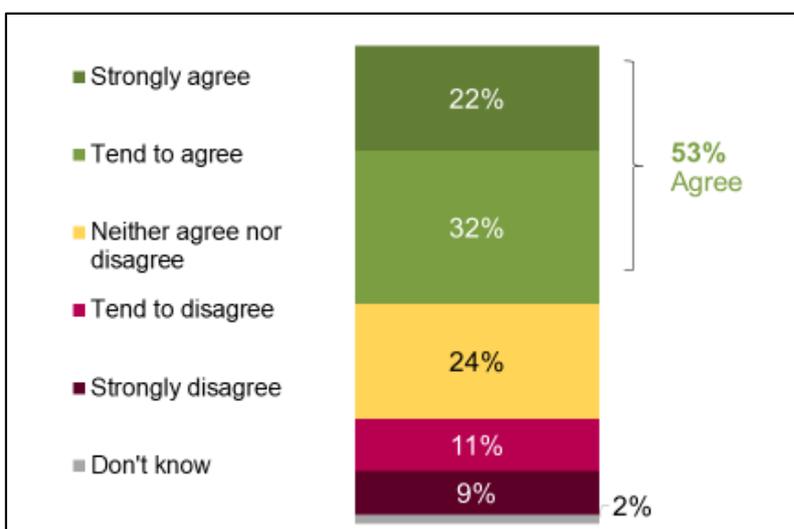
Table 6.3 Extent to which businesses agree or disagree that Making Tax Digital... (2)

| | Strongly disagree | Tend to disagree | Neither agree nor disagree | Tend to agree | Strongly agree | Don't know |
|---|-------------------|------------------|----------------------------|---------------|----------------|------------|
| Helped me feel more on top of the business's other financial affairs (e.g. invoicing, cashflow) | 12% | 17% | 35% | 20% | 13% | 3% |
| Helped me feel more confident using technology in my everyday business | 12% | 14% | 28% | 28% | 16% | 2% |
| Helped me feel more on top of the business' tax liabilities | 10% | 14% | 30% | 26% | 18% | 3% |

Increasing confidence in getting the tax right

6.7 Just over half of businesses (53%) felt more confident about getting their tax right since Making Tax Digital; 22% of whom strongly agreed this was the case. While slightly under a quarter of businesses (24%) were unsure either way, only 20% disagreed.

Figure 6.4 Confidence in getting their tax right as a benefit of Making Tax Digital



C1_6. To what extent do you agree or disagree that Making Tax Digital helped you feel more confident that the business is getting tax right? Base: All businesses (2005)

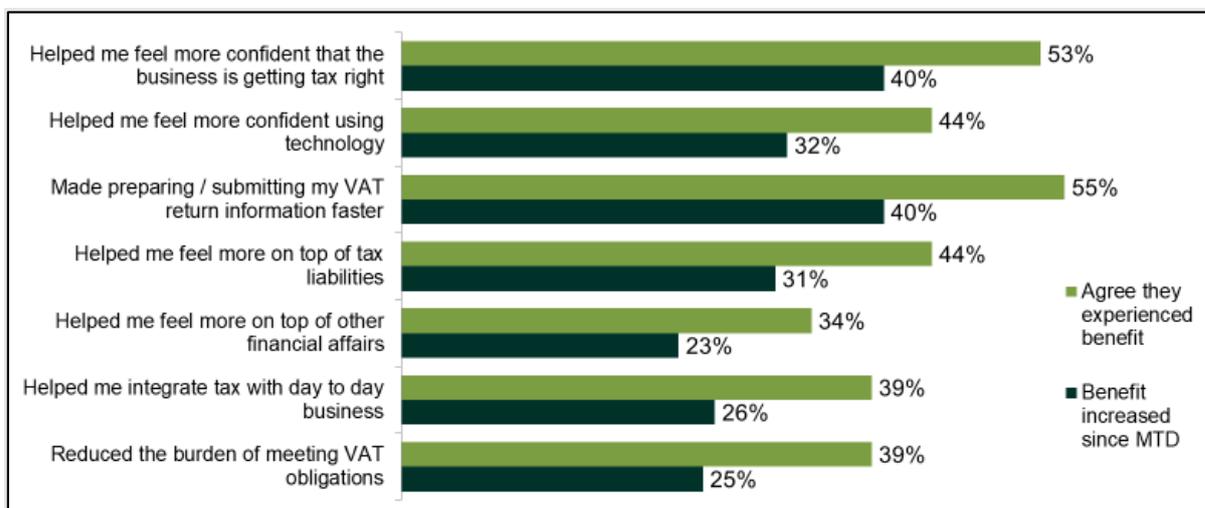
6.8 Those businesses that reported feeling more confident as a result of Making Tax Digital in terms of getting their tax right were those that were in a good place to benefit from a transition to digital record keeping, namely those that were comfortable with digital change and businesses with fully compatible software (59% agree to each).

6.9 However, businesses that used paper record keeping prior to Making Tax Digital also benefited; 61% felt more confident about getting their tax right. Similarly, those that have incurred transitional costs also felt more confident (63% agree), alongside those that use an external agent (57%).

Whether perceived benefits of Making Tax Digital have increased over time

- 6.10 Businesses that experienced benefits as a result of Making Tax Digital were asked to consider whether they had increased since they started to submit returns via Making Tax Digital. This was to explore whether Making Tax Digital becoming more embedded in business processes over time leads to businesses becoming more able to experience the benefits.
- 6.11 Most businesses (54%) had experienced at least one perceived benefit of Making Tax Digital that they felt had increased over time. This was most commonly in regard to: helping businesses feel confident in getting tax right (40%); being able to submit their tax returns faster (40%); boosting confidence in the use of technology (32%); and keeping on top of their tax liabilities (31%).
- 6.12 Figure 6.5 illustrates both the proportion of businesses that agreed with each statement relating to the potential benefits of Making Tax Digital, and the proportion that then felt that they had increasingly benefited in this way. Across all the potential benefits of Making Tax Digital, at least two-thirds of businesses, that experienced a benefit initially, felt that it had increased since they had submitted their first return under Making Tax Digital.

Figure 6.5 Benefits that have increased since businesses started submitting returns



C2. Of those benefits that you have experienced, have any increased since you started submitting returns?
 Base: All businesses (2005)

Table 6.4 Benefits that have increased since businesses started submitting returns

| | Agree they experienced benefit | Benefit increased since MTD |
|--|--------------------------------|-----------------------------|
| Helped me feel more confident that the business is getting tax right | 53% | 40% |
| Helped me feel more confident using technology | 44% | 32% |
| Made preparing / submitting my VAT return information faster | 55% | 40% |
| Helped me feel more on top of tax liabilities | 44% | 31% |
| Helped me feel more on top of other financial affairs | 34% | 23% |
| Helped me integrate tax with day to day business | 39% | 26% |
| Reduced the burden of meeting VAT obligations | 39% | 25% |

6.13 Businesses with fewer than 10 employees stand out as those most likely to feel that the benefits of Making Tax Digital increase over time. In addition, businesses that reported transitional costs in order to make their business Making Tax Digital compliant were also more likely to report that the benefits they had experienced had increased over time. Finally, and as noted above, businesses using fully compatible software were also more likely to report that the benefits of Making Tax Digital had increased since they started to submit returns via Making Tax Digital.

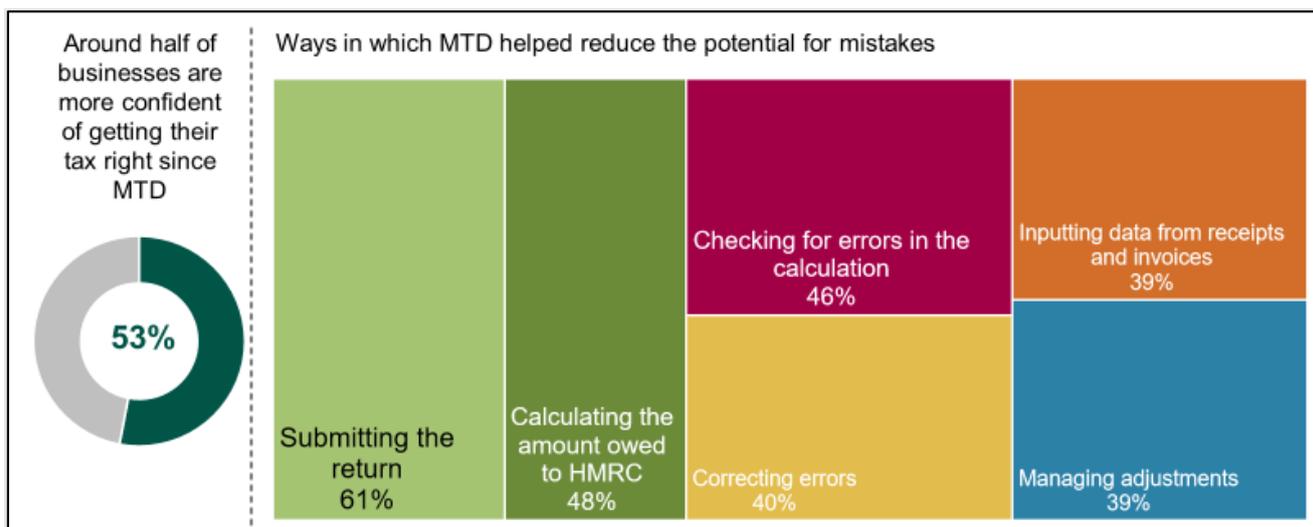
Impact of Making Tax Digital on scope for error

6.14 As already shown, half of businesses are more confident of getting their tax right since Making Tax Digital. The research explored how moving to a digital process for preparing and submitting returns had reduced the potential for making mistakes and built confidence in using technology for record keeping and getting tax right.

6.15 Overall, just over two-thirds of businesses (67%) felt that Making Tax Digital has reduced the potential for mistakes in at least one aspect of the record keeping, preparing and submitting VAT returns process, most commonly in submitting the return (61%). Just under half (48%) felt that Making Tax Digital had reduced the scope for error related to calculating the amount owed to HMRC, and a similar portion (46%) highlighted the checks that are made for errors in the calculation.

6.16 Two in five businesses highlighted correcting errors (40%), inputting data from receipts/ invoices (39%) and managing adjustments (39%) as the key areas in which Making Tax Digital had reduced the potential to make mistakes.

Figure 6.6 Areas where Making Tax Digital reduced the potential for mistakes



C1_6. To what extent do you agree or disagree that Making Tax Digital helped you feel more confident that the business is getting tax right? Base: All businesses (2005)
 B11. Which, if any, of the following areas has Making Tax Digital helped reduce the potential for mistakes? Base: All businesses (2005)

6.17 The most common areas where Making Tax Digital has reduced the scope for error varies for different types of businesses. Businesses with a turnover of £85,001 to £250,000 were more likely to highlight how Making Tax Digital had helped reduce scope for error when inputting data from receipts/ invoices (42%), calculating amount owed (50%) and checking for errors in

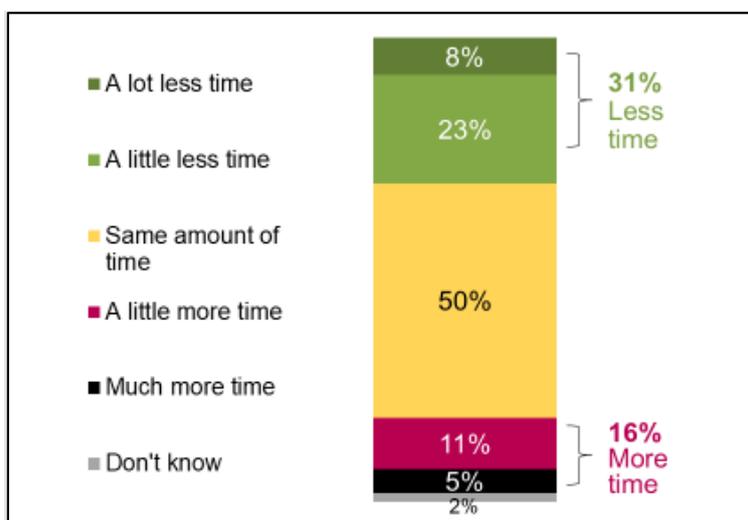
the calculation (47%), compared with businesses with turnovers over £5 million. Businesses that use external agents were more likely to highlight that Making Tax Digital had helped reduce the potential for mistakes, compared with those businesses that do not use external agents.

6.18 Just under three in ten (28%) felt that Making Tax Digital had not helped reduce the potential for mistakes in any of the specified areas relating to VAT returns. Businesses that were most likely to fall into this category were businesses not using an external agent (31%), business that had not incurred ongoing or transactional costs to ensure Making Tax Digital compliance (34%, in both cases), as well as businesses using bridging software that links to spreadsheets (47%) or apps (51%) and those that were uncomfortable with digital change (43%).

Change in time spent on record keeping and tax returns since Making Tax Digital

6.19 Three in ten businesses (31%) reported spending less time on their tax returns since Making Tax Digital. However, half of all businesses (50%) reported that the introduction of Making Tax Digital has not changed the amount of time they spend on record keeping and tax returns, and 16% said they are now spending more time.

Figure 6.7 Amount of time spent on record keeping and tax returns since signing up to Making Tax Digital



C4 Since you signed up to Making Tax Digital, would you say that you spend more, less or the same amount of time on record keeping and submitting tax returns?

Base: All businesses (2005)

6.20 Those businesses that reported spending less time on record keeping and tax returns, are more likely to have started using software after Making Tax Digital (43%), to currently submit their VAT returns via software that is fully compatible with Making Tax Digital (35%) and feel comfortable with digital change (34%). The survey also highlights how business with a turnover of £85,001 to £250,000 and those that benefited in some way from the introduction of Making Tax Digital reported spending less time on their returns since signing up for Making Tax Digital (35% and 39%, respectively).

6.21 The majority (57%) of businesses that were already using software or apps before Making Tax Digital reported spending about the same amount of time now as they did before. Other businesses more likely than average (50%) to report no change in time were businesses with

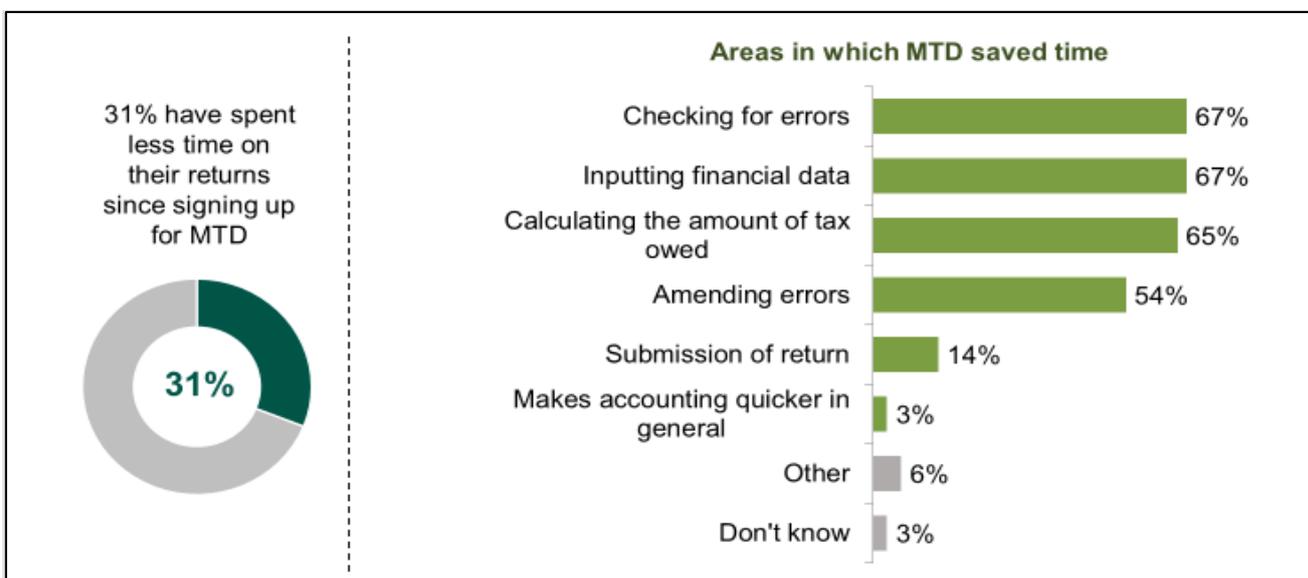
250 or more employees (71%), those that hadn't experienced any benefits (68%), and those that had not registered any extra costs (61%).

6.22 In contrast, businesses that use bridging software that links to spreadsheets (36%), those who are not comfortable with digital change (53%) or those that did not experience benefits from Making Tax Digital (28%) reported they have spent more time on record keeping and tax returns, since signing up to Making Tax Digital.

Ways in which Making Tax Digital helped to save time for businesses

6.23 Among the businesses that reported spending less time on their VAT return submissions (31%), the main time savings are derived from inputting financial data (67%), checking for errors (67%) and calculating the amount of tax owed (65%), as shown in Figure 6.8. There were no significant differences in these findings across key sub-groups.

Figure 6.8 Areas where businesses have been able to save time since signing up to Making Tax Digital



C5 Where have you been able to save the time on? Base: Businesses spending less time since Making Tax Digital (584)

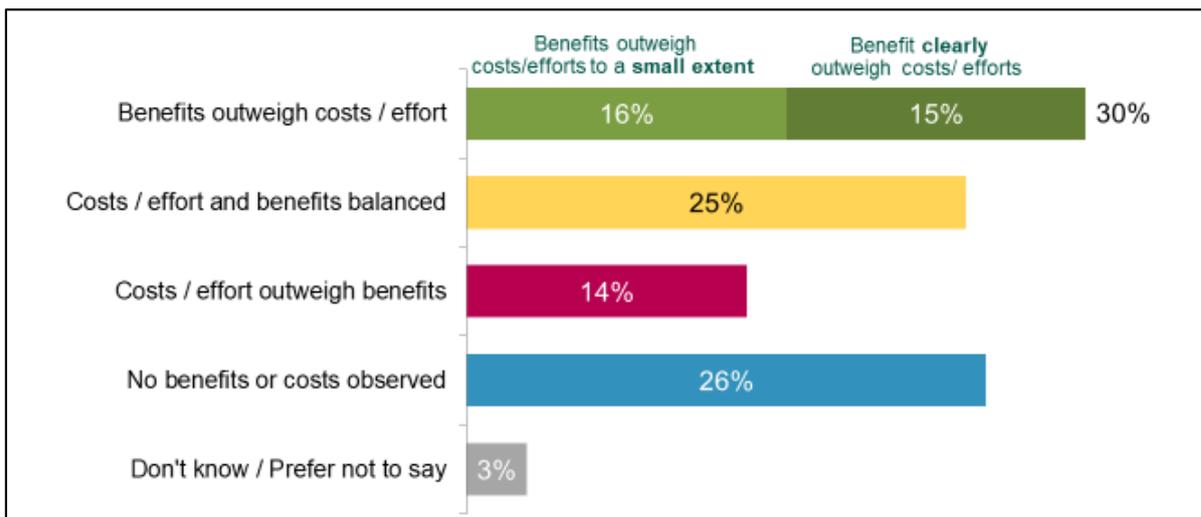
Table 6.5 Areas where businesses have been able to save time since signing up to Making Tax Digital

| Areas in which MTD saved time | % |
|-------------------------------------|-----|
| Checking for errors | 67% |
| Inputting financial data | 67% |
| Calculating the amount of tax owed | 65% |
| Amending errors | 54% |
| Submission of return | 14% |
| Other | 6% |
| Don't know | 3% |
| Makes accounting quicker in general | 3% |

Overall balance of the costs and benefits of Making Tax Digital to businesses

- 6.24 Businesses were asked to reflect on all the benefits and costs to their business associated with Making Tax Digital and to consider where they felt the balance between the two lay.
- 6.25 Three in ten businesses (30%) found that the benefits of Making Tax Digital outweigh the costs. This comprised of 15% that stated that the benefits clearly outweighed the costs and effort, and 16% felt that to a small extent the benefits outweigh the costs and effort.
- 6.26 While only 14% felt that the cost and effort outweighed potential benefits of Making Tax Digital, a quarter (25%) felt that the two were balanced. A further 26% had observed neither the potential benefits nor associated costs of Making Tax Digital.

Figure 6.9 Whether the costs/ effort involved with using Making Tax Digital outweigh the benefits



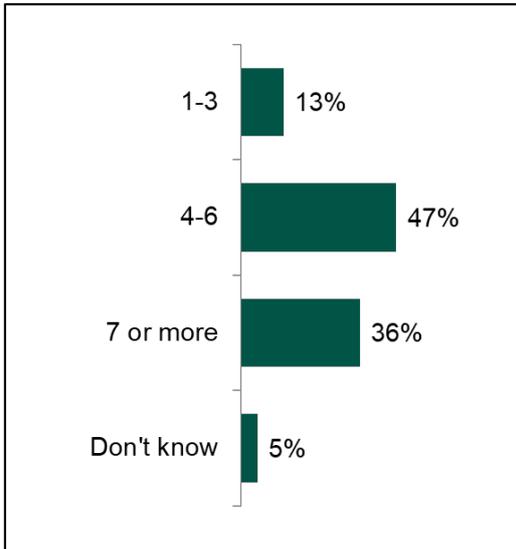
C6. Taking everything into account, both the benefits and costs, overall, which of the following do you feel most applies to your business? Base: All businesses (2005)

- 6.27 The main factors associated with benefitting from the move to Making Tax Digital are:
- use of fully compatible software; 35% of businesses using this software felt that the benefits outweigh the costs/efforts either clearly or to some extent
 - comfort with digital change; 34% stated that the benefits outweigh the costs, compared with just 12% of those who are not comfortable
 - use of external agents; 17% regard the benefits as *clearly* outweighing the costs and effort, compared with 13% of those not using external agents

7 Appendix

Number of Making Tax Digital submissions

Figure 7.1 Number of VAT returns submitted via Making Tax Digital to date

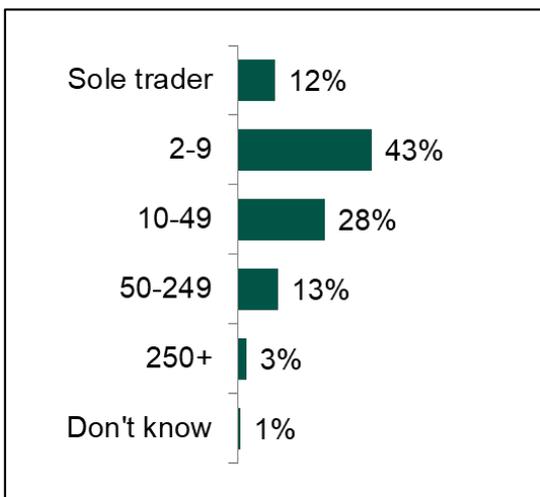


Base: All businesses (2005)

Profile of businesses

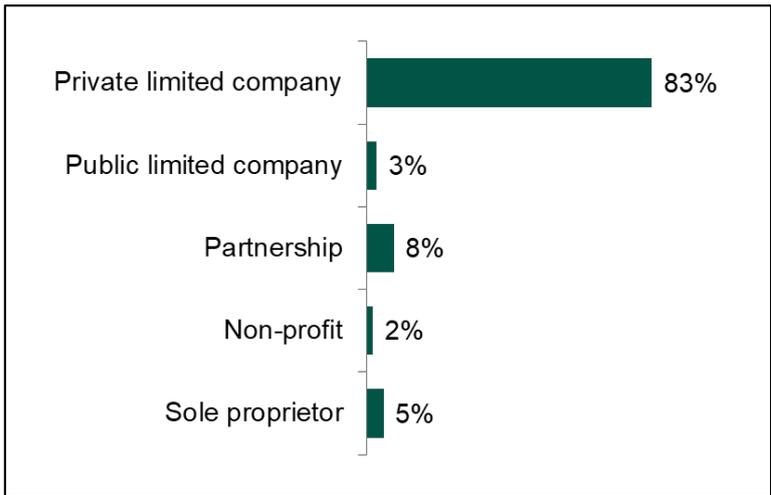
7.2 Please note, all charts in this sub-section are on unweighted data.

Figure 7.2 Number of staff



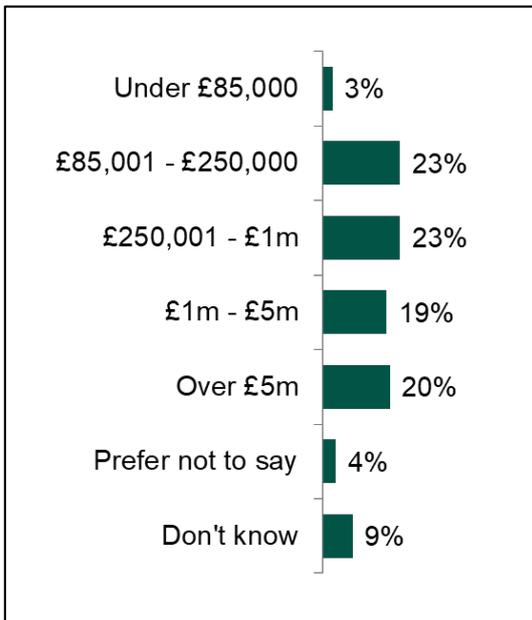
Base: All businesses (2005)

Figure 7.3 Business type

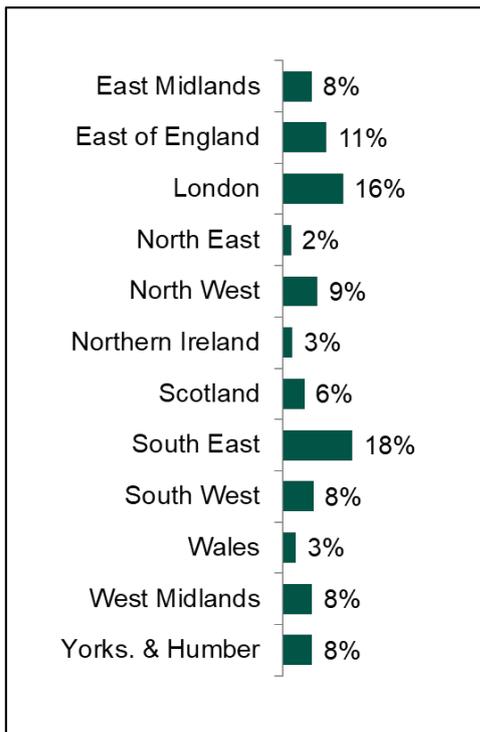


Base: All businesses (2005)

Figure 7.4 Turnover in the last year



Base: All businesses (2005)

Figure 7.5 Region

Base: All businesses (2005)

Types of businesses more likely to use the extra management options

Table 7.1 Businesses more likely to use extra management options where included as a feature in software used by the business

| Type of business | Base | % |
|--|--------------|------------|
| All businesses | 2,005 | 49% |
| More likely to use compatible software | 1,468 | 57% |
| Businesses with over 50 employees | 313 | 63% |
| Businesses with turnovers of over £1 million | 778 | 61% |
| Businesses that used software or apps before Making Tax Digital | 1,510 | 61% |
| Businesses that now update their VAT records on a continuous basis | 1,097 | 60% |
| Businesses that use fully compatible software | 1,468 | 57% |
| Businesses that do not use an external agent | 1,143 | 55% |
| Businesses in the manufacturing sector | 288 | 57% |

B9. Does your business use software that has any of the following features? Base: All businesses

B10. Which of these features does your business make use of? Base: See table

“

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