

# Making Tax Digital: Corporation Tax

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1. UK Finance is the collective voice for the banking and finance industry.
2. Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation. Our members include businesses that are large and small, national and regional, corporate and mutual, retail and wholesale.
3. PwC's 2020 Total Tax Contribution Study for the UK banking sector<sup>1</sup>, found that the UK banking sector paid £39.6 billion in taxes in the financial year to March 2020, including £5bn of Corporation Tax and a further £2bn from the bank corporation tax surcharge.

## General Comments

4. We welcome the opportunity to respond to HM Revenue & Customs' ('HMRC') Consultation Document 'Making Tax Digital: Corporation Tax' ('the Consultation Document').
5. We commend HMRC's stated vision, 'to be a trusted, modern tax and customs department'. We believe that HMRC must strive to be best in class amongst other revenue authorities, to ensure that the tax environment in the UK enhances the business environment, to support growth and opportunities.
6. Other revenue authorities, such as the Australian Tax Office, started with extensive tax reform and simplification exercises before embarking on such a digitalisation exercise. Unfortunately, we fear that the complexity of the UK's tax system does not lend itself to transitioning to the fully digital, real-time tax system HMRC intends. We feel that a stronger case needs to be made for this approach, and in the absence of such a case, we question the appropriateness of generic Making Tax Digital principles being rolled out in the same way across different taxes and different taxpayer types without a tax simplification exercise first, or appropriate adaptation or targeting.
7. There are areas of tax administration that we believe would benefit from digitisation, such as the CT61 submission process or withholding tax documentation. However, we have reservations about digitisation proposals which extend beyond transmission methods and impose requirements on how taxpayers manage their internal processes. Nor are we convinced that Making Tax Digital for Corporation Tax (MTD:CT) will be the panacea that will solve issues relating to the tax gap.
8. While we are encouraged that HMRC are consulting well in advance of the intended implementation of this measure, we still think it appropriate for HMRC to be sensitive to the wider challenges and cost-pressures faced by taxpayers as a result of the pandemic

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<sup>1</sup> <https://www.ukfinance.org.uk/system/files/2020-UKF-TTC-for-the-UK-banking-sector.pdf>

and UK departure from the European Union. As such, it is important that HMRC clearly articulate the purpose of changes being made. HMRC have commented that they may not actually use the quarterly data that is collected, rather it is intended as a tool to drive entities to keep accounting records electronically. Larger financial services firms already do this, therefore, it is not clear that the current proposals bring any benefit to large FS businesses, due to the potential cost of systems implementation, or specific benefits to HMRC over and above what is already in place for large and complex businesses. Given the scale and scope of the proposals HMRC envisage, we think HMRC must be more transparent about the perceived gaps that they consider MTD:CT will address, which are not addressed by existing compliance requirements for the largest taxpayers in the QIPs regime, the Senior Accounting Officer (SAO) regime and within the ambit of the Large Business regime.

9. If HMRC cannot elaborate further on the specific need for MTD:CT in relation to large and complex businesses, we think there is a strong case for large taxpayers to be excluded from the requirement to create additional digital links where assurance can be provided over the appropriateness of existing accounting arrangements (as is done via SAO).
10. While a six year roadmap may, prima-facie, seem ample lead time, depending on the level of systems changes required, MTD:CT could require a multi-year implementation. For instance, there may be an expectation, as happened with MTD:VAT, that software providers will develop capabilities to address HMRC's requirements. Although most large corporate tax taxpayers may use third party software for returns preparation and submission, and for iXBRL tagging of accounts and computations, the requirements for digital links upstream into accounting systems are unlikely to be capable of being addressed by third party providers (most large banks will have a high degree of customisation in their finance infrastructure and cannot use off the shelf products). As such, early clarity on requirements and exemptions will be needed to make effective use of this timeframe.
11. UK Finance members have cited the recent experience with the last-minute termination, pre-implementation, of DAC6, as a challenge for taxpayers to obtain and marshal resources for large scale tax-related change-projects. They have reflected that it may be challenging to obtain agreement in principle to expenditure until there is a clear legislative framework and guidance, given that the risk and cost of incremental change is high. Members of inbound banks have also noted the additional challenge of the interaction with complex global systems that are often developed and maintained outside of the UK.
12. Whilst UK Finance understands that HMRC have been encouraged by the roll out of Making Tax Digital for VAT, we would caution that it is easier to achieve closer to real time compliance for more transactional taxes, such as VAT. For example:
  - i. VAT and CT processes are typically run by different teams using different data, systems and processes, so there is very little scope to leverage development work for MTD for VAT
  - ii. VAT is already much more real-time as tax determinations are made at time of a transaction to ensure customers are charged VAT appropriately and returns are prepared quarterly. In contrast, corporation tax is calculated based on annual accounts and certain aspects of the corporate tax calculations will lag, such as claims and elections

- iii. VAT is easier to implement given that sales and purchases, and their tax determinations, are captured in source systems already so the requirement is more around digitised aggregation of existing data
  - iv. VAT determinations are more typically applied by finance/procurement teams under guidance from tax teams whereas CT requires analysis and judgement by tax professionals
  - v. CT determinations are more likely to be made taking into account a range of financial and non-financial data from multiple sources making it less suitable for automation.
13. It is not yet clear how HMRC intends the accounting and corporation tax rules, particularly where applied on a group or international basis, will interact with MTD:CT. Until HMRC provide much greater clarity, it is difficult to provide comprehensive feedback.
14. The consultation sessions run by HMRC in January were perceived as too high level to provide adequate insight on practical application. UK Finance would welcome a discussion with HMRC on the definition of digital links, what comprises 'MTD compatible software', and how they see the MTD principles applying to its membership. We would particularly welcome a conversation that addressed proportionality concerns by exploring how to leverage existing data in members' accounting and source systems. As HMRC's thinking develops we would welcome continued engagement and the opportunity for formal consultation as and when further details are made clear.

### Specific Questions

15. It is difficult to respond on points of detail based on the high-level information provided in the Consultation Document and without an understanding of what HMRC envisage to constitute 'digital links' and 'MTD compatible software' in practice. As such, the comments in this response are correspondingly high-level. We would expect to be afforded the opportunity for further formal consultation on design principles and practical application as these crystallise.
16. At a high-level we would urge HMRC to give consideration to the following:
- i. Exemption for large taxpayers from the requirement to create additional digital links where assurance can be provided over the appropriateness of existing accounting arrangements (as is done via SAO).
  - ii. Modification of the requirements/application of exemption for areas of complexity (e.g. as for VAT Partial Exemption) based on levels of assurance already provided by taxpayers and levels of complexity.
  - iii. Flexibility/optionality depending on how groups are set up and manage their compliance obligations.
  - iv. Early clarity and certainty over what is required where systems need to be developed or implemented.
  - v. A proportionate response to the specific needs of HMRC based on where there are gaps to be addressed in current compliance arrangements (i.e. not to provide

additional information in case HMRC might need it in future or accounting/financial information which does not inform HMRC on a company's tax position.

- vi. Standard categorisation of data in accounting systems should align to accounting requirements, tax data in accounting systems and charts of account for tax purposes are likely to be challenging to populate and maintain. As mentioned above, although most large corporate tax taxpayers may use third party software for returns preparation and submission, and for iXBRL tagging of accounts and computations, the requirements for digital links upstream into accounting systems are unlikely to be capable of being addressed by third party providers (most large banks will have a high degree of customisation in their finance infrastructure and will not necessarily use off the shelf products).

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

17. UK Finance members have concerns over how the MTD:CT principles will be applied to large businesses with complex tax affairs. For instance, it is unclear how these proposals would translate for entities which do not base their CT calculations on statutory accounts due to specific tax provisions e.g. securitisation regime, OEICs.
18. HMRC acknowledges in the Consultation Document that “use of record keeping tools and linked IT systems is helping businesses to reduce error and ensure they pay the right tax”. Most large businesses will retain records of income and expenditure digitally within their accounting systems already and the SAO regime requires taxpayers to provide assurance over the appropriateness of their accounting arrangements. In the context of large businesses, it is less clear that there would be a significant benefit to HMRC from an assurance perspective of systems changes to classify accounting records according to HMRC requirements.
19. Of concern is that, without modification, the requirements could potentially require very significant investment in systems and processes, and that the cost of these changes could significantly outweigh the benefits to HMRC. UK Finance would welcome the opportunity to engage with HMRC's MTD project team and tax specialists to discuss the gaps in the current compliance mechanisms for large businesses that MTD:CT is seeking to address.

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

20. Without greater clarity from HMRC it is not possible to provide a more comprehensive answer. For example, a further expansion on the meaning of “category” is required, as it is unclear if it is referring to the description of a transaction or if it is referring to the specific category referred to in question 4. Clarity is also required on what ‘MTD compatible software’ means. If it is the software used to prepare and submit the tax computation, we are uncertain of the benefit of all of the financial data being compiled at a transactional level with dates/accounting categorisations etc which may not make any difference to the tax treatment in the return. If, however, the term is intended to capture all of the digitally linked systems, then transactional data will already exist in accounting systems. Members

would certainly want to avoid integrating tax categorisations into accounting systems or accounting data that does not drive tax analysis.

21. Large Financial Services groups typically use complex accounting system networks, incorporating a combination of specialised general ledgers and consolidation software as well as bespoke in-house systems which have been built up over a number of years and through multiple acquisitions/ mergers. There will be many thousands of transactions a day across these systems often passing through a number of stages before reflection in legal entity statutory accounts. It is unclear whether there is any benefit that HMRC could derive from obtaining this type of granular underlying information on high-frequency and/or high-volume transactions, (e.g. daily revaluation of assets or daily interest accruals across millions of accounts).
22. Redesign and rebuild of systems can typically cost in the tens of millions of pounds. Solutions often result in a more complex and bespoke network of systems which become inherently riskier following each layer of changes. Consequently, we anticipate a large one-off cost to bring the data records into line with HMRC requirements even though the information is already in the ledgers in the required format. Ongoing costs should also be expected in order to remain accurate and to ensure HMRC updates are correctly applied.

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

23. Without greater clarity from HMRC it is not possible to provide a more comprehensive answer. For example, a further expansion of what constitutes 'digital records' would be helpful. Additionally, it would be appropriate for HMRC to elaborate on the requirement for additional non-financial data and then consideration can be given to how this might be most effectively provided.
24. Many large groups include entities with different accounting period end dates from the main consolidated group. The interaction with requirements for group level records and reporting would require clarification and alignment.
25. In the absence of clarity, we suggest that flexibility and optionality should be permitted to allow groups to comply in a way that works for their group structure, finance systems and operating models. Large groups generally report consolidated information on a quarterly basis already and therefore are likely to benefit from optionality to keep records and report consolidated amounts. Requiring quarterly submission from hundreds of companies is likely to be a significant compliance burden for limited/no benefit. We would question how useful quarterly accounting information would be for HMRC. Financial Services groups will typically have a large number of consolidation adjustments and non-UK business which mean the group figures often bear little resemblance to simple multiple of the underlying UK legal entities.

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

26. It is hard to comment on this without understanding what HMRC are trying to target/where they feel there is a gap currently. Further elaboration on the following categories would be helpful, for example whether these categories are meant to be aligned with the corporation tax return?

- i. Income relating to finance
  - ii. Expenses related to finance
  - iii. "Bank, building society or other interest and income and gains from non-trading loan relationships." Is this category meant to capture non-trade loan relationships items? There may be some issue identifying this properly without involving a tax advisor.
  - iv. Does depreciation include amortisation?
  - v. What would investment management expenses be meant to capture?
27. Financial Services categorisation of income and expenses rarely aligns to 'normal' trading income and expenses for other industries e.g. most companies do not have turnover but would have loan relationship credits as a main source of income.
28. There is already a taxonomy for iXBRL tagging purposes. Any additional categorisation should be aligned to existing, standard accounting categorisations, to avoid creating a separate tax chart of accounts which would be more challenging to populate and maintain at source, and in the majority of cases would not produce a tax outcome for the tax return.

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

29. As above, it is hard to comment on this without understanding what HMRC are trying to target/where they feel there is a gap currently.

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

30. It will be necessary to allow flexibility for large groups to provide information/reports from multiple locations on both aggregated and standalone basis, and any combination of the above.

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

31. Yes:
- i. Many large groups include entities with different accounting period end dates from the main consolidated group. The interaction with requirements for group level records and reporting would require clarification and alignment.
  - ii. Requiring quarterly submission from hundreds of companies is likely to be a significant compliance burden for limited/no benefit.
  - iii. Lack of resources due to additional compliance burdens, which would increase costs for business and reduce the attractiveness of the UK as a place in which to situate new business lines.
32. Where information is provided at a group level, HMRC should provide assurance that this will not lead to additional compliance in terms of providing reconciliations between accounting and tax bases at legal entity level.

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

33. Without greater clarity from HMRC it is not possible to provide a more comprehensive answer. For example, a further expansion of what constitutes 'digitised' would be helpful, i.e. whether digital upload/transmission of forms or fully digitally linked to source systems.
34. Some members indicate that they would welcome the option to submit digital versions of group allocations and summaries. For these members, the allocation, surrender and claim of various reliefs and allowances (e.g. R&D, group relief, capital losses) across companies within a large group is a complex process that is often undertaken via excel spreadsheet/standalone workings which are then shared with HMRC. While many of these claims and elections can be made via the CT return this is not practical for large groups where the number of entities and complexities of allocation can only be considered post initial submission. The ability for HMRC systems to accept and read electronic submissions of this nature would simplify matters and reduce processing time for both HMRC and those taxpayers that choose to exercise the option. Optionality will be important given that some claims and elections will not be suitable for standardisation or automation. The ability of taxpayers to exercise the option will also rest on the ability of software providers to integrate enhanced functionality or develop bridging applications.
35. Conversely, members indicate that capital allowances and R&D credit incentives claims should not be digitised as the calculations involve significant judgment and would seem too complicated to be digitised.

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

36. Members would hope to see a reduction in administrative burdens for both taxpayer and HMRC. The option of submission through software may increase visibility of the position for both parties, aid streamlining and ultimately result in earlier repayment of overpaid tax/tax credits. We would note, however, that HMRC should ensure flexibility in the regime for the same reasons as noted in the response to Question 8.

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

37. An entity's update cycle should be based upon its expected accounting period, however finance teams are already very busy in the weeks following each quarter end and additional reporting for CT purposes would be an additional burden on resource. For example, an entity could have only finished its month end process on the 15th day following the month end. This will not allow sufficient time to do an analysis and provide information to HMRC for that quarter. In addition, large organisations will often finalise results for public announcements over a month after each quarter end. These practical matters should be considered in proposals for filing deadlines.
38. We suggest HMRC avoid imposing additional reviews of accounting data classification. It should be possible to rely on the controls within the accounting systems to accurately capture data and then for further review work to be carried out as part of the tax return preparation process.

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

39. It is welcomed that the Consultation Document anticipates that very large companies within the QIPs regime, which already interact with HMRC on a regular basis, will be excluded from the requirement for in year updates. The complex business structures, finance architecture and multiple systems of UK Finance members means that the requirements for digital record keeping and digital linkage from source systems to tax returns is likely to require significant investment in systems. Consequently, we would urge an expansion of the exemption or modification for the requirements for large taxpayers. In particular we would note that many companies within the large company QIP regime will also be providing enhanced levels of assurance to HMRC through their CCM's and Business Risk Review processes and those companies will also have a similar "customer journey" to the one for very large companies set out in the consultation document, the only difference being that the timing of QIP payments is 3 months later. If HMRC is satisfied that very large companies are already meeting many of the MTD principles in their business practices, they should also be satisfied that the same should apply to many large companies. If HMRC were not comfortable extending the exemption to all companies that fall within the large company QIP regime we would suggest that HMRC consider utilising additional indicators of size, such as those used in the R&D legislation (staff, turnover and balance sheet) to define the scope of any exemption.
40. Extending the scope of the exemption, or basing the exemption on other factors such as number of staff or turnover rather than taxable profits, would also reduce the complexities identified within the consultation document associated with companies moving in and out of the very large company quarterly instalment regime (for example a company becomes loss making in a period) and provide more certainty and a lower compliance burden for those taxpayers.
41. While we agree with the principle that very large companies should have exemptions, many groups where the 'main' group would meet this criterion would also have a number of companies which might not. This would result in finance teams being required to ensure compliance with multiple regimes which would increase resource burdens and risk of non-compliance. These companies would likely be managed through the same systems and process, and the difference in compliance requirements would be challenging. We would welcome proposals which included a definition which covered all companies that might meet these conditions.
42. We consider that loss making entities that are not making QIPs, which are part of a large group should also follow the same principles as the tax paying entities.
43. There are numerous areas of heightened tax technical complexity that would warrant further consideration in terms of specific exemptions (e.g. international aspects, transfer pricing adjustments etc). For instance, items such as transfer pricing adjustments have the ability to move taxable profits and, therefore, whether a company\group is or isn't within the scope of the VLC QIP regime. Businesses will want certainty, particularly where there is a requirement to invest in systems and process changes.

**Question 12: Do you consider that any of these other scenarios require a different approach to the process of updating HMRC? If so, please provide details of any**

**barriers and how these could be addressed within the overall approach outlined in this chapter.**

44. It is unlikely that cross border information required for the return will be in a format that will comply with MTD. The cost and time required to impose MTD on worldwide systems would be onerous and most likely ineffective for HMRC's needs. Large groups have complex global systems that are often developed and maintained outside of the UK.

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

45. The starting point for a corporation tax return is the signed and audited statutory accounts for that entity. It is only once these are available that all accounting adjustments can be confirmed. For even a 'simple' entity this would make an aligned filing deadline very difficult to comply with.

46. The Consultation Document suggests that corporation tax filing deadlines could be aligned towards the filing deadlines for statutory accounts submission. This represents a fundamental change to how tax returns are prepared and doesn't sufficiently take into account the time required to analyse data and exercise judgement on tax treatment. Categorising financial data is unlikely to change the need for this additional work and the time required to perform it. Not allowing sufficient time for the appropriate analysis is likely to create more uncertainty over a company's tax position and more likelihood of computation resubmissions. Even with increased digitisation/ automation the analysis and judgement performed by tax and finance professionals will still be required and that time is needed for this work to be carried out after the accounts are finalised. Creation of digital links is not going to move the CT return preparation to 'touch of a button' generation.

47. Large, complex entities require significant adjustments to accounting figures, detailed analysis and application of often very complicated legislation in order to prepare a CT return. This work can be very detailed and involved, requiring significant resource from both tax specialists and wider finance teams. These large companies are often plc's and would therefore have even shorter filing deadlines (with Companies House proposing to shorten even further). Specific examples of issues created by a 9-month filing deadline would include, *inter alia*:

- i. Group election regimes (such as the Banking surcharge, losses, group relief and Corporate Interest Restriction allocation) would be impossible to complete a process within 9 months as we are required to use completed accounts and individual tax returns to complete the assessments. Until this has been completed the individual tax returns cannot be submitted.
- ii. There are various adjustments that are required to a return that would be unavailable at the proposed filing deadline, for example the 9-month bonus rule.
- iii. Group wide taxes, such as Bank Levy, cannot practically be completed before all company accounts have been finalised. As such, this will not be possible before the Companies House filing deadline.
- iv. Internal tax departments are run on an annual cycle and it would cause resourcing issues if the work were to be compressed into 9 months leading to higher costs and the risk that reviews would not be as detailed.
- v. iXBRL is a rigid system which creates breaks for minor differences in presentation (for example, number of decimal places) – in order to ensure these breaks are addressed it would need to be initiated well before the filing deadline to attempt to fix

all of the errors. As the accounts may not be final until the actual date of the filing deadline this is not feasible.

48. Large groups do use digitised records, albeit in a different form to that proposed for MTD:CT. Data entry forms a very small part of the tax return process with the majority of time spent on applying the tax legislation and interrogating the data, as well as a thorough review. As such, MTD will add no added benefits to the tax return preparation process and a reduction by three months is likely to lead to increases in errors due to a reduced timeframe for review. Furthermore, a company could incur late filing penalty charges because the statutory accounts are not prepared on a timely basis. Due to the time constraint and in order to be compliant, a company may need to file an estimated tax return and later file an amended return. This would increase tax advisory fees and administrative burden for entity that engages a third-party company to assist with its tax returns. There would also need to be regular resubmissions due to the points raised above. Filing Plc returns within six months would not be possible.

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

49. Amendments through MTD compatible software would only be efficient if the original tax return was done through an MTD compatible software, due to the way items are categorised and adjusted. Two different software could lead to two very different outputs and disclosures may not be consistent. This would result in time spend on reconciliation between the original filed company tax return and the amended return.

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

50. We have not been made aware of any existing issues with iXBRL tagging therefore it would be beneficial if HMRC could share any concerns on this area.
51. It is unlikely that the iXBRL taxonomy will be broad enough to encompass all transactions undertaken by Banks and Insurance companies so the likelihood of tags being absent or the 'best fit' tag being inappropriate may be high.

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

52. No. A large and complex IT project will be required to comply with MTD:CT and it is unreasonable to expect this to run smoothly in the early years. Additionally, the level of data required for iXBRL is very large and as the software is very rigid it is likely that errors will occur which will need rectifying before submission.
53. HMRC should provide clear guidance and feedback on any errors or difference of opinion before any consideration is given to rejection or penalties.

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

54. The principles and definition of a 'transaction' for inbound branches will need to be clearly defined where income/profit is transferred from a remote booking location back to the

branch. OECD and local attribution of profit principles require that this profit is considered on an aggregated basis and not distinct transactions.

55. Where there are potentially millions of financial transactions occurring daily, this is an extreme amount of data. If it is possible from an IT perspective then data security would be a concern, especially where the only realistic solution involves third-party intermediaries.
56. We would also question how useful this will be for HMRC. A risk-based approach would suggest HMRC should be considering the adjustments made in the returns themselves rather than focusing on a transactional level. Given the complicated network of systems and layers of interactions currently in place within large organisations (e.g. many 'transactions' in groups can be allocated across multiple legal entities and be subject to complex recharging mechanisms), this will take a significant amount of time and cost to implement, including annual maintenance costs, for no discernible benefit.

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

57. No comment.

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

58. Some UK Finance members provide tax support to charities affiliated with their organisations. They have pointed out that charities may be required to complete a Company Tax Return even when they have no income within the charge to CT. We understand that this occurs as HMRC request a tax return from all charities, every few years, as part of its programme to check compliance. We would ask for HMRC's confirmation that charities that are not in the charge to CT but are asked to file a Company Tax Return would not be in the scope of MTD:CT. It would otherwise seem disproportionate for such charities to incur the costs associated with the implementation of MTD: CT, which would have to be met from donations or fund-raising activities, when the result is no tax revenue for HMRC.

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

59. Yes. In addition, we would propose all companies going through the liquidation process no matter the type.

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

60. As referenced earlier, large financial institutions generally have a complex network of systems and ledgers. This would be likely to require specialist tax, accounting and technology resources as well as a change programme. Any updates or changes to even a part of these systems can take years of planning and testing (systems implementation of this kind of scale for a large taxpayer could be expected to take 18 -24 months from having final requirements) with costs running to tens of millions. The cost and time needed to prepare for MTD:CT will be onerous with very little benefit likely to accrue to either the taxpayer or HMRC. Ongoing costs will involve ensuring the tagging remains updated and accurate, as well as increased software costs. The concern is that it would divert resources to a transactional level rather than using a risk-based approach. Regulatory authorities, such as the Prudential Regulatory Authority, and the Bank of England already request detailed reports with the ledger as a source. We would expect HMRC to consider how this can be leveraged as a way to reduce the significant anticipated costs of implementation.

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

61. In terms of timescale and costs, we consider that the least of all the costs will be in the cost of licencing new tax software. The really punitive costs will be in implementing the scale of systems changes, with the attendant costs and time entailed. We tentatively suggest an implementation lead-time of 18-24 months from the point at which the final requirements are published.

If you have any questions relating to this response, please contact Sarah Wulff-Cochrane ([sarah.wulff-cochrane@ukfinance.org.uk](mailto:sarah.wulff-cochrane@ukfinance.org.uk))

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