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Federation of Small Businesses

Implementing Making Tax Digital: International evidence of the challenges for small firms

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Contents

1. Introduction

PwC ("we" or "our") have been engaged by the Federation of Small Businesses ("FSB") to prepare an objective report that identifies the potential impact on small businesses based in the UK of HM Revenue and Customs' (HMRC's) "Making Tax Digital" programme.

The information in our report is based on evidence gathered from PwC member firms in Australia, Denmark and Finland regarding the equivalent digital tax systems in these countries that most closely mirror HMRC's programme (as there is no current overseas system that exactly matches HMRC's proposed system).

Each jurisdiction detailed the positive and negative impacts that have been caused through the implementation of their respective digital tax systems.

2. Background

FSB exists to protect and promote the interests of the self-employed and all those who start-up and run their own businesses. FSB recognises the potential Making Tax Digital has for some small businesses - particularly around digital tax accounts. However, since the programme was announced in the 2015 Autumn Statement, the business group has actively engaged with the Government to communicate their key concerns around the proposals, particularly on mandatory quarterly tax reporting.

FSB also openly expressed their disappointment that the proposals were announced without the public release of an impact assessment - including the costs and additional administrative burden which might be involved for some businesses. FSB has estimated the average cost across all small and medium sized businesses of introducing mandatory quarterly reporting would be £2,770.[1]

Given the tax administration costs small businesses already face, FSB strongly believes further time is needed - before implementation of Making Tax Digital begins - to ensure that these costs can be mitigated. Similarly, the Treasury Select Committee has been explicit in its agreement with FSB that the current proposals are "a transfer of the cost from HMRC to businesses."[2] The Treasury Select Committee have urged caution over the implementation of Making Tax Digital, noting that "there may be a case for delaying the implementation."[3] Separately, FSB communicated their view that businesses should be allowed to adopt quarterly tax reporting as a matter of choice to avoid additional complexity.

Since HMRC launched their Making Tax Digital programme there have been broader representations from the business community and ongoing policy debate on the issue. A petition relating to mandatory quarterly tax reporting for self-employed and small businesses (calling on the government to "scrap plans forcing self-employed and small businesses to do four tax returns yearly") was debated in the House of Commons' in January 2016, having attracted over 114,000 signatures.[4]

[1] http://www.parliament.uk/documents/commons-committees/treasury/Correspondence/Treasury-Chair-to-Chancellor-Making-Tax-Digital-27-10-16.pdf
[2] http://www.parliament.uk/documents/commons-committees/treasury/Correspondence/Treasury-Chair-to-Chancellor-Making-Tax-Digital-27-10-16.pdf
[3] http://www.parliament.uk/documents/commons-committees/treasury/Correspondence/Treasury-Chair-to-Chancellor-Making-Tax-Digital-15-09-16.pdf
[4] http://www.publications.parliament.uk/pa/cm201516/cmhansrd/cm160125/halltext/160125h0001.htm

3. Executive Summary

Based on the information we have gathered we would make the following observations:

HMRC may wish to review the phased approach to mandatory quarterly tax reporting. Smaller business are required to use quarterly tax reporting before larger businesses. Logically, it would seem that larger businesses, which are likely to be more digitally aware, should be using the system first.

HMRC may also wish to review the proposed £10,000 annual income threshold, below which businesses would be exempt from quarterly tax reporting. The proposed threshold will be of little assistance to many small businesses as most with a turnover below £10,000 are unlikely to be paying tax. There may be options for HMRC to amend the threshold to be in line with other tax related thresholds (e.g. the basic rate threshold for income tax or the VAT registration threshold). A revised threshold may protect many small businesses from the potential cost and administrative burden of quarterly tax reporting.

As is the case in Australia and Finland, HMRC may want to consider making the requirement to use quarterly tax reporting voluntary. There is a significant gap between the current digital capabilities of many small businesses and the digital skills needed to use quarterly tax reporting systems. In addition there could also be accessibility issues for many businesses/taxpayers in remote areas who do not have effective internet connections. A voluntary approach will benefit those businesses who cannot, or would prefer not to, go digital. This will also save HMRC time having to police a mandatory system, manage risks and deal with possible resource constraints from a HMRC perspective. We also note that a number of professional bodies have raised concerns about the proposal to make quarterly digital reporting compulsory.

In addition to the conclusions above further findings and observations are provided in the sections below.

4. Key findings

a) Issues on implementation

- We understand that the overseas jurisdictions felt that further system tests should have been conducted prior to implementation.
- PwC Finland felt that the tax authorities did not sufficiently test the system themselves before the go-live date. Errors occurred during the first six months which caused confusion and defaults in reporting and payments. PwC Finland felt the system should have been tested more extensively by the tax authorities before the date of implementation.
- In Finland, technical error messages often resulted in double reporting, and in Australia validation error messages were not clearly worded in plain English so many businesses failed to understand what they were required to do.
- HMRC need to include a wide range of businesses within any pilot programme. It is not enough to include only those businesses that have significant resource to cope with the proposed changes. For example, businesses with a range of digital capabilities and a variety of both large and small businesses should be included.

b) Voluntary or mandatory implementation

- All three countries have different approaches as to whether taxpayers have to comply with their respective digital regimes. Denmark is currently the only country with a mandatory digital tax reporting system. Australia's system is voluntary and Finland's is currently voluntary but this will be changing to mandatory from January 2017.

c) Administration

- In the three overseas jurisdictions considered, the information that businesses were required to provide to the tax authorities did not change; here we note that HMRC's proposed system will be different as it will require businesses to upload details of all their transactions on a quarterly basis. This could, therefore, increase the administrative burden at certain points during the year.
- Businesses also need to consider the potential increased costs and additional support required from accountants and tax advisors to comply with the proposals.
- Under the proposals, businesses will have all of their information held on a digital tax system and consequently the amount of year end administration could be reduced. Furthermore, businesses will

also have greater certainty over tax bills so they don't have to wait until the year end to conclude how much is owed to the tax authorities.

- We note that payment dates of taxes will not change, which will potentially reduce complexity and help with tax certainty.
- By communicating with HMRC digitally, businesses will have a more robust audit trail as information and data will be stored online.

d) Consultation

- The consultation processes in respect of the overseas digital tax systems were transparent and lengthy.
- In Australia the tax authority ran a "Key Agent Programme" in order to introduce the digital system to the business community. They also issued a consultation aimed at the key stakeholders in order to ensure a smooth transition to digital services.
- Denmark issued a consultation to only a handful of businesses which lasted between three and six months. However, the development process of the system itself lasted approximately three and a half years and involved the Danish tax authorities, IT consultants and third party vendors.
- The Finnish Tax Administration organised training sessions in advance of the implementation of the digital tax system, and a test version of the system was also available. Both the training and test system were available to businesses of all sizes and were generally viewed to be positive. The test system was available four months before the implementation.
- HMRC had indicated that the consultation documents would be published before Purdah (May 2016), however they were delayed until after the EU referendum and were only published in August 2016. Therefore HMRC only have a limited time frame to consider the views and potential issues raised from the consultation. HMRC may need to recognise the impact of the delay by revising the timetable for implementation.

e) Cash flow

- Businesses in Finland experienced cash flow benefits as the transactions back and forth between the taxpayer and tax administration reduced. However, during the first six months after implementation there were problems with tax refunds; the tax authorities refunded taxes to businesses in situations where they wanted to use the refund against future liabilities, and the businesses received notifications of unpaid taxes.
- In Denmark businesses have experienced payment issues (but not necessarily cash flow issues). The digital tax system returns money to businesses if they pay more than five days before the due date. Therefore, businesses may believe that a payment has been made when in reality it has been returned and the liability continues to show as outstanding on the digital tax system

f) Software

- Businesses in Australia experienced issues when third party software providers delivered new versions of software. For example files did not transmit to the tax authorities. It was only after three attempts to resolve the issue that testing proved the files had been transmitted correctly. This did not result in any additional costs to PwC Australia or businesses as they were able to switch back to the old system to transmit the files. There was a time delay implication but this was limited to corresponding with the software provider.
- The Danish tax authorities took their existing system and enhanced it, therefore businesses were already familiar with the web-solution and system platform which helped avoid additional complexity.
- Business in Finland had a number of systems to choose from. This included both the Finnish tax authorities system and other third party software providers systems.
- HMRC need to work with software providers to ensure that extensive testing is completed before implementation to ensure no errors occur. HMRC should also ensure the system is user friendly to support businesses who may have a lack of digital knowledge. We believe the testing should take the form of HMRC testing followed by user testing by businesses and agents.

g) Penalties

- In Denmark there was an unofficial grace period of four to six months after the digital tax system was introduced. During this period the Danish tax authorities did not penalise businesses for the late submission of returns or payments. No reminder letters were issued during this period and interest was not charged.
- The HMRC proposal to have a 'soft landing' on penalties for a period of 12 months before any penalties are introduced is a sensible approach.

5. Key observations

a) Phased approach

- HMRC should review the phased approach to quarterly tax reporting. Smaller business will be required to use digital tax reporting before larger businesses. The first quarterly updates required under the proposals will be due from non-VAT registered self-employed businesses and landlords with an accounting period starting after April 2018. VAT-registered businesses will be brought in from April 2019 and companies from April 2020. Logically, it would seem that larger businesses, which are likely to be more digitally aware, should be using the system first.
- However, we do note that there has been some flexibility on some of these points from HMRC, for example, deferring implementation for certain small businesses and landlords with income over £10,000 but below a yet unspecified limit and exempting those individuals/businesses that are unable to engage digitally.

b) Increase annual income threshold exemption

- The proposed £10,000 annual income threshold, below which businesses would be exempt from digital tax reporting, will be of little assistance to many small businesses as most with a turnover below £10,000 are unlikely to be paying tax.
- There may be options for HMRC to amend the threshold to be in line with other tax related thresholds (e.g. the basic rate threshold for income tax or the VAT registration threshold).

c) VAT

- As noted, HMRC may wish to set the annual income threshold in line with the VAT threshold. This would support the alignment of digital tax reporting and VAT. It would also be a welcome tax simplification measure as most businesses will be aware of this threshold. In addition, businesses above this threshold would already be submitting quarterly VAT returns and therefore risk of disruption would be reduced.
- HMRC may also wish to consider simplifying VAT reporting; similar to what is being considered in Australia whereby businesses will be required to provide less information. Currently on their VAT return businesses are required to split details of sales and purchases into seven different types, but the intention is to reduce this requirement to three in the future.

d) Extend timescales

- HMRC experienced delays with issuing the consultation documents, and so there is only a six month timeframe for HMRC to consider the views and potential issues raised by respondents. HMRC may wish to recognise the impact of the delay by revising the timetable for implementation, for example, by delaying for at least a year. In Denmark, where quarterly tax reporting is mandatory, the development of the system alone lasted three and a half years.
- This extra time would give both HMRC and businesses time to prepare more adequately for its introduction.
- HMRC needs to ensure that systems are tested over a sufficient period of time so that issues experienced in other jurisdictions (and with the implementation of other large scale digital systems in the UK, such as Real Time Information), are not repeated. For example PwC Finland felt that the tax authorities did not sufficiently test the system before implementation which resulted in a number of errors and defaults in reporting and payments.
- HMRC may also need additional time and resource to ensure the accuracy and integrity of data is maintained and that the system has the appropriate security in place to ensure it is robust against cybercrime.

e) Introduce for specific taxes only under a phased approach

- HMRC is proposing introducing quarterly tax reporting for income tax self-assessment, Class 4 National Insurance, VAT and corporate tax. HMRC may wish to consider introducing digital tax reporting initially for a specific area of tax only and then do further roll outs of other areas of tax once it is satisfied the system works as intended.
- HMRC could then undertake a detailed review following the roll out for VAT before making a decision if it should be rolled out for other taxes such as corporation tax.
- For example in Finland the digital tax system only applies to VAT and PAYE, however after seven years after initial implementation it is being extended to include corporate tax in January 2017.

f) Voluntary system

- There is a significant gap between the current digital capabilities of many small businesses and the digital skills needed to use digital tax reporting systems. In addition there could also be accessibility issues for many businesses/taxpayers in remote areas who do not have effective internet connections.
- As is the case in Australia and Finland, HMRC may want to consider making the requirement to use digital tax reporting voluntary (possibly using a de minimus level). This will benefit those businesses who cannot, or would prefer not to, go digital. This will also save HMRC time having to police a mandatory system, manage risks and deal with possible resource constraints from a HMRC perspective. We also note that a number of professional bodies have raised concerns about the proposal to make quarterly digital tax reporting compulsory.

g) Training and support systems

- HMRC will need to ensure there is the required and appropriate level of support and resource in place, whilst learning the lessons from the Real Time Information implementation. The relative success of the digital tax systems in the overseas jurisdictions was supported by a detailed training and support system (e.g. test systems, dedicated, well-resourced helplines, extensive training programmes and drop in sessions).

6. Overview of HMRC's proposed digital tax system

HMRC's intention is to build a transparent and accessible tax system fit for the digital age. Their "Making Tax Digital" proposal is much more than simply adding digital tools to the current system; it is about transforming the UK tax system into something that 'feels completely different' As HMRC envisage it, this transformed system will have four foundations, as outlined in the HMRC "Making Tax Digital" roadmap.[5]

1. **Tax Simplified**
   Taxpayers will not have to give HMRC information that it already has, or should be able to get from third parties, for example from banks or credit card companies. Taxpayers will see the information that HMRC holds through their digital accounts, and will be able to check at any time that their details are complete and correct.

2. **Tax in one place**
   Taxpayers will be able to see their complete financial picture in their digital account, just like they do in their online banking.

3. **Making tax digital for businesses**
   Business will not have to wait until the end of the tax year, or even longer, before knowing how much they should pay. HMRC will collect and process information affecting tax in as close to real time as possible, to stop tax underpayments or overpayments building up.

4. **Making tax digital for individual taxpayers**
   Every individual and small business will have access to a digital account.

6.1 HMRC consultations

It is HMRC's intention to implement the digital tools to support the four foundations noted above, between April 2018 and April 2020.

In order to achieve this, HMRC published six consultations on 16 August 2016 (which run until 7 November 2016); each focuses on specific consumer groups or specific elements of the Making Tax Digital reforms, and are summarised below.

1. **Bringing business tax into the digital age**
   This consultation seeks views on how digital record keeping should operate. The proposal would require records to be kept digitally and require businesses to provide regular updates for multiple taxes which would take away current flexibility.

2. **Simplifying tax for unincorporated businesses**
   This consultation considers how the self-employed map accounting periods onto the tax year as well as looking at extending the cash basis accounting to larger businesses and the potential reduction of reporting requirements for businesses. It also sets out proposals which remove the need to distinguish between capital and revenue for businesses using cash basis accounting.

3. **Simplified cash basis for unincorporated property business**
   This consultation considers the extension of cash basis accounting to landlords.

4. **Voluntary Pay As You Go**
   This consultation considers options for customers covered by the requirement for digital record keeping to make and manage their voluntary payments, and considers how voluntary payments will be allocated across a customer's different taxes. It also explores the best way of dealing with the repayment of any overpayments.

[5] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/484668/making-tax-digital.pdf

5. **Tax Administration**
   This consultation covers aspects of the tax administration framework that need to change to support Making Tax Digital. It also sets out proposals to align aspects of the tax administration framework across taxes, including the simplification of late filing and late payment sanctions.

6. **Transforming the tax system through better use of information**
   This consultation focuses on how HMRC will make better use of the information we currently receive from third parties to provide a more transparent service for customers that reduces end of year under- and over-payments.

Evidence gathered from PwC firms in Australia, Denmark and Finland covers different aspects of the consultations, although, the information on tax simplification was limited.

From a UK perspective, given the potential increased administrative burden on businesses the extension of the cash basis of accounting is welcomed as a possible simplification point. HMRC are currently consulting whether to raise the cash basis of accounting threshold from £83,000 currently (aligned with the VAT threshold) to a number of options ranging from £100,000 to £166,000 (two times the VAT threshold). HMRC may wish to consider raising it to the higher limit to allow more businesses to benefit.

PwC's view is that HMRC should look for opportunities to simplify the tax system for smaller businesses. HMRC may wish to consider doing this in parallel with Making Tax Digital.

6.2 How will the proposed changes affect small businesses?

By 2020, most small businesses, self-employed taxpayers and landlords will be required to track their tax affairs digitally and update HMRC at least quarterly via their digital tax account. These businesses will be required to use digital tools such as software or apps, to keep records of their income and expenditure. Businesses will use the software that compiles their data as part of their ordinary day-to-day activity. Once the software has compiled the relevant data, businesses or their agents will feed it directly into HMRC systems. Businesses will be able to see a real-time view of the tax due through their digital tax accounts.

7. Overview of the digital tax systems in Australia, Denmark and Finland

In this section, we have provided an overview of the digital tax systems that have been introduced in Australia, Denmark and Finland, based on the information received from PwC network firms in these territories.

In summary, all three countries have varying degrees of digital tax systems in place, as follows.

- Australia's digital system is voluntary and allows businesses to file, amend, review balances and check payment details.
- Denmark's digital system is mandatory and allows business to file, amend returns and review balances. The system also calculates interest earned or owing, manages the ongoing collection of tax and provides for a subsequent reminder procedure.
- Finland's digital system is voluntary, but is to become mandatory from January 2017 (unless there are "special reasons", for example IT issues). The system is currently used to manage VAT and allows businesses to view returns and payments due. The digital system will also be expanded to cover other taxes such as corporate tax when changes are introduced in January 2017.

7.1 Australia

The Australian Tax Office (ATO) has an online portal which allows taxpayers to access their digital account. All businesses and agents are able to access the portal. Through the portal businesses may file both their Goods and Services Tax returns (GST- equivalent of UK VAT) and corporate tax returns online. GST returns can be filed either on a monthly (if GST turnover is over Aus$20 million (c.£12 million)), quarterly (if GST turnover is over Aus$2million (c.£1.2 million)) or annual (if GST turnover is under Aus$2million (c.£1.2 million)) basis. Corporate tax returns are filed on an annual basis.

Businesses may lodge returns electronically, make revisions to returns, review account balances and check payment details. The ATO has also introduced Standard Business Reporting (SBR) which allows returns to be filed automatically through third party software.

It is currently voluntary for all types of business whether they decide to use the ATO's portal to perform electronic filing, although in PwC Australia's experience, the ATO is increasingly requesting that businesses move to electronic filing in an effort to reduce paper filing. PwC Australia have noted that there is no indication that the ATO will make electronic filing mandatory for everyone. It appears that the paper filing option will continue to be available in the short term at least. PwC Australia estimates that over 90% of businesses with tax agents use electronic filing. If a small business does not have a tax agent then approximately 70% are estimated to use electronic filing.

7.2 Denmark

In Denmark a digital tax account was introduced for all sizes of business on 1 August 2014. Businesses access their tax digital tax account through a web based platform. The digital tax account collects information from 68 underlying areas on the digital platform and presents the transactions in a single overview. Some examples of the underlying areas include VAT, payroll tax, income tax, corporate tax, withholding tax, excise and environmental taxes, duty on oil/energy/gas, dividend tax and interest rates.

Businesses are required to upload the same information that they previously provided to the tax authorities via paper returns prior to the introduction of the digital account, and no further data is required, with the deadline remaining the same. Following the introduction of the digital account the frequency of reporting remained the same. The Danish tax authorities did not impose quarterly tax reporting. The frequency depended on two factors: 1) the size of the business and 2) tax type. For example VAT returns can be filed either monthly (if annual revenue subject to VAT is over DKK 50 million (c.£6 million)), quarterly (if annual revenue subject to VAT is between DKK 5 million and DKK 50 million (c.£600,000 and c.£6 million)) or every six months (if annual revenue subject to VAT is less than DKK 5 million (c. £600,000)).

The digital tax account displays the tax due in a single view. As well as the overview, the account also calculates interest earned or owing, manages the ongoing collection of tax, and provides for a subsequent reminder procedure. The digital tax account is mandatory for all businesses; there is no exemption for different sizes of business.

The Danish tax authorities are working on improving the digital tax account for businesses. It is seen as the platform for settlements going forward. The system will also be developed to provide more detailed guidance on requirements, improve the calculation of interest (since introduction there have been errors in the interest calculated by the account), introduce a sub-account for each tax type and deal with any new taxes that are introduced.

7.3 Finland

The digital tax system in Finland was introduced in January 2010. The system covers taxes that should be reported and paid by the taxpayer, such as VAT and employer's obligations (e.g. PAYE). It is currently not mandatory to use the digital tax system, however PwC Finland estimate that 93% of all taxpayer filings are delivered via the digital tax system.

Seven years after the introduction of the digital tax system, the Finnish Government has advised that, from the reporting period of January 2017, electronic filing will be mandatory for all. However, it has been noted that the Tax Administration could accept filing on paper after January 2017 for a special reasons. This will be the case if a business can demonstrate that they cannot move to a digital service, for example due to remote location or unreliable internet connections.

There are only a few systems which currently facilitate electronic filing, including the Finnish tax authorities own system. The current digital tax system can only be used with VAT and employer obligations, so corporate tax, transfer tax, real estate tax and personal taxation are not included. It is possible to submit corporate income tax returns and personal tax returns electronically, but they are not part of the digital tax system used for taxes such as VAT.

It is possible to link a company's bookkeeping system with the Tax Administration's system, so that the relevant figures would be transferred to the VAT return automatically. The online system also includes a tax account where the returns and payments are recorded.

We understand that the Tax Administration wants to expand the electronic system to cover all types of tax and a new electronic system will be implemented from 1 January 2017. The extent of the changes to the new system are currently unknown by PwC Finland. Currently, corporate income tax returns are filed electronically, but they will be transferred to the new system from 2017.

8. Transparency and communications

We have provided details of how the digital agenda was communicated to the relevant stakeholders in each of the jurisdictions.

8.1 Australia

The ATO ran a "Key Agent Programme" in order to introduce the digital tax system to the business community. This programme saw the ATO engage with the most influential tax agents in the country. As a key agent, PwC Australia met with the ATO every six months and received requests including to respond to public requests for feedback or participate in forums. In addition, the ATO engaged with the professional bodies and associations who share ATO news with their members and co-hosted information sessions with ATO.

The ATO issued a single consultation on the 30 November 2015 which ran to 29 January 2016. The consultation was aimed at the affected parties in order to better understand how long they needed to ensure a smooth transition to digital services, how well existing support services met their needs, and any concerns they might have.[6]

The ATO also releases videos and guides on new initiatives (such as digital tax reporting) and holds various workshops and information sessions around the country or webinars for anyone to attend. The ATO sends out regular newsletters to businesses and other relevant parties; the ATO used these newsletters to provide further information.

8.2 Denmark

Businesses were informed of the digital tax account at the start of 2012, before it was implemented on 1 August 2014. They were provided with subsequent information in quarterly meetings held between the tax authorities and businesses. The tax authorities then sent out a newsletter to all businesses and placed guidance on their website in the three month period before the new digital system was released.

We understand that the consultation process did not involve many participants. Only a limited number of businesses were approached and the consultation process was relatively short, less than six months. The development process of the system itself lasted three and a half years. The tax authorities took an existing system and enhanced it, therefore businesses were already familiar with the web-solution and system platform.

Businesses were not involved in the tests which were performed by the tax authorities in a closed system environment, and businesses did not have the ability to perform their own tests. Three areas were tested by the tax authorities: functionality, system integration and performance. The results of these tests led to several new releases being developed and implemented in the subsequent six - nine months. We understand that he general test of the system did not cause any practical problems for the taxpayers, as they continued to operate the underlying systems.

The underlying system platform was familiar to taxpayers, however the operation of the digital tax account was completely new. PwC Denmark suggested that at the beginning of the process it was difficult to understand how the account operated. The difficult start was due to the limited information/communication available to businesses who were not informed of how to administer/review the new account.

The Danish Tax Administration expects all companies to monitor their digital tax account on a regular basis, which becomes an added administrative burden for large companies with large transaction volumes and multiple tax types involved in the tax account set up. PwC Denmark's clients experience was that it was easy to lose track of the status of multiple transactions if monitoring did not take place regularly.

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[6] http://lets-talk.ato.gov.au/Digitalbydefault/news_feed/digital-by-default-consultation-paper-november

8.3 Finland

The Finnish Tax Administration organised training sessions in advance of the implementation of the digital tax system in January 2010; a test version of the system was also available. The training was available in autumn 2009, the test version of the system was released at the same time and is still available on the Tax Administration's website. Both the training and test system were generally viewed to be positive.

Upon implementation it became clear that the tax authorities had not tested the system sufficiently themselves before the go-live date. However, this was carried out as a priority after the legislation supporting the changes was confirmed. Errors occurred for PwC Finland's clients during the first six months which caused confusion and defaults in reporting and payments. PwC Finland feel the system should have been tested more extensively by the Tax Administration before the date of implementation.

In addition, even though training and guidance were provided, it was considered unclear in places because the terminology used changed from that seen before. This also led to difficulties in PwC Finland assisting clients with the transfer as they were also unsure of the terminology. PwC Finland therefore felt that the instructions and information published were perhaps not sufficient.

With the exception of these issues discussed above, the implementation was carried through effectively and the system is now well known and considered easy to use.

9. Tax Administration

This section covers how the digital agenda affected the tax administrative burden in each jurisdiction.

9.1 Australia

The introduction of a digital tax system has resulted in a reduction of paper returns, and revisions are more easily made as they can now be made online instead of via telephone, e-mail, or letters. Tax registrations can also be made online.

Despite generally reducing the administrative burden, PwC Australia noted that their Standard Business Reporting ("SBR") gateway does not always work for businesses that have multiple lodgements. These businesses are therefore required to lodge separate returns for GST, Pay As You Go Withholding Tax and Income Tax instalments. They are required to log-in and out of the ATO portal each time they want to view/submit a return for a different legal entity with separate log-in details for each entity. The return must also be generated in the right file format to be uploaded into the ATO portal via SBR. There have also been issues with pre-populated data on the GST returns, which are considered below.

Pre-population of data on the returns applies in Australia for various taxes including deferred GST on imports, Income Tax Instalments and Fringe Benefits Tax Instalments (with instalments based on last year's position). There are practical administrative implications in ensuring that the pre-populated data is accurate for a particular taxpayer, and providing data security across this information. If the pre-populated data is not accurate, the company needs to contact the ATO to get the return re-generated as the company cannot amend pre-populated data as it is hard-coded in the system. However, the process to get a return re-generated is straight-forward and generally a return can be re-generated within an hour.

Pre-populated/prefill data isn't available for Corporate Tax filing disclosures as the systems and software used by corporates aren't compatible with the ATO online portal.

There is also a reduced administration burden as businesses and agents no longer need to hold hard copy GST returns, as most of the returns are saved in either the ATO portal or third party tax software with electronic filing.

From a corporate tax practice perspective the online portal is used in a similar way to internet banking, including updating personal details, checking due dates and checking account history. There has been a limited additional burden for businesses and agents as the online portal is mostly used for filing purposes only.

9.2 Denmark

The introduction of a digital tax system has reduced the administrative burden for businesses. The digital tax system allows for a single sign on to monitor all payments to and from the Tax Administration in a single tax account, which is an improvement to the previous system which involved a separate account for each tax category. This single sign-on gateway was accessible to users straight away when implemented.

There was no change to the information businesses were required to provide. There were therefore no new requirements in the monthly or quarterly reporting, and the digital tax account used the same login facility and identical web-interface as the rest of the web-based reporting systems from the Danish Tax Administration. The digital account is based on the same systems businesses used previously and supports all payments between the Tax Administration and the companies' legal entities in real-time. The digital tax account also supports the different due and payment dates, which gives the authorities the ability to offset different tax types.

9.3 Finland

The aim of the introduction of the digital tax reporting and payment system was to unify processes and upgrade the tax authority's customer service to decrease the administrative burden. However, in reality, the administrative burden is currently the same as before according to PwC Finland. The reportable amounts are based on the taxpayer's bookkeeping documents, and there is no additional information required in this respect compared to paper reporting. Since the reporting system itself is web-based, there were no specific software requirements. However, companies had to amend their financial administration processes to correspond to the new system of reporting and payments at the time of implementation, so there was, therefore, an added burden on implementation.

The only change related to authorising agents. The system changed so that a business must nominate users to have 'master user' privileges. The master user may then nominate others to act as agents on behalf of the business. Previously authorising an agent was done via paper. The process is only needed once at the start of a client relationship when nominated as agent.

For Finnish businesses acquiring the IDs is relatively easy, but it is much more difficult for foreign companies. Additionally these IDs were not available to foreign companies for a several years, during which time the returns had to be submitted on paper.

The digital tax system has offered more flexibility to businesses. Electronic filing is time saving,, because the documents do not have to be delivered to the Tax Administration. They can be submitted quickly online, and there is no delay due to the postal service. In addition, under the current regime it is possible to submit the returns at any time. Previously paper documents had to be delivered to the authorities at the time the Tax Administration's office was open. Furthermore, the due date for filing is five days later than with paper filing, which also gives more time to prepare the returns.

An added benefit is that the online portal also acts as an archive, and therefore there is no need to have a separate archive at the business. This makes it is easier to check the earlier reporting and payments. PwC Finland confirmed that both their clients and they prefer electronic filing.

For the Tax Administration the electronic system has eased the processes, because now the reported figures can be reconciled to the payments easily. The amounts are easily readable (e.g. compared to handwriting) and the documents go straight to the correct client 'file'. However, when the new system is implemented, in January 2017, we understand that the Tax Administration may have a problem with the taxpayer files, as it is possible that they cannot move the archives into the new system.

Despite some errors occurring, the current system is much better than the previous one which relied on paper forms, as it decreases the administrative burden for taxpayers.

10. Additional comments

In addition to the information above we have summarised below further comments made by PwC Australia, Denmark and Finland as well some further points to consider.

10.1 Australia

Advantages

- The ATO online portal is a simple, standalone application that can be installed on all modern computers as a download from the ATO site. There are no additional software or hardware requirements to install. ATO also runs a tax compliance software provider program, where any software provider can sign up and get accredited products that link directly to the ATO online portal.

- PwC Australia are not aware of any data security issues. There have been a few clients who asked to use another approach to prepare and lodge returns, but there have been almost no instances of this over the last three years.

- If clients are in a tax refund position, the return is processed within 14 days and the refund paid. In comparison, paper lodgements under the previous system could take months to process.

- Businesses are granted extensions of two weeks to lodgement due dates if they file electronically through the ATO online portal.

Disadvantages

- We are aware that some of PwC Australia's clients have experienced issues with third party software providers. In this case, they had to switch back to an old version of the software as files were not transmitting correctly. It was only after the third attempt that testing proved that files were transmitted correctly.

- Some clients were concerned that the software is cloud hosted, and in particular about the data security issues this presents.

- There are practical challenges in understanding the validation errors which are not worded in plain English, and also errors do not pinpoint the tax return question number or label to which it relates.

- Businesses require separate log-in details for each legal entity, which can be cumbersome for businesses with multiple legal entities.

- Businesses have experienced difficulties in validating whether pre populated data is correct.

10.2 Denmark

Advantages

- For small and medium sized enterprises ("SMEs") there is less complexity in the system, given the limited number of transactions. Three years after implementation, the number of customer inquiries has decreased. The majority of the enquiries are now in relation to (1) payments being returned to businesses due to the five day rule i.e. the digital tax system returns money to businesses if they pay more than five days before the due date, and (2) ensuring payments are allocated to the correct tax liability.

- The digital tax account has provided a good overview of missing declarations and payments which has proved very useful for SMEs.

Disadvantages

- The digital tax account proved confusing to companies, given that a single account was designed to handle multiple tax types each with its own set of requirements and payment deadlines.

- Businesses are unable to allocate reserve a payment for one declaration or tax type. The tax account operates on a first-in-first-out ("FIFO") basis - there is no option to allocate a payment to one tax type. This ties into the "five-day payment rule", whereby payments made five days before the due date are returned to the taxpayer and the relevant tax type continues to show as an outstanding liability.

- There were difficulties in the first two years, which entailed an increasing number of complaints related to both the system and changes to the way of tax payments being settled. Now three years after the implementation, we understand that the number of complaints have reduced to fewer than five per month.

- Businesses have not had any cash flow benefits yet, as most companies have been slow in adopting and utilising the account as prescribed and the underlying systems have not changed.

10.3 Finland

Advantages

- In terms of cash-flow, the money transactions back and forth between the taxpayer and the Tax Administration have decreased, because the taxpayer may use any positive balance on their tax account against future taxes. Therefore, it is expected to be more cost effective to the Tax Administration to receive the information electronically.

- Input VAT can be offset earlier by the taxpayer, as the taxpayer does not have to wait the refund from the Tax Administration because the tax account is managed in real time.

- If a tax agent is authorised to act on behalf of the client in the electronic portal, it is easier to determine which payments have been made, when the returns have been filed and if there are penalty payments.

- It is possible to link a company's bookkeeping system with the tax authorities system so that the relevant figures are uploaded to the VAT return automatically.

- The taxation processes are automatic and the level of client contact with the tax authorities have decreased.

Disadvantages

- The system was not tested sufficiently before the implementation, and errors occurred. Initially there was a two day delay between making the payment and when it was possible to see the payment on the tax account. As the taxpayers did not immediately see the payments on the tax account, some double payments were made. The additional payments could only be refunded against a client's request, which imposed an extra administration burden. There was also a technical error which often resulted in double reporting, as taxpayers understood, based on an error message that the return they had submitted had not gone through, although in reality it had.

- Additional errors occurred, as taxes due before the changeover still had to be paid as normal. For example, the taxes for November 2009 (due in January 2010) and December 2009 (due in February 2010) had to be paid under the old regime, which created confusion among the taxpayers. This led to some incorrect reporting and payment combinations being used, but there were overlaps with the returns and reference and in addition bank account numbers were confused.

- There are still some difficulties with the identification of foreign nationals, as the system only accepts foreign passport copies and not official identity cards, for example.

- During the first half year after the implementation there were problems with tax refunds. The tax authorities refunded taxes to the customers, where the customers would have preferred to use the refund against future liabilities, resulting in taxpayers receiving notification of unpaid taxes, as the payments had not been made. However, this was resolved quickly. Initially there was also delay in synchronizing the refunds and future tax liabilities.

10.4 Experience of Real Time Information and Pensions Auto-Enrolment

In recent years, the UK has undertaken two major large scale digital implementations that impact tax; Real Time Information ("RTI") and Pensions Auto-Enrolment ("PAE") and we would recommend that HMRC consider the lessons learnt from these implementations for digital tax reporting proposals, including the following.

- In our opinion, the phased approach based on PAYE references was an effective way of introducing PAE, with the largest businesses being phased in first. This meant that smaller companies could learn from the experience of those larger entities.
- The supporting information produced by the Pensions Regulator ("PR") in support of PAE was well documented and detailed. There was open communication and dialogue between the PR and stakeholders involved in PAE implementation, which we consider should be replicated by HMRC for digital tax reporting. Under the RTI implementation, HMRC recognised the need for a flexible approach to any penalties for non-compliance under RTI; again a similar arrangements should be considered for digital tax reporting.
- There was detailed consultation regarding the introduction of RTI, but comments made by the stakeholders around potential issues and problems were not necessarily addressed before the introduction of RTI. 'Live' RTI issues experienced by employers can be difficult and time consuming to resolve.

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