

Accounting Officer Assessment Summary: HMRC Making Tax Digital Programme

It is normal practice for Accounting Officers to scrutinise significant policy proposals or plans of major projects and assess whether they measure up to the standards set out in HM Treasury's Managing Public Money guidelines.

From April 2017, the government has committed to make a summary of the key points from these assessments available to Parliament when an Accounting Officer has agreed an assessment of a project within the Government's Major Projects Portfolio (GMPP).

Background and context

The Making Tax Digital (MTD) Programme aims to support UK businesses to transact digitally and forms a crucial building block in HMRC's transformation plans and the government's 10-year strategy to modernise the UK tax system, making it more resilient and effective, boosting business productivity, and supporting taxpayers.

MTD is an 'in-flight' programme established at the start of Spending Review 2015 (SR15) and reaffirmed in written ministerial statements in July 2020 and December 2022.

MTD will help businesses and landlords to get their VAT and Income Tax right and reduce errors, by mandating them to keep up-to-date business records using improved business accounting software that produces the VAT return or Self Assessment update to HMRC. This modern digital experience aims to encourage compliant behaviour and reduce the tax compliance gap attributable to error and failure to take reasonable care and is expected to raise additional tax revenues of £6.38 billion for a cost of £1.27 billion.

Critical infrastructure will also be replaced by moving customer records from regime-based legacy systems onto HMRC's new strategic IT (Information Technology) platform, enabling more effective customer service and reducing risk for HMRC.

The new approach to penalties will be fairer and more consistent, incentivising compliance while not penalising occasional mistakes.

Assessment against the Accounting Officer Standards

Regularity

Primary legislation has been enacted through Finance Acts in 2017 for Making Tax Digital for Value Added Tax (VAT) and Income Tax Self Assessment (ITSA) and in 2021 for Penalty Reform. Secondary legislation for MTD for VAT and ITSA were laid in September 2021. Further secondary legislation to commence Penalty Reform for VAT was laid in December 2022. Legislation to commence Penalty Reform for MTD ITSA obligations are part of the programme's plan.

In relation to MTD for ITSA, in December 2022 the government announced a review into the needs of smaller businesses to establish whether and how the MTD for ITSA service could be shaped to meet their needs and the best way for them to fulfil their Income Tax obligations.

At Autumn Statement 2023, the government announced the review's outcome, including a series of design changes to make MTD for ITSA simpler and fairer for users. The government also announced that the MTD for ITSA mandation threshold will remain at £30,000 and will be kept under review. Regulations were laid in February 2024, reflecting the outcome of the review, and implementing the changes to the mandation timetable announced by the government in December 2022

Propriety

The MTD programme adheres to HMRC's change lifecycle governance and undertakes the appropriate assessments and reporting.

The business case (BC) for MTD, including funding for 23/24 and 24/25, was approved by HMRC's Change Investment Design Committee and by HM Treasury in June 2023. This business case included the full impact of customer costs in the economic case, correcting an issue from the May 2022 business case.

The MTD Programme has established governance processes for effective programme management. A programme board is the main decision-making authority, with the Senior Responsible Owner accountable for delivery. The programme has a dedicated Integrated Planning and Assurance function within the central programme management office (PMO) that assures all areas are delivering to plan in accordance with HMRC's Planning Standards. The programme's governance framework sets out authority and decision-making roles, accountabilities, and escalation routes; including an Executive Oversight Group to monitor progress and provide active support from ExCom members as required.

The programme became part of the GMPP in 2016 and has since complied with the GMPP quarterly reporting requirements, including Infrastructure and Projects Authority (IPA) reviews. An IPA Gate 0 assurance review was held in February 2023 and the programme received an Amber Delivery Confidence Assessment and 6 recommendations, all of which are now formally closed. In February 2024 an IPA 'peer review' was conducted that noted "...the MTD Programme had made significant progress since the last IPA review".

In June 2023 National Audit Office (NAO) reported on their audit into the progress on implementing MTD and whether MTD's latest plans provide confidence it will deliver value for money. The report included 13 recommendations that the MTD Programme is currently implementing. Following the NAO audit, the Public Accounts Committee (PAC) had a hearing that covered MTD's original vision and plans; progress made in re-phasing the programme at the end of 2022; and the realisation of the latest plans for the programme. The government's response to the PAC's report has been published in the February 2024 HM Treasury minutes.

Procurement of suppliers follows HMRC's established commercial governance process, ensuring appropriate scrutiny and challenge.

Value for money

The programme follows HM Treasury's Green Book guidance. Value for money has been assessed via an options appraisal which has been documented in the programme business case. The preferred option offers the highest potential to achieve the programme's objectives and minimise delivery risks for HMRC. The latest MTD business case covers a five-year period (tax year 2023 to 2024 to tax year 2027 to 2028) and sets out current assumptions for scope, timelines and associated financial information.

MTD lifecycle costs over 12 years (tax year 2016 to 2017 to tax year 2027 to 2028) are currently predicted to generate Additional Tax Revenue (ATR) savings of £6.38 billion over 15 years (full investment appraisal period from tax year 2019 to 2020 to tax year 2033 to 2034), underpinning a healthy overall programme Return on Investment (RoI) of 4.8:1. These latest baselined estimates are set out in a Change Request (CR), with no change to overall scope, and represent an increase from the business case in June 2023 (ATR of £3.9 billion and RoI of 3.0:1) due to significantly higher yield forecasts agreed with Office for Budget Responsibility (OBR) at Autumn Statement 2023.

Feasibility

The Delivery Confidence Assessment for MTD remains Amber, as reported by IPA in March 2023.

MTD for VAT was handed over to business-as-usual on 1 November 2022 and Penalty Reform for VAT went live in January 2023.

The programme maintains a focus on critical activities required to successfully achieve key milestones, the next of which is to extend the current ITSA private beta from April 2024. Progress against success criteria and key performance indicators is monitored at all levels, including through the Executive Oversight Committee. Programme risks and issues are being proactively addressed and contingency plans are being developed for strategic threats.

In December 2022 Ministers announced a phased delivery of MTD for ITSA including penalty reform for mandated customers from April 2026. The migration of records from systems will align to the phases of mandate to MTD ITSA, starting with smaller volumes and gradually increasing the ITSA population on the Enterprise Tax Management Platform (HMRC's strategic IT platform) with each phase of mandate.

The programme has introduced modern programme management practices to continuously improve delivery, including multi-functional teams and re-invigorating relationships with external stakeholders through a co-creation approach. The programme's leadership, supported by delivery partners, have the skills and experience required to deliver the programme's outcomes.

The programme has undertaken extensive work in the last year to refresh its detailed delivery plan. This includes broad engagement with external stakeholders to resolve strategic design issues and assure delivery plans. Delivery plans incorporate all current scope, including recent simplification measures announced at Autumn Statement 2023. Build is prioritised based on customer and HMRC benefits using an industry standard approach. Build effort is also sized by a standard methodology to ensure plans are realistic; reflect known capacity constraints; and support data-driven velocity and contingency management. Plans will continue to be monitored and refined through established governance and assurance.

Conclusion

As the Accounting Officer for HMRC I have considered my assessment of the Making Tax Digital Programme and concluded that the proposal is value for money and deliverable. I have therefore approved it as of 12 April 2024. I have prepared this summary to set out the key points which informed my decision. If any of these factors change materially during the lifetime of the programme, I undertake to prepare a revised summary, setting out my updated assessment. This summary will be published on the government website (GOV.UK). Copies will be deposited in the Library of the House of Commons and sent to the Comptroller and Auditor General and Treasury Officer of Accounts.

Accounting Officer's name: Jim Harra, Chief Executive, HM Revenue and Customs.

Signature:

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Date of signing: 12 April 2024