

**Financial Inclusion Commission**

**Draft Tax System Reform: Making Tax Digital Programme**

**Response – Summer 2020**

**About the Financial Inclusion Commission**

The Financial Inclusion Commission (FIC) is an independent body made up of experts from financial services, businesses, the charity sector, academia and parliamentarians from all major parties

<https://www.financialinclusioncommission.org.uk/>

Our mission is to champion financial inclusion as a policy priority for public bodies, businesses and civil society, and challenge exclusion wherever it occurs. Our vision is for a financially inclusive UK where financial services are accessible, easy to use and meet people's needs over their lifetime, and where everyone has the skills and motivation to use them.

Financial exclusion remains a significant challenge for 21st century Britain which prides itself on being a global leader in financial services.

Just over a million people in the UK do not have a bank account, one in four households lack insurance protection and one in five adults would not be able to cover more than one month of living expenses if they lost their source of income.

Financial inclusion is the means by which people can make their money work well for them, enabling them to maximise opportunities, move into employment, become more self-reliant, and enhance physical and mental wellbeing. Financial inclusion contributes to greater social mobility and levelling up, a more effective welfare system and greater national resilience from economic shock.

This means a United Kingdom in which:

- every adult is connected to the banking system, through having access to – and the ability to make full use of – a transactional account of his or her own;
- every adult has access to affordable credit from responsible lenders;
- every adult, young person and child is encouraged and enabled to save, even in small or irregular amounts, to share in the importance of a common savings culture, to help build up resilience against financial shocks and as an additional resource for retirement;
- every adult has access to the right insurance cover for his or her needs, at a fair price;
- every adult has access to objective, affordable and understandable advice on credit, debt, savings and pensions, delivered via the channel most suited to that individual;
- every adult and child receive the financial education he or she needs, starting in primary school and carrying on throughout life and into retirement;
- the overall level of pensions provision – state plus private – in the UK, does not lag behind other developed countries, especially for the low paid;
- every adult will have a clear picture of what their income in retirement is likely to be, so they can plan and get 'no surprises'.

## Summary

The Financial Inclusion Commission welcome the Government's plan to create a modernised digital tax system, making it easier for businesses to keep on top of their tax affairs. This will not only help avoid mistakes but reduce the time some businesses spend on their tax affairs. As we have seen in recent months during the Covid-19 pandemic, a more flexible, responsive and resilient tax system is necessary to provide businesses a way to update information.

However, whilst digital tools and services can help make it easier for some businesses, the Commission is concerned that the issue of digital access is continuing to go unacknowledged. Furthermore, whilst we recognise that the move to reporting every quarter will allow for more up to date records, something which would have been valuable during the Covid-19 pandemic, there is a concern about the burden this will place on small businesses and the self-employed. Similarly, the costs which businesses will incur to comply with the new legislation will hit small businesses and the self-employed the hardest, at a time when they are already struggling financially.

## Access

Digital access is not just a concern for rural areas but affects a variety of individuals as digital and financial exclusion intersects. Furthermore, a common misconception is that digital exclusion only affects individuals, but small businesses are affected by this problem as well; this is not only a problem for the proprietor but for the business itself. A report published by the Low Income Tax Reform Group in 2012 outlined that there are 3 million unincorporated businesses in the UK that have a turnover of £70,000 or less, including approximately 2 million with a turnover of £20,000 or less. Although these are the smallest businesses in the UK, they form a vital part of the UK economy.

Internet connection is essential to carry out business in the new environment providing the key to accessing cash, banking and financial services including pensions, funding through Local Authority schemes, business advice, transport and skills. A lack of access to any of, or a combination of any of these could result in financial exclusion. This exclusion will now have an important impact on the ability of businesses to comply with legislation on digital tax returns.

Although 90 per cent of UK adults use the internet, this figure drops among many of the groups much more likely to be financially excluded. This is important in the current environment, where banking and financial transactions are almost exclusively taking place online. ONS data shows that women and people aged over 65 are less likely to use the internet. There are high levels of online banking among younger generations (93 per cent for 25 to 34 year olds), but among 65-74 year olds and 75-79 year olds, it is 47 and 23 per cent respectively. It is clear that ensuring businesses and the self-employed have access to the internet as well as the skills to utilise these tools will be crucial for compliance with the new digital system.

We urge the Government to provide assistance to those small businesses and self-employed who will struggle to access the appropriate hardware and software to complete digital tax returns as well as the training and skills necessary.

## Cost of digitisation

Although around 30% of those smaller VAT registered businesses already provide digital tax returns voluntarily, there remains a large number of businesses who have chosen not to. This could be due to a range of factors, however, the cost associated with digitisation is clearly a big worry.

The Commission is concerned that small businesses and the self-employed will struggle to afford the costs of becoming compliant with these measures. At a time when small businesses and the self-employed have struggled financially with the impact of Covid-19, there is a real concern that some will simply be unable to afford this and it could push them further into debt.

In addition, the £10,000 threshold at which these new measures would be applicable for landlords and self-employed would catch individuals who do not pay income tax because they earn below the current £12,500 personal allowance threshold.

### **Conclusion**

The Financial Inclusion Commission welcome the Government's plan to digitise the tax system. However, there are concerns around digital access and cost for small businesses and the self-employed. At a time when small businesses are struggling financially, we are extremely concerned that the burden of this may push them further into debt.

We urge the Government to consider these impacts and provide assistance to small businesses and the self-employed who will struggle to implement these new measures, either through access or cost. Furthermore, we would welcome clarity around whether businesses will be able to apply to the HMRC for an exemption if businesses are unable to comply.

These measures of digitisation should also be accompanied by a fundamental review of how small businesses and the self-employed are taxed. The tax system does not reflect the current climate, and especially not the changes post Covid-19. Whilst there is perhaps a perception that small businesses don't pay as much tax as they should, small business people earn around ten percent less than they would do if employed to do the same work and carry all the risk. We need to get a better understanding of the vital part small businesses play, and the amount they contribute financially to UK PLC and to their local communities.