

ACS Submission: House of Lords Economic Affairs Finance Bill Sub-Committee

1. ACS (the Association of Convenience Stores) welcomes the opportunity to submit evidence to the House of Lords Economic Affairs Finance Bill Sub-Committee on Making Tax Digital (MTD). ACS represents 33,500 local shops and petrol forecourts, including Co-op, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Londis and Costcutter. Further information about ACS is available as an Annex to this submission.
2. MTD represents a seismic change to the taxation landscape with significant operational and cost implications for convenience retailers. ACS is engaging closely with HMRC through its SME Digital Services Group as a trade body partner to communicate MTD reforms out to members and feedback on policy development. We understand the policy objectives for MTD reforms to reduce the tax gap and improve the efficiency of tax reporting but remain concerned about HMRC support for business to adequately prepare for the reforms.
3. There is now less than six months until retailers must comply with MTD for VAT and begin submitting quarterly VAT updates digitally. Larger multiple groups in the sector may have dedicated finance teams managing the move to MTD, but the majority (72%) of convenience stores are operated by independent retailers, most of which do not have accounts expertise¹. Some symbol groups may provide support to retailers, but most are reliant on HMRC communications and their accountant to ensure they are compliant by the April 2019 deadline.
4. Many retailers do not have established online procedures for accounts and urgently require support and guidance from HMRC detailing practical steps to comply with the reforms and a breakdown of software providers. We are sceptical about HMRC's estimates on the cost to business of MTD, which does not appear to consider in sufficient detail time spent familiarising colleagues with new software and the cost of upgrading software.
5. We welcome that there will be no penalty sanctions enforced in 2019/20 to allow retailers a year to comply with new regulatory responsibilities under MTD. HMRC, as well as trade bodies such as ACS, must be prepared for a large volume of business queries as the April 2019 deadline approaches. For more information on this submission, please contact Steve Dowling, ACS Public Affairs Manager, via steve.dowling@acs.org.uk or 01252 533009.

¹ ACS Local Shop Report 2018

How prepared are HMRC, businesses (small and large) and software providers for the implementation of Making Tax Digital for VAT in April 2019, and what are the challenges of concurrent preparations for Brexit?

6. Three-quarters (72%) of convenience stores are operated by independent retailers, most of which do not have head office functions or established online accounting procedures². These retailers require comprehensive support from Government and a proper lead in time to prepare for the reforms. We therefore welcomed the July 2017 announcement of a revised timetable for the rollout of MTD on the basis that this would allow sufficient time for an effective communications strategy and pilot process from Government.
7. Despite the delayed timetable, we are very concerned that awareness amongst small businesses remains poor. HMRC's own research from December 2017 suggests that 70%³ of businesses are unaware of the forthcoming rollout of MTD while BCC research published in June 2018 suggests 24%⁴ of businesses have never heard of MTD. The Government's communications strategy is integral to the successful rollout of MTD and must reach all businesses regardless of their use of agent services or experiences with software to keep accounting records.
8. HMRC's support and guidance for businesses on MTD is daunting for many independent retailers without accounts expertise. HMRC's stakeholder communications pack is too technical for small business owners to understand while promotional materials about the reforms published in September do not include a step-by-step process to compliance for business. Although we appreciate HMRC is looking to recruit businesses to its MTD for Income Tax pilot, messages on mandatory MTD for VAT and voluntary MTD for Income Tax within the same communications are too complicated for businesses and should be either separated or communications on the Income Tax pilot paused.
9. Convenience retailers need better information from HMRC about MTD-compatible software providers in the market. HMRC is working with more than 150 software suppliers aiming to provide MTD-compatible software in time for April 2019 and has provided an online list of suppliers via gov.uk. These software providers have developed a range of products designed for businesses across all sectors. For independent businesses, comparing hundreds of software providers with limited knowledge of accounts software will be a burdensome process. HMRC should provide further practical information to businesses about these software products, for example what types of business the products target, to save businesses time when comparing the MTD software market.
10. The public beta stage of the pilot is scheduled to begin in October, despite MTD for VAT being mandated in less than six months. The short timeframe for the public beta

² ACS Local Shop Report 2018

³ <https://www.gov.uk/government/publications/making-tax-digital-for-business-survey-of-small-businesses-and-landlords>

⁴ <https://www.britishchambers.org.uk/news/2018/06/bcc-delay-roll-out-of-making-tax-digital>

means many convenience retailers have so far not participated in the pilot to test their software products with HMRC systems. The limited pilot length also restricts the feedback HMRC can gain from its customers to improve its systems. We regret that the public beta stage of the pilot has not been longer to provide evidence of the additional financial burdens on businesses following the questionable HMRC assessment of costs.

What are the potential costs of Making Tax Digital for VAT for businesses?

11. Retailers are set to absorb the costs of compliance with MTD reforms, which will transcend initial software costs and significantly increase the costs of accountancy services to approve quarterly updates. We agreed with the Committee's 2017 report on MTD that HMRC's assessment that initial business costs to ensure compliance would be £280 'does not reflect the reality of small business operations'⁵. HMRC has since revised its assessment to £109 per business in transitional costs and £43 per business per annum for steady-state costs⁶.
12. The cost of being fully prepared for MTD will vary based on the current accounting procedures a convenience retailer has in place. However, we remain highly sceptical that these figures accurately reflect costs beyond the purchase of new or upgraded software, for example time spent familiarising staff with new digital tools and submission processes and additional accountancy costs for business.

How could the penalty regime and the new VAT interest regime proposed in the draft Finance Bill be improved or simplified?

13. We recognise that the penalty regime for MTD will not be enforced until April 2020, allowing business a full tax year to become familiar with their new quarterly reporting obligations and comply with the reforms. We also support HMRC's guiding principles that the sanctions regime for MTD should be proportionate, fair, consistent and a credible threat against non-compliance.
14. The Finance Bill includes proposals to introduce a points-based late submission penalties model for MTD, whereby businesses reaching a set points threshold based on a number of late submissions would then incur a penalty. This system will be complicated for small businesses when applied on a tax by tax basis as the MTD programme expands and make the impact of non-compliance more abstract for taxpayers.
15. Alternatively, we supported a suspended penalties model to provide the simplest sanctions regime and encourage improved compliance immediately after late submissions. This regime would notify a business when a reporting deadline has been missed to discourage late submission habits, with penalties being suspended for a period from the notification to allow the business an opportunity to comply.

⁵ <https://publications.parliament.uk/pa/ld201617/ldselect/ldconaf/137/137.pdf> p2

⁶ <https://www.gov.uk/government/publications/making-tax-digital-changing-the-scope-and-pace-technical-note/making-tax-digital-for-business>

Subject to a thorough and clear notification process when a submission deadline has been missed, this would discourage the development of late submission habits earlier than the points-based model.

For more information on this submission, please contact Steve Dowling, ACS Public Affairs Manager, via steve.dowling@acs.org.uk or 01252 533009.

Annex A

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of around 50,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.



WHO WE REPRESENT

INDEPENDENT RETAILERS



ACS represents 22,397 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

SYMBOL GROUPS AND FRANCHISES



ACS represents 14,659 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents 12,862 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls, Conviviality Retail and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR



In 2017, the total value of sales in the convenience sector was £38bn.

The average spend in a typical convenience store transaction is £6.28.



There are 49,918 convenience stores in mainland UK. 74% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 370,000 people.

24% of independent/symbol stores employ family members only.



20% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

72% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

79% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2016 and May 2017, the convenience sector invested over £858m in stores.

The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of over 2400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,291 stores. The Local Shop Report also draws on data from HIM, IGD, Nielsen and William Reed.

BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit www.acs.org.uk