**ACS Submission**

**Making Tax Digital – sanctions for late submission and late payment**

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the HMRC consultation on the sanctions regime for late submissions through Making Tax Digital. ACS continues to engage with policy development on the Making Tax Digital reforms through the HMRC SME Digital Service Group and the HMRC SME Overview Forum. ACS represents 33,500 local shops across the UK including the Co-op, One Stop, McColls and thousands of independent retailers. Further information about ACS is available in Annex A.

ACS understands the Government's policy objective for Making Tax Digital to reduce tax reporting errors and transfer business tax accounting onto digital platforms. However, the pace of implementation of these reforms will place considerable financial and administrative burdens on convenience retailers who will be required to absorb the costs of software investments, changes in store accounting procedures and higher accountancy costs.

The dissolution of Parliament and dropping of Making Tax Digital from the Finance Bill means clarification on the timetable for the reforms is required as soon as possible as we enter a new Parliament. ACS welcomed the recommendation from the House of Lords Economic Affairs Finance Bill Sub-Committee to delay rollout until 2020. Business obligations on Making Tax Digital should be delayed to allow sufficient time for retailers to adapt to the reforms. Providing clarity on Making Tax Digital should be a priority for the returning Government. Three-quarters (74%) of convenience stores are operated by independent retailers, most of which do not have head office functions or established online accounting procedures and will require as much lead in time as possible[1].

We support HMRC's guiding principles that the sanctions regime for Making Tax Digital should be proportionate, fair, consistent and a credible threat against non-compliance. Convenience stores operate in a highly competitive low-margin, low-profit grocery market and will not benefit from the deferral of MTD obligations for businesses under the £85,000 VAT threshold. We urge the Government to review their timetable for the introduction of MTD and the sanctions regime.

We have set out our response to the consultation's questions below.

**Question 2.1 Which of the three penalty models proposed (A - Points-based, B - Regular review of compliance, or C – Suspension of penalties) do you consider to be the best and why?**

The suspended penalties model (Model C) is the simplest designed sanctions framework to encourage improved compliance after late submissions. The Model would discourage the development of late submission habits, subject to a thorough and clear notification process when a submission deadline has been missed. Further consultation should be made on the length of suspension periods before a penalty is issued.

[1] ACS Local Shop Report 2016

A points-based system (Model A) with a points threshold for penalty liability would be complicated for small businesses when applied on a tax by tax basis and make the impact of poor compliance more abstract for taxpayers. The regular review of compliance model (Model B) would struggle to effectively encourage improved compliance due to the time lag between submission deadlines and the review of a longer reporting period. Penalties would be more likely because businesses would not be notified for late submissions before the compliance review occurs. This means the sanctions regime would not prompt behaviour to improve compliance until penalties are issued.

**Question 3.1 Do you agree with these proposals for the duration of the required good compliance periods?**

The objective to encourage more timely submissions by rewarding improved compliance is valid, but must be viewed as achievable by retailers who are working to adapt their tax reporting and accounting processes to comply with a significant increase in submission deadlines. Therefore, the good compliance period should be no longer than 12 months (or 4 submissions) for quarterly MTD deadlines. This would ensure the good compliance period necessitates a sustained change in reporting behaviour and is realistic for retailers to reset their points total to zero.

**Question 4.1 What are your views on the timing of the review?**

We are concerned that the regular review of compliance model would allow a habit of late submissions to develop by not notifying businesses when a deadline has been missed. Annual reviews could also punish businesses for a number of late submissions accrued over the review period when the business may have changed their behaviour if it had received earlier notification of the consequences. As the compliance review model could account for the length of time that submissions were outstanding before their late submission, this could lead to unduly large penalty fines.

A compliance review model implemented on a tax-by-tax basis would also create a high number of notifications to businesses, complicating the system and potentially devaluing reviews. Grouping tax submission obligations together would better deliver HMRC's aim to encourage good submission habits, as businesses with regular late submissions are likely to miss deadlines across taxes and vice versa.

**Question 4.2 Which of the three options mentioned in paragraphs 4.5 to 4.7 above for customers within Making Tax Digital for Business do you think is the most appropriate?**

We do not favour either Option A (Fig 4.1) or Option B (Fig 4.2) due to the time lag between submissions and the review. This time lag does not efficiently encourage improved compliance.

We believe Option C is the simplest solution, to review compliance with the obligation to provide quarterly updates and the obligation to provide an end of year statement separately. Reviews into compliance with these two obligations should be separated to reflect their different uses, with quarterly updates providing updated tax information whereas end of year statements are used as the basis for tax payable calculations. The sanctions regime should have less stringent penalties for quarterly deadlines to reflect this difference with end of year statements.

**Question 4.3 Do you agree this would be a proportionate response to occasional lateness that lasted just a short time?**

We agree with the proposal that there should be no penalty liability for the first failure that occurs during a review period. This will help to prevent the sanctions regime from penalising businesses that make one-off oversights in their reporting obligations. For businesses with annual submission deadlines, for example on a Company Tax Return for Corporation Tax, we support the suspended penalty model proposed.

**Question 5.1 Do you agree that improved compliance should be recognised? Is there a better alternative for recognising it?**

We agree that improved compliance should be rewarded with extended suspensions of penalties. This should encourage habits of timely submissions if the period of sustained compliance is achievable. The length of the suspension before a penalty is issued should be consulted on further.

**Question 5.2 Could any changes be made to the suspension model to make it fairer, simpler or more effective?**

This Model would require clear and thorough communication from HMRC to taxpayers when a deadline has been missed. When a submission deadline has been missed, the business should be directly informed about which deadline they have missed and how long the suspended time period is for submission before a penalty is issued. We would support one suspension format across taxes.

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

## Annex A

### ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 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.

ACS | the voice of local shops

### WHO WE REPRESENT

#### INDEPENDENT RETAILERS

ACS represents 22,870 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 15,060 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 12,165 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

#### SALES

In 2016, the total value of sales in the convenience sector was £37.5bn. The average spend in a typical convenience store transaction is £6.13.

#### SHOPS


There are 50,095 convenience stores in mainland UK. 74% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.

#### JOBS

The convenience sector provides flexible employment for around 390,000 people. 21% of independent/symbol stores employ family members only.

#### ENTREPRENEURS

24% of shop owners work more than 70 hours per week, while 22% take no holiday throughout the year. 74% of business owners are first time investors in the sector.

#### COMMUNITIES


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. 84% of independent/symbol retailers have engaged in some form of community activity over the last year.

#### INVESTMENT

Between August 2015 and May 2016, the convenience sector invested over £600m 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 3,970 stores.

#### ACS LOCAL SHOP REPORT

Annual survey of over 2200 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 5,765 stores. The Local Shop Report also draws on data from him! research and consulting, IGD, Nielsen and William Reed Business Media.

#### 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