

Making Tax Simple

INTUIT



Enterprise
Nation





Foreword

This report makes the case for the government to continue its efforts to digitalise the UK's tax system for all businesses. The benefits of digital adoption are evident, as shown by ONS analysis, which found that using digital tools can increase business productivity by around 25%.

Government initiatives like Making Tax Digital (MTD) are already saving VAT-registered small businesses time on their tax returns by reducing their administrative workload. But this report shows there are benefits to be had by bringing smaller firms below the VAT threshold into the scheme.

That's because it not only saves time taken working on tax returns, but also has a role to play in helping companies to embrace technology. Our research showed it encouraged more than half of these smaller businesses to adopt digital productivity tools in the last four years.

The other thing to note is that the UK's complex tax system compared to other nations is a disincentive to enterprise. If we simplify this, we can remove barriers to entrepreneurship, allow entrepreneurs to dedicate more time to their businesses, enhance competition, and ultimately benefit consumers and their communities.

Findings

- MTD has been the primary reason for small business going digital.
- Digital tools are significantly contributing to entrepreneurs' success with CRM software improving their productivity by nearly 20%.
- MTD is saving small businesses time on their tax return and reducing the burden of filing taxes.
- Businesses with a turnover below £20,000 will benefit the most from further roll outs of MTD.



Emma Jones, CBE, founder and CEO of small business support platform and membership community Enterprise Nation



Introduction

Taxation in the UK is overly complex, which has a negative impact on productivity.

It would be unfair to say the government hasn't tried to fix the current state of affairs, however. Reforms such as Making Tax Digital, and support schemes like Help to Grow: Digital, have sought to spur a digital transformation among businesses. As we will discuss later, Making Tax Digital has been a key catalyst for digital adoption over the past four years. Yet even here, the implementation of these schemes has been less than plain sailing – often characterised more by chopping and changing than a long-term strategic commitment to enable businesses to modernise.

To add insult to injury, the impact of inflation on frozen allowances and thresholds (known as fiscal drag) means that more and more people and businesses are finding they need to grapple with the stress of preparing returns and facing significantly higher burdens of tax than in the past. Not only does this add further complexity, but it also acts as a brake on entrepreneurship with all the negative consequences that will have for the economy and society at large.

But it isn't all bleak. As in so many other parts of the economy, new technologies are lending a helping hand. Digital accounting software can streamline businesses' tax headaches, ensuring their records are accurate, secure, and efficient. From evidence to anecdotes, these tools are enabling entrepreneurs to master their taxes and boost their productivity accordingly.

In this short research paper, we take a closer look at the tax system business owners face – paying particular attention to how digital tools can pay dividends for both them and the government. To support our research, we partnered with Enterprise Nation to survey founders of SMEs to better understand how they interact with the tax system, what causes them the most problems, and what could make their lives easier.

Digital accounting software can streamline businesses' tax headaches, ensuring their records are accurate, secure, and efficient.

Evidence of the benefits of digital adoption

Evidence among businesses

Digital technologies are indispensable to enterprise. In today’s fast moving and dynamic environment, it would be utterly impossible for businesses to operate without, say, laptops or a website. More and more businesses are adopting ever increasingly sophisticated digital tools to make their operations more efficient – from accounting software, to artificial intelligence, to e-commerce. Digital platforms – from Etsy to Airbnb – are enabling a greater number of people to dive into the world of entrepreneurship. Digital tools can even the playing field between large and small businesses.¹

An ever-growing body of rigorous research quantifies the benefits of digital adoption among businesses. A study by the Office for National Statistics, for instance,

has found the use of any combination of enterprise resource planning, customer relationship management (CRM) and supply chain management technologies are associated with a productivity boost of around 25%.² Meanwhile, a 2018 study by the Enterprise Research Centre examined how a suite of digital technologies impacted the productivity of microbusinesses – finding that, after three or more years of use, cloud-based computing leads to an increase in sales of 13.5% per employee, (CRM) software adds 18.4%, e-commerce technology 7.5%, web-based accounting software 11.8%, and computer- aided design (CAD) 7.1%.³

Findings such as these, have led successive governments to promote digital adoption within

Chart 1: How digital tools impact microbusinesses’ sales per employee

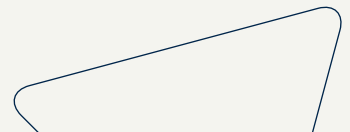
Data from Enterprise Research centre



1. Eamonn Ives (2020). [Platforms for Growth: How new digital technologies can boost productivity in Britain’s small businesses.](#)

2. Office for National Statistics (2018). [Information and communication technology intensity and productivity.](#)

3. Enterprise Research Centre (2018). [State of Small Business Britain Report 2018.](#)



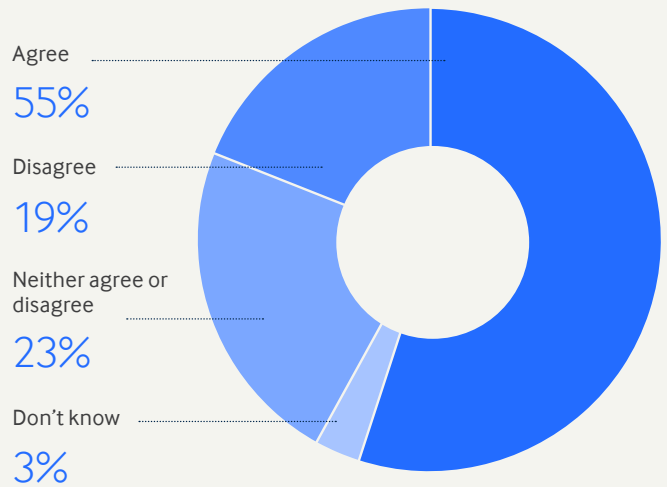
Britain’s business community. With regards to tax, this has most notably been driven by Making Tax Digital (MTD), a core part of the government’s wider Tax Administration Strategy.⁴

MTD currently requires VAT-registered businesses to keep digital records, and file tax returns using MTD-compatible software.⁵ The advantages of tax digitisation for businesses are numerous, but some stand out more than others.

Without question, the most frequently reported benefit of MTD for business owners is the time they save by using digital software to assist with doing their taxes. Indeed, survey data show that this is the leading benefit cited by businesses which have had to switch to MTD, with 55% of businesses agreeing that it makes preparing and submitting VAT returns faster, compared to just 19%

Chart 2: Has MTD made preparing and submitting tax returns faster?

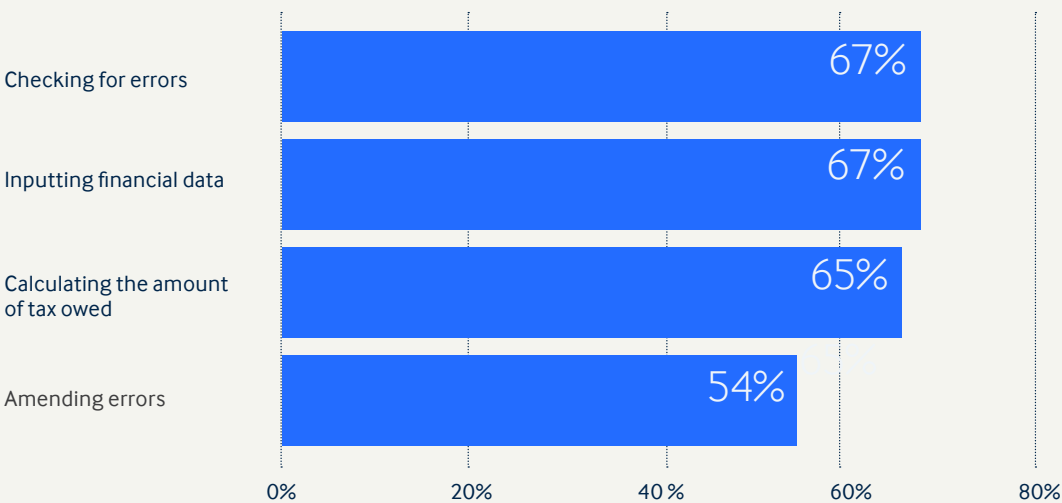
Data from IFF research for HMRC



which disagree.⁶ The same research also found: “For those businesses that have experienced a reduction in the time spent on their tax returns, time savings have been found in inputting financial data (67%), checking for errors (67%), and calculating the amount of tax owed (65%).”⁷

Chart 3: Areas in which MTD saved time for businesses

Data from IFF research for HMRC



4. HM Revenue and Customs (2022). [Overview of Making Tax Digital](#).

5. Ibid.

6. IFF Research (2021). [Impact of Making Tax Digital for VAT](#).

7. Ibid.



Another commonly stated benefit businesses have felt since moving to MTD is tax returns being more accurate. While software can't eliminate human error, it can help to reduce mistakes in calculations or inputting data.

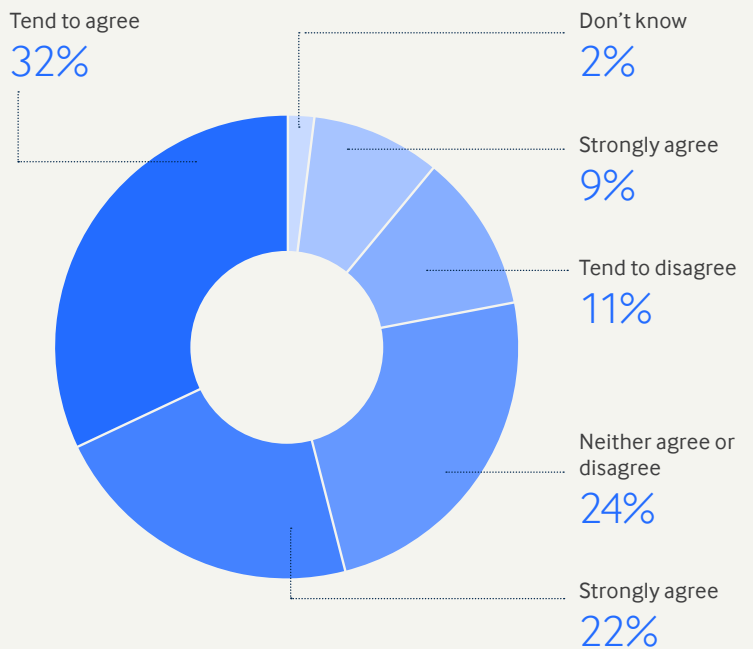
What's more, automation makes detecting and correcting errors much easier. Qualitative research has found that, especially among businesses with more complex VAT returns, using software has allowed them to work more accurately.⁸

Other quantitative research, meanwhile, has found that, since MTD, half of businesses are actively more confident of getting their taxes right. At the same time,

Chart 4: To what extent did MTD help you feel more confident that the business is getting tax right

Data from IFF research for HMRC

67%
 Agree that the potential for mistakes in at least one aspect of the record keeping, preparing, and submitting of VAT returns has decreased since MTD.



8. Kantar (2021). [Research to qualitatively assess the ongoing impact of Making Tax Digital for VAT.](#)
 9. IFF Research (2021). [Impact of Making Tax Digital for VAT.](#)

Software to assist business owners with doing their taxes is only the tip of the benefits that the near limitless availability of digital tools offer to make running a business easier.

over two-thirds of businesses (67%) agree that there is now less potential for mistakes in at least one aspect of their record-keeping, preparing, and submitting of VAT returns.⁹

In addition, digitisation helps businesses by making their tax records more legible and removing the risk of transcription errors.

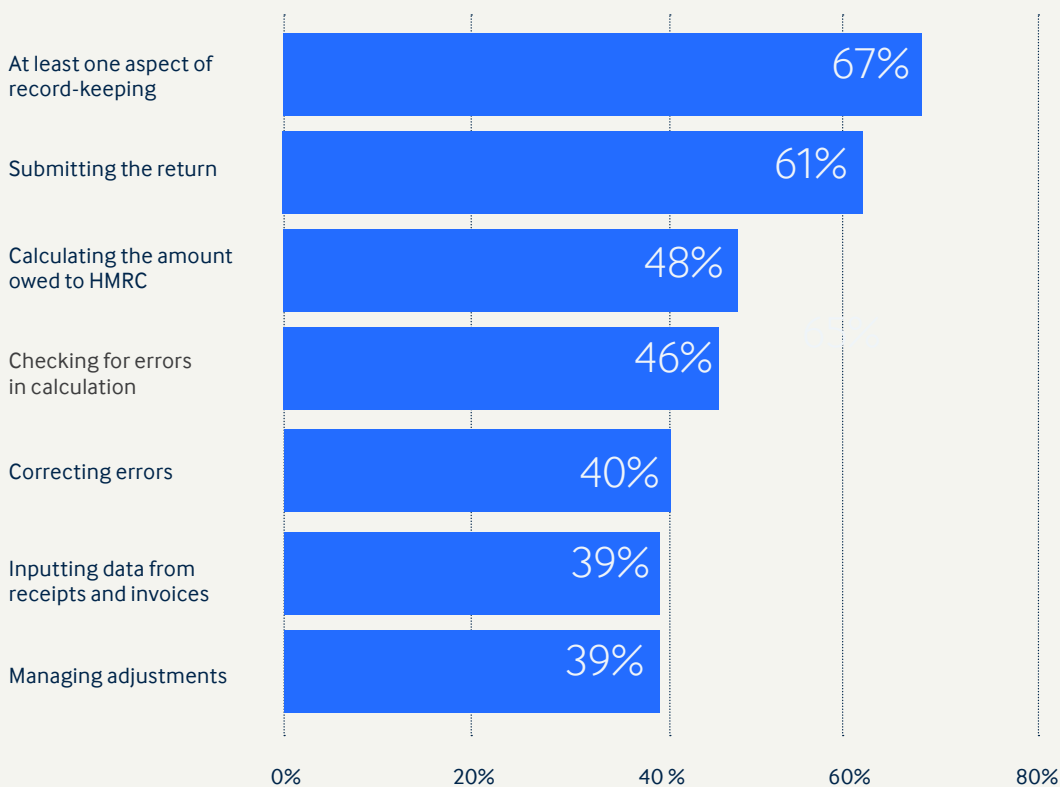
Cloud-based technology, means software-enabled businesses with an internet connection can easily look up their data, from anywhere, and clearly see whatever it is they need to see. Beyond this, cloud-enabled businesses' tax records are more secure – being at less

risk of going missing or being lost in some other way.

Software to help business owners do their taxes makes up only a fraction of the benefits that the near limitless availability of digital tools offer with running a business. As mentioned above, e-commerce technologies and CRM software, among others, can also enable businesses to process more sales, speed up workstreams, and generally boost their productivity. Certainly, this is something which the government appears to recognise, and one of the motivations with MTD is that it will familiarise business owners with the benefits of adopting digital technologies.

Chart 5: Areas where MTD reduced the potential for mistakes

Data from IFF research for HMRC



Evidence among governments

While political battles tend to take place over headline tax rates, the role that software can play in making the process of reporting and paying tax more simple and efficient is often overlooked. Making tax less complex and bureaucratic eliminates disincentives for people starting a business, increases the time entrepreneurs can spend on their business, and boosts competition, all of which benefits consumers and society at large.

From the government's perspective, streamlining bureaucracy reduces errors, fraud and operation costs, allowing resources to be reallocated for further innovation or reducing the overall tax burden.

One of the government's primary objectives with MTD was to close the 'tax gap' – that is, the difference between what tax the government expects to collect each year, and what it actually brings in. The most recent tax gap data relates to the 2021/22 tax year, and for total theoretical tax liabilities in the UK stands at 4.8%, or £35.8 billion.¹⁰ Each individual tax has a tax gap of its own, and VAT is thought to stand

at 5.4% (or 21% of the total gap).¹¹ If the tax gap for VAT was fully eliminated, the government could afford to hand every adult and child in the UK around £113.¹²

Tax gaps emerge for different reasons – sometimes as the result of deliberate tax evasion, but often because of genuinely unintentional mistakes. Even experienced business owners can submit their taxes incorrectly in some way. Yet, as we touched on above, using software to help prepare and file taxes can help minimise error – and as such, this should also help close the tax gap too. Indeed, research commissioned on this question suggests that the estimated additional tax revenue for 2019 to 2020 from MTD would be £185 million.¹³

Also, businesses less encumbered by bureaucracy will be able to focus on growth, raising more tax revenue to pay for public services. (As noted in the section above, research suggests that MTD does indeed make businesses more efficient.)¹⁴

£7.6 billion

Cost of the VAT tax gap

£113

What everyone in the UK could get if the gap was eliminated

10. HM Revenue and Customs (2023). [Measuring tax gaps 2023 edition: tax gap estimates for 2021 to 2022](#).

11. Ibid.

12. £7.6 billion divided by 67.3 million.

13. HM Revenue and Customs (2022). [Evaluating additional tax revenue from Making Tax Digital for VAT](#).

14. IFF Research (2021). [Impact of Making Tax Digital for VAT](#).

HMRC has work to do on this front, with a recent survey conducted by the Chartered Institute of Taxation revealing significant dissatisfaction:¹⁵

- 94% of respondents were either 'somewhat' or 'extremely' dissatisfied with HMRC's service levels;
- 96% were 'not very' or 'not at all' confident that service levels would significantly improve over the next 12 months;
- 95% said that poor service levels have a 'moderate' or 'significant' negative impact on the ability to do business;
- 85% of respondents said they were waiting for more than half an hour to speak with HMRC's helplines;
- 89% of respondents said the reason for their contact could not have been resolved digitally;
- 80% said they would make use of online resources if it would resolve their issue;
- 65% rated Webchat, the facility HMRC currently promotes as an alternative to phoning, as 'poor' or 'extremely poor';
- 57% rated HMRC's 'mainstream' guidance on GOV.UK as 'poor' or 'extremely poor';
- 40% rated HMRC's online forms as 'poor' or 'extremely poor';
- 20% of respondents said they would 'give up' if they were unable to get through to speak with an HMRC adviser.

But we shouldn't despair. In the last Ease of Doing Business index from the World Bank (see Table 1), the United Kingdom was ranked 27th in the world on the metric of 'paying taxes'. This included measuring payments, time, and total tax and contribution rate for a firm to comply with all tax regulations, as well as post-filing processes.¹⁶ Clearly there's room for improvement though: in the index as a whole, the UK ranked eighth overall.

Table 1: World Bank's Ease of Doing Business 2020 – Paying Taxes

1. Bahrain	16. Latvia
2. Hong Kong	17. Zambia
3. Qatar	18. Lithuania
4. Ireland	19. Canada
5. Mauritius	20. Switzerland
6. Kuwait	21. Republic of Korea
7. Singapore	22. Netherlands
8. Denmark	23. Luxembourg
9. New Zealand	24. Morocco
10. Finland	25. United States of America
11. Oman	26. Turkey
12. Estonia	27. United Kingdom
13. Israel	28. Australia
14. Georgia	29. Cyprus
15. Bhutan	30. Sweden

The United Kingdom was ranked 27th in the world on the metric of 'paying taxes', which included measuring payments, time, and total tax and contribution rate for a firm to comply.

27th

15. Chartered Institute of Taxation (2023). [Poor HMRC service levels harming business, CIOT survey finds](#)

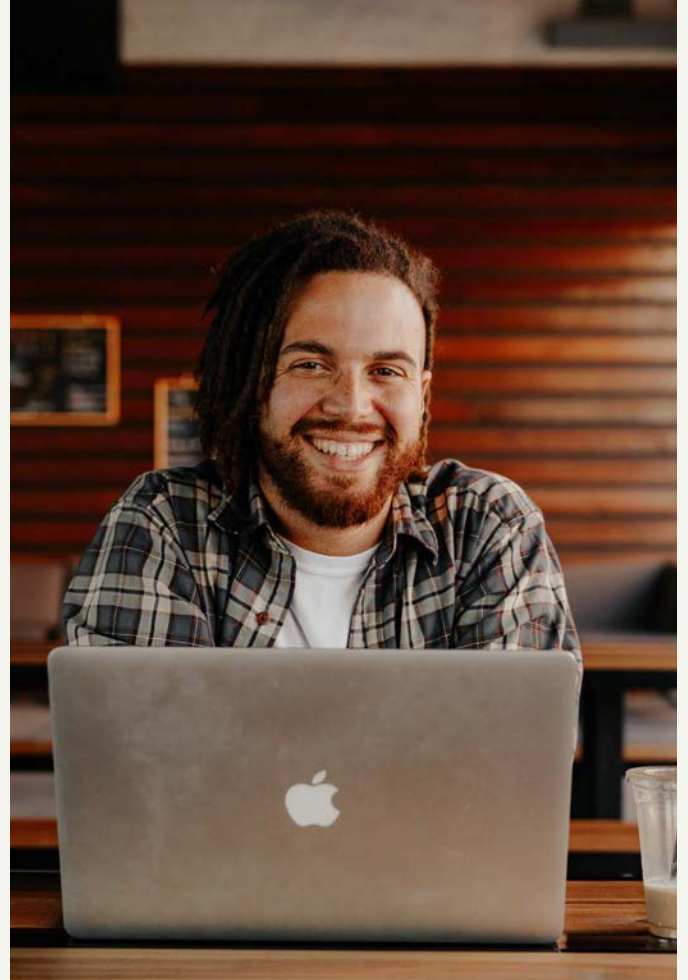
16. World Bank (2020). [Doing Business 2020](#).

17. PwC (2020). [Paying Taxes 2020](#).



The World Bank's report reveals that technology has been critical in driving forward progress in this area. For example, in 2006, only 43 countries had an online system for filing and paying taxes. But 15 years later, this number had more than doubled. As PwC revealed in *Paying Taxes 2020*, across the 190 countries covered, there was a 16% drop in the 'number of payments' indicator since 2012, and over the same period the average time spent by their case study company in meeting its main tax obligations fell by 10%.¹⁷

Technological innovations have led to improvements in how taxes are collected, and will drive future gains. Across the world, an increasing number of companies are using tax software (such as that provided by Intuit), while tax authorities are creating easier-to-use online portals to make complying with tax laws much simpler. For its part, the UK government has invested in and innovated with the services it supplies, with Government Gateway now acting as a single access point for individuals and businesses to interact with various government services and agencies, including HMRC for taxes. While it is not perfect, it is well placed to drive future changes, including Making Tax Digital, digital voice assistants, and AI-powered services.



Across the world, an increasing number of companies are using tax software such as that provided by Intuit, while tax authorities are creating easier-to-use online portals to simplify tax compliance.

Table 2: World Bank's Ease of Doing Business 2020 – Best Practice

Payments (number per year)	Hong Kong
Time (hours per year)	Singapore
Total tax and contribution rate (% of profit)	Canada; Denmark; Singapore
Post-filing index (0-100)	No economy with both CIT and VAT has reached the best performance yet
Time to comply with VAT refund (hours)	Croatia; Republic of Korea; Netherlands
Time to obtain VAT refund (weeks)	Austria; Estonia
Time to comply with corporate income tax correction (hours)	Estonia; Lithuania; Portugal
Time to complete a corporate income tax correction (weeks)	Japan; Sweden; United States of America



Around the world

Australia: Virtual tax assistant 'Alex'

In 2020, Australia faced a surge in client inquiries, largely due to the pandemic and related government stimulus measures. This situation gave the Australian Tax Office (ATO) an opportunity to enhance the capabilities of their virtual tax assistant, known as Alex.

The ATO undertook a comprehensive revision of Alex's knowledge base and added new content to improve its utility. It also significantly improved the virtual assistant's comprehension abilities, and refined its performance metrics so the assistant could provide more accurate reports.

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A user can start a conversation with Alex by clicking on one of the most commonly asked topics, or by simply typing a question into the text box. The primary objective of the ATO's revision was to offer a more immersive and responsive experience. Alex's performance metric for 'Final Answer – Provided' averaged around 94%, indicating that the virtual assistant was highly effective in providing conclusive answers.

Hungary: Supporting startups and new taxpayers

Hungary's National Tax and Customs Administration (NTCA) provides specialised information and training to individuals interested in starting a business. This initiative is part of the government's broader strategy to support entrepreneurship.

Some regional offices of the NTCA participate in training courses that focus on legal and financial skills necessary for starting a business. These courses are organised by the Employment, Labour and Labour Protection Department of the Hungarian government.

The programme aims to equip registered jobseekers participating in the labour market programme with the skills they need to start a business. Due to the success of the programme, there are plans to expand it countrywide.

Sweden: Whole-of-Government approach

Sweden has adopted a whole-of-government approach to simplify procedures and give businesses provide better access to official information. This initiative is spearheaded by the Swedish Tax Agency and involves multiple public authorities.

One of the main initiatives is a digital site called 'Verksam', which provides information and services for businesses. The site contains information from a number of different authorities and offers e-services like registering a business and tax, VAT, and employer registration.

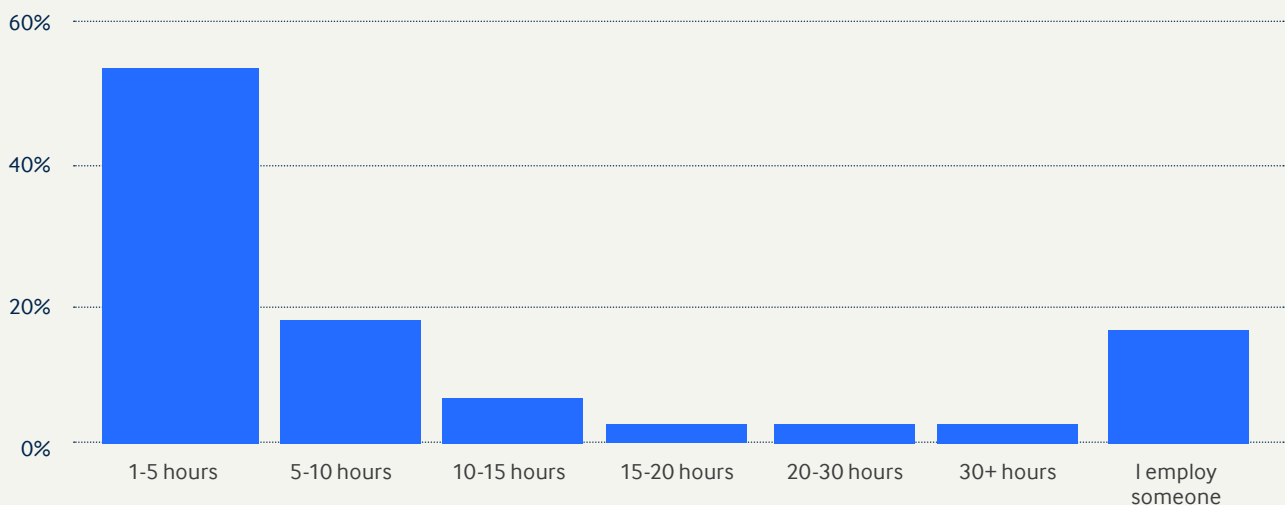
What entrepreneurs think – our survey results

As part of this research, we surveyed founders of SMEs to better understand how they interact with the tax system.

Our first question was straightforward – asking entrepreneurs to estimate how much time each month they spend doing taxes for their businesses. As shown in chart 6, below, the majority (54%) estimate spending between one and five hours per month. But there is a long tail of entrepreneurs who have to set aside significant amounts of time to do their taxes.

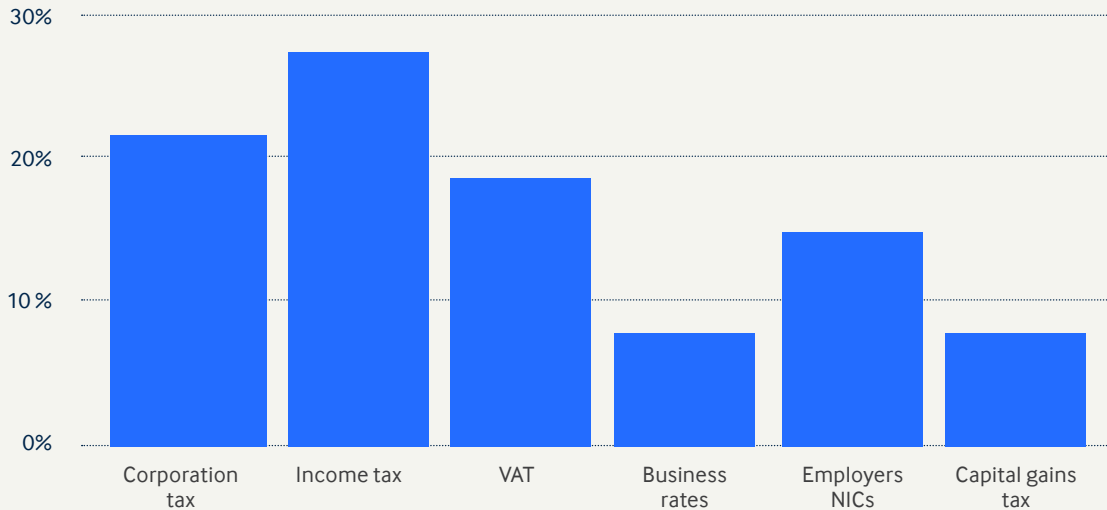
According to our results, almost an eighth of entrepreneurs devote more than a full working day each month to doing taxes for their business, with some spending considerably more than this. Also worth noting is the 14% of entrepreneurs pay somebody else to do their taxes for them – while this might free up their time, they are spending money that they could otherwise invest in the business.

Chart 6: Estimated time business owners spend on taxes each month



Having established how much time entrepreneurs set aside to do their business taxes, we wanted to get a better idea of which taxes they find most complicated. As shown in chart 7, below, no single specific tax stood out as being

far and away the most complicated that entrepreneurs deal with. Income tax came out on top, selected by 28% of entrepreneurs, but close behind was corporation tax (22%) and VAT (19%).

Chart 7: Which taxes entrepreneurs find most complicated

68%

of entrepreneurs surveyed said MTD was a catalyst for them using accounting software.

As mentioned earlier, one of the government's primary justifications for introducing MTD is to boost productivity among Britain's smaller businesses. We were keen to understand whether the MTD scheme had incentivised entrepreneurs to start using accounting software. The very clear reality is yes – 68% of entrepreneurs surveyed said MTD was a catalyst for them using accounting software.

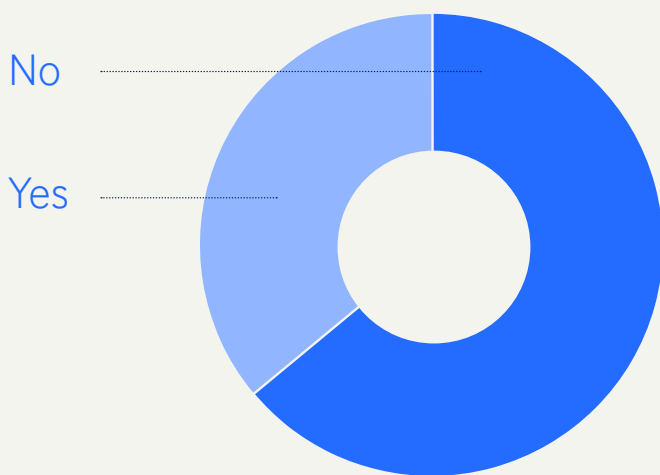
While productivity impacts from MTD certainly seem limited for the majority of businesses at present, the government hopes MTD will spur businesses to adopt other productivity-boosting technologies.

We also asked entrepreneurs whether using accounting software had led them to adopt other digital tools. As shown in chart 8, below, over three-fifths (61%) of entrepreneurs said that using digital accounting software had not led to them adopting other technologies, against 39% who said it had.



74% Said they were not aware of any tax reliefs that might apply to them, something that could easily be communicated through digital software.

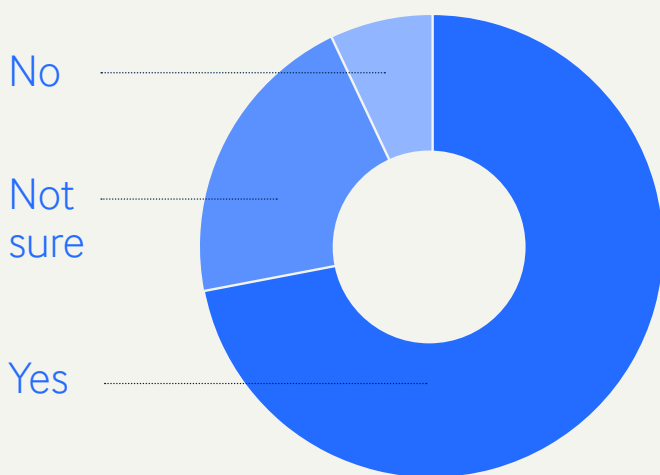
Chart 8: Has Making Tax Digital encouraged entrepreneurs to adopt other digital tools?



However, we also found that entrepreneurs’ responses differed when broken down by annual turnover. It is interesting to note that half of businesses with yearly turnovers of less than £20,000 said that using digital accounting software had led to them adopting other technologies. The low headline figures may be explained by the fact that entrepreneurs running businesses with larger annual turnovers were already using a range of digital technologies, meaning there were few other tools to adopt following MTD. As a result, it seems that among the smallest firms is where MTD can make the most impact.

We also wanted to understand how well entrepreneurs understood the tax relief system and how it applied to them. An overwhelming 74% said they were not aware of any tax reliefs that they could claim, something that could easily be communicated through digital software.

Chart 9: Would a business support platform on the HMRC website be useful?



Lastly, we were keen to understand what else entrepreneurs thought the government could do to help ease the process of doing business taxes. One idea we tested was whether a business support platform on the HMRC website would be useful, and, as shown in chart 9 below, entrepreneurs were overwhelmingly in support. Seventy-two per cent said that they would find a platform useful, against just 6% who thought they would not. We also found that support for a platform was heavily influenced by an entrepreneurs’ annual turnover. Among those turning over less than £20,000 each year, 83% said they would find a platform useful, against just 2% who said they would not.

Seventy-two percent said that they would find a platform useful, against just 6% who thought they would not.

Case studies



Mark Neild

Entrepreneur, academic and small business adviser

Finding help on the HMRC website is difficult and generally counter-intuitive,” Mark says. “Things are unnecessarily

complicated. Why does it take two forms and several hours on the helpline to claim back overpayment of National Insurance when the surplus is clearly showing on the agent’s portal?

“Why does it take over £500 of admin costs to manage a £60 tax liability as trustee of my niece’s will trust? Why do I need six Government Gateways?”

Understanding tax is tricky, even for many who have a sophisticated understanding of finance. Mark is a senior lecturer in entrepreneurship, and once asked an economics graduate to get his head around PAYE. After a whole day, he gave up.

“We need to send them all over to Estonia to see how they do it. The amount of time we lose is time we’re not making money.”

Susan Holmes Founder, Bluebears Allsorts Ltd



While Susan’s business was previously profitable, at the moment it is currently in deficit, as Susan has been undergoing cancer treatment for the last two years, as well as tackling all the challenges of COVID-19.

“Making Tax Digital is a good thing because it’s all online,” Susan says. “However, on Government Gateway, I don’t think enough people know how to get on it. If you have a business as well, you’ve got two identities – I think that could be clearer.”

Susan adds: “It’s sometimes really difficult to get through to HMRC – it took me four hours one week.”

She is on Universal Credit, and ESA, and so she must submit her expenditure to the government at different times, due to the payment period she is in. These do not tie in with the VAT submission dates for the business, which is like having to do it twice – once for Universal Credit and once for HMRC.

Susan thinks the government would benefit from a more sophisticated platform.

“I learn by doing, not by reading. If it were a more user-friendly website, maybe broken down into sections with webinars and proper training, people would really benefit. This in turn would cut down the volume of calls.”

Solutions

What works or could work

Properly resource HMRC to deal with immediate and longer-term challenges.

Despite long-promised reforms, HMRC is currently overwhelmed. A perennial complaint is that long waiting times to speak with HMRC officials makes dealing with tax affairs far more difficult than necessary. And it's a problem which seems to be getting worse. While simply doling out more money is rarely the long-term solution to resolving tricky public problems, sometimes the call for extra resources is legitimate.

The priority should be properly funding HMRC so it can respond more quickly to Britain's business community. This could include offering a callback service at particularly busy times, so people aren't deterred from dealing with their tax problems before they get out of hand. This would enable entrepreneurs to spend less time dealing with tax headaches and more time growing their businesses.

At the same time, we should think about the need for longer-term projects, not least the next stages of Making Tax Digital (MTD). These reforms have been criticised for their delays and uncertainty. The government should recognise the how significance of changing MTD, learn from the delays and make sure it delivers the scheme without further delays. It should also acknowledge that those who stand to benefit the most from further iterations of MTD are those businesses with a turnover below £20,000.



HMRC should ensure Government Gateway delivers.

For too many business owners, Government Gateway isn't working. Whether it's the need for multiple profiles, the absence of data-sharing between government departments, or a failure to provide all the services entrepreneurs require, improvements are needed.

Beyond these necessary changes, more ambition is also crucial. As our survey found, there is demand for a platform that delivers more. While the government won't get everything right, by partnering with those in the private sector with the right expertise to deliver, and by experimenting to work out what businesses need, webinars, on-demand videos, virtual assistants, artificial intelligence and even directions to in-person support can ensure every entrepreneur has the chance to thrive.

Lead the world on the use of virtual assistants and artificial intelligence for paying taxes.

The UK government is alert to the potential for virtual assistants and artificial intelligence (AI) in making tax simpler to pay. However, as things stand, we're lagging behind other countries like Singapore, Australia and Estonia. Given the UK trails only the US and China as a global hub for AI, failure to compete is not for want of talent or expertise.

Whether through the large language models, or Intuit Assist, Shopify Sidekick or Adobe Sensei, AI assistants are going to become a part of everyday life for many business owners. There is no reason the government should lag behind in being at the cutting edge of innovation in this area.

Acknowledgments

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About Enterprise Nation

Enterprise Nation is a business support platform and membership community delivering support to more than 750,000 small businesses every year. Its aim is to help people turn their good ideas into great businesses – through expert advice, events, acceleration support and networking. Enterprise Nation was founded in 2005 by British entrepreneur Emma Jones CBE, also co-founder of national enterprise campaign StartUp Britain. She is author of best-selling business books and is a frequently called-on and regular media commentator on a range of issues which affect the UK's growing number of SMEs.

[www.enterprisenation.com](#)



About The Entrepreneurs Network

The Entrepreneurs Network is a think tank for Britain's most ambitious entrepreneurs. We support entrepreneurs by:

- Producing cutting-edge research into the best policies to support entrepreneurship;
- Campaigning for policy changes that will help entrepreneurship flourish;
- Hosting regular events to bridge the gap between entrepreneurs and policymakers;
- Updating entrepreneurs on how policy changes will impact their business;
- Making the case in the media for entrepreneurs' contributions to society.

[www.tenentrepreneurs.org](#)

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