

# The Hutchinson Partnership

Chartered Accountants and Business Advisers

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HMRC

Making Tax Digital Consultation

7 November 2016

Dear Sir / Madam

## **MTD Consultation response From The Hutchinson Partnership Limited**

We are a firm of Chartered Accountants, established 18 years ago focussing on agricultural businesses based all over the UK, whether they be limited companies, partnerships, LLPs, sole traders or trusts. Our three directors are Fellows of the ICAEW, each with an average of 27 years of general accountancy practice. Based on our experience within the profession and knowledge of the agricultural sector, we have the following points to make with respect to your proposals of Making Tax Digital:

- **Farming businesses tend to operate an annual production cycle – profits and losses do not arise evenly over the year. Therefore quarterly information provided to HMRC will be of limited value.**

Profits or losses within the agricultural sector tend to follow an annual cycle. There is one wheat harvest, one lambing season and therefore quarterly results will not be smooth. It is quite normal for the profits of the year to be made in a single quarter whilst the other quarters produce losses. How useful will this information be to HMRC on a quarterly basis? If pay as you go becomes mandatory or the quarterly submissions are to be used to make tax payments throughout the year, then payments in one quarter may well be followed by an adjusting refund in subsequent ones. In addition, as farming businesses are particularly capital intensive - purchase of machinery in one quarter can significantly distort annual profit and loss figures – particularly when combined with the existing Annual Investment Allowance tax legislation.

- **Those directly responsible for submitting the quarterly returns are currently unaware of these proposals.**

The majority of our clients use book-keepers or agricultural secretaries who would be responsible for submitting the information digitally, either directly or via ourselves. At a recent meeting of the local branch of the Institute of Agricultural Secretaries, our firm spoke to them about Making Tax Digital, and 80% of them had not heard of these proposals. Should they be more widely consulted before implementing a change that will affect them significantly? To date, HMRC communications appear not to have reached the right people.

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**Directors: J M Hutchinson FCA S R Bennett FCA J Hutchinson FCA**

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- **The lead time is not long enough, and mandatory implementation is likely to be counter-productive**

10 – 15% of our clients use spreadsheets, keep manual records or use software that is unlikely to interface easily with your systems. In many of these instances, the book keeping is extremely accurate and the books kept to a high standard. However if these clients were forced to adopt a digital book keeping system, we would expect to see the accuracy of the book keeping to deteriorate significantly. This would be the case especially with the smaller farming businesses where the owner / owner's spouse completes the records at the end of the day, and cannot afford to employ someone else to do it, and is unwilling or unable to re-train onto a software package. We seriously question whether a mandatory 2018 implementation is long enough for these clients to acquire and to successfully retrain on new accounting packages.

- **Who will bear the cost of these changes?**

If the quarterly returns are quite simple (don't include stock, accruals, fixed asset movements), then there will need to be a reconciliation at the year end from the sum of the 4 quarterly returns to the final accounts and tax returns. Or if the quarterly submissions are more complex, then more time/expertise will be needed throughout the year to ensure the submissions are correct. Either way, the cost implication for clients is potentially very significant.

- **Unincorporated farming business currently are able to smooth their profits using farmers averaging over 2 years, or (shortly) over 5 years.**

It is unclear to us how the MTD proposals will sit beside this existing legislation which is well understood in the farming industry.

We look forward to seeing how these proposals develop.

Yours faithfully

James Hutchinson FCA  
Simon Bennett FCA  
Julianne Hutchinson FCA

**For and on behalf of The Hutchinson Partnership**

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