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Making Tax Digital

A guide for clients – August 2017

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Making Tax Digital (MTD) will mean most businesses and taxpayers access their tax affairs online through digital tax accounts in the near future. But what impact will MTD have on your business?

What is Making Tax Digital?

"Tax really doesn't have to be taxing", said former chancellor George Osborne as he announced plans at Budget 2015. MTD is intended to replace the self-assessed tax return and usher in a new quarterly digital reporting regime. It's arguably the biggest change to UK taxation since the introduction of PAYE in 1944.

The new system will ultimately change the way the majority of businesses keep their accounting records, how they report their income to HMRC and the services required from their accountants or tax agents.

It will also offer self-employed taxpayers the opportunity to pay tax through optional 'pay as you go' instalments, based on the data submitted with HMRC under the new digital initiative.

Businesses will eventually be required to use relevant software to keep their tax records, provide quarterly summaries of tax data and submit a finalised year-end position to HMRC. At least five tax returns (four quarterly updates and one annual declaration) will need to be filed each year.

These reforms, according to the government, are designed to make the task of managing, reporting and paying tax simpler. It requires most business owners to maintain digital records using (as yet unspecified) compatible software and it will enable HMRC to potentially recoup more than £8 billion a year in what it deems to be 'avoidable' lost tax revenues.

The timetable for rolling out the changes has been far from smooth. A significant twist in the tale arrived when MTD was shelved from Finance Bill 2017 following Prime Minister Theresa May's decision to call a snap general election. Ministers then confirmed the Finance Bill will be reintroduced sometime after parliament returns on 5 September 2017.

In July 2017, the government announced a new timeline for implementation. Although this pushes the start dates back, the switch to digital accounts is still going ahead.

What we already know

The government's previous stance was that mandatory quarterly reporting would come into force from April 2018 for businesses with turnover above the VAT threshold that paid income tax and national insurance. But, in light of recent developments, we now know the following:

- MTD will be available on a **voluntary basis** for the smallest businesses
- businesses and landlords with a turnover below the VAT threshold (currently £85,000) will be able to choose when to move to the new digital system
- businesses are not required to provide updates to HMRC more regularly than they already do
- all businesses and landlords will have at least two years to adapt to the changes before being asked to keep digital records for taxes other than income tax.

In addition, the following details have been confirmed:

- firms will be able to use spreadsheets to record their receipts and expenditure
- quarterly updates will not apply to charities
- accounting for income/expenditure on a 'cash in, cash out basis' will be extended.

Who is likely to be affected?

Businesses, self-employed people and landlords who earn more than £10,000 a year were initially required to keep digital accounts. However, under the amended timeline, MTD will only affect businesses with a turnover above the VAT threshold. They will need to keep digital records for VAT only from 2019.

As a result three million small businesses will not be asked to keep digital records, or update the taxman quarterly, until at least 2020. The same exemption applies to those in employment and pensioners with secondary incomes of more than £10,000 per year from either self-employment or property.

Timeline

Digital accounts, which will unite each taxpayer's details in a single place – much like an online bank account, are due to start being phased in from April 2020.

This table shows what has changed and what your business can expect:

Annual turnover	Quarterly tax reports	New timeline	Old timeline
Over £85,000 + VAT registered	VAT only	1 April 2019	1 April 2019
Over £85,000: all businesses/landlords	Income tax and national insurance (NI)	At least April 2020	6 April 2018
£10,000 to £85,000*	Income tax and NI	At least April 2020 – and voluntarily	6 April 2019
All companies	Corporation tax	At least April 2020	1 April 2020

**Small business threshold to be confirmed.*

Software

MTD will be a massive change and challenge for all taxpayers, but especially so for those who have always kept their records manually (or on computer spreadsheets), and give their records to their accountant once a year. Under MTD, businesses will be required to use accounting software of some sort that will connect to HMRC and keep records in real time.

It's worth bearing in mind that your accounting software needs to suit the size of your business – not just in 2017 but in the future. Factor in projections for three years after your business begins the digital switch to ensure the smoothest transition in the long term.

Other advantages of moving to 'digital' cloud accounting systems

Effective data sharing

With Cloud accounting, your financial information is instantly and automatically shared between everyone in your team who has the authority to access it. It can be updated in real-time with the minimum of data entry and easily accessed through any computer, tablet or handheld device. So your BWM accountant sees the same information as you, allowing us to proactively provide expert advice, and help you to make more informed business decisions.

Reduced hardware costs

With most of the software processes and data storage handled by the 'back end', cloud computing systems place much smaller demands on the 'front end' devices that your staff use to do their jobs. This means that you can streamline your hardware: you don't need powerful processors or large volumes of data storage locally because all of that capacity is provided by large servers elsewhere in the world, and paid for by the service provider.

Reduced software costs

In the past, if you wanted everyone in your workforce to have a particular piece of software installed on their computer, you would have to pay for licences for each and every one of them. With cloud based software such as Xero, Sage One or Quickbooks Online you subscribe with a single payment, or monthly subscription, and can access it through as many devices as you like.

Increased reliability and security

Whenever you upload anything to the cloud, it's stored on a server and automatically backed up by at least one other copy stored on a different machine. Cloud computing systems have inbuilt redundancy which means they are never being used at full capacity so there is always that redundancy to allow for outages on any part of the network.

Of course it's important as always to take great care with log-ons and passwords security and follow best practice guidance in this respect. It's worth mentioning that having a reliable and speedy broadband service is key too!

How can we help?

For a few years now we have been working with leading Cloud accountancy software providers and have been helping clients to review their systems for robustness and ability to cope and ultimately to move from desktop software to cloud based platforms. We can offer free demonstrations of cloud solutions, such as QuickBooks Online and Xero which are relatively inexpensive and user friendly, at our office or over the internet so please get in touch with Vicki Harper, Director of Client Services if you would like to know more.

Complying with your general tax obligations

Whether or not you will have to use MTD, it is essential that you keep complete and accurate records of your business and other income so that you can make accurate tax and VAT returns.

MTD on its own will not guarantee accuracy. You still have to make sure that all relevant income and outgoings are recorded. However, HMRC says that MTD will help businesses to get their tax bills right the first time and reduce the £8 billion tax gap resulting from avoidable errors.

MTD is not HMRC's only strategy for ensuring everyone pays the correct amount of tax due:

- HMRC makes compliance checks on tax returns, which may be triggered by the figures in the return or simply be random.
- An increasing amount of information comes from third parties, which HMRC uses to check information in tax returns.
- Dedicated teams focus on particular areas of risk, such as the Affluent Compliance Team.
- HMRC task forces target specific business sectors and locations where there is a high risk of tax evasion.
- A 'Fraud Hotline' is available to encourage members of the public to report suspected tax fraud or evasion. HMRC says reports from the public are an important part of its intelligence gathering operations.

Where HMRC finds that a person has not taken enough care to make accurate tax returns, penalties will usually be charged. Pleading ignorance of the rules, or even an honest mistake, will generally not avoid penalties. Material inaccuracies are likely to be spotted, so it is therefore worth making the effort to get your tax right.

What happens next?

Now the ink has dried on a political pact between the Conservatives and the Democratic Unionist Party, we can expect digital accounts to be revisited in a second Finance Bill 2017.

In the meantime, businesses need to think about preparing for the upcoming changes. Given the scale of MTD and the millions of taxpayers it will ultimately affect, it would be wise to keep an eye on developments and stay informed – standing still would be the worst thing to do.

Failure to start the transition now could result in HMRC expecting quarterly updates while you may be learning the basics of online record-keeping and trying to sign off tax returns. MTD will launch soon and will eventually impact on almost all businesses, landlords and taxpayers.

For more information on MTD please contact John Elliott Sue Stephens or your usual contact at BWM.

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For more details of how we can help you transform your business, please visit www.bwm.co.uk or call us on 0151 236 1494.