



Making Tax Digital

What's in this briefing? The 30-second summary...

- Making Tax Digital explained - how it will change the way you send tax information to HMRC.
- 3 steps to prepare your business for Making Tax Digital, from organising your records to using suitable software.
- MTD timeline - the key dates you must know, starting with April 2019 when MTD for VAT is introduced.
- Frequently Asked Questions - the use of spreadsheets, the impact of Brexit, quarterly tax submissions and more.
- The benefits of MTD - how the new tax system will save you time and money and let you concentrate on growing your business.

You may have heard about Making Tax Digital (MTD), HMRC's initiative to digitise the tax system. So what should your business do to get ready, and when are the key dates you need to prepare for?

Many businesses are already banking and paying bills online, so MTD is a natural next step. Switching away from paper-based and manual processes will improve the accuracy of record-keeping and tax estimates. In short, it will be more effective and more efficient. The time you'll save in preparing information for HMRC will give you more time to spend on maximising opportunities and growing your business.

Getting prepared

In practice, MTD means that you'll need to be using software that not only stores records digitally but sends it direct to HMRC in the approved format.

Submitting your tax return by taking data from manual records or spreadsheets and inputting it on HMRC's website will no longer be allowed. In the new system, software will both store your records and submit it seamlessly to HMRC.

You may not have to do very much to prepare. You might already have accounting software for issuing invoices and tracking receipts - software that already meets the demands of MTD. There's a list on the Gov.uk website of software providers that HMRC expects will offer MTD-compliant products. Those listed are likely to be cloud-based software, as these are ideal for exchanging data over the internet.

What next?

If you already have accounting software, ask your vendor or accountant if it's MTD-compliant.

If you're looking to invest in MTD-compliant software, our smart guide, 'Making Sense Of Online Accounting' compares the features of four different packages.



Are you exempt?

You may be exempt from MTD if you don't have internet access or can't use it. It's possible that HMRC will permit you to supply figures over the phone due to your age, disability or the remoteness of your location. Or, your religious beliefs may prevent you from using a computer. If this applies to you, you should contact the HMRC helpline. HMRC says it will provide digital assistance if you're not eligible for an exemption. In addition, businesses that are subject to insolvency proceedings are also exempt.

MTD timeline

The key dates

2018

This year, you can volunteer to be part of a MTD pilot scheme for income tax. You'll need to be a landlord or self-employed with income from a single source. A pilot scheme for VAT is also taking place this year but it's only for invited businesses. **Find out more at Gov.uk.**

2019
1st April

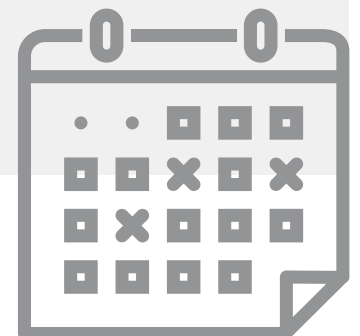
From this date, it'll be mandatory to comply with MTD if your business is VAT registered and has a taxable annual turnover of more than £85,000. If so, you'll need to keep records digitally and submit VAT returns using compatible software. But you won't need to record any additional information. You will be able to use the new system voluntarily if you're under the threshold. If you're currently exempt, you still will be.

The MTD deadline comes into effect for the first VAT quarter that begins after 1st April 2019. So if you have a VAT quarter beginning 1st March 2019, you won't need to start MTD until the quarter beginning in June 2019.

2020
1st April

This is the earliest date from which MTD will be extended to income tax and corporation tax. The actual date may be later because HMRC wants to properly test the system and more businesses to be keeping digital records before it goes ahead.

Once MTD is implemented, sole traders and partnerships with income of between £10k and £35k will need to keep records digitally and submit information to HMRC using the MTD system.



3 steps to prepare for Making Tax Digital

1

Ensure that all the financial records you keep is stored digitally – from now on, don't use paper as your only method of recording data.

2

Start using software that's compatible with MTD, or 'bridging software' that works with existing spreadsheets.

3

Keep an eye on the MTD timeline. The first deadline is April 2019, when businesses above the threshold must submit VAT returns this way.



What records will I need to keep?

HMRC wants to encourage businesses to move towards real-time record keeping. However, that doesn't mean that every single document must be digitised and can no longer be kept in paper form.

Once digitised, you must be able to reproduce key documents in case of an HMRC enquiry. They include such documents as invoices, receipts, bank statements and payroll records. Whether in paper or digital format, they must be stored for at least six years.

If you run a shop or restaurant, you need only digitally record your Daily Gross Takings (DGT) rather than digitally record each individual transaction. In that case, however, each transaction would still need to be recorded on paper. DGT only applies if you use a retail scheme for your tax affairs. It's worth checking with HMRC or your accountant to make sure you are, in fact, using a retail scheme.

Otherwise, you may be eligible for an exemption when it comes to recording every transaction digitally. HMRC may decide that in your case that doing so is "impossible, impractical or unduly onerous" - however, that will be up to them to decide.

£9 billion a year - the amount lost to the Exchequer due to errors in tax returns.

How MTD will affect your business

The types of MTD explained

Making Tax Digital for VAT

If your business is VAT-registered with a taxable turnover of more than £85,000, it'll be a legal requirement to use MTD for your VAT returns from 1st April 2019 onwards.

Making Tax Digital for income tax

When MTD for income tax becomes mandatory - and that won't be until April 2020 at the earliest - you'll need to use it if you receive:

- Income from self-employment
- Rental income from property (excluding furnished holiday lettings)

It's expected that the amount of income you receive this way will need to be at least £10,000 a year, although that figure hasn't yet been confirmed.

MTD for income tax will apply to the self-employed, landlords, trusts and partnerships, except partnerships with a turnover of more than £10m.

Making Tax Digital for corporation tax

Again, the date at which MTD will be mandatory for corporation tax has yet to be confirmed. It won't be until April 2020 at the earliest. Companies pay corporation tax on profits from trading, investments, and selling assets and shares.

In the future

MTD will ultimately become even broader. It will be capable of capturing income from employment as well as business and rental income. The data captured digitally by HMRC is likely to eventually include interest from bank accounts, gift aid and dividends from shares.



Frequently Asked Questions on MTD

Q My turnover is currently above the £85,000 VAT threshold. If it drops below that level after April 2019, will I still need to comply with Making Tax Digital (MTD)?

A Yes. If your taxable turnover falls below £85,000 after 1st April 2019, it will still be mandatory to comply with MTD unless your business deregisters from VAT.

Q I use spreadsheets to keep records - do I really need to invest in cloud software?

A Possibly not, although it would be safer in the long run. The key point about MTD is not just that you keep digital records but that the entire process is digital, end-to-end. In other words, you can't take data from your records and rekey it manually on HMRC's website. Rather, your software must transmit the data in the prescribed format. Fortunately, 'bridging software' will allow data to be exchanged between the spreadsheet and HMRC. Bridging software products will go on sale before 1st April 2019, and should be available at different price points. However, it's best to think of spreadsheet bridging products as a short-term fix. Cheaper solutions such as these will probably not be best suited to future MTD requirements for corporation tax. If you go with an MTD-compliant system, data can easily be imported from your existing spreadsheets via .csv files.

Q My business is unincorporated - will I need to comply with MTD?

A Eventually you will, but fortunately you may not need to spend any extra money. That's because the government says it's committed to ensuring that free income tax software is available for the smallest unincorporated businesses - those with the most straightforward tax affairs.

Q Will HMRC grant an extension to the April 2019 deadline? I keep VAT data on several different systems, which will be difficult to integrate before that date.

A No there won't be an extension, but you'll be able to take advantage of the "soft landing" HMRC has promised for the first year of the scheme. In that first year, you'll still have to send VAT returns to HMRC using the MTD system, ie your software must do it. However, the soft landing means that you will be permitted to cut and paste, or manually transpose, figures between different systems. That is, until 31 March 2020, when digital links between systems becomes a requirement.

Q Does extracting a ".csv" spreadsheet file count as a digital link?

A Yes, this has been confirmed by HMRC, as has a formula that links different spreadsheets. These are digital methods of linking, whereas cutting and pasting from one file to another won't be permitted after March 2020. You'll still need a system that transmits data to HMRC in the correct format, however, from April 2019 - that is, if you'll be using MTD for VAT.

Q Is Brexit likely to affect the introduction of MTD?

A As far as we know, there are no plans to postpone MTD for VAT, which is set to be introduced in April 2019. The rest of the timetable has yet to be confirmed, however. No other part of MTD will be made mandatory before April 2020 at the earliest, so it remains to be seen if other priorities push it back.

Q Does MTD mean I will have to submit income tax returns every quarter?

A No. However, you will need to send HMRC quarterly summaries of your income and expenses, via your MTD-compliant software. HMRC will then send you an estimated tax bill in return, which it believes will help you budget more effectively. The quarterly updates won't need the type of adjustments you'd normally do at year-end, such as accruals and depreciation, or include claims for things such as capital allowances. However, MTD for income tax is not being introduced until April 2020 at the earliest, although you can take part in a pilot scheme.

Q Will VAT registered sole traders with exempt supplies have to comply with MTD?

A No, not if your turnover comes entirely from VAT-exempt supplies - even if it's above the £85,000 threshold. But while you won't need to comply with the April 2019 deadline for VAT, you will be affected by other parts of the MTD initiative, possibly as early as April 2020.

Q Will VAT 126 claims be affected?

A Probably not, as VAT 126 is used by local authorities, academies, some charities and other public bodies that are not registered for VAT. They probably won't be affected by MTD for VAT.

Q Will I still need to keep records on paper once MTD for VAT is introduced?

A The same obligations for keeping documents like invoices, for example, will apply. The point is that you won't be able to keep records in a purely manual format when MTD comes in. Going forward, they must be digital as well, or purely digital.

Benefits to your business - 5 things MTD can do for you today

Simplify admin. Using software that's compatible with MTD makes it easier to manage your business finances - not just for tax but keeping tabs on cashflow, invoicing, and paying bills.

Grow your business. By saving time on record keeping, you'll be able to spend time and energy focusing on opportunities such as finding new customers and launching new products and services.

Reduce errors. MTD-compliant software scans receipts and generates invoices to keep your records up to date every day. Plus, you'll avoid any mistakes that come from retyping information online.

Get better advice. Digital records are easier to share with your accountant, who can spend less time compiling figures and more on looking for ways to boost your business.

Avoid HMRC checks. MTD gives you a more accurate picture of your tax position at any given moment, minimising the chances of making a mistake. Otherwise, you could end up spending time and money sending extra information to HMRC, and possibly incurring a penalty for late payment.

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