



Guide to Making Tax Digital

INTRODUCTION

By 2020 the UK's tax system is expected to be transferred completely online under the Making Tax Digital (MTD) campaign.

According to the Association of Taxation Technicians (ATT) this will be:

“ the biggest change to the way taxpayers will engage with HMRC since the introduction of PAYE in 1945.”

The ATT isn't the only organisation with concerns. John Cullinane, the Chartered Institute of Taxation's Tax Policy Director, has said that: “taxpayers will need considerable support and guidance to avoid a major struggle to make the move to digital record-keeping and quarterly reporting because the timetable is unrealistically tight.”

Meanwhile, the ICAEW and ACCA have both declared that they have concerns about the new digital tax system, with the former arguing that “the implementation and ongoing compliance costs will be high with little, if any, cost savings in the short term.” The ICAEW believes that implementing the system may cost the UK's small businesses at least £3 billion, although they have warned that the final bill could reach £7 billion for the nation's SMEs.



WHAT IS MAKING TAX DIGITAL?

MTD was first announced in the 2015 Autumn Statement. An MTD policy paper was published in March 2017 setting out further details of the campaign and what it hopes to achieve. To give you an idea of the points made within the document, we have outlined some of these below with an explanation of what it will mean for individuals and businesses:

- **Tax simplification** – Using the new system HMRC will pool information from banks and other institutions to get an idea of a business's finances. This will mean that some of the online forms will be pre-filled, helping businesses to update their information more easily.

However, the system will still require businesses and individuals to check the information provided by third parties to ensure it is correct. Failing to check third party information properly could lead to costly tax errors. As part of the introduction of Making Tax Digital, the option to account for income and expenditure on a simple cash basis will be extended to all businesses with a turnover up to £150,000.

- **Digital tax for businesses** – MTD will initially be rolled out for VAT-registered businesses earning above the VAT threshold of £85,000 from April 2019. Such businesses will need to digitally submit quarterly VAT reports to HMRC. The tax authority will then roll out MTD for other taxes and types of businesses shortly afterwards. Submission of approved spreadsheets is likely to be linked to software. Charities will be exempt from this rule, but not their trading subsidiaries, who will be bound by the same rules.

These changes will be phased in completely for the majority of businesses by 2020. It is not yet fully clear exactly what information businesses and self-employed workers will need to provide and there are concerns, following some comments from HMRC, that it might be similar or a simplified version of the annual tax return. HMRC will use this information to put together an end of year report on tax owed, but businesses will also be able to review this throughout the year to get an accurate reflection of their tax bill in year.

- **Tax in one place** – Many taxpayers are currently required to contact different parts of HMRC to find out their financial position relating to different taxes. This can mean chasing different people for income tax, corporation tax and capital gains tax.

Under MTD, everything will be in one place within a person's or business' digital tax account. This is intended to make communications and amending an individual tax account more simple.

There will be rules governing when money can be reallocated between different liabilities, and HMRC will be working with stakeholders to establish how these rules will work.

- **Digital tax for individual taxpayers** – For the majority of people, their digital tax accounts will act as a useful tool to assess their finances and the tax they have paid. This will be helpful when applying for some benefits such as tax credits and in-work benefits, simplifying the system and making amendments more straightforward.

The majority of people should now already have access to a digital tax account, where they can have their information pre-populated using PAYE. However, those who usually complete self-assessment returns will have to update their information online.

- **Online Payment** – The new system will allow taxpayers to pay tax owed on time through a secure payment service. However, with the changes to real-time amendments of tax accounts and the introduction of quarterly reporting, the date at which tax is owed may move forward. This may mean that rather than paying a single amount at the end of the tax year, businesses and those who are self-employed will have to pay tax throughout the year. This may close some tax planning opportunities and affect cash flow.

“These changes are likely to affect 82 per cent of self-employed individuals and 75 per cent of businesses, according to the Chartered Accountants in England and Wales (ICAEW) – requiring changes to the way information is collected and records are kept.”



WHEN WILL THE CHANGES TAKE PLACE?

Since the very first proposal paper was produced, there have been numerous delays in the consultation process, which means that much still remains uncertain about the future of digital tax.

The latest policy paper published by HMRC sets out the following dates by which different businesses and sole traders will have to comply with MTD:

- April 2019 for businesses that are registered for and pay VAT
- Not before April 2020 if they pay Corporation Tax (CT)

There will be a period of at least 12 months to become familiar with the changes before any late submission penalties will be applied.



ONLINE ACCOUNTING

We understand that business owners have a multitude of tasks to deal with on a daily basis and the forthcoming digital tax measures are likely to significantly increase this burden.

Finding a solution to ease the workload can be difficult, but there is a simple solution in the form of online accounting. Doing your accounts online offers various benefits; with instant access to important financial data, you can find out how much the company is spending, how much your debtors owe you and the current state of your cash flow – whenever you want and wherever you are. This information can then be used to influence the decisions you make about the day-to-day running of the business.

At Richard Anthony, we work with a variety of HMRC-certified online accounting software packages including Xero. As trainers of online software, our experts can assist you to manage your business effectively; we can provide the training for you and your staff to allow you to make the most of the features available within the online accounting software.

Before the MTD changes take place, we can help you review your current position and prepare you and your business for the challenges ahead. We strongly believe in planning for the future.

If you would like to find out more about our online accounting services and the training we can provide, please contact us.



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