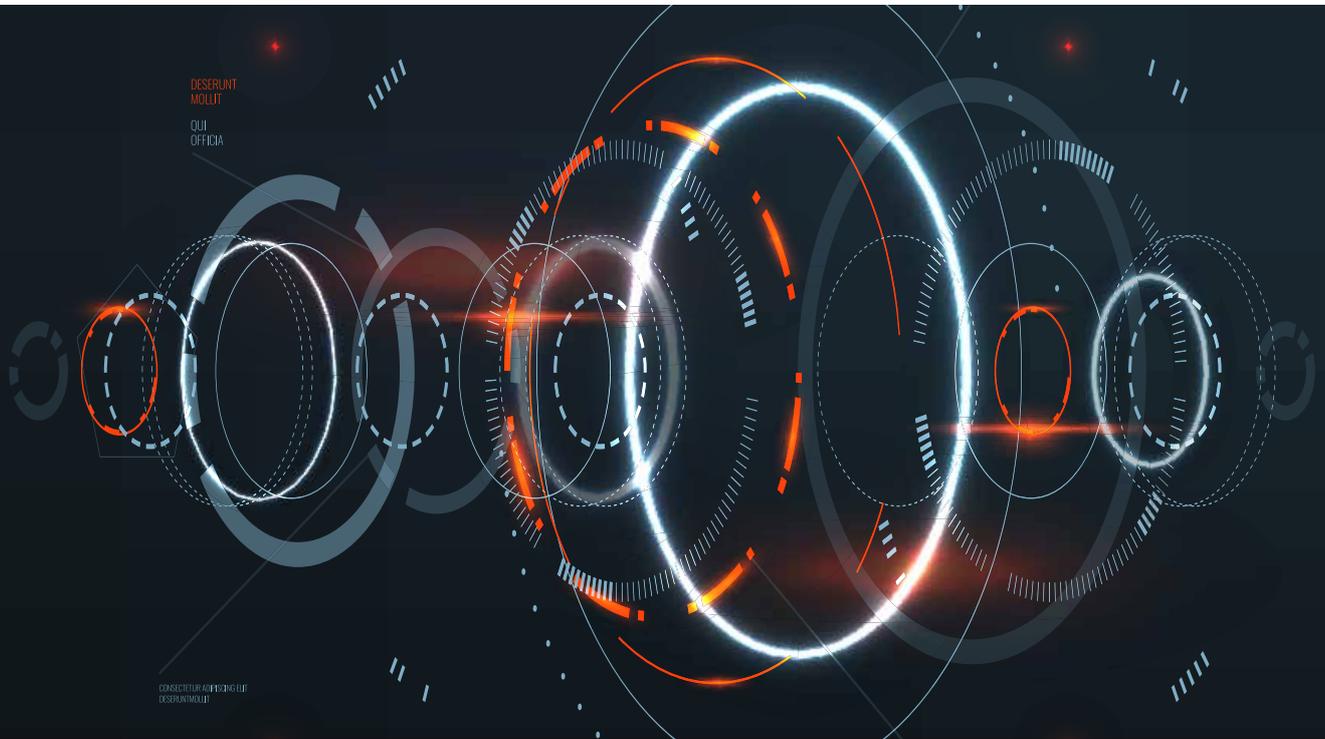


# Hebblethwaites

Chartered Accountants & Registered Auditors



ICAEW  
CHARTERED  
ACCOUNTANTS



KEY GUIDE

# Making tax digital

# Introduction

## DIGITISING TAX COMPLIANCE

Making Tax Digital (MTD) is the long-term project to modernise the UK tax system and to bring tax compliance fully into the digital age. The ultimate goal is for all regular transmissions of data between taxpayers and HMRC to be performed digitally, and where possible automatically, through accounting software.

This will take many years to achieve. HMRC needs to improve its own internal systems and provide new digital services to taxpayers for full digitisation of the tax system to be achieved.

MTD for business is being introduced tax by tax, not by business size or type. Eventually, each business will have to submit separate MTD reports for the taxes it pays to HMRC.

---

## Contents



### THE MTD TIMETABLE

The latest implementation schedule for the MTD programme



### MTD FOR INCOME TAX

How MTD will affect groups such as unincorporated businesses and landlords who pay income tax



### MTD FOR VAT

What MTD means for your VAT-registered business and how to file your return



### COMPLYING WITH YOUR GENERAL TAX OBLIGATIONS

The importance of record-keeping to help make your tax reporting easier to complete



# The Making Tax Digital timetable

Under the MTD rules most businesses will be required to digitally record tax-relevant data and to use MTD-compliant software to transfer the required information directly to HM Revenue & Customs (HMRC) systems. This is done via an application programming interface (API).

In the future, accounting software may be able to submit VAT and income tax reports for a business simultaneously, but that capability does not exist at present.

Individuals who are not in business will be encouraged (but not required) to use digital means to communicate with HMRC.

This guide concentrates on MTD for business and sets out what is known about that section of the MTD project so far.

The MTD project covers taxes paid by individuals as well as by businesses. However, the implementation timetable is uncertain for many areas of tax. Parts of the MTD programme have been delayed as resources have been diverted away from HMRC to deal with Brexit.

MTD for VAT has been deferred for the following complex and specialist VAT-registered organisations: VAT groups, VAT divisions, VAT traders based overseas, trusts, unincorporated charities, certain public sector bodies, annual account scheme users, and companies who pay more than £2 million of VAT per year who must make VAT payments on account.

The MTD for business project will only include income tax once the reporting system for MTD for VAT has been found to work well.

Start date	Tax
<b>Periods beginning on and after 1 April 2019</b>	MTD for VAT: Filing begins for certain businesses with annual turnover above the VAT threshold. Complex and specialist businesses will file from October 2019. Consultation may start for corporation tax.
<b>Periods beginning on and after 1 October 2019</b>	MTD for VAT: Filing begins for all complex and specialist businesses with a deferred start date.
<b>April 2020 – date not confirmed</b>	MTD for VAT: A review of progress to date, and a possible rollout of MTD to all VAT registered businesses.
<b>April 2021 – date not confirmed</b>	MTD for income tax: Filing begins for unincorporated businesses and landlords who pay income tax on profits.
<b>April 2022 – date not confirmed</b>	MTD for corporation tax.

Businesses can start submitting VAT returns or income tax returns under MTD earlier than the deadlines. HMRC are inviting businesses to join the pilot programmes for those taxes, where the business has access to MTD-compliant software either directly or through their accountant or tax agent.

## MTD FOR VAT

MTD for business launches on 1 April 2019, with MTD for VAT.

### Who must comply with MTD for VAT

VAT-registered businesses with 'VATable' turnover above the registration threshold (currently £85,000 until 31 March 2020) for the last year will need to comply with the MTD for VAT rules. VAT-registered businesses with turnover under the VAT registration threshold will be automatically exempt from MTD.

VATable turnover refers to all sales that carry VAT at the standard (20%), reduced (5%) or zero rate. Sales of goods or services which are outside the scope of VAT or are exempt from VAT are not counted within this turnover test.

The business must measure its taxable turnover on a rolling 12-month basis to the end of each month, starting with the year to 31 March 2019. When turnover during that period exceeds the VAT registration threshold, the business must comply with the MTD rules from the start of its next VAT period.

Businesses which become VAT-registered on or after 1 April 2019 will have to enter the MTD regime immediately with their first VAT return.

A business can claim exemption from the MTD rules if it is not reasonably practical for all the business owners to keep digital records and use software to submit the VAT return – for example because of disability, age or being based in a remote location. Exemption may also be claimed on religious grounds.

HMRC has advised businesses to contact the VAT helpline to apply for an exemption from MTD for VAT.

### How MTD will affect your VAT returns

Under MTD, businesses must record and retain all VAT records in a digital format and submit VAT returns using MTD-compatible software.

The information submitted to HMRC is not changing during this first stage of MTD for VAT. It is only the method of delivering the VAT return which is changing; the underlying VAT calculations, and the timing of VAT payments will not be altered.

### Planning point

Businesses with turnover above the current VAT threshold will have to keep digital records and submit VAT returns via MTD-compliant software for VAT periods that start on or after 1 April 2019. If this will affect you, you need to be planning for this change now.

### Submitting a VAT return under MTD

Around 88% of VAT-registered businesses currently submit their VAT returns by typing figures manually into the HMRC online portal. Around 11% of businesses submit their VAT return directly from their accounting software.

The remainder (less than 1%) of businesses are exempt from online filing for VAT due to age, disability or lack of internet connection. Those businesses have arrangements with HMRC to submit their VAT returns by telephone, and they will be treated as being exempt from MTD for VAT on the same basis as they are currently exempt from online filing.

Under MTD for VAT, businesses will have to use commercial software to submit their VAT returns, unless exempt. Those already using accounting software to submit their VAT returns will need to use MTD-compliant versions.

If you don't use accounting software to submit your VAT returns you need to identify what software solutions will suit your business. This may involve a number of software packages or spreadsheets which transfer data between them by way of digital links.



**The VAT pilot scheme**

The MTD for VAT pilot scheme lets selected businesses submit their VAT returns via MTD-compliant software before MTD becomes compulsory. This will allow businesses to test their chosen systems ahead of the deadline.

The pilot is open to most businesses including partnerships, or those who use the flat rate scheme.

**PREPARING FOR MTD FOR VAT**

There are various specific requirements for MTD for VAT, so it is important to make sure you review business systems ahead of the deadline.

**Software requirements and providers**

HMRC has said it won't provide free software to allow businesses to submit VAT returns under MTD. The government believes market forces will operate to ensure a wide range of software products will be available.

HMRC has been working with a large number of software suppliers to test MTD-compliant applications, and has published a list of software suppliers supporting MTD for VAT at [www.gov.uk/guidance/use-software-to-submit-your-vat-returns](http://www.gov.uk/guidance/use-software-to-submit-your-vat-returns).

Some low-cost or free bridging software is starting to emerge. Bridging software reads data from a spreadsheet or bookkeeping package and submits the data to HMRC via an approved API.

**Planning point**  
 HMRC publish up-to-date lists of MTD-compliant software and services on the gov.uk website, and more suppliers are being added as they are approved. Make sure your chosen option is on the list before you commit to using it.

**EXAMPLE  
 Digital links**

Joan is registered for VAT and will be required to use MTD from April 2019. She currently uses spreadsheets to maintain her VAT records and submits her VAT returns using HMRC's online portal. Joan stores her VAT receipts manually.

Because HMRC will close the online portal for businesses that are required to be VAT-registered, Joan must find a commercial MTD-compatible solution.

Joan can continue to use spreadsheets to record her VAT records, but she will need to digitally transfer the information necessary for the VAT return into MTD-compatible software. This digital link could come in the form of bridging software which reads the necessary figures from Joan's spreadsheet, but there are many other forms of digital links.

MTD does not require businesses to store original documents electronically, so Joan will be able to continue to store her purchase receipts manually, as long as the key information concerning each purchase is recorded digitally.

Joan will need to preserve her VAT records for six years, but they do not need to be kept in the same digital format they are recorded in. A download of data from cloud-based accounting software will meet the MTD record-keeping requirements.

If your business is VAT-registered and your annual turnover is above the VAT threshold, but you are not currently using accounting software, this is a good time to consider enhancing your record-keeping with digital accounting systems.



### Register for MTD

Businesses will have to register for MTD with HMRC before their first filing. This is required even if the business is already VAT-registered and HMRC has all the necessary contact details.

The registration for MTD can be done through your Business Tax Account (BTA), or we can do it for you. The BTA is an online account where a business can view a summary of all its tax liabilities and repayments. It is accessed through the Government Gateway and requires a two-step ID verification process.

#### Planning point

We can help you with this registration step, but you will have to confirm that you are joining MTD by clicking on a link in an email HMRC will send you.

### Digital record-keeping requirements

The MTD rules require VAT-registered businesses to record the following data points digitally for each transaction:

Sales	Purchases
<b>Time of sale (tax point)</b>	Time of purchase (tax point)
<b>Value excluding VAT</b>	Value net of VAT
<b>Rate of VAT charged</b>	Amount of VAT to reclaim

If a purchase invoice includes more than one item and all the items are charged at the same rate of VAT, the invoice can be treated as a single entry in the digital records.

Retailers such as shops or takeaway food outlets may use a VAT retail scheme, so they record gross daily takings instead of the details of each individual sale. Those businesses can continue to keep a digital record of the gross daily takings, so they do not have to digitally record each sale separately.

HMRC will also require the following information to be recorded digitally and submitted with the VAT return figures:

- The name of the business.
- The business address, or principal business address.
- The VAT registration number.
- Any VAT accounting schemes used, such as the flat rate scheme.

Some documents must be preserved in their original form, such as import VAT certificates (C79 forms).



### Digital links

Under the MTD rules, the data necessary for the VAT return must flow from the accounting system to HMRC without human intervention to retype or amend figures, or to copy and paste from one medium to another. The links between each piece of software should be digital rather than manual to avoid keying errors.

However, many businesses have complex accounting systems that use a combination of accounting packages and spreadsheets to calculate the totals needed for the VAT return. HMRC realises that to convert all accounting systems to insert digital links will take some time. It will therefore allow most businesses until April 2020 to create a purely digital journal for the VAT data from creation to submission to HMRC.

After April 2020 penalties may be imposed where the business makes no attempt to comply with its MTD obligations to record, transmit and store VAT data digitally.

### EXAMPLE Review of software

ABC Ltd's bookkeeper uses an accounting software package to maintain the company's accounting records. The company will be required to submit VAT returns under MTD for VAT for periods beginning on and after 1 April 2019.

It is likely that ABC Ltd's software provider will add MTD for VAT compatibility to its accounting software package, so that ABC Ltd's bookkeeper will just need to make sure that the relevant updates are installed.

However, this is an opportunity for the company to review whether its accounting software best serves the current and future needs of the business.



### Secure your systems

If you move to an online accounting package, it is essential that your data will be secure (the same applies to any use of a device connected to the internet). IT systems are vulnerable to many kinds of attack, for example malware, viruses, worms, hacking, phishing, access by unauthorised persons, theft of data and theft of hardware. Software and hardware can also malfunction or suffer other accidental damage.

However, you should not let the risks put you off. There are several basic precautions you should take:

- Regular and frequent backups of data.
- If data is stored in the cloud, access to it must be protected and the data must be backed up.
- Use strong, memorable passwords and change them regularly, preferably without keeping them written down. Other forms of secure access are available, from storage software to fingerprint recognition.
- Only give your employees and agents access to those systems and data that they need to carry out their jobs.
- Keep anti-virus and other protective software up-to-date (some operating systems do this automatically).
- Ensure that you and anyone else who uses your computers in your business exercise great care when opening emails, especially those containing links or attachments.
- Keep your premises secure.

You may already do many of these things to protect your business, especially if you bank, pay bills and interact with suppliers and customers online.

## MTD FOR INCOME TAX

While the deadline for MTD for income tax is still some way away, you can start working towards compliance now.

### Who will have to comply?

HMRC has said all unincorporated businesses and individual landlords with annual turnover of £10,000 or more will have to comply with the MTD rules. That turnover threshold has not been fixed in the regulations, however, so it may change before MTD for income tax becomes compulsory. The MTD turnover threshold would apply across all businesses operated by an individual.

Large partnerships with turnover of £10 million or more will not be drawn into the MTD rules for income tax when those rules are imposed for smaller businesses.

### EXAMPLE

#### Turnover threshold for MTD for income tax

Pete is a retired teacher with a pension of £20,000. He lets a property for £6,000 per year and earns around £5,000 per year as a self-employed gardener.

As Pete's annual income is £11,000 per year, he will be over the £10,000 income threshold for MTD for income tax and will have to comply with the MTD rules from the date they become compulsory for income tax.

### Planning point

You should review your online security on a regular basis. Just because your system was state of the art a couple of years ago, doesn't mean it will pass muster now.

### How MTD will affect your income tax for business returns

Currently an unincorporated business (sole-trader or partnership) reports its turnover, expenses, and profit or loss to HMRC once a year on the self-assessment tax return. This return must be submitted by 31 January following the end of the tax year in which the business accounting period ends. Landlords report rental income for each income tax year which ends on 5 April.

Under MTD for income tax, the business will have to report totals of income and expenses to HMRC each quarter, within one month of the quarter end. This report must be submitted using MTD-compatible software. HMRC will supply the business with an estimated amount of tax based on the net income reported for that quarter, which will allow the individual to estimate his or her tax bill.

At the end of the accounting year, income and expenses are reported for the fourth quarter, but the taxpayer will also have to make any accounting adjustments, such as for

capital allowances or disallowed expenses, in the same or an additional report. Where the taxpayer has other non-trading income to report for his self-assessment, he will also have to submit a self-assessment return.

Where the taxpayer has no other income to report he will not have to submit a self-assessment tax return.

This means, under MTD, one self-assessment tax return has turned into four, five or six reports per year to HMRC.

### Preparing for MTD for income tax for business

The first step in preparing your business for MTD reporting is to activate your BTA. Your BTA allows you to view all of the taxes your business pays to HMRC including PAYE and VAT.

The next step is to digitise your accounting system by recording all sales and purchases digitally. You may choose to use accounting software or spreadsheets for this task. A paper-based recording system will not be acceptable.

#### Planning point

If you have to use the MTD system you, or your VAT agent, will need to register for a Business Tax Account before your first filing.

### Accounting software

HMRC has promised free MTD-compliant software for the simplest businesses, which have no employees and are not VAT-registered. This free software will allow those businesses to file reports under MTD for income tax (not for VAT).

HMRC expects the market to provide a range of software solutions for all businesses. There are currently only a few software providers on the HMRC approved list of suppliers for MTD for income tax: [www.gov.uk/guidance/software-for-sending-income-tax-updates](http://www.gov.uk/guidance/software-for-sending-income-tax-updates).

### MTD for income tax pilot

The income tax pilot was initially only open to sole traders with just one business, but has recently been extended to landlords (excluding those who let furnished holiday accommodation) with simple tax affairs. Further groups of taxpayers will be brought in as new functionality is added.

## COMPLYING WITH YOUR GENERAL TAX OBLIGATIONS

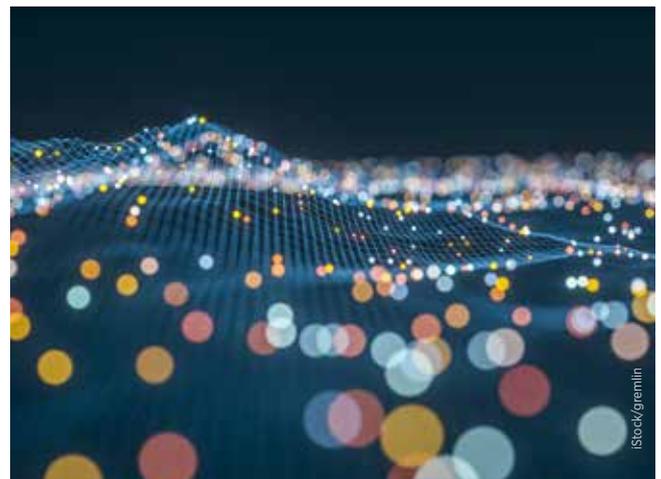
Whether or not you will have to use MTD, it is essential that you keep complete and accurate records of your business and other income so you can make accurate tax and VAT returns.

MTD on its own will not guarantee accuracy. You still must make sure that all relevant income and outgoings are recorded. However, HMRC says that MTD will help businesses to get their tax bills right first time.

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 random, or triggered by the figures in the return.
- An increasing amount of information comes from third parties, which HMRC uses to check information in tax returns.
- HMRC task forces target specific business sectors and locations where there is a high risk of tax evasion.

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 making an honest mistake, will generally not avoid penalties. Material inaccuracies are likely to be spotted, so it is worth making the effort to get your tax right.



### HOW WE CAN HELP

All businesses need to keep good accounting records to enhance business efficiency and to make accurate tax returns, whether or not they will have to comply with MTD for VAT rules from April 2019.

We can review your accounting systems and advise on accounting software that will best serve your business needs.

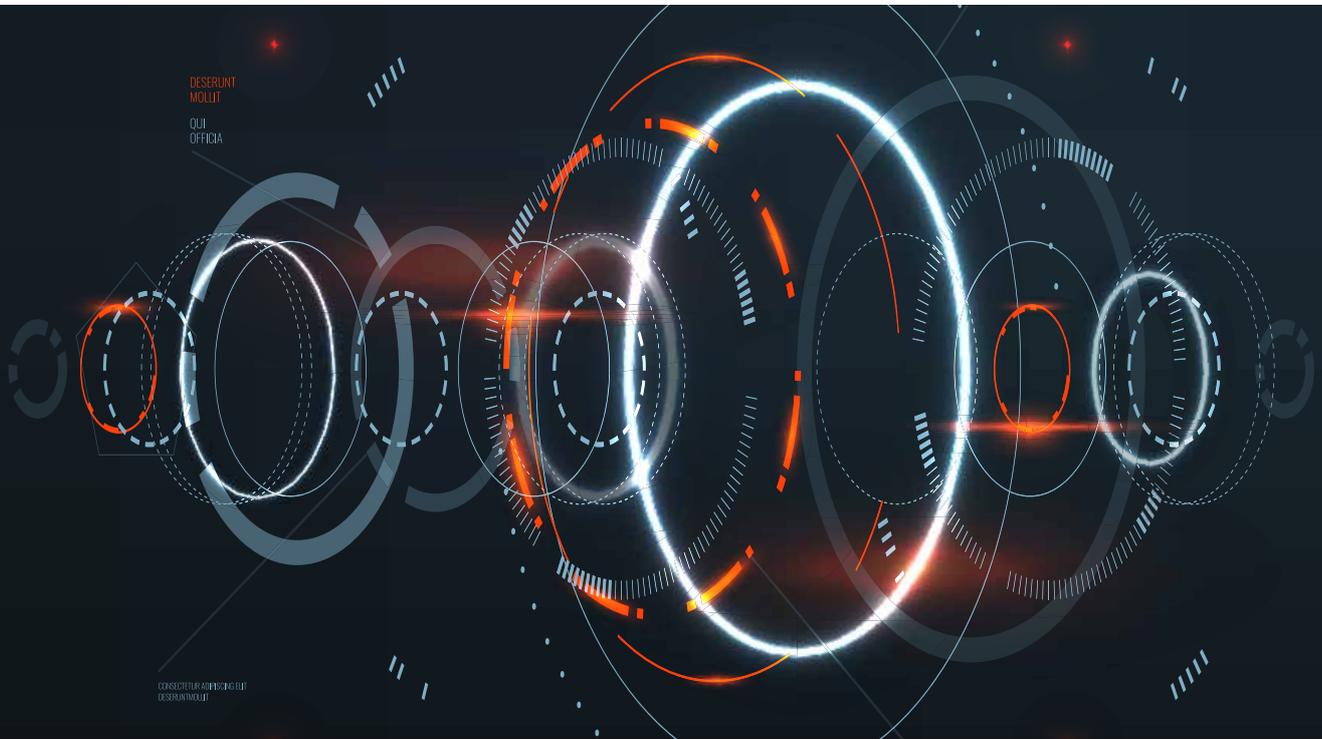
If you need to comply with MTD for VAT from April 2019, we can help you prepare by ensuring your software is compatible and, where necessary, help you set up new systems and become proficient at using them.

We can make the necessary reports on your behalf to HMRC, if you have authorised us to act for you and provide direct access to your accounting data and software.

We can help you on IT security and keep you up-to-date on any changes in tax and accounting compliance that affect your business.

# Hebblethwaites

Chartered Accountants & Registered Auditors



## Hebblethwaites

2 Westbrook Court  
Sharrow Vale Road  
Sheffield S11 8YZ  
Tel: 0114 266 4518  
Fax: 0114 268 3842

## Partners

A. Throssell, F.C.A.  
R. F. Brennan, F.C.A.  
R.W. Murdoch, F.C.A.  
J.R.J. Longley A.C.A.

Registered to carry on audit work in the UK by the  
Institute of Chartered Accountants in England and Wales