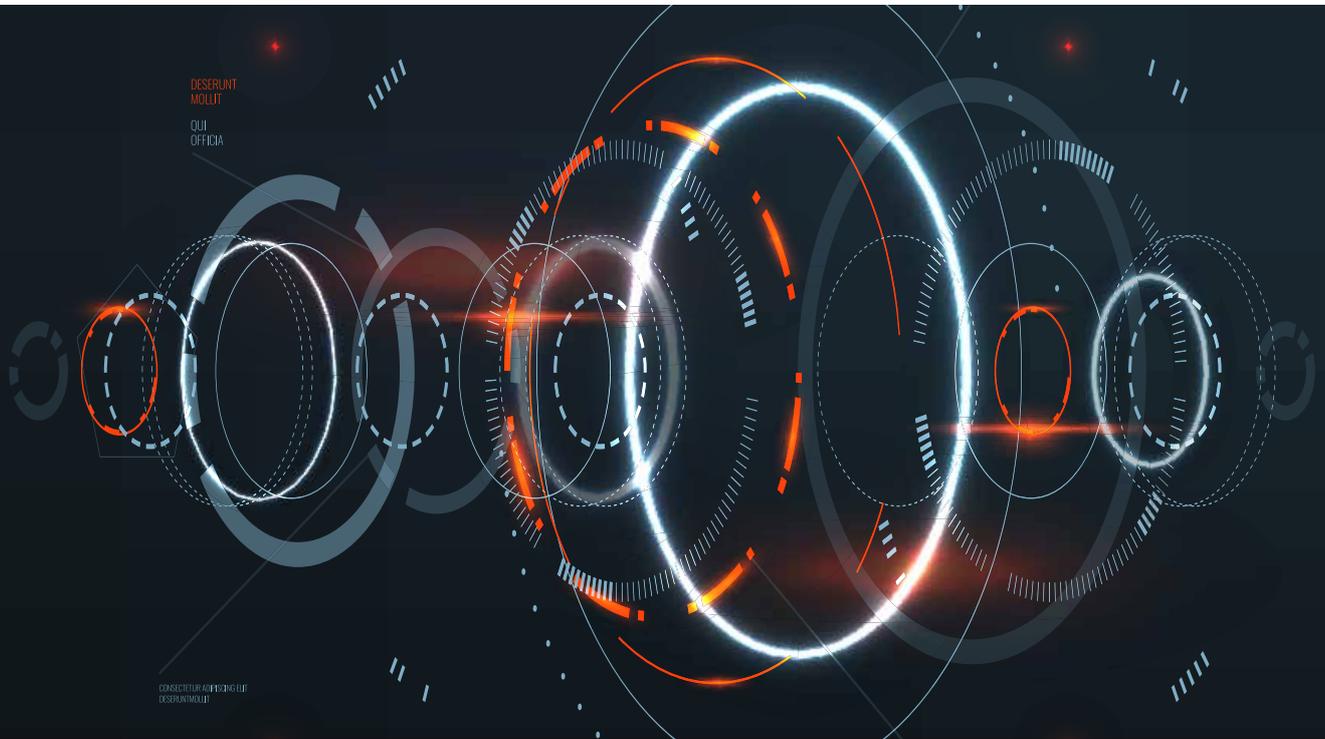


Hebblethwaites

Chartered Accountants & Registered Auditors



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KEY GUIDE

Making tax digital

Introduction

DIGITISING TAX COMPLIANCE

Making Tax Digital (MTD) is a 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.

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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.

Planning point

MTD will be introduced by types of tax, and the timetable is yet to be confirmed for many elements. It will be important to keep an eye on new deadlines as and when they are confirmed.

The MTD project has started with VAT paid by businesses, and will be extended to income tax paid by individuals at some point in the future, and then potentially to corporation tax. Parts of the MTD programme have been delayed as resources have been diverted away from HMRC to deal with planning for Brexit.

MTD for VAT launched in April 2019, but a very small number of specialist VAT registered organisations have had their MTD start date deferred to October 2019.

Start date	Tax
VAT periods beginning on and after 1 April 2019	MTD for VAT: Businesses with annual turnover above the VAT threshold must keep digital records and file VAT returns using MTD-compatible software.
VAT periods beginning on and after 1 October 2019	MTD for VAT: Businesses with a deferred start date must keep digital records and file VAT returns using MTD-compatible software.
April 2021 - date not confirmed	MTD for VAT: A review of progress to date, and a possible rollout to all VAT registered businesses.
April 2022 - date not confirmed	MTD for income tax: Unincorporated businesses and landlords to keep digital records for income tax on profits and make quarterly reports using MTD-compatible software.
April 2023 - date not confirmed	MTD for corporation tax: No details on what will be required.

The businesses who have a deferred start date for MTD for VAT are: VAT groups, VAT divisions, 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 become compulsory for income tax once the reporting system for MTD for VAT has been found to work well.

Businesses can voluntarily join the MTD for VAT returns or MTD for income tax pilot programmes for those taxes, earlier than the required start dates. To do this the business will need access to MTD-compliant software either directly or through their accountant or tax agent.

MTD FOR VAT

MTD for VAT became compulsory for most VAT registered companies from the start of their first VAT period which commenced on or after 1 April 2019.

Who must comply with MTD for VAT

VAT registered businesses with 'VATable' turnover above the registration threshold (frozen at £85,000 until 31 March 2022) for the last 12 months need to comply with the MTD for VAT rules. VAT registered businesses with turnover under the VAT registration threshold are automatically exempt from MTD for VAT.

VATable turnover includes all sales which 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. If the turnover drops below the VAT registration threshold the business must still comply with the MTD for VAT rules until it deregisters from VAT.

Businesses which become VAT registered on or after 1 April 2019 because their turnover has exceeded the VAT threshold

must 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 or to 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.

Businesses which are already exempt from online filing for VAT due to age, disability or lack of internet connection will automatically be treated as being exempt from MTD for VAT. Those business will continue to use alternative arrangements to submit their VAT to HMRC.

To claim exemption from MTD for VAT the business, or their agent, should contact the VAT helpline: 0300 2003700 or write to: HMRC, VAT Written Enquiries Team, Portcullis House, 21 India Street, Glasgow G2 4PZ.

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 exactly the same data as submitted on the VAT return. It is only the method of delivering the VAT return which is changing; the underlying VAT calculations (which are not sent to HMRC), and the timing of VAT payments remain the same.

Submitting a VAT return under MTD

Under MTD for VAT, businesses must 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 (see below).

Planning point

Businesses with turnover above the VAT registration threshold have to keep digital records and submit VAT returns via MTD-compliant software for VAT periods that start on or after 1 April 2019. You need to sign-up for MTD for VAT with HMRC at least seven days before your first VAT return is due under MTD. Your accountant can also do this for you.

The VAT pilot scheme

The MTD for VAT pilot scheme lets 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 MTD for VAT pilot is now open to all businesses who will need to join MTD in 2019.

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 your deadline.

Software requirements and providers

HMRC is not providing free software to enable businesses to submit VAT returns under MTD. However, there are a number of low cost, or free software applications, including bridging software which can work with existing spreadsheets or accounting packages to submit data to HMRC via an approved API.

HMRC has been working with a large number of software suppliers to test MTD-compliant applications, and has published a searchable list of MTD for VAT software products at <https://www.tax.service.gov.uk/making-tax-digital-software>.

It is important to check what you need the MTD-compatible software to do, how it will work with your current accounting system, and whether it will provide information about the VAT you owe or your VAT payment history.

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

EXAMPLE Digital links

Joan is registered for VAT and is 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.

Once Joan signs up to MTD HMRC will close the online portal for her business, so Joan must find a commercial MTD-compatible solution.

Joan can continue to use spreadsheets to record her VAT records, but she needs 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 can continue to store her purchase receipts manually, as long as the key information concerning each purchase is recorded digitally.

Joan will still need to preserve her VAT records for six years, but that information doesn't have to be kept in the same digital format it is recorded in. A download of data from cloud-based accounting software meets the MTD record keeping requirements.



Register for MTD

Businesses have to sign up for MTD for VAT with HMRC before their first VAT return is due under MTD filing. This is required even if the business is already VAT registered and HMRC has all the necessary contact details.

The sign up for MTD can be done only once the MTD compliant software is in place, and must be completed at least one week before the first VAT return is due under MTD. The sign up process is done through your Business Tax Account (BTA). 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.

Digital record-keeping requirements

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

Sales	Purchases
Time of sale (tax point)	Time of purchase (tax point)
Value excluding VAT	Value net of VAT
Rate of VAT charged	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 don't have to digitally record each sale separately.

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

- Name of the business.
- Business address, or principal business address.
- 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 which 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 businesses a further year to create a purely digital journal for the VAT data from creation to submission to HMRC.

After this year, which HMRC is calling a 'soft-landing period', 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 had used an accounting software package to maintain the company's accounting records. The company is required to submit VAT returns under MTD for VAT for periods beginning on and after 1 April 2019.

ABC Ltd's software provider has added MTD for VAT compatibility to its accounting software package. This allows ABC Ltd's bookkeeper to install the relevant updates to file returns under MTD.

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 is 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:

- Run 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 sign up for MTD you will need to register for a Business Tax Account (BTA) in order to receive information from HMRC under MTD. Your tax agent will not have access to your BTA.

Accounting software

HMRC has promised that free MTD for income tax software will be available for the simplest businesses, who have no employees and who are not VAT registered. This free software will allow those businesses to file reports under MTD for income tax, but 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: <https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax>.

MTD for income tax pilot

A pilot scheme is underway to test software compliance for MTD for income tax. The income tax pilot was initially only open to sole traders with just one business, but has 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.

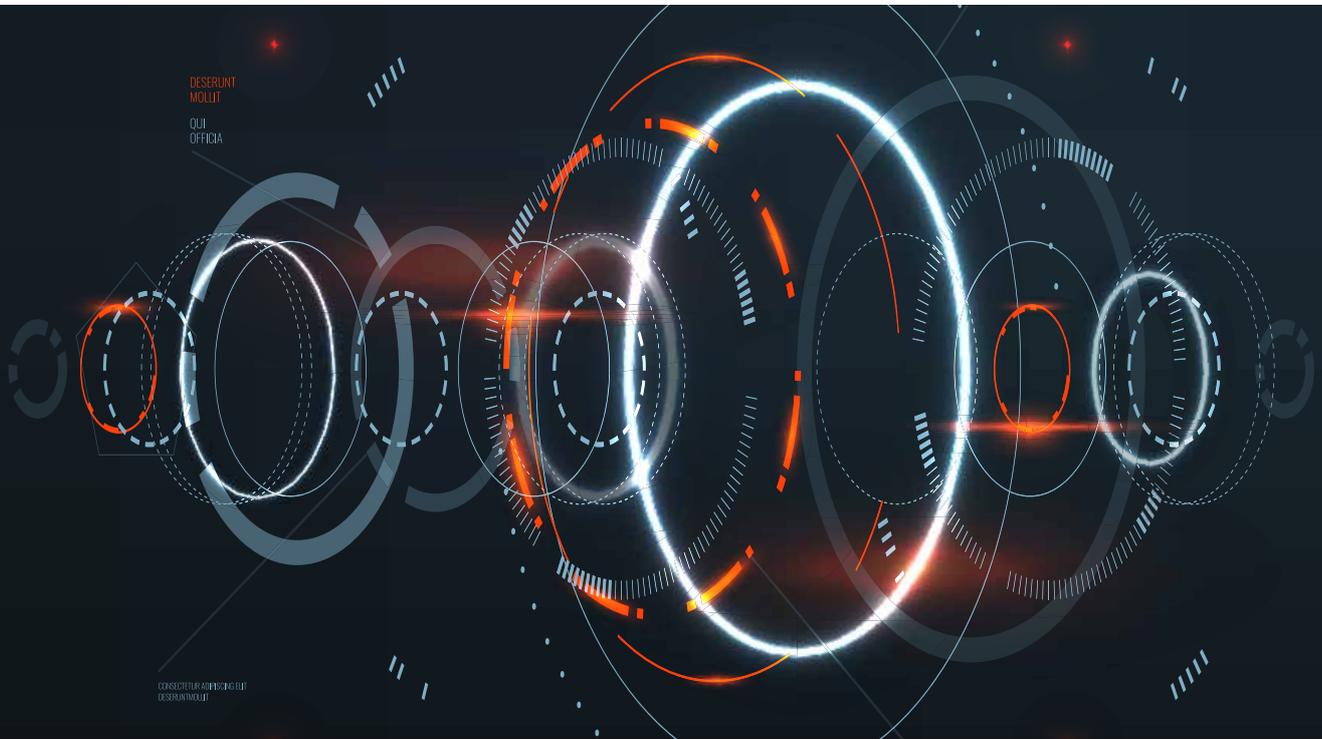
If you need to comply with MTD for VAT from April 2019, we can help you prepare by ensuring your software is compatible and, where necessary, help you set up new systems and become proficient at using them.

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.

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