

# MAKING TAX DIGITAL

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**MTD will affect  
you from  
April 2019**



A step by step guide for businesses, organisations and individuals, especially those that are VAT Registered.

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CHARTERED ACCOUNTANTS

## What is Making Tax Digital?

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Making Tax Digital (MTD) is part of HM Revenue & Customs (HMRC) wider digital strategy to make it easier for individuals, businesses and other organisations to ensure their tax affairs are in order.

The driving force behind MTD is the belief within HMRC that taxpayer errors result in a significant proportion of the tax gap, the difference between the tax paid and tax due, and that poor record keeping is a major contributing factor to these errors.

MTD will therefore require businesses, other organisations and individuals to keep their records digitally, using either bookkeeping/accounting software or at the very least on spreadsheets. By doing so, HMRC believe that errors will be reduced and, with them, the tax gap.

The use of digital records is to be backed up by the need to make quarterly submissions to HMRC, which must be directly via software as opposed to paper forms or via the HMRC website.

For VAT the MTD submissions will replace the current VAT returns and will again need to be through software. You will not be able to file your VAT return using the HMRC website, unless you are covered by one of the exclusions or exemptions (see page 3).

Please note that MTD for VAT does not change the frequency of your VAT returns nor the availability of any specialist schemes, e.g. the retail scheme.

# When does Making Tax Digital come into effect?

## April 2019

- VAT registered businesses/organisations with a turnover over £85k.
- From the beginning of the first VAT period after this date there will be a need to keep digital records and make VAT submissions via software.

## October 2019

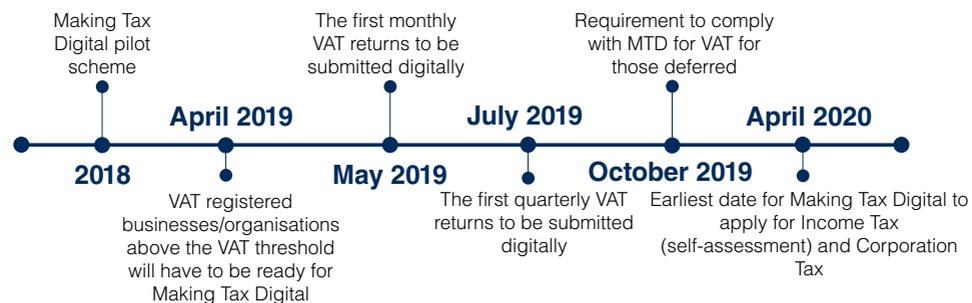
HMRC has deferred for 6 months the adoption of MTD for VAT for the following:

- Trusts
- “Not for profit” organisations that are not set up as a company
- VAT divisions and VAT groups
- Certain public sector entities required to provide additional information on their VAT return
- Local authorities and public corporations
- Traders based overseas
- Those required to make payments on account
- Annual accounting scheme users

There will be a requirement to comply with MTD from the beginning of the first VAT period starting after 1<sup>st</sup> October 2019.

## April 2020 (at the earliest)

- For Income Tax (self-assessment) and Corporation Tax.
- HMRC have said that this will only happen when MTD is working; a pilot for Income Tax is well underway.
- Previously Income Tax was to start in April 2018 for businesses above the VAT threshold, but this has now been delayed until April 2020 at the earliest.



# Will it affect you or your business/organisation?

If you currently do a tax return or VAT returns then the simple answer is yes.

Even if you or your organisation or business do not fall within the criteria for digital record keeping and quarterly submissions in April 2019 or April 2020 then your interaction with HMRC will still become more digital.

More and more interaction will be through your Digital Personal or Business, Tax Account.

In the future, for Income Tax, more of your income details that HMRC already have (for example PAYE, bank interest etc) will be prepopulated onto your Digital Tax Account. You will just need to confirm they are correct rather than submit details to HMRC via your tax return.

# Are there any exclusions or exemptions?

The April 2019 date for MTD for VAT is only where turnover is above the VAT threshold. For those voluntarily registered, they can continue making submissions as they currently do, for now, so long as their turnover remains below the VAT threshold, with no requirement for digital records. Such businesses, entities or individuals must elect for the exemption not to apply if they wish to submit their VAT information under MTD.

There was to be an exclusion from MTD for income tax purposes for those businesses and landlords with gross turnover/rent below £10,000. It is assumed that this exemption will remain in April 2020.

There are also exemptions for those who cannot engage digitally for reasons of religion, age or remoteness of location, just as there currently are for VAT purposes.

# What do you need to do to get to grips with Making Tax Digital?

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MTD requires individuals, organisations and businesses to keep and maintain records in a digital form. To comply with requirements, the software used must be able to:

- Keep records in a digital form
- Preserve digital records in a digital form
- Create a VAT return from the digital records
- Provide HMRC with additional VAT data on a voluntary basis
- Send and receive information from HMRC via the API (Application Programming Interface) platform

## If you keep paper records

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If you currently keep your financial records using only paper records, then you will have to look at using a digital alternative or look to use an external provider that can keep your records and ensure you comply with MTD.

## If you use spreadsheets

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HMRC will accept spreadsheets as a form of digital software, though use of accounting software is preferable. Certainly such software is increasingly the norm for those looking for a full bookkeeping solution and one that enables VAT returns to be filed with HMRC.

As more bridging software is becoming available the concerns are lessening around the ability of spreadsheets to file, upload or provide a true digital interface for reporting and compliance between the VAT registered entity and HMRC.

It remains that the use of spreadsheets for VAT are vital for some complex businesses, for which off the shelf cloud accounting software is not workable, lacking the functionality or flexibility required.

If spreadsheets are used they will need to be combined with third party commercial software, using the API platform (Application Programming Interface), to ensure a seamless flow of data from the business to HMRC and vice versa.

## Bridging Software and the use of an API

For those still wanting to use spreadsheets, there will still be a requirement to use some form of bridging software, or API platform (Application Programming Interface). This being software that will allow for the transfer, recapture or modification of data using digital links between the individual or organisation and HMRC. Copying, pasting or manually creating a VAT return is not compliant with MTD.

Bridging software is a digital tool that enables data from the VAT return from within a spreadsheet to be transferred to HMRC's Government Gateway.

## Time to adopt

For the first 12 months following the introduction of MTD in April 2019, businesses using non-API enabled programs, or multiple programs, will not require digital links between them.

Those businesses that are using bridging software to submit their returns to HMRC will need to ensure the transfer of data is to be made digitally.

## If you use accounting software

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If you currently use accounting software, you will need to ensure such software is compliant. As a simple rule, your software needs to be able to generate and file VAT returns directly to HMRC. Users of Xero and QuickBooks Online will be automatically compliant. Sage 50 users may need to upgrade.

You will need to be able to generate the return from your software. There can be no more manual hand written adjustments to returns. If you currently make manual adjustments then you may need guidance on how to enter these in your software.

You will need to ensure you have addressed the points outlined by April 2019, when MTD goes live and we would recommend you consult with your software provider.

When MTD goes live for income tax and corporation tax, currently expected in 2020 at the earliest, your software will need to be updated to include these additional MTD filing functions.

## If you use specialist or bespoke accounting software

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If you currently use industry specialist or other bespoke software then you will need to ensure it is compliant and meets the requirements for Making Tax Digital.

We would strongly recommend you consult with your software provider or developer in good time to ensure you are ready for MTD going live in April 2019.

## If you use an external bookkeeper to keep your records

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It is your responsibility to make sure you are compliant.

Therefore the onus is on you to ensure that any third party bookkeeper satisfies and fulfils the requirements outlined.

## If we do your bookkeeping/file your VAT returns

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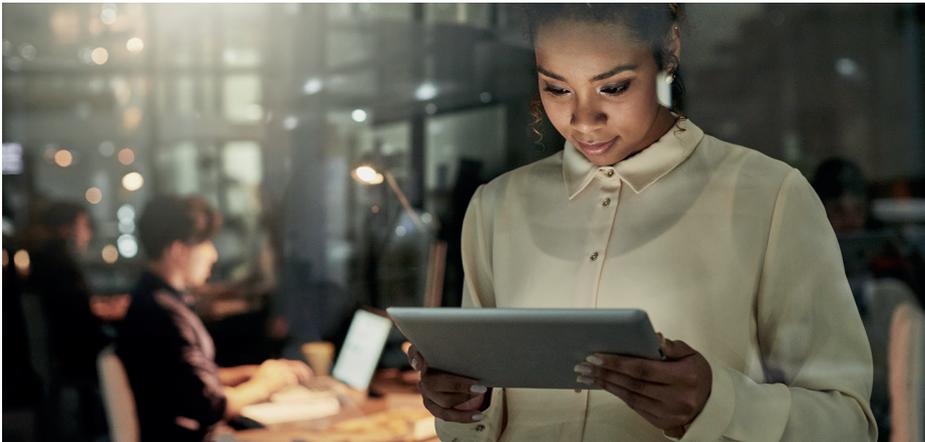
We will make sure you are compliant.

We may speak to you about making changes to the way we keep your books and records internally, such as using bank feeds or document scanning to make the most of new technology. Rest assured, if we do your bookkeeping, we will ensure you are MTD ready.

# Accounting software solutions for Making Tax Digital

## A time to consider your approach to record keeping

The move to MTD might be a good time to review your financial record keeping, especially if you are looking after your own affairs. To ensure compliance with MTD it might be time to look at outsourcing your bookkeeping. We would be only too pleased to discuss your situation and how we might be able to assist.



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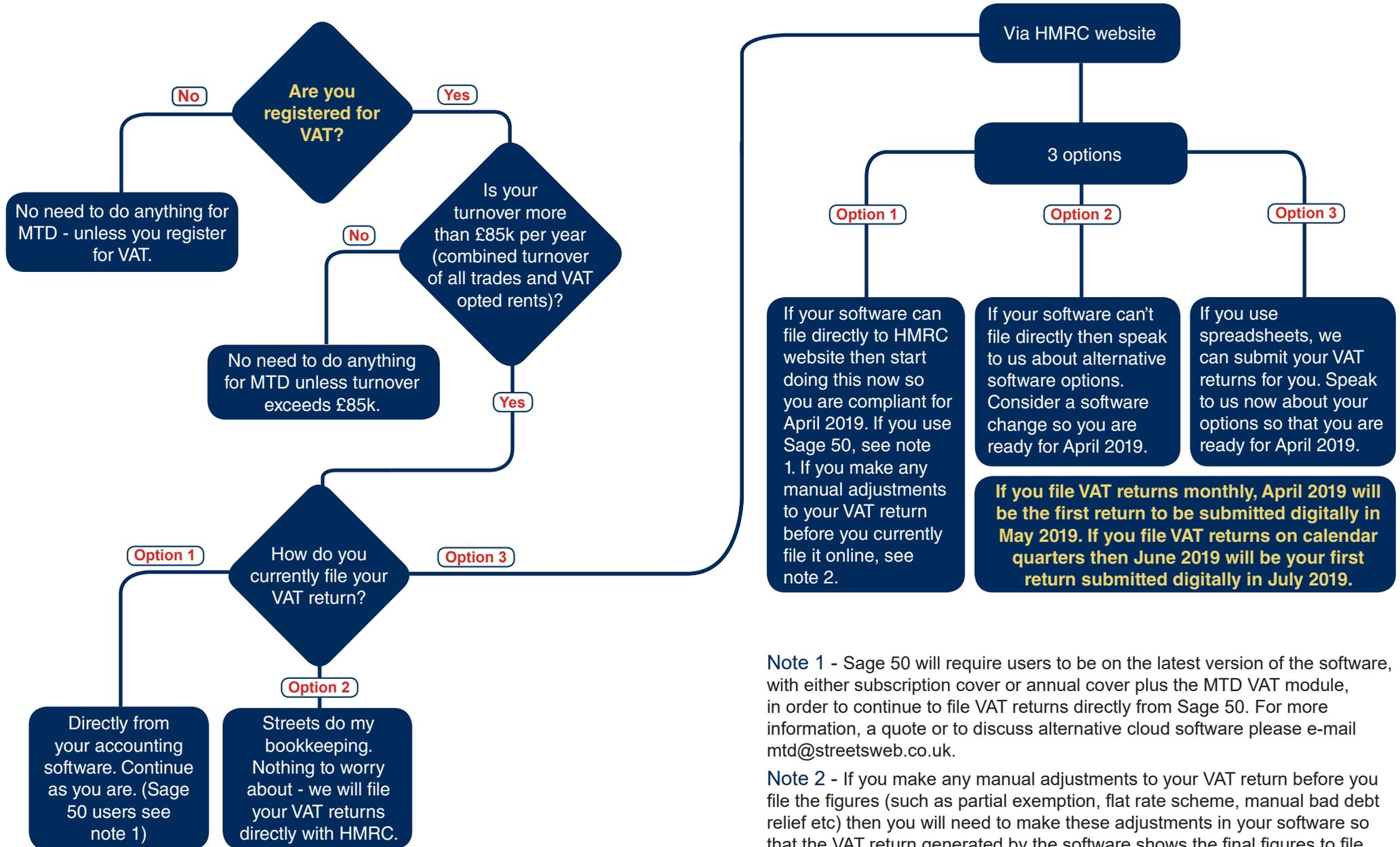


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For further information please email [mtd@streetsweb.co.uk](mailto:mtd@streetsweb.co.uk)

# What do you need to do and when? A Making Tax Digital VAT timeline



**Note 1** - Sage 50 will require users to be on the latest version of the software, with either subscription cover or annual cover plus the MTD VAT module, in order to continue to file VAT returns directly from Sage 50. For more information, a quote or to discuss alternative cloud software please e-mail [mtd@streetsweb.co.uk](mailto:mtd@streetsweb.co.uk).

**Note 2** - If you make any manual adjustments to your VAT return before you file the figures (such as partial exemption, flat rate scheme, manual bad debt relief etc) then you will need to make these adjustments in your software so that the VAT return generated by the software shows the final figures to file. Speak to us about how we can assist you with training on this.

## Accounting software for Making Tax Digital

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Clients use a wide range of different software, some very simple and some very complicated, for running significant multi-site operations.

Some businesses like to keep on the latest version of their software all the time – others only like to upgrade every few years.

To check if your software will be compliant speak to us and we can help determine this.

The last few years have seen significant developments in terms of the availability, capabilities and affordability of digital accounting software. This in itself has no doubt contributed to HMRC's move to MTD. Certainly a number of the accounting software providers, including Xero and QuickBooks Online, have been working closely with HMRC to ensure that their digital offering meets the needs of their users and that it will be compliant. For the many Sage 50 users, the latest version of the software will meet MTD requirements. However, those who are not on the latest version will need to upgrade.

With the introduction of MTD, now might be an ideal time to review your accounting software to see if your current provider is still the best option for you. A lot of businesses are seeing significant advantages of moving to cloud based software – live bank feeds, apps on phones to raise expense claims, automated credit control and more detailed departmental reporting are just some of the features that cloud software users are enjoying.

## How can Making Tax Digital help you and your business?

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For most UK businesses, it won't make any real improvement. If you already keep tidy computerised records there is little change.

If you currently keep your records in a carrier bag until the end of the year, keeping your records up to date quarterly, and on accounting software, will encourage tidier record keeping and potentially you will remember to claim more expenses if you do it quarterly rather than annually.

Using computerised accounting systems instead of spreadsheets also enables you to make better use of reporting to understand your figures more, keep on top of debt collection and plan cash flow. These are benefits of accounting software rather than MTD itself – but all positive things for UK small businesses.

## What will be different for you going forward?

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For MTD VAT you will need to keep your records on a digital system, using accounting software and file your VAT return directly from your software. You will not be able to do this in the future via [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

For some businesses this will be a big change, but for most, the only real difference will be filing your VAT return from within software rather than the Government Gateway, [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

When full MTD filing comes in you will need to file a quarterly return to HMRC with a detailed Profit and Loss style report. For businesses used to filing quarterly VAT returns, this will just be an extra button to press each quarter.

## What happens if you do nothing about it?

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The requirement to keep digital records and make quarterly submissions will be statutory and therefore cannot be ignored. Just as you have to make VAT submissions or file a tax return now, you will have to comply with these new requirements.

As you would expect, there will be a penalty regime in place for those who do not meet their obligations under these rules.

A points based penalty system where financial penalties are only imposed on repeat offenders, was to be rolled out but this has been delayed until 2021 and so the current VAT penalty regime will apply.

HMRC have indicated that there will be a 'soft landing' period of one year, during which time no penalties will be imposed to allow people to adjust to their new filing obligations. However, it is expected that this will only apply where the taxpayer is making a real effort to comply. Ignoring MTD is expected to lead to a penalty.

There is also going to be a new late payment penalty regime, which will be a tiered system with a smaller penalty if you pay between 15 and 30 days late and a larger penalty if you pay more than 30 days late.

## How does it affect new businesses or individuals going forward?

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We would always recommend using accounting software to keep your financial records in order and MTD just reiterates this. Modern accounting software is designed to be used by 'non-accountants' and features like live bank feeds and phone apps to capture expenses make record keeping easy. Software then gives you insight into your business right from the outset. As your business grows and you register for VAT or become large enough to need to file under MTD, you will already be using compliant software.

## Making Tax Digital and Landlords

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Those with rental income will be required to comply with MTD requirements. For jointly owned property, each individual must make a digital record for their share of income and expenditure. This includes MTD for VAT where VAT is being charged on the rent.

## Making Tax Digital and Charities

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VAT registered Charities must note that they will be required to adopt and comply with MTD. This means that, unless a charity is eligible for the general exemption available to businesses with taxable supplies below the VAT registration threshold, it will be expected to comply with the MTD requirements for VAT from April 2019.

## Video Guides

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For further advice and guidance please watch our videos.

Getting to grips with Making Tax Digital [www.youtube.com/user/streetsacc1](https://www.youtube.com/user/streetsacc1)

## Download our app

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### Streets MyAccountants

Our “Streets MyAccountants” app is a great aid to helping you with MTD – you can easily and quickly collect mileage data (using GPS), photograph expenses and log income you’ve earned – all in one simple place. It takes a few minutes to download, is approved by HMRC and will save you hours each month.



Search “Streets Chartered Accountants” on the Apple app store or the Google Play app store to get your free download.

**Once downloaded, access the app by entering the unique access code ‘Streets123’**





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