

Tax Insights

Making Tax Digital

The Making Tax Digital (MTD) initiative is part of HMRC's plan to become 'a world leading digital tax authority'. But what does it mean for you and your business?

HMRC wants to transform the UK tax system to make it more effective, efficient and easier for taxpayers to get their tax right. Making Tax Digital (MTD) is a key part of achieving that objective requiring taxpayers to make greater use of current digital technology.

HMRC's vision involves replacing paper tax returns with digital records that will enable taxpayers to send their tax information to HMRC direct from those records quarterly, thus having a 'real-time' idea of their tax liabilities presented to them in their digital tax account.

MTD is being introduced in phases and will, in due course, affect the business taxes of sole traders, partnerships and companies.

MTD for VAT

From 1 April 2019, VAT registered businesses with a turnover above the VAT threshold (£85,000) will be required to:

- Keep their VAT records digitally, and
- transmit their VAT return information to HMRC using MTD compatible software.

VAT registered businesses with a taxable turnover below the threshold can request to be removed from MTD for VAT by writing to HMRC.

Specified information is to be kept in electronic form but businesses will not need to keep any extra records as a result.

Businesses with more than one accounting system or with a complex VAT reporting structure – such as partially exempt businesses - must provide a link between their systems to calculate their VAT returns properly.

MTD for business

HMRC ultimately wants to abolish annual tax returns. Its longer term plan is that, unless you are exempt, you will need to update HMRC digitally every quarter (or more frequently if you choose) with details of your income and expenditure. These updates are to be filed no later than one month after the end of the quarter via MTD compatible software.

HMRC recognises that there will need to be an 'end of year' report to make accounting and tax adjustments and to confirm that the data supplied throughout the

year is correct. Therefore, a final adjustment is generally to be made ten months after the year end. MTD for business will not come in to force until April 2020 at the earliest. There are however ongoing pilot schemes, which we and our clients are participating in. It appears that initial adoption may also be voluntary for some businesses.

MTD for individuals

For those without business and property income, it is the Government's ambition that information will be obtained from various third parties such as banks, so avoiding the need for an annual tax return.

Frequently asked questions

The only certainty we currently have around MTD relates to VAT, which is based on The VAT (Amendment) Regulations (SI 2018/261). This Q&A relates to MTD for VAT.

Do I have to have a digital VAT account?

Yes. You will already have a digital VAT account – although you may not have activated it yet. This should be done via the Government Gateway.

When does MTD for VAT come into effect?

The first VAT accounting period, starting on 1 April 2019. If your VAT periods begin in May or June 2019, you are required to begin using MTD from the 1st of that month.

Do I need to change my accounting software?

It depends on what you currently use. You must use a software package that communicates with HMRC's system. HMRC has released a list of approved MTD-compatible software providers on its website; if your software is not on the list, you may want to contact your provider.

I only use Excel. Do I have to buy accounting software?

You can use 'bridging software' that allows your Excel spreadsheet to communicate with HMRC's systems. However, our experience is that many organisations are using the introduction of MTD as an opportunity to upgrade to a more sophisticated accounting system.

What records need to be kept digitally under MTD for VAT?

HMRC has prepared guidance that includes the information that must be recorded electronically to comply with MTD for VAT. This includes:

- Business Name
- Address of your Principal Place of Business
- VAT registration Number
- Any VAT accounting schemes you use;
- Tax point / time of supply of each supply made and received
- Value of supply (net of VAT) for each supply made and received
- Rate of VAT charged for each supply made and to be reclaimed
- Supplies made and received by third party agents
- Reverse charge transactions
- Summary data
- Any adjustments and/or errors

Do I have to do this?

All organisations that are VAT registered and have taxable turnover above the VAT threshold are required to comply with MTD for VAT. If you are VAT registered and your turnover is above the VAT threshold, but your taxable turnover is below the threshold, you will automatically be enrolled onto MTD for VAT. However, you can write to HMRC and request to be removed.

What if my business makes mainly exempt supplies?

At the moment, HMRC has no way of distinguishing between organisations that are voluntarily registered and those that are required to be registered. Therefore, it will enrol every organisation that is VAT registered; it is up to the organisation to inform HMRC that it is not obliged to apply MTD.

My business doesn't make taxable supplies but receives services from overseas. Am I affected?

It depends. Supplies received from outside the UK are regarded as being taxable in the UK, and must therefore be included as part of your taxable turnover. If your organisation makes wholly exempt supplies but receives services that exceed the VAT threshold in any 12-month period, it is required to register for VAT and, by default, must comply with MTD for VAT.

I'm an unincorporated body. Am I affected?

Yes. Charities, not-for-profit, sole traders and partnerships are all required to comply with MTD for VAT.

Are there any exemptions?

Yes. If you satisfy one of the following criteria, you are exempt from MTD:

- Your business is run by practicing members of a religious society or order whose beliefs are incompatible with the use of electronic communications; or
- It is not reasonably practicable for you to use digital tools to keep your business records or submit your returns, for reasons of age, disability, remoteness of location or for any other reason; or
- You are subject to an insolvency procedure.

How will Brexit affect MTD?

This legislation is not affected by Brexit and is not a requirement under EU law.

Can you help me prepare for MTD for VAT?

Yes. We are already helping a number of clients prepare for MTD. Our expertise includes supporting organisations with upgrades to their accounting systems, and we have also advised clients on their VAT liability to ensure that they are paying the right amount of tax. Please get in touch to find out how we can help you.

The benefits of going digital

Many businesses, large and small, could see significant advantages from moving to cloud based accounting systems, including the ability to track sales and costs in real time and automate manual tasks such as invoice input and bank reconciliations. Additionally, these systems give your accountant access to the same financial information, enabling them to monitor your margins and profitability, and provide proactive advice on tax, accounting and business issues when you need it.

For further information and to find out how we can help you, please contact us



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