

## 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

For return periods starting on or after 1 April 2019, VAT registered businesses with a taxable turnover above the VAT threshold (£85,000) will have to:

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

VAT registered businesses with turnover on or below the threshold can sign up to MTD for VAT if they wish.

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

This means the imminent end of the manual cashbook for many businesses, while others will need to review their accounting software to ensure it is compatible with HMRC's new 'Gateway' system and incorporates the necessary digital bridging software.

To ensure systems are working properly HMRC will start a VAT MTD pilot in the Spring of 2018. This will involve a small number of volunteer businesses initially. We understand that all VAT registered businesses will be able to join an expanded pilot for summer 2018.

## MTD for business

HMRC ultimately wants to abolish annual tax returns. It's 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 at least April 2020. 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, the rules for which were published in Finance Bill (No.2) 2017. This Q&A is based on previous draft legislation and consultation documents.**

### **Do I have a digital tax account?**

Yes, you will already have a digital tax account – although you may not have activated it yet. This needs to be done via the Government Gateway.

### **Do I still need to keep annual accounts?**

Companies currently need to continue to keep annual accounts. However, unincorporated entities that are part of the MTD initiative will no longer be required to do so - they can be quarterly to tie in with reporting to HMRC or they can cover another period that suits the particular business. However, there are reasons other than tax legislation for preparing annual accounts – particularly if you want to raise finance, move home, sell your business or just manage your finances.

### **Do I need to change my accounting software?**

Accounting records will need to be kept digitally and every business will need to use a package (something that HMRC describes as 'functional compatible software') that will communicate with HMRC's system. You should initially consider whether your existing software is compatible with the requirements of MTD for VAT or when your software provider intends to release a compatible version.

Businesses will be able to continue to use a spreadsheet as a digital record for VAT as long as it meets MTD requirements and is able to transmit the necessary data to HMRC using compliant bridging software. However, there will be limitations on the current use of spreadsheets.

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

HMRC has prepared guidance that includes the information that must be recorded electronically in order to comply with MTD for VAT. You can view the guidance on its website. They have indicated that a "soft landing" period (in relation to record-keeping penalties) will be applied to allow businesses time to update legacy systems in the first year.

### **Am I going to need to pay my tax earlier?**

No. There is an undertaking not to change the current tax payment dates, at least not for the time being. However, HMRC has proposed an option to voluntarily pay tax earlier, known as pay as you go (PAYG). It is therefore possible that a move to real time reporting is a precursor to the alignment of tax payment dates to match the earning of the profits they are paid on.

### **I have other sources of income. How will this work?**

Your personal digital tax account will be populated with other information that HMRC holds such as salary details, bank and building society interest, state benefits, etc.

There may well be remaining sources of income such as foreign income or capital gains that will require notification to HMRC, potentially by making adjustments to your digital account by the existing tax return deadline (31 January following the end of the year of assessment).

### **What about partnerships and jointly held property?**

Currently each partner and/or property owner must make a return of their partnership or property income. In future only a single nominated partner or landlord will have to provide the information for the partnership. This information will feed directly into individual partners' or landlords' digital tax accounts.

### **Will I be able to continue to use an agent to file my VAT returns?**

Yes, but with MTD for VAT you will need to agree with your agent how this can be achieved so as to comply with MTD rules. The movement of information between you, your agent and HMRC must be digital and submissions to HMRC will have to be made using MTD-compliant software.

### **Do I have to do this?**

There are very few exemptions from MTD as it applies for VAT. You will not have to follow the MTD rules for VAT if HMRC are satisfied that any of the following apply:

- 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.

### **Can you help me prepare for MTD?**

Yes. We sit on accounting and tax advisory panels, have regular communications with HMRC and accountancy software developers, and have clients in the pilot; we are well placed to assist in your transition to MTD.

## 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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April 2018 ©