

MAKING TAX DIGITAL

Making Tax Digital (MTD) is a Government initiative affecting the way all taxpayers will deal with their tax affairs in the digital age. The aim of this new legislation, through increased automation and reduced human error, is to improve efficiency and to ultimately make the tax system operate much more closely to "real time". The next key implementation stage of this new regime will come into effect from 1 April 2019 and will be compulsory for more than 1.2million VAT-registered UK businesses.

HMRC has advised that all other taxes, for businesses and individuals, are not due to come under the new regime until at least April 2020. However, there is a growing expectation, arising from HMRC sources, that April 2020 will in fact be the date for quarterly reporting to come into force for the majority of businesses.

Under MTD, most businesses, self-employed and landlords will be required to keep track of their financial affairs digitally. They will be required to use digital tools, such as software or apps, to keep records of their income and expenditure.

THE MTD VAT REGULATIONS

All VAT-registered businesses (both incorporated and unincorporated) with a turnover above the current VAT threshold of £85,000 will, from 1 April 2019, be required to record and send their VAT information to HMRC digitally via Making Tax Digital-compatible software.

This new VAT regime applies to sole traders, partnerships, companies, LLPs and charities. Whilst more than 99% of all VAT returns are currently sent to HMRC electronically, this will no longer be enough to be MTD-compliant. Only 13% of VAT returns are submitted via software, so statistics suggest that the majority of UK businesses will need to look at making the move to MTD-compatible software in order to be compliant under the new legislation – and ideally well in advance of the April 2019 deadline.

For those companies or unincorporated businesses with a turnover that falls below the VAT threshold, entering into the MTD VAT regime is optional. Those businesses which sign up, either on the basis of turnover or choice, will remain in the regime, even if turnover falls to a level below the VAT threshold.

There are some limited exemptions from the new regulations; these are on the grounds of disability, religious belief or if the business is the subject of an insolvency procedure.

RECORD KEEPING UNDER MTD

As it stands, there is no indication from HMRC of any changes to either the information businesses will be required to submit or to

any deadlines for filing information and making VAT payments.

Submissions will still need to be made to HMRC at least quarterly, however, under the new MTD regime, this will need to be done through the business' Digital Tax Account. It will still be possible under MTD to submit returns to HMRC monthly.

The key change under MTD relates to how businesses record, calculate and submit VAT return information.

Under the new regulations, businesses must record all transactions digitally, keep those records in "functional compatible software" (i.e. software and spreadsheets that can connect to HMRC via an approved interface) and preserve digital records in compatible software for up to six years.

Businesses using spreadsheets to maintain records may still be able to do so under MTD, but HMRC has advised that such systems will need to link to and be submitted digitally through MTD-compliant software.

HMRC has already confirmed that the new requirements will not mean businesses need to retain their invoices and receipts digitally but they must retain information relating to:-



- The business name, principle place of business and VAT registration number
- Details of which VAT accounting scheme the business uses
- The VAT account that each VAT registered business must keep by law
- Information relating to supplies made and received, broken down into sub-totals for each rate of VAT (many businesses will not currently capture this level of detail)

MTD COMPATIBLE SOFTWARE

If a business currently uses a software package to record all VAT records, then it is recommended they should determine that a) the software is MTD-compliant and b) that it is using a version of the software that is MTD-compatible under the new regulations. Assuming the package is MTD compliant, then there should be minimal changes needed under MTD.

However, if the software used is not compliant, then the business will need to explore the available options in order to comply under MTD and well in advance of the April 2019 deadline.

For those businesses which do not currently use software to maintain their records, the new regime will mean there could potentially be significant changes needed to change or update their business systems and working practices to allow the transition from a manual to a digitalised process.

SOFTWARE REQUIREMENTS

Businesses must use software that can connect to HMRC's systems via an Application Programming Interface (known as an API) in order to comply fully with MTD. As such, the software must be able to:-

- Keep and preserve digital records in accordance with MTD regulations
- Create a VAT return with digital information held by the software in order to send this information electronically to HMRC
- Provide certain VAT data albeit on a voluntary basis to HMRC
- Receive information from HMRC via the API platform with regard to an entity's compliance with obligations under MTD regulations

PENALTIES

HMRC has announced that a new points-based system for MTD non-compliance is likely to be introduced, although further details are still to be finalised.

This is in addition to the existing VAT penalties regime for late payment.

Points will be applied each time a MTD report is submitted late. This could be potentially problematic for taxpayers with multiple

businesses (for example, those with, say, both a trading business and a lettings business, as they will be required to submit separate MTD reports for each business on time).

If the taxpayer reaches their MTD points threshold, they become liable for financial penalties. In some situations, it may be possible to appeal against points and penalties, however, this is expected to be successful only in limited and exceptional circumstances.

The new penalty points system for non-compliance with MTD is not expected to be applied until 2020, so there is an element of a "soft landing". However, businesses who fail to comply risk the associated reputational damage to their track record and relationship with HMRC. In addition, it is still uncertain as to whether the current VAT surcharge system will apply to VAT returns submitted under MTD within that "soft landing" period of 2019/20.

SPECIAL CASES

Where businesses are subject to special VAT regimes, such as Partial Exemption, there are further implications in terms of compliance with the MTD regime which need to be considered in terms of the end-to-end reporting requirements. However, many of the software developers now offer a range of apps and there are other solutions available which are capable of digitising the relevant calculations. If your business is subject to a special VAT regime, we would recommend that take specific advice from our dedicated VAT team, who will be able to guide you through these complex regulations.

HOW WE CAN HELP

Whilst it is mandatory for businesses to comply with the MTD regime, its introduction also presents a significant opportunity to use digital accounting to improve efficiency and, ultimately, increase profit for your business.

Our specialist team can help you to find the most suitable MTD-compatible software for your business. We'll look at the options that are currently available to you from a range of software providers, some of whom are able to offer their products to our clients at significantly reduced rates.

We'll then work with you to implement the new software and the systems & processes you need, to not only provide you with assurance that you comply with the new regulations, but to allow you to get access to accurate, real-time information on your business.

Alternatively, you can speak to us about outsourcing all your accounting needs. We've a range of accounting options available to meet the individual needs of your business. Contact the team today – we'd be more than happy to help.

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Get in touch to find out how Clark Howes could help your business.

If you have any questions about Making Tax Digital give us a call, drop us an email or follow us on Twitter to stay up-to-date on the latest news.

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