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Are you ready  
for digital tax  
accounts?



# Introduction

By 2020 the UK's tax system will effectively be transferred online under the Making Tax Digital (MTD) campaign.

According to the Association of Taxation Technicians (ATT) this will be:

*“the biggest change to the way taxpayers will engage with HMRC since the introduction of PAYE in 1945.”*



# Introduction *(continued)*

The ATT aren't the only organisation with concerns. John Cullinane, the Chartered Institute of Taxation's Tax Policy Director, has said that:

*“taxpayers will need considerable support and guidance to avoid a major struggle to make the move to digital record-keeping and quarterly reporting because the timetable is unrealistically tight.”*

Whilst the ICAEW and ACCA have both declared that they have concerns about the new digital tax system, with the former saying “the implementation and ongoing compliance costs will be high with little, if any, cost savings in the short term.” The ICAEW believe that implementing the system may cost the UK's small businesses at least £3 billion, although they have warned that the final bill could reach £7 billion for the nation's SMEs.



# What is Making Tax Digital?

MTD was first announced in the 2015 Autumn Statement and was followed by an initial proposal paper in February 2016, which outlined the basic principles of the campaign and what it hoped to achieve.

To give you an idea of the points made within the document we have outlined some below with an explanation of what it will mean for individuals and businesses:

- **Tax simplification** – Using the new system HMRC will pool information from banks and other institutions to get an idea of a business's finances. This will mean that some of the online forms will be pre-filled, helping businesses to update their information more easily. However, the system will still require businesses and individuals to check the information provided by third parties to ensure it is correct. Failing to check third party information properly could lead to costly tax errors.
- **Digital tax for businesses** – Most businesses, self-employed people and landlords will be required to

keep track of their tax affairs digitally and update HMRC at least **quarterly** via their digital tax account.

These changes will be introduced for some businesses from April 2018, and will be phased-in by 2020. However, it is not yet clear what information businesses and self-employed workers will need to provide and there are concerns, following some comments from HMRC, that it might be similar to the annual tax return.

- **Tax in one place** – Many taxpayers are currently required to contact different parts of HMRC to find out their financial position relating to different taxes. This can mean chasing different people for income tax, corporation tax and capital gains tax.

# What is Making Tax Digital? *(continued)*

Under MTD, everything will be in one place within a personal or businesses digital tax account. This is intended to make communications and amending an individual tax account more simple.

There will be rules governing when money can be reallocated between different liabilities, and HMRC will be working with stakeholders to establish how these rules will work.

- **Digital tax for individual taxpayers** – For the majority of people their digital tax accounts will act as a useful tool to assess their finances and the tax they have paid. This will be useful when applying for some benefits such as tax credits and in-work benefits, simplifying the system and making amendments more straightforward.

Under the original proposals, all taxpayers would have access to their digital accounts by April 2016. This ambitious date has been set back and testing of the

system will now begin in April 2017, before a wider roll-out the following year.

The majority of people will have their information pre-populated using PAYE, but for those who usually complete self-assessment returns they will have to update their information online.

- **Online Payment** – The new system will allow taxpayers to pay tax owed on time through a secure payment service. However, with the changes to real-time amendments of tax accounts and the introduction of quarterly reporting, the date at which tax is owed may move forward.

This may mean that rather than paying a single amount at the end of the tax year businesses and those who are self-employed will have to pay tax throughout the year. This may close some tax planning opportunities and affect cashflow.

## What is Making Tax Digital? *(continued)*

“ These changes are likely to affect 82 per cent of self-employed individuals and 75 per cent of businesses, according to the Chartered Accountants in England and Wales (ICAEW) – requiring changes to the way information is collected and records are kept. ”





# When will the changes take place?

Since this proposal paper was produced early in 2016 there have been numerous delays in the consultation process, which means that much still remains uncertain about the future of digital tax.

While, under the proposal, all businesses are meant to have fully implemented the changes by 2020, with landlords, micro-businesses and the self-employed beginning the process earlier in 2018, HMRC are still yet to confirm final dates.

They have said instead that they will begin beta testing the software in April 2017, but whether any meaningful consultation will take place before then is yet to be made clear.

British businesses and individuals alike need to ensure that they are ready for the changes and compliant with the new legislation. That is where our team at RDP Newmans can help.



# Online Accounting

We understand that business owners have a multitude of tasks to deal with on a daily basis and the forthcoming digital tax measures are likely to significantly increase this burden.

Finding a solution to ease the workload can be difficult, but there is a simple solution in the form of online accounting.

Doing your accounts online offers various benefits; with instant access to important financial data, you can find out how much the company is spending, how much your debtors owe you and the current state of your cash flow – whenever you want and wherever you are.

This information can then be used to influence the decisions you make about the day-to-day running of the business.

At RDP Newmans we work with a variety of HMRC-certified online accounting software packages including Quickbooks, Xero and Sage.

As trainers of online software, our experts can assist you to manage your business effectively; we can provide the training for you and your staff to allow you to make the most of the features available within the online accounting software.

Before the MTD changes take place we can help you review your current position and prepare you and your business for the challenges ahead. We strongly believe in planning for the future.

If you would like to find out more about our online accounting services and the training we can provide, please contact us.





resourceful, dynamic, professional

**London office:**

2 Bath Place,  
Rivington Street,  
London,  
EC2A 3DR

T: 020 7749 1931

E: [enquiries@rdpnewmans.com](mailto:enquiries@rdpnewmans.com)

**Harrow office:**

Lynwood House,  
373/375 Station Road,  
Harrow, Middlesex,  
HA1 2AW

T: 020 8357 2727

E: [enquiries@rdpnewmans.com](mailto:enquiries@rdpnewmans.com)

**Southend-on-Sea office:**

457 Southchurch Road,  
Southend-on-Sea,  
Essex,  
SS1 2PH

T: 01702 466 886

E: [southend@rdpnewmans.com](mailto:southend@rdpnewmans.com)

[www.rdpnewmans.com](http://www.rdpnewmans.com)



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