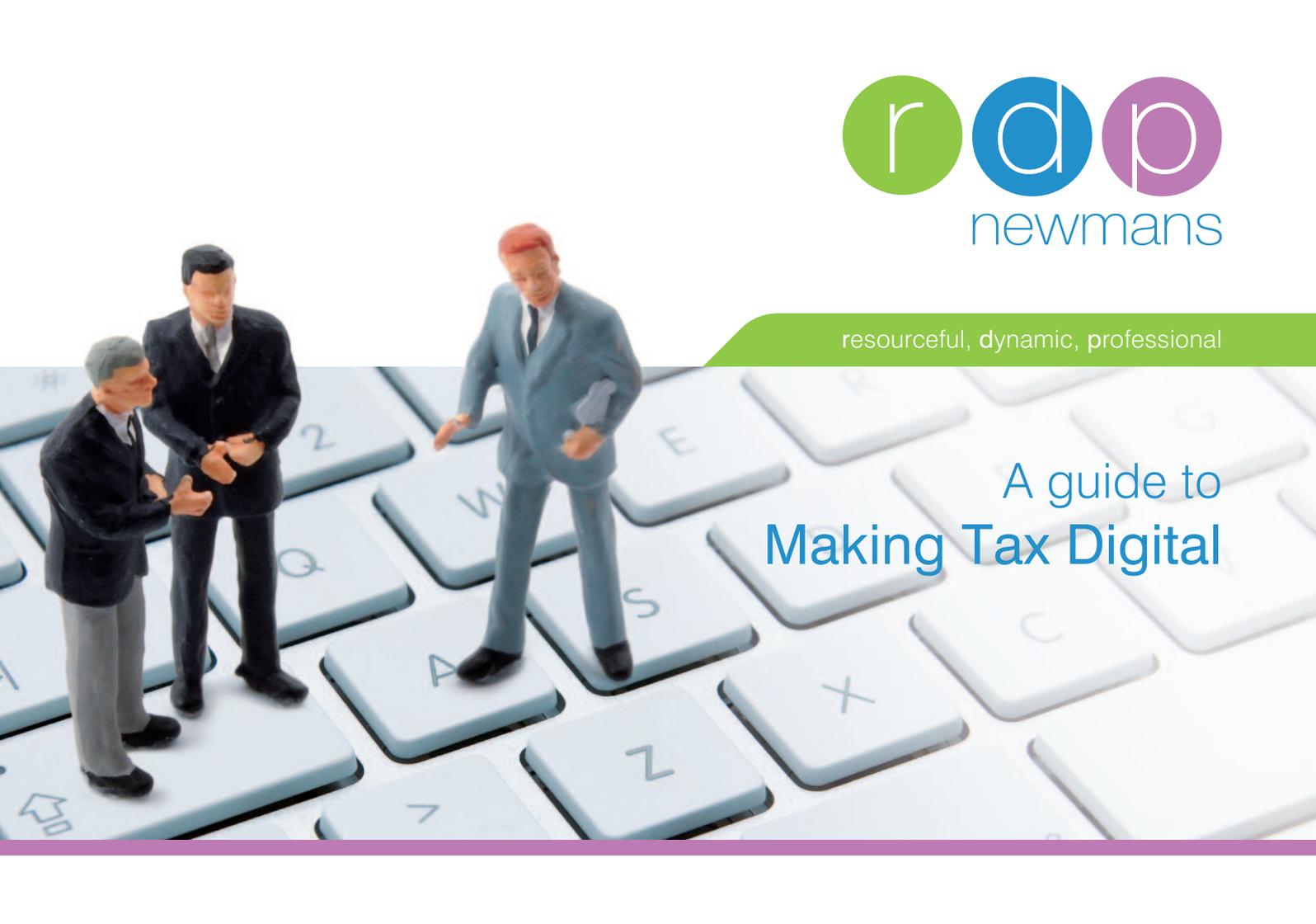




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A photograph of three miniature figures in business suits standing on a computer keyboard. One figure is standing on the 'A' key, another on the 'S' key, and a third on the 'W' key. They appear to be in conversation. The keyboard is light blue and white.

## A guide to Making Tax Digital

# 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. An MTD policy paper was published in March 2017 setting out further details of the campaign and what it hopes 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.

As part of the introduction of Making Tax Digital the

option to account for income and expenditure on a simple cash basis will be extended to all businesses with a turnover up to £150,000.

- **Digital tax for businesses** – All businesses, self-employed people and landlords with a turnover of £10,000 or more will be required to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax account using accounting software or through the submission of spreadsheets.

Charities will be exempt from this rule, but not their trading subsidiaries that will be bound by the same rules. These changes will be introduced from April 2018, and will be phased-in completely for the majority of businesses by 2020.

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

It is not yet fully clear exactly 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 or a simplified version of the annual tax return.

HMRC will use this information to put together an end of year report on tax owed, but businesses will also be able to review this throughout the year to get an accurate reflection of their tax bill in year.

- **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.

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 should have had access to their digital accounts by April 2016, however this ambitious date has been set back and testing of the system will now begin in April 2017, before a wider roll-out in 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.

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

- **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.

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.

Under the proposal, all businesses are meant to have fully implemented the changes by 2020 and HMRC has confirmed that it will pilot these digital systems with hundreds of thousands of businesses before rolling them out to ensure the software and systems are user-friendly.

The latest policy paper published by HMRC in March 2017 sets out the following dates by which different businesses and sole traders will have to comply with MTD:

- April 2018 for those that have profits chargeable to Income Tax and pay Class 4 National Insurance contributions (NICs) and their turnovers are in excess of the VAT threshold
- April 2019 for those that have profits chargeable to Income Tax and pay Class 4 NICs and their turnovers are below the VAT threshold
- April 2019 for businesses that are registered for and pay VAT
- from April 2020 if they pay Corporation Tax (CT)

There will be a period of at least 12 months to become familiar with the changes before any late submission penalties will be applied.



# 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.



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