

HM

Hall Morrice
Chartered Accountants



KEY GUIDE

Making tax digital

Introduction

DIGITISING TAX COMPLIANCE

Making Tax Digital (MTD) is a long-term project to modernise the UK tax system and to bring tax compliance fully into the digital age. The ultimate goal is for all regular transmissions of data between taxpayers and HMRC to be performed digitally, and where possible automatically, through accounting software.

This will take many years to achieve. HMRC needs to restructure its own internal systems, and open up access to its digital services to commercial software providers. To ensure the digitised tax system runs smoothly, some parts of the tax law will need to be rewritten and the structure of penalties which are imposed for non-compliance will need to be revised.

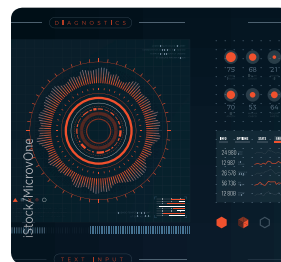
MTD for business is being introduced tax by tax, not by business size or type. Eventually, each business will have to submit separate MTD reports for each of the taxes it pays to HMRC.

Contents



THE MTD TIMETABLE

The latest implementation schedule for the MTD programme



MTD FOR INCOME TAX

How MTD will affect groups such as unincorporated businesses and landlords who pay income tax



MTD FOR VAT

What MTD means for your VAT-registered business and how to file your return



COMPLYING WITH YOUR GENERAL TAX OBLIGATIONS

The importance of record-keeping to help make your tax reporting easier to complete



The Making Tax Digital timetable

Under the MTD rules most businesses will be required to digitally record tax-relevant data and to use MTD-compliant software to transfer the required information directly to HMRC's systems via an application programming interface (API).

In the future, accounting software may be able to submit VAT and income tax or corporation tax reports for a business simultaneously, but that capability doesn't exist at present.

Individuals who are not in business, and who do not let property, will be encouraged (but not required) to use digital means to communicate with HMRC.

This guide concentrates on MTD for business and sets out what is known about that section of the MTD project so far.

Planning point

MTD is being introduced gradually with a separate roll-out for each tax. It will be important to keep an eye on new deadlines as and when they are established.

The MTD project has started with VAT paid by businesses and will be extended to income tax paid by individuals at some point in the future, and then potentially to corporation tax.

MTD for VAT became compulsory for periods starting from April 2019, but a small number of complex organisations have had their MTD start date deferred to the first periods starting from October 2019, or in some cases later.

Start date	Tax
VAT periods beginning on and after 1 April 2019	MTD for VAT: Businesses with annual turnover above the VAT threshold must keep digital records and file VAT returns using MTD-compatible software.
VAT periods beginning on and after 1 October 2019	MTD for VAT: Businesses with a deferred start date must keep digital records and file VAT returns using MTD-compatible software.
April 2021 - date not confirmed	MTD for VAT: A review of progress to date, and a possible rollout to all VAT registered businesses.
April 2022 - date not confirmed	MTD for income tax: Unincorporated businesses and landlords to keep digital records for income tax on profits and make quarterly reports using MTD-compatible software.
April 2023 - date not confirmed	MTD for corporation tax: No details on what will be required.

The businesses who have a deferred start date for MTD for VAT are: VAT groups, VAT divisions, traders based overseas, trusts, unincorporated charities, annual account scheme users, and companies that pay more than £2 million of VAT per year who must make VAT payments on account.

Certain public sector bodies including NHS trusts and government departments which use the GIANT system of VAT reporting have had their start date for MTD pushed back to a date to be confirmed in 2020.

The MTD for business project will only become compulsory for income tax once the reporting system for MTD for VAT has been found to work well.

Businesses can voluntarily sign up for MTD for VAT or the MTD for income tax pilot programme, earlier than the required start dates. To do this, the business must have access to MTD-compliant software either directly or through their accountant or tax agent.

MTD FOR VAT

MTD for VAT became compulsory for most VAT registered businesses from the start of their first VAT period which commenced on or after 1 April 2019.

Who must comply with MTD for VAT

VAT registered businesses with 'VATable' turnover above the registration threshold (frozen at £85,000 until 31 March 2022) for the last 12 months need to comply with the MTD for VAT rules. VAT registered businesses with turnover under the VAT registration threshold are automatically exempt from MTD for VAT.

VATable turnover includes all sales which carry VAT at the standard (20%), reduced (5%) or zero rate. Sales of goods or services which are outside the scope of VAT or are exempt from VAT are not counted within this turnover test.

The business must measure its taxable turnover on a rolling 12-month basis to the end of each month, starting with the year to 31 March 2019. When turnover during that period exceeds the VAT registration threshold, the business must comply with the MTD rules from the start of its next VAT period. If the turnover drops below the VAT registration

threshold the business must still comply with the MTD for VAT rules until it cancels its VAT registration.

Businesses which become VAT registered on or after 1 April 2019 because their turnover has exceeded the VAT threshold must enter the MTD regime immediately with their first VAT return.

A business can claim exemption from the MTD rules if it is not reasonably practical for all the business owners to keep digital records or to use software to submit the VAT return – for example because of disability, age or being based in a remote location. Exemption may also be claimed on religious grounds.

Businesses which are already exempt from online filing for VAT due to age, disability or lack of internet connection are automatically treated as being exempt from MTD for VAT. Those business will continue to use alternative arrangements to submit their VAT returns to HMRC.

To claim exemption from MTD for VAT, the business, or their agent, should contact the VAT helpline: 0300 2003700 or write to: HMRC, VAT Written Enquiries Team, Portcullis House, 21 India Street, Glasgow G2 4PZ. The business will have to provide details about how it currently files VAT returns, the reasons why it cannot file returns through software or keep digital records, and any other reason why it cannot follow the MTD rules.

How MTD will affect your VAT returns

Under MTD, businesses must record and retain their VAT records in a digital format and submit VAT returns using MTD-compatible software.

The information submitted to HMRC is exactly the same data as submitted on the VAT return. It is only the method of delivering the VAT return which is changing; the underlying VAT calculations (which are not sent to HMRC), and the timing of VAT payments remain the same.



Submitting a VAT return under MTD

Under MTD for VAT, businesses must use commercial software to submit their VAT returns, unless exempt from MTD. Those already using accounting software to submit their VAT returns must use MTD-compliant versions.

If you don't use accounting software to submit your VAT returns you need to identify what software solutions will suit your business. This may involve a number of software packages or spreadsheets which transfer data between them by way of digital links (see below).

Planning point
 Businesses with turnover above the VAT registration threshold are required to keep digital records and submit VAT returns via MTD-compliant software for VAT periods that commenced on or after 1 April 2019, unless it has a deferred start date.

You need to sign up for MTD for VAT with HMRC at least 72 hours before your first VAT return is due under MTD. Your accountant can also do this for you. If you pay VAT by direct debit you should sign-up for MTD at least seven days before your next VAT return is due.

PREPARING FOR MTD FOR VAT

There are various specific requirements for recording and transmission of data under MTD for VAT, so it is important to make sure you review business systems before the soft-landing period for digital links expires.

Software requirements and providers

HMRC is not providing free software for businesses to submit VAT returns under MTD. However, some low cost, or free software applications, include bridging software for which can work with existing spreadsheets or accounting packages to submit data to HMRC via an approved API.

HMRC has published a searchable list of MTD for VAT software products at <https://www.tax.service.gov.uk/making-tax-digital-software>.

It is important to check what you need the MTD-compatible software to do, how it will work with your current accounting system, and whether it will provide information about the VAT you owe or your VAT payment history.

EXAMPLE Digital links

Joan is registered for VAT and is required to use MTD from April 2019.

Joan stores her VAT receipts manually, and uses spreadsheets to maintain her VAT records. MTD does not require businesses to store original documents electronically, so Joan can continue to store her purchase receipts manually, as long as the key information concerning each purchase is recorded digitally.

However, Joan must digitally transfer the information necessary for the VAT return into MTD-compatible software. This digital link can be in the form of bridging software which reads the necessary figures from Joan's spreadsheet, but there are many other forms of digital links.

Joan will still need to preserve her VAT records for six years, but that information doesn't have to be kept in the same digital format it is recorded in. A download of data from cloud-based accounting software meets the MTD record keeping requirements.

If your business is VAT registered and your annual turnover is above the VAT threshold, but you are not currently using accounting software, you need to consider enhancing your record keeping with digital accounting systems.



Register for MTD

Businesses have to sign up for MTD for VAT with HMRC before their first VAT return is due under MTD filing. This is required even if the business is already VAT registered and HMRC has all the necessary contact details.

The sign up for MTD can be done only once the MTD compliant software is in place, and must be completed at least one week before the first VAT return is due under MTD. The sign up process is done through your Business Tax Account (BTA). The BTA is an online account where a business can view a summary of all its tax liabilities and repayments. It is accessed through the Government Gateway and requires a two-step ID verification process.

Digital record-keeping requirements

The MTD rules require VAT registered businesses to record the following data points digitally for each transaction:

Sales	Purchases
Time of sale (tax point)	Time of purchase (tax point)
Value excluding VAT	Value net of VAT
Rate of VAT charged	Amount of VAT to reclaim

HMRC has acknowledged there are benefits to both recording each individual invoice, and recording totals from a supplier statement in the digital accounting system. The law allows businesses to record the totals instead of individual payments in the following cases:

- When a supplier issues a statement for a period, provided all supplies on the statement are to be included on the same return and the total VAT charged at each rate is shown.
- Petty cash transactions for any purchases with a VAT-inclusive value under £50, and not totalling more than (VAT-inclusive) £500.
- Supplies made or received during a charity fundraising event run by volunteers, which are covered by one invoice.
- Purchases made on your behalf, supplied by a third party, detailed in a summary document. You are not required to record these purchases until you receive information on them from the agent.

The different VAT schemes also retain some leeway when it comes to recording multiple purchases. These are summarised in the table opposite.



Retail schemes (for example shops or takeaway food outlets)

Daily gross takings must be recorded. Individual supplies do not need to be digitally recorded.

Flat rate scheme (for businesses with VAT taxable turnover of less than £150,000)

No need to digitally record your purchases unless they are capital goods on which input tax can be claimed. No need to digitally record goods used to determine if you need to apply the limited cost business rate.

Gold special accounting scheme (applies to standard rated supplies of gold)

You must digitally record the value of sales made and total output tax on purchases.

Margin schemes (for those selling antiques or works of art, for example)

No need to keep additional records in the digital system, or the calculation of the marginal rate, although those records must be maintained in some format.

HMRC also requires the following information to be recorded digitally and submitted with the VAT return figures:

- name of the business;
- business address, or principal business address;
- VAT registration number; and
- any VAT accounting schemes used, such as the flat rate scheme.

Some documents must be preserved in their original form, such as import VAT certificates (C79 forms).



Digital links

Under the MTD rules, the data necessary for the VAT return must flow from the accounting system to HMRC without human intervention to retype or amend figures, or to copy and paste from one medium to another. The links between each piece of software should be digital rather than manual, to avoid keying errors.

However, many businesses have complex accounting systems which use a combination of accounting packages and spreadsheets to calculate the totals needed for the VAT return. HMRC realises that to convert all accounting systems to insert digital links will take some time. It is therefore allowing a soft-landing period of one year from the start of MTD for all businesses to create a purely digital journey for the VAT data from creation to submission to HMRC.

If the business finds that it is not possible to completely digitise its VAT recording system within this soft-landing period, it can apply to HMRC to extend the soft landing period for a further year.

Penalties may be imposed where the business makes no attempt to comply with its MTD obligations to record, transmit and store VAT data digitally.

EXAMPLE Review of software

ABC Ltd's bookkeeper had used an accounting software package to maintain the company's accounting records. The company is required to submit VAT returns under MTD for VAT for periods beginning on and after 1 April 2019.

ABC Ltd's software provider has added MTD for VAT compatibility to its accounting software package. This allows ABC Ltd's bookkeeper to install the relevant updates to file returns under MTD.

However, this is an opportunity for the company to review whether its accounting software best serves the current and future needs of the business.

Secure your systems

If you move to an online accounting package, it is essential that your data is secure (the same applies to any use of a device connected to the internet). IT systems are vulnerable to many kinds of attack, for example malware, viruses, worms, hacking, phishing, access by unauthorised persons, theft of data and theft of hardware. Software and hardware can also malfunction or suffer other accidental damage.

However, you should not let the risks put you off. There are several basic precautions you should take:

- Run regular and frequent backups of data. If data is stored in the cloud, access to it must be protected and the data must be backed up.
- Use strong, memorable passwords and change them regularly. Other forms of secure access are available, from storage software to fingerprint recognition.
- Only give your employees and agents access to those systems and data that they need to carry out their jobs.
- Keep anti-virus and other protective software up-to-date (some operating systems do this automatically).
- Ensure that you and anyone else who uses your computers in your business exercise great care when opening emails, especially those containing links or attachments.
- Keep your premises secure.

You may already do many of these things to protect your business, especially if you bank, pay bills and interact with suppliers and customers online.

Planning point

You should review online security on a regular basis. Even if your system was state of the art a couple of years ago, it may not pass muster now.

MTD FOR INCOME TAX

While the deadline for MTD for income tax is still some way away, you can start working towards compliance now.

Who will have to comply?

HMRC has said all unincorporated businesses and individual landlords with annual turnover of £10,000 or more will have to comply with the MTD rules. That turnover threshold has not been fixed in the regulations, so it may change before MTD for income tax becomes compulsory. The MTD turnover threshold would apply across all businesses operated by an individual.

Large partnerships with turnover of £10 million or more will not be drawn into the MTD rules for income tax when those rules are imposed for smaller businesses.

How MTD will affect your income tax for business returns

Currently an unincorporated business (sole-trader or partnership) reports its turnover, expenses, and profit or loss to HMRC once a year on the self-assessment tax return. This return must be submitted by 31 January following the end of the tax year in which the business accounting period ends. Landlords report rental income for each income tax year which ends on 5 April.

Under MTD for income tax, the business will have to report totals of income and expenses each quarter to HMRC, within one month of the quarter end. This report will have to be submitted using MTD-compatible software. HMRC will supply the business with an estimated amount of tax based on the net income reported for that quarter, which will allow the individual to estimate his or her tax bill.

At the end of the accounting year, income and expenses are reported for the fourth quarter, but the taxpayer will also have to make any accounting adjustments, such as for capital allowances or disallowed expenses, in the same or an additional report. Where the taxpayer has other non-trading income to report for his self-assessment, he will also have to submit a self-assessment return. Where the taxpayer has no other income to report he will not have to submit a self-assessment tax return.

This means, under MTD, one self-assessment tax return has turned into four, five or six reports per year to HMRC.

Preparing for MTD for income tax for business

The first step in preparing your business for MTD reporting is to activate your BTA. Your BTA allows you to view all of the taxes your business pays to HMRC including PAYE and VAT.

The next step is to digitise your accounting system by recording all sales and purchases digitally. You may choose to use accounting software or spreadsheets for this task. A paper-based recording system will not be acceptable.

Accounting software

HMRC has promised that free MTD for income tax software will be available for the simplest businesses, who have no employees and who are not VAT registered. This free software will allow those businesses to file reports under MTD for income tax, but not for VAT.

HMRC expects the market to provide a range of software solutions for all businesses. There are currently only a few software providers on the HMRC approved list of suppliers for MTD for income tax: <https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax>.

MTD for income tax pilot

A pilot scheme is underway to test software compliance for MTD for income tax. It is open to sole traders with just one business, and most landlords with simple tax affairs. Further groups of taxpayers will be brought in as new functionality is added.

COMPLYING WITH YOUR GENERAL TAX OBLIGATIONS

Whether or not you will have to use MTD, it is essential that you keep complete and accurate records of your business and other income so you can make accurate tax and VAT returns.

MTD on its own will not guarantee accuracy. All relevant income and outgoings must still be recorded. However, HMRC says that MTD will help businesses get their tax bills right first time.

- HMRC makes compliance checks on tax returns, which may be random, or triggered by the figures in the return.
- An increasing amount of information comes from third parties, which HMRC uses to check information in tax returns.

Where HMRC finds that a person has not taken enough care to make accurate tax returns, penalties will usually be charged. Pleading ignorance of the rules will generally not avoid penalties. Material inaccuracies are likely to be spotted, so it is worth making the effort to get your tax right.



HOW WE CAN HELP

All businesses need to keep good accounting records to enhance business efficiency and to make accurate tax returns, whether or not they will have to comply with MTD for VAT rules from April 2019.

We can review your accounting systems and advise on accounting software that will best serve your business needs.

If you need to comply with MTD for VAT, we can help you prepare by ensuring your software is compatible and, where necessary, help you set up new systems and become proficient at using them.

We can make the necessary reports on your behalf to HMRC, if you have authorised us to act for you and provide direct access to your accounting data and software.

We can help you with IT security and keep you up-to-date on any changes in tax and accounting compliance that affect your business.



Hall Morrice

Chartered Accountants



Hall Morrice
Chartered Accountants

6&7 Queens Terrace
Aberdeen AB10 1XL

Tel 01224 647394

E-mail accounts@hall-morrice.co.uk

Web www.hall-morrice.co.uk

Partners

Hugh H Hall C.A.
Shonagh L Fraser C.A.
Anne R Hall C.A.
Robert J C Bain C.A. C.T.A.
Derek J Mair F.C.C.A.

Directors

Stuart F Gordon F.C.C.A.
Derek J Petrie C.A.
Michael I Innes MCIBS

Hall Morrice LLP is a limited liability partnership registered in Scotland number SO303198 with its registered office at the above address. Registered to carry on audit work in the UK and regulated for a range of investment business activities by The Institute of Chartered Accountants of Scotland.