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MAKING TAX DIGITAL:
A guide for businesses

Everything you need to know about MTD

WHAT IS MAKING TAX DIGITAL?

Making Tax Digital, or MTD, is a HMRC initiative designed to move the UK tax system online. HMRC aims to become 'one of the most digitally-advanced tax administrations in the world' and has introduced MTD to make fundamental changes to the current ways of working.

Once fully in place, MTD will bring an end to self assessment and make UK tax administration:

More effective - Tax recording will be more accurate, with fewer opportunities for mistakes or miscalculations.

Easier for taxpayers to make accurate tax calculations - By using software to record and submit their tax returns online.

More efficient - The overall process will be slicker and more automated for everybody involved in tax affairs, including businesses, accountants and HMRC.

MTD applies to a wide range of taxpayers, including:
- most businesses,
- self-employed professionals,
- landlords.

WHEN WILL THE CHANGES HAPPEN?

MTD is being rolled out in phases, starting in 2016 and finishing in 2020.

Here's an overview of the key milestone dates:

Date	Milestone
April 2017	Private pilot rollout begins
July – December 2017	Digital tax accounts show taxpayers an overview of their liabilities in one place and the private pilot of MTD for VAT starts
Spring 2018	MTD live pilot begins
April 2019	- MTD applies to VAT – registered businesses with a turnover above the VAT threshold (£85,000) - It will be optional for VAT – registered businesses with a turnover below the VAT registration threshold.
April 2020 (Provisional)	HMRC will widen the scope of MTD to: - Sole traders and partnerships with an income of between £10,000 and £83,000 - It will be optional for businesses whose turnover is below the threshold.

Key implementation dates – at a glance

VAT returns - Imminently (from April 2019)
Corporation Tax - April 2020
Income Tax - April 2020

HOW WILL THE CHANGES IMPACT BUSINESSES ON A DAY-TO-DAY BASIS?

As you'll see from the timings on the last page, a couple of pilots have taken place and MTD will start to take effect from this year.

1. Keep digital records and file quarterly returns

From April onwards, businesses will be required to start keeping digital records and submitting quarterly returns to HMRC online. (Note – there are some businesses that may have been deferred on their MTD obligations, we've listed examples on page 5).

However, it's important to note that at this stage, **MTD will only apply to businesses that have a taxable turnover of more than £85,000.**

From April 2020, MTD will be extended to the other areas we referenced on the last page, meaning they'll be expected to file online returns quarterly and keep digital documents too.

2. Review and upgrade existing working processes

From a practical perspective, submitting digital VAT returns and keeping online files will mean many businesses will have to review and upgrade their existing working processes.

3. Invest in MTD-compatible software

It is essential businesses have the relevant MTD-compatible software in place before April 1 to be able to make the switch from paper to digital, as you can't just simply send returns to HMRC via an email.

Businesses need to create a digital link between their VAT return and HRMC and this cannot be done without having specific software in place.

For more details about digital links/software, turn to the next page...

MTD DOS AND DON'TS

DO:

1. Make sure you have MTD-compliant bookkeeping software in place.

2. Establish when your first MTD tax return is. The official HMRC dates are:
- Quarters ending January - first MTD return is due 7th September
- Quarters ending February - first MTD return is due 7th October
- Quarters ending March - first MTD return is due 7th July
- For monthly VAT returns - first MTD return is 7th May

DON'T:

1. Ignore MTD those who do, will be penalised.

2. Forget to record all of your transactions that make up your VAT return figures line-by-line. This includes: tax point, value of supply and rate of VAT charged.

HOW DO BUSINESSES CREATE A DIGITAL LINK AND WHICH SOFTWARE DO THEY NEED?

Creating an MTD-compliant link is simple when:
A) You know how and B) have installed the relevant software.

There are two ways businesses can create a link, using either of these two pieces of digital link software:

1. API-enabled software – you may already use a program, such as Sage or Xero. A lot of this software has the capability to submit your VAT returns data direct to HMRC. If you're not sure, get in touch with us, and we'll be able to advise you on whether your current software is compatible or not.

2. Bridging software – this effectively acts as a link between your spreadsheets and the software you're using already. For more advice on the bridging services available to you, contact us and we'll talk you through the different options.

We have implemented a dedicated MTD submissions service for our clients, which we will be rolling out to clients for submitting VAT returns from April this year. If you'd like to find out more about it, get in touch with us using the contact details at the end of this guide.

DOES EVERYBODY HAVE TO FOLLOW MTD?

No, they don't.

There are some exemptions, which include the 'digitally excluded', who cannot engage with accounting software or apps due to religion, disability, age or remoteness of location.

Unincorporated businesses and landlords with a gross income/annual turnover below £10,000 are also exempt.

Meanwhile there are some organisations that have been given a MTD deferral, which means they don't have to follow the new digital processes until October 1, 2019.

They include:

- 'Not for profit' organisations, such as charities, that aren't companies

- VAT divisions

- Traders based overseas

- Trusts

- VAT groups (the deferral applies to the group registration only and not to any group companies that are not covered by the group registration)

- Local authorities and public corporations

- Public sector entities that are required to provide additional information alongside their VAT return (such as Government departments and NHS Trusts)

- Those required to make payments on account

- Annual accounting scheme users

However, deferment is decided by HMRC - so if you haven't received confirmation directly from HMRC, then you must be compliant from 1st April

WHAT SHOULD BUSINESSES DO NEXT?

Now that you've reached the end of this guide, you're hopefully clear about what MTD is, why it's happening, when it's happening and how it's going to impact businesses.

If you're not sure what to do next to make sure you're ready for MTD, these three checks will help:

CHECK 1: Where you fit within MTD
Do you have a taxable turnover of £85,000 or more? Or are you a sole trader or perhaps feature on the 'deferred' list of organisations we shared with you? It's important you clarify ASAP if MTD applies to and, if so, when it applies to you from.

CHECK 2: Your existing processes
Are they all geared up for MTD? Do you have the right systems in place to start saving files electronically?

CHECK 3: Your software
Which software are you using right now? Is it API-enabled software, bridging software or does it fall into a totally different category? More importantly, can you use it to create MTD-compliant digital links?

CHECK 4: Your situation with an expert
MTD is a totally new initiative with wide-reaching repercussions. If you're unsure about any elements of it, especially how it's going to impact your business, then seek expert advice. Non-MTD compliant businesses may be penalised however, HMRC are yet to confirm what the penalties are going to be.

We hope you've found this guide useful and that it's brought you up to speed on the latest MTD details.

For more information or to discuss any queries you may have with us, contact us on

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