



## Taking tax compliance into the 21st century

Making Tax Digital (MTD) is the HM Revenue & Customs (HMRC) project to get businesses to use digital tax records for direct reporting. HMRC has described it as the biggest change to the UK tax system since the introduction of self-assessment. Because of the scale of this project, there have been some setbacks to the original timetable. However, from April 2019 businesses will be required to use MTD to meet their VAT obligations. They will then have to keep digital records and submit quarterly reports to HMRC.

Businesses and landlords will not have to use MTD for other taxes until it is clear the system works well, and not before April 2020 at the earliest. This is also the earliest date by which MTD will be used for corporation tax.

### The MTD timetable

Concerns were raised about the pace of the original MTD timetable, under which some businesses would have had to use MTD from April 2018. Because of the feedback, MTD will now be implemented much more slowly than previously intended.

The revised plan is:

Start date	Tax
April 2019	VAT - Only for businesses (including companies) with a turnover above the VAT threshold (£85,000 until 31 March 2020).
April 2020 at the earliest	<ul style="list-style-type: none"> <li>Income tax – Businesses and landlords will have to keep digital records and report quarterly.</li> <li>Corporation tax.</li> </ul>

#### **Planning point**

*Businesses with turnover above the current VAT threshold will have to keep digital records and report to HMRC quarterly on VAT from April 2019.*

A business whose turnover is below the VAT threshold, but voluntarily registered for VAT, will not be required to use MTD from April 2019 – though this might change when MTD is fully implemented. However, if a business is initially required to use MTD for VAT purposes, it will have to continue to do so if its turnover subsequently drops below the threshold.

Businesses and landlords can choose to opt in to MTD earlier than required.

With an extended timetable, you now have time to plan, assess and test your systems, invest in relevant software if you need to and ensure your business is ready. The introduction of MTD for VAT could, however, possibly coincide with the UK leaving the EU. The position is currently uncertain, but this could alter the VAT treatment of EU transactions – making any planning much more difficult.

Businesses with turnover above the current VAT threshold will have to keep digital records and report VAT to HMRC from April 2019. If this will affect you, you need to be planning for the change now.

### HMRC’s MTD pilots

**VAT** – The VAT pilot lets selected businesses submit their VAT returns via the new system. HMRC will monitor progress to ensure the system is working as expected before making it more widely available. This will allow for extensive testing before businesses are required to use the system.

**Income tax** – The income tax pilot was initially only open to sole traders with just one business, but has recently been extended to landlords (excluding furnished holiday lettings) with simple tax affairs. Further groups of taxpayers will be brought in as new functionality is added.

## How will MTD affect your VAT returns

VAT returns must be submitted online, with few exceptions. However, businesses can use any type of record-keeping system they like if it provides accurate figures. Some businesses still keep paper records, some use computer spreadsheets, while others use accounting software which may or may not be online or cloud-based. With some online or cloud-based accounting software, you can already connect to HMRC to make your VAT return.

HMRC's software is currently used to file around 90% of VAT returns. Under MTD, however, almost everyone will have to use some form of third-party online or cloud-based software that will link directly with HMRC's MTD systems.

### Example – MTD software

Joan is registered for VAT and will be required to use MTD from April 2019. She currently uses spreadsheets to maintain her VAT records, with VAT returns submitted using HMRC's software. Joan's VAT invoices are stored manually.

Since HMRC will no longer provide its own software, Joan must find a commercial MTD solution, and accounting software producers are already working on enhancing their existing packages to make them compatible with MTD.

HMRC has said that businesses will be able to continue to use spreadsheets for record keeping, provided the spreadsheets meet the necessary requirements of MTD. This is likely to involve Joan combining her spreadsheets with whatever software she chooses.

MTD will not mean having to store invoices electronically, so Joan will be able to continue to store her VAT invoices manually.

Joan's MTD software will need to preserve her digital records for six years.



### Planning point

*If you want to get ahead of the game, then join one of HMRC's MTD pilots. This will give you the opportunity to get used to the new system before it becomes mandatory.*

## Submitting VAT returns

Most businesses submit their VAT returns quarterly, but some prepare annual returns and others make monthly VAT repayment claims. These options will still be available under MTD. The move to MTD will also not affect the use of retail schemes or the flat rate scheme.

Taxpayers will be able to authorise their agent or accountant to access their digital tax account, so that the agent can prepare and submit quarterly figures on behalf of their client.

Anyone who is 'digitally excluded' will not have to use MTD. You may be 'digitally excluded' because you have inadequate or no internet access at your location, you cannot use computers because of a disability or your age, or you object to using computers on religious grounds. These are the same exceptions that currently apply to VAT online filing.

## Accounting software

Access to accounting software generally incurs a monthly charge. The price depends on the level of sophistication required. However, using an accounting package may reduce accountancy fees if it improves the quality of your business records so that we have less to prepare.

Although HMRC will not provide software, commercial companies are expected to make free software available to businesses with the most straightforward affairs, such as:

- Those that are unincorporated.
- Businesses that have income under the VAT threshold.
- Businesses with no employees.

HMRC is working with software developers to define the minimum functionality of a free software package that would meet MTD requirements. This would most likely allow businesses to:

- Keep digital records.
- Generate and send quarterly updates to HMRC.
- Complete end-of-year activity to ensure compliance with MTD requirements.
- Include arithmetical error correction.
- Include a basic level of built-in prompts and nudges, with basic help functions.
- Enable information to be sent from HMRC to businesses about their tax liability.

Free software is unlikely to be available for businesses with turnover above the VAT threshold. Although businesses will only have to use MTD for VAT to start with, it is important to look to the future. Your accounting system will need to work for all taxes and it is better to get it right from the outset.



### Planning point

*Make sure that your software will be MTD compliant. HMRC publishes a list of commercial VAT software products (VAT List), although those currently listed may not yet be MTD compliant. There is also a list (Income Tax List) of those products that can be used for the MTD income tax pilot.*

## Going digital

At first sight, the prospect of reporting quarterly to HMRC instead of annually doesn't seem particularly appealing. But the aim is that reporting will be mostly 'painless', because it will be an integral part of businesses' accounting software. For MTD to work, most businesses will have to maintain digital accounting records using software that can send information directly to their personal tax account with HMRC.

Eventually the administration of tax will be fully digitised. You probably already have a personal tax account (also known as a digital tax account), which for employees is automatically populated with details of income and PAYE tax deducted taken from the Real Time Information (RTI) system. Currently, personal tax accounts allow taxpayers to manage their tax affairs online. Activities that can be carried out online include:

- Reviewing PAYE codes.
- Completing, submitting and viewing a self-assessment tax return.
- Claiming a tax refund.

- Viewing and managing tax forms that have been submitted online.
- Notifying HMRC about a change in address.
- Checking your national insurance record and state pension forecast
- Checking and updating any employment benefits, including company cars.



### Planning point

*The extended timetable for MTD provides an opportunity to review your accounting software fully and decide what your needs and requirements really are.*

## Projected benefits of MTD

MTD is a long-term project which is intended to change the way businesses interact with HMRC. HMRC has outlined four broad advantages of MTD, although the full benefits will only come later when MTD encompasses taxes beyond VAT:

- **Better use of information** – As is already happening with personal tax accounts, individuals will not have to provide any information that HMRC can obtain from elsewhere, for example from employers (under RTI), banks and other government departments. Taxpayers will be able to access this information at any time and check whether it is correct and complete.
- **Tax in real time** – HMRC will collect and process information affecting an individual's tax liability almost immediately it is available, which will reduce errors and prevent tax due or repayments owed from building up.
- **A single financial account** – Taxpayers will see a comprehensive picture of their liabilities and entitlements in one place.
- **Interacting with HMRC digitally** – Taxpayers and their agents will be able to contact HMRC online more easily via webchats and secure messaging at a time to suit them, and through their own accounting software.

Once MTD is fully implemented, users will no longer have to submit an annual self-assessment tax return, but will report information to HMRC quarterly along with an annual declaration. MTD will, says HMRC, make it easier for individuals and businesses to keep on top of their tax obligations.

Further gains will arise from the use of digital accounting packages. These gains, already available from existing software, include:

- Access to your business records at any time wherever you have an internet connection.
- Regular management accounts to help you manage your finances and make business decisions.
- Immediate access to your customer and supplier account balances, and stock levels.
- Ability to create and send invoices.
- Recording sales and receipts.
- Connecting with your business bank accounts.
- Direct access for your agent or accountant.
- Updates to ensure your accounts and business records always comply with any changes in the law.
- Easier preparation of your tax returns even before MTD is extended to income tax.

## Preparing for MTD

If your business is registered for VAT and your turnover is above the VAT threshold, you will have to use MTD from April 2019.

### Example – Review of software

ABC Ltd's bookkeeper uses an accounting software package to maintain the company's accounting records. The company will be required to use MTD from April 2019.

It is likely that ABC Ltd's software provider will simply add MTD compatibility to its accounting software package, so that ABC Ltd's bookkeeper will just need to make sure that the relevant updates are installed.

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

If your business turnover is above the VAT threshold and you are not currently using accounting software, this is a good time to consider enhancing your record keeping by adding the capabilities that digital accounting can provide.



### Planning point

*Even if it's just to check the odd tax detail, a personal tax account can be a useful thing to have. You can set one up at [www.gov.uk/personal-tax-account](http://www.gov.uk/personal-tax-account).*

## Secure your systems

If you move to online accounting, it is essential that your data will be secure (indeed 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 malfunction or suffer other accidental damage. However, you should not let the risks put you off. There are several basic precautions you should take:

- 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, preferably without keeping them written down. Other secure access forms 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 in dealing with emails, especially those containing links or attachments.
- Keep your premises secure.

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

## 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. You still must make sure that all relevant income and outgoings are recorded. However, HMRC says that MTD will help businesses to get their tax bills right first time. MTD is not HMRC's only strategy for ensuring everyone pays the correct amount of tax due:

- 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.
- HMRC task forces target specific business sectors and locations where there is a high risk of tax evasion.



### Planning point

*You should review your online security on a regular basis. Just because your system was state of the art a couple of years ago, doesn't mean it will pass muster now.*

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, or even an honest mistake, will generally not avoid penalties. Material inaccuracies are likely to be spotted, so it is therefore worth making the effort to get your tax right.

## How we can help

All businesses, whether or not they will have to use MTD from April 2019, need to keep good accounting records to enhance business efficiency and to make accurate tax returns. We can review your accounting systems and advise on accounting software that will best serve your business needs.

If you will have to use MTD from April 2019, we can help you prepare by ensuring your software is compatible and, where necessary, helping you set up new systems and become proficient at using them. We can make the necessary reports for you by having direct access to your accounting data and software.

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

*This publication is for general information and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. This publication represents our understanding of law and HM Revenue & Customs practice as at 20 June 2018.*

Thank you for your interest in this Essential Guide. For further information or if you would like to discuss any aspect of the guide, please contact us.

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