

MTD – Making Tax Digital *or* Making Tax Difficult?



Catherine Hubbard
Tax Manager

01284 752313

catherinehubbard@whitingandpartners.co.uk

Making Tax Digital – Update

The original ambitious timeline drawn up in HMRC's consultation documents remains unchanged for the biggest overhaul in the history of the UK's taxation system through the programme 'Making Tax Digital' or MTD.

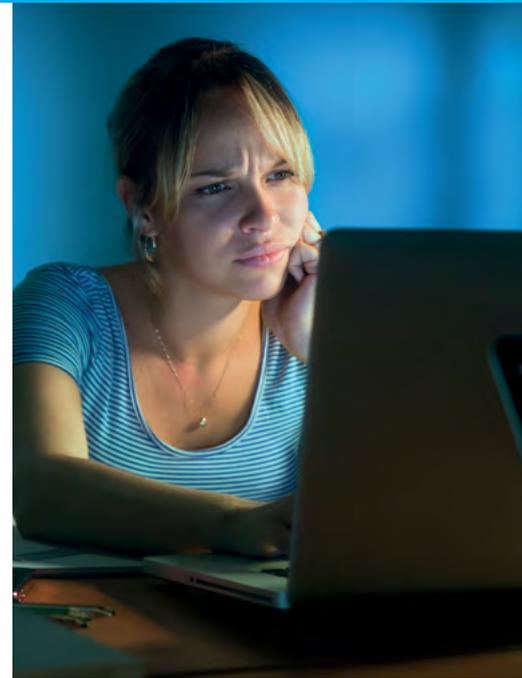
As I write, HMRC is planning a pilot launch in April 2017 but several issues remain to be clarified. Our second MTD newsletter is designed to bring small and unincorporated businesses as well as landlords up-to-speed and help you prepare for major changes.

The budget established HMRC's decisions on four key areas:

- The exemption threshold has been confirmed at £10,000pa for quarterly reporting
- Those businesses with turnover less than the VAT threshold can defer entry to MTD until 2019.
- Further details on the proposed GAAP simplification and basis periods will also follow.
- HMRC has confirmed that there will be no penalties for the first 12-months of MTD. Further detail is pending on penalties, interest and surcharges.

Given the complexity and short timescale to introduction for the smaller businesses, it is no wonder some people have dubbed MTD as Making Tax Difficult. Whether or not we like it, it is clear that MTD will be upon us very soon.

As before, I encourage you to read, study and digest before calling your usual Whiting & Partners adviser because we're reviewing the likely impact on a client-by-client basis to identify any possible issues and plan a solution.



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Business Advisers

MTD – Landlords



Neil Groom
Tax Manager

01353 662595

neilgroom@whitingandpartners.co.uk

Several additional announcements have been made by HMRC following its consultation exercise and the responses that were received. There were five key areas, which I have outlined. These included the simplified cash basis,

property updates, three-line accounting and spread sheets.

- Simplified cash basis - extended to include unincorporated property businesses, with the threshold increased to £150,000. Businesses with turnover below the threshold will be able to declare income when it has been received, rather than when it is due.
- Simplified cash basis will be the default method of accounting, although the taxpayer can opt out, to use accruals if required. Married couples and Civil Partners who are joint owners will have to adopt the same method but other joint owners can each choose the method independently.
- It will now only be necessary to make a single update to include all rental properties against the original proposal that an update would be needed per property.
- Businesses eligible for three-line accounts will be able to submit their quarterly update with only three-lines of data. This currently applies to rental businesses with income beneath the VAT threshold of £83,000.
- The announcement that spread sheets can be used for record keeping will also be welcome to smaller landlords. However, for quarterly returns, they will still need access to software for digital submission to HMRC of the quarterly returns.

MTD – Timeline and Deadlines

The original timeline mapped in the HMRC consultation documents remains unchanged with the first taxpayers being affected by MTD from April 2017. So for those businesses with an accounting year-end of April 5 and all landlords within the scope of MTD, will need to submit a first quarterly return in the summer of 2018.

The good news is that the deadline for the 'end of year' return has been extended

from 9 months to 10 months after the end of the period of account or January 31 if earlier, thereby continuing with the current self-assessment deadline for those with a March 31 or April 5 year end. It may however cause issues for those businesses with a year-end of April 30 or May 31 if those taxpayers also have other taxable income.

It has also been confirmed that the pay-as-you-go quarterly payments remain voluntary – for now. The statutory payment dates remain for payments on account and balancing payments. This may confuse those who use pay-as-you-go when looking to allocate payments, especially for businesses that are also making VAT payments.

MTD – Third Party Data

It has been confirmed that there will be safeguards in place to protect any data provided by third parties. Taxpayers will be notified each time data is added to their tax account and this information should be clear and easy

to identify. The onus will then fall to the taxpayer to query any discrepancies either with their bank or with HMRC depending on the problem.

MTD – Bridging the Digital Gap



Megan Evans
Anglian Cloud Accounting

03333 445775

megan.evans@angliancloud.co.uk

A recent survey by the Institute of Chartered Accountants found that over 80% of Sole Traders use spreadsheets to manage their business finances. Little surprise therefore that there was considerable resistance when HMRC initially proposed to make spreadsheets a redundant feature of small businesses' accounting functions.

Now, following the consultation process, HMRC has agreed that small businesses can continue to use spreadsheets for record keeping but there are caveats to ensure this option will meet its MTD requirements.

The precise detail around these is still unclear as is the amount of additional work required, of the taxpayer, to input the information into a digital submission that looks as if it will require a software package in any case.

Cloud solutions remain in pole position for record keeping in this digital age. Subscription levels will suit all types of businesses providing seamless interaction with accountants and advisers plus the possibility to be as online and digital as you like with a world of apps and add-ons at your fingertips!

Free Software

The costs of accounting software packages may seem an unviable option for the very small business owner and imposing the requirements on this group seemed unfair.

HMRC has accepted that costs of software impose an unfair requirement on small businesses and has announced that free software will be available to businesses with the most straightforward affairs. However, this is likely to be extremely basic.

Government also recognised that businesses will require internet access to file data with HMRC and to upgrade its software. The Digital Economy Bill (July 2016) included proposals giving every household and business a new legal right to request an affordable broadband connection from a designated provider, no matter where they live, up to a reasonable cost threshold.

Who will provide the software and support?

Although it's heartening to hear that all major cloud and desktop software providers have been in tentative discussions with HMRC since the outset of the MTD reform it's still not clear who will be providing the free software and how it will look and function.

An ideal answer would be making the quarterly MTD submissions to HMRC using the cloud process already on hand for the filing of VAT returns. This should cause little additional administrative pressure for business owners with a cloud package already in place.

Gary Turner, MD Xero UK has echoed the concerns of many around the availability of software for all business types and individuals. His blog identified that 'HMRC needs to better harness the best product marketing brains the software industry can field in conjunction with the accounting and bookkeeping industries to arrive at a roadmap where every stakeholder; government, accounting professionals, technology providers but, principally, UK businesses can all sign off on something that will deliver for digital progress for all stakeholders, not just HMRC'.

HMRC says it will publish a wider set of documents setting out the working relationship between HMRC and the software industry in Spring 2017. So, with these views in mind let's hope that the next few months will bring a greater clarity for business owners.



MTD – Unincorporated Businesses

HMRC has confirmed that the information to be reported will be in line with that shown on the current tax return using the same categories of income and expense. It has also confirmed that those small businesses qualifying for simplified three line reporting will continue to do so. This effectively means that the smaller businesses will not need to provide as much detail to HMRC, although the full backing information still needs to be kept in an electronic format.

The cash basis has been extended to those businesses with a turnover up to £150,000, and it has been agreed that a business can move between accruals and cash basis each year. This could mean constant adjustments are required if a taxpayer chooses to switch between bases regularly.

Those businesses that are also VAT registered will have to submit their VAT data through a digital software package from April 2019, rather than through the current HMRC online portal. Initially it had been suggested that this might form part of the same submission as the quarterly Income Tax submission but it has now been decided that MTD for VAT will initially be dealt with separately and will have to include the existing data set from the current VAT return. However there will be flexibility for businesses to align their VAT and income tax periods so that simultaneous updates can be submitted if desired.

MTD – Are you ready?

Whiting and Partners plans to take part in HMRC's MTD Beta testing pilot program, which is expected to run for a year from April 2017. This will enable us to review how quarterly reporting will impact both our own and participating clients' businesses in a variety of ways, as well as providing feedback to HMRC and software providers.

We are recommending that all our affected clients speak to us as soon as possible so that we can recommend the best way forward for them. In many cases this will be the

introduction of one of our endorsed electronic software products. Our view is that it will prove advantageous to bring new software into use from the start of the new the coming tax year, April 2017. That will give 12-months to familiarise with the product and iron out any issues before submissions of data become mandatory.

If you are interested in participating in the Beta testing program, want to know more about cloud accounting or want to discuss the impact of MTD on your business, please contact your usual Whiting & Partners adviser.

Bury St Edmunds Office

Greenwood House, Skyliner Way,
Bury St. Edmunds, Suffolk, IP32 7GY
Telephone: (01284) 752313
bury@whitingandpartners.co.uk

Chatteris Office

Suite L22, South Fens Business Centre
Fenton Way, Chatteris, Cambs. PE16 6TT
Telephone: (01354) 694111
chatteris@whitingandpartners.co.uk

Ely Office

George Court, Bartholomew's Walk,
Ely, Cambridgeshire, CB7 4JW
Telephone: (01353) 662595
ely@whitingandpartners.co.uk

Kings Lynn Office

Norfolk House, Hamlin Way,
Kings Lynn, Norfolk, PE30 4NG
Telephone: (01553) 774745
kingslynn@whitingandpartners.co.uk

March Office

The Old School House, Dartford Road,
March, Cambridgeshire, PE15 8AE
Telephone: (01354) 652304
march@whitingandpartners.co.uk

Mildenhall Office

Willow House, 46 St. Andrews Street,
Mildenhall, Suffolk, IP28 7HB
Telephone: (01638) 712267
mildenhall@whitingandpartners.co.uk

Peterborough Office

Eco Innovation Centre, Peters Court,
City Rd, Peterborough, Cambs, PE1 1SA
Telephone: (01733) 564082
peterborough@whitingandpartners.co.uk

Ramsey Office

108 High Street, Ramsey, Huntingdon,
Cambridgeshire, PE26 1BS
Telephone: (01487) 812441
ramsey@whitingandpartners.co.uk

St Ives Office

Unit 14, Raleigh House,
Compass Point Business Park,
St Ives. Cambridgeshire. PE27 5JL
Telephone: (01480) 468931
stives@whitingandpartners.co.uk

Wisbech Office

12 & 13 The Crescent, Wisbech,
Cambridgeshire, PE13 1EH
Telephone: (01945) 584113
wisbech@whitingandpartners.co.uk

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