

# Making Tax Digital – are you prepared?

## Making Tax Digital aka MTD



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Not only is this government tasked with taking the UK out of Europe, part of previous government legacy is the transformation of HM Revenue & Customs from *caterpillar to butterfly* as one of the most digitally-advanced tax administrations in the world.

This too is a challenge for the government, the tax-man and for all taxpayers, especially business owners and property landlords.

There are major changes ahead, over a very tight schedule, in the way businesses will have to digitally comply with the new regulations and procedures.

This newsletter contains basic information and facts about Making Tax Digital or MTD as it's more commonly known. I encourage you to read, study and digest before calling your usual Whiting & Partners adviser.

## IN THIS ISSUE

### *Timeline ...*

Will you be ready? ... **Page 2**

### *Business simplifications ...*

Small business extensions... **Page 2**

### *Digital ...*

Accounting in the Cloud... **Page 3**

### *Landlords ...*

Unincorporated options... **Page 3**

### *Exemptions ...*

Digital exclusion... **Page 3**

### *Third Party information ...*

Gathering taxpayers details... **Page 4**

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## MTD - Timeline

HMRC has recently issued six consultation documents in support of their four year plan to digitise the tax system. Originally the consultation process was scheduled to start in April this year but the process was subsequently postponed until August, leaving only a five month window from the end of the consultation period until the planned start of the public testing process in April 2017.

HMRC claims that the driving force behind the initiative is to reduce the

burden for taxpayers and to build a transparent and accessible tax system for the digital age. However, it is currently difficult to see how the introduction of quarterly reporting will reduce the taxpayer's burden.

The first wave of tax accounts is now available for taxpayers to access online, with testing for reporting other sources of income through the accounts starting next year. HMRC has published a timeline detailing its planned implementation of MTD, but the reporting deadline for

some businesses has already been extended from 2018 to 2019.

Two questions remain unanswered:

Will **HMRC** be ready?



Will **YOU** be ready?

## MTD – Quarterly Reporting and Pay-as-You-Go

Among the most radical changes proposed is the introduction of quarterly reporting. Naturally, the fear is, that this will effectively lead to the need for four tax returns a year.

Initially HMRC states that it is expecting only a summary of income and expenses, but this information could be meaningless when compared to the year-end accounts. This summary excludes, amongst other things, tax adjustments of expenses, accruals/prepayments, capital purchases

on which capital allowances are due and so on. If the intention in the long term is for the optional 'pay-as-you-go' tax to become mandatory, in a system similar to that of VAT quarterly reporting and payment - which would not be a surprise - then the burden will only increase with time. Watch this space!

Businesses, or their agents, will need to have software capable of interacting with HMRC's systems in order to file quarterly reports.

Many businesses already use accounting software but we are aware of numerous companies who still use manual or spreadsheet-based record keeping.

These will be hardest hit by the changes. HMRC have suggested that financial assistance may be offered to businesses who need to buy or upgrade their systems and hope that the software owners and developers will offer some simple packages free of charge to the taxpayer.

## MTD – Simplifications for Businesses

HMRC has softened the blow for some smaller businesses with the proposed extension of the Cash Basis. This allows businesses to calculate their tax on amounts actually received and paid in the period rather than on the traditional accruals system. The Cash Basis will be optional for unincorporated businesses with income under a yet to be determined

threshold (but potentially up to £166,000 - twice the VAT threshold), however this could lead to more complications as each year businesses assess whether the Cash Basis is advantageous.

The proposal to reform basis periods looks at first glance to be eminently sensible, as the current overlap rules are complex and lead to double taxation of profits in early

years of trade or on changes of accounting date. On the other hand, the potential introduction of several shorter accounting periods rather than a single annual date seems to be more complicated rather than less!



## MTD – Digital



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By 2020 most businesses and landlords will be required to keep their accounting records in a digital format. This is in addition to the introduction of digital reporting and the dropping of the near 10-month window between the April 5th end of tax year and the January 31st filing deadline for getting records together.

It is becoming increasingly obvious that the need to stay on top of record keeping will be an imperative part of running your business.

Cloud Accounting packages including **Xero** and **Quick Books Online** already host huge numbers of businesses and allow them to access up-to-date accounting information at any time, from any device, and anywhere with an internet connection. This fits in well with the busy lifestyles of business owners in our increasingly online world.

As well as current information at the click of a button there are many other time-saving functions such as online invoicing processes, credit control, stock maintenance and payroll that could be used on the Cloud platforms.

So, as well as potentially increasing performance in the business by using a Cloud-based system, it could really help make the transition to quarterly reporting a lot less stressful!

The Cloud also allows your accountant to securely and remotely access precisely the same data as you and so they can always be on hand to offer support, check your accounts at any point and assist you in extracting the necessary information required to be submitted online to HMRC.



## MTD – Landlords

Unincorporated landlords will have the option to choose to use the simplified Cash Basis to report their income and expenses, with no upper limit cap to be introduced. Other unincorporated businesses will have a maximum limit imposed.

This does not change the underlying principles of the deductions allowable for tax purposes, such as the renewals basis and the restriction of mortgage interest for residential loans. In addition, Furnished Holiday Lets will be able to continue to claim capital allowances.

Care will be required to ensure that the information submitted to HMRC is correct. Tax adjustments will still need to be taken into account.

## MTD - Exemptions

Those HMRC deem to be 'digitally excluded' by reason of disability or distance will be exempted from reporting online. This does not exempt them from the new reporting systems but they will instead be offered alternatives such as nominating someone else to submit

information on their behalf or giving information over the phone.

Individuals with property or self-employed income, before deduction of expenses of less than £10,000, will also be exempted from the submission of quarterly returns.

## MTD – Companies

Companies are not due to be drawn into quarterly accounting until 2020. However, as some will continue to use UK GAAP as a basis for their accounts,

a separate consultation document is due to be released in the next few months detailing new corporation tax simplification proposals.

## MTD - Third Party Information

It seems obvious to expect HMRC to bring together the information it already holds about taxpayers into one place, however this does not currently always happen. Details such as state pensions and employment income which are reported directly to HMRC through Real Time Information by the employer, will be shown on the taxpayers Tax Account. HMRC has stated that it will amend PAYE codes even more frequently, which should mean that individuals with multiple pensions/employments or fluctuating incomes fully utilise their tax-free allowances through the year.

Banks already send details of interest payments to HMRC, and these will be included in the Tax Accounts from 2018. There are also proposals to potentially obtain information from other third

parties to cover investment income such as dividends and income from property at some point in the future. The practicalities of this have not been discussed in the current consultation documents but the introduction of even more reporting requirements for letting agents and investment advisors looks likely.

The idea of gathering information from third parties to reduce the need for taxpayers to report the income themselves may lull taxpayers into a false sense of security. Taxpayers will still be statutorily obliged to check and confirm that the information held by HMRC is correct and complete and, if past experiences with HMRC are anything to go by, a detailed check would definitely be in the taxpayer's interest!

## Making Tax Digital – Are you prepared?

Although much of the detail has yet to be confirmed, the underlying concepts of digitalisation and more frequent reporting of information to HMRC online are clear. If you are at all uncertain as to whether your current accounting systems will be

able to meet the new requirements do speak to your accountant; they will be able to suggest ways to prepare yourself ahead of time so that when the changes become mandatory you will be primed and ready to accept the challenge!

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