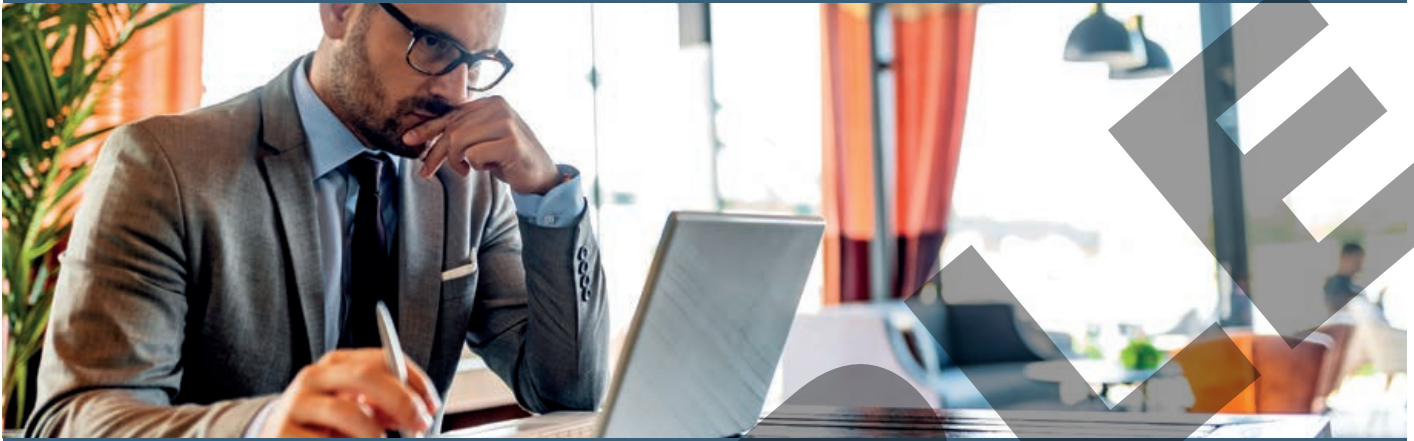


WHAT'S NEXT FOR MAKING TAX DIGITAL?



Making Tax Digital (MTD) represents a major change to the way businesses interact with HMRC.

The next phase of MTD, affecting VAT, income tax self assessment (ITSA), and corporation tax has now been announced. This factsheet will guide you through the basics of MTD and the current timetable for rollout.

The current MTD roadmap will mean considerable evolution over the years to come in the way taxes are recorded and reported.

- **2020** autumn consultation on MTD for corporation tax
- **2021** MTD for VAT digital links necessary
- **2021** MTD for ITSA pilot to expand
- **2022** MTD for VAT mandatory for all VAT-registered businesses
- **2023** MTD for ITSA mandatory for most businesses and landlords.

WHAT IS MTD?

MTD is at the heart of the vision of a modern, world-class tax system. The government says: 'It should be easy for people to pay any tax due and for the vast majority of people the calculation and payment of tax should be effortless. For the majority of businesses, tax should be straightforward and hard to get wrong. Taxpayers should be able to view their tax position and tell HMRC anything it needs to know through a single online account. A modern digital infrastructure should enable ease of use, transparency and adaptability.'

It is hoped that MTD will also benefit the business world, as commercial software suppliers offer increasingly innovative services, enabling businesses to improve productivity and profitability. From the government's perspective, it expects MTD to minimise inadvertent taxpayer errors, help root out tax avoidance and reduce the tax gap. However, many parts of the vision are still aspirational. HMRC still has to create a single online account, while commercial software developers still have to develop the additional functionality needed to deliver the government's vision. So MTD means ongoing change.

DIGITAL RECORDS AND RETURNS

MTD is all about digital record keeping and the digital submission of quarterly returns to HMRC. Businesses already in MTD for VAT have experience of what's involved. Certain business records have to be kept digitally: specified information then flows to HMRC directly from the records, without manual intervention.

Many taxpayers will be used to filing income tax self assessment or VAT returns online. But MTD isn't the same as simply making an online submission: the software involved has to be MTD-functional, compatible software. This means it must be able to keep and preserve the records specified in the regulations; prepare the returns required by HMRC; and communicate digitally with HMRC through its Application Programming Interface (API) platform. We cover the specifics for MTD for ITSA in more detail below.

MTD FOR VAT 2021: DIGITAL LINKS

Businesses already registered for MTD for VAT should remember that from their first VAT return period beginning on or after 1 April 2021 they must have digital links in place between all parts of their functional compatible software. A digital link is an electronic or digital transfer, or exchange of data, between software programs, products or apps.

The use of cut and paste or copy and paste will no longer be accepted as a digital link from this point. HMRC will accept the following (please note the list is not exhaustive):

- linked cells in spreadsheets
- emailing a spreadsheet containing digital records so the information can be imported into another software product

- transferring a set of digital records onto a portable device (such as a pen drive or memory stick) and physically giving this to someone else, who then imports that data into their software
- XML, CSV import and export, and download and upload of files
- automated data transfer
- API transfer.

MTD FOR VAT 2022

From April 2022, MTD for VAT is mandated for all VAT-registered businesses. This means that even voluntarily registered businesses, trading below the current £85,000 compulsory VAT registration threshold, will have to keep the requisite digital records and file digitally. If this affects you, and you would prefer to consider deregistering for VAT, we are happy to discuss this with you. There are some (limited) grounds for exemption. They can be found in section three of the VAT Act 1994. VAT: <https://bit.ly/3b63bk4>.

MTD FOR INCOME ASSESSMENT

MTD for ITSA means an ongoing basis. HMRC in return system become tax rules the aren't change.

MTD for ITSA with total the first include

DISCLAIMER

MTD does and invoicing necessarily significant stored digital do so, you will which can keep to HMRC; and p return. You will be VAT, they may need to enable your data to confirmation is still awaiting records to be kept digitally

- the amount of the transaction
- the date of the transaction (determined by business uses cash or accruals accounting)
- the category into which the transaction falls.

There are a number of more complex areas where further clarification will be needed. These include property businesses and retailers.

MTD-compatible software for ITSA is listed on gov.uk: <https://bit.ly/2FXC3YK>. Products available hitherto have been limited, but the market is now expected to expand. The government has said there will be free software for businesses with the 'simplest' affairs. This won't be provided by HMRC: any such offering will be from commercial suppliers.

Quarterly digital filing

Quarterly filings will provide fairly basic summary information to HMRC. The full detail is still to be confirmed, but it would seem that the smallest businesses will make a three-line update, comprising income, expenses and profit. Larger businesses will provide more extensive information based on the categories in the self assessment tax return (SATR). Timing of the quarterly filings will depend on your accounting year end. With a year end of 5 April, the quarters would be:

- 6 April to 5 July
- 6 July to 5 October
- 6 October to 5 January
- 6 January to 5 April.

The deadline for filing is likely to be between ten days before the end of the quarter. The filing covers the whole of the quarterly period), HMRC will reply to your quarterly filings with the amount of tax you are due to pay. It hopes that the complexity of your tax liability. In reality, these adjustments at the year end to the tax liability (below) becomes clearer.

The new process is not yet clear but the simplest of these are

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Factsheets

are available in the following formats:

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don't be far behind. Whilst the lead-in time will be important to start preparing for filing and compliance with digital record keeping requirements as soon as possible. Please contact us to discuss the implications for you and your business.

This information is intended for general guidance only, and professional advice should always be obtained.

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