

Making Tax Digital – Dispelling the myths

What is Making Tax Digital and how will it affect me?

Affecting the self-employed, partnerships and landlords initially, Making Tax Digital (MTD) is the Government's plan to migrate the current tax system to a fully digitised online tax system by the end of 2020.

The Government has outlined a timetable which illustrates how they set out to achieve this by 2020 and it is envisioned that everyone will be affected, resulting in the death of the tax return as we know it.

✓ Facts

- The Government has set target of 2020 for a fully digitised tax system
- Sole-traders, partnerships and landlords will be affected from April 2018, April 2019 for those with a turnover below the VAT threshold
- The exemption turnover threshold for unincorporated businesses is £10,000
- There will be new tax filing dates
- Quarterly online reporting to HMRC will be obligatory, due within 1 month of end of each quarter
- An end of year declaration is to be submitted within 10 months of the end of the accounting period or by 31 January, whichever is earlier
- Tax claims and elections are to be included in final end of year declaration
- Records on spreadsheets are acceptable, provided they contain a link to software that enables quarterly digital reporting
- There will be no requirement to submit invoices or expense receipts
- HMRC will not enquire into quarterly returns
- There will be a simplified cash basis for unincorporated business, including property businesses with a turnover of £150,000 or less per annum
- The current interest rules for Income Tax and NICs will be maintained
- For the time being tax payment dates will remain the same, nothing has been promised beyond the end of the current parliament

✗ Myths

- Taxpayers will have to submit 4 tax returns a year
- Personal taxpayers, excluding unincorporated businesses and landlords, will no longer have to submit tax returns or require the assistance of accountants and tax advisers to check their tax affairs
- Taxpayers who are unable to submit digital returns because they do not meet the HMRC criteria for making tax digital will suffer penalties
- All businesses will need to keep additional records over and above existing records (this may be applicable to some businesses in order for them to keep on top of their quarterly submissions)
- Quarterly returns will have to be prepared to the same degree of accuracy as annual tax returns
- Tax payments will also have to be made on quarterly basis

? Unknowns

- Which businesses to be eligible for 3 line quarterly accounts
- HMRCs approved list of MTD software
- If software houses or HMRC will have suitable, tried and tested software in place by April 2018
- How will HMRC propose to address clients that do not have facility or do not know how to file online
- Penalties for late submission (after 12 month initial grace period)
- How taxpayers will be able to query information provided to HMRC by third parties
- If agents will be permitted full access to clients' tax accounts
- What the new process for authorising agents will look like
- If agents will be able to submit quarterly returns for clients

When do the changes first apply?

For a business that has a 5 April year end:

Year end	Tax year for which profits are assessable	Digital records?	
		Turnover above VAT threshold	Turnover at or below VAT threshold
12 months to 5 April 2018	2017/18	No	No
12 months to 5 April 2019	2018/19	Yes – from 6 April 2018	No
12 months to 5 April 2020	2019/20	Yes	Yes – from 6 April 2019

For a business that has a 31 December year end:

Year end	Tax year for which profits are assessable	Digital records?	
		Turnover above VAT threshold	Turnover at or below VAT threshold
12 months to 31 December 2018	2018/19	No	No
12 months to 31 December 2019	2019/20	Yes – from 1 January 2019	No
12 months to 31 December 2020	2020/21	Yes	Yes – from 1 January 2020

For a business that has a 31 March year end:

Year end	Tax year for which profits are assessable	Digital records?	
		Turnover above VAT threshold	Turnover at or below VAT threshold
12 months to 31 March 2019	2018/19	No	No
12 months to 31 March 2020	2019/20	Yes – from 1 April 2019	No
12 months to 31 March 2021	2020/21	Yes	Yes – from 1 April 2020

Under current proposals a business with a 31 March year end rather than a 5 April year end has almost 12 more months before it has to meet the digital records requirements.

If you would like further information on any item within this brochure, or information on our services please contact your usual Moore Stephens adviser.

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