Making Tax Digital

Overview

Making Tax Digital is the UK Government's new initiative. Their stated aim is to improve the way individuals and businesses report and pay their tax, bringing the tax system into the modern age, making it more efficient and easier to comply with the tax requirements. The Government is hoping to enable businesses and individuals to record, monitor and submit their tax records to HMRC electronically on a more regular basis.

Due to a large number of concerns over the initial time scales proposed, you may have been relieved to notice in the press that the Government has announced that some elements of the implementation of Making Tax Digital have been postponed (but will still happen!). Businesses with turnover above the VAT threshold will be required to use the new system from April 2019, for the purposes of VAT reporting only. The requirements to use the system for corporation tax and income tax reporting will be postponed until 2020 at the earliest. Businesses under the VAT threshold will not be required to keep digital records, however they can begin to use the new system voluntarily.

Why do we still need to be preparing for Making Tax Digital?

Businesses will need to be ready for the initial requirements of Making Tax Digital whereby they will need to submit a monthly/quarterly (depending on your VAT reporting period) update to HMRC consisting of VAT information only.

The one clear change from the current VAT reporting requirements is that businesses will be required to submit their VAT information digitally, meaning directly from your accounting software. This is currently optional and many businesses utilise this approach as opposed to manually submitting VAT using the online VAT 100 form. Going forward, HMRC will be removing the online VAT 100 form to

those who are over the VAT threshold and businesses will need to ensure that their software can directly submit the required information.

The other important consideration is that reporting requirements for corporation and income tax are only being deferred! They will still happen and are likely to bring many more significant changes. Businesses should ensure that they are prepared for these changes before they arrive. This should avoid any undue pressure on you and your bookkeepers.

VAT timeline and requirements

The interpretation of the above is that VAT registered businesses must keep digital records from the start of their next VAT period that falls on or after 1 April 2019. For those submitting monthly VAT returns this will be the month ending 30 April 2019. For those submitting quarterly VAT returns, the first return will depend on your VAT quarter end date. The table below illustrates the expected commencement dates for the different quarterly VAT periods:

VAT quarter ended	First quarterly VAT return under Making Tax Digital
31 March 2019	30 June 2019
30 April 2019	31 July 2019
31 May 2019	31 August 2019

Making Tax Digital for corporation tax and income tax

The implementation of Making Tax Digital for corporation and income tax is still going ahead, from 2020 at the earliest. Although at present the details are unclear, we understand that this will require quarterly submission of accounts information to HMRC. The table below illustrates the expected commencement dates for different accounting periods (assuming a start date for years commencing after 5 April 2020):

Accounting period ended	First quarterly update under Making Tax Digital
5 April	5 July 2020
30 June	30 September 2020
30 September	31 December 2020
31 December	31 March 2021
31 March	30 June 2021

As part of Making Tax Digital HMRC will create digital personal tax accounts for individuals to view all of their tax information in one online dashboard. HMRC will combine information received from a

range of sources, starting with information that HMRC already holds, connecting this with customers through their online accounts. We understand that this is likely to include VAT creditors/debtors and PAYE liabilities. The aim is to reduce the burden of submitting self-assessment tax returns and instead allow customers to view and update their information in a more efficient manner.

Next steps for businesses and individuals

For businesses that already submit VAT information directly from their accounting software, it is likely that there won't be any changes required for the initial phase of Making Tax Digital, however as the more complex requirements for corporation tax and income tax potentially come into force only one year later, businesses and individuals should start to plan for the changes now.

Key areas that should be considered now include:

- Check whether your existing record keeping system allows you to submit VAT returns that are compliant with Making Tax Digital.

- In anticipation of having to submit quarterly financial details of your transactions either as a partnership, sole trader or a company, you should check whether your software is compliant or that your provider is actively developing a package that will work.

- For businesses who use Excel, there is software available to assist with submissions. We do not know how easy it will be to use, however Excel will not be a long term solution.

- Businesses using manual systems will urgently need to adopt a compliant accounting package. Please speak to us as to the most appropriate packages.

- To ensure accurate reporting to HMRC businesses will need to consider updating their opening balances on their accounting software for any adjustments made to the accounts. Speak to us if you require assistance.

- Businesses should ensure they start to plan for Making Tax Digital soon enough so that they are familiar with the new systems and requirements.

- Non-compliance is likely to result in penalties, so do not delay in taking action and making sure you are prepared.