

It's making tax digital not making tax difficult

by Adrian Patton, ASM Chartered Accountants

What is Making Tax Digital for business?

Making Tax Digital (or "MTD") is a government initiative that is set to transform the tax system for businesses. The aim of MTD is to make tax administration more effective, more efficient and easier by the implementation of a fully digital system.

MTD is the biggest change in tax administration in recent years and will affect every business in the UK.

In particular it will change the way businesses are required to keep their accounting records and the way they report their income and expenses to HMRC.

What are the requirements of MTD?

Under MTD the main requirement will be to maintain digital accounting records for your business.

Businesses must submit quarterly updates to HMRC and also provide an 'end of year' return – whether this makes it "easier" to maintain a business's tax affairs is a matter of some debate.

Who does MTD apply to and when does it start?

The start date for MTD has been continually changing – based on the latest HMRC guidance the following applies, however, this may be subject to change:

- Businesses with turnover greater than the £85,000 VAT threshold will need to keep digital records from April 2019, but only for VAT purposes;
- Businesses with turnover greater than £85,000 will not be expected to report data quarterly to HMRC until at least April 2020;
- Any business/landlord can voluntarily keep digital records and report data quarterly to HMRC from April 2018; and
- Businesses/landlords with turnover less than £85,000 will not be required to keep digital records or report quarterly to HMRC on a mandatory basis. While this reflects current guidance, it is widely anticipated that at some point in the future digital reporting will become a requirement.

What are digital records?

A digital record is a record of data for each transaction of the business.

The proposed minimum required data will be invoice date; invoice value; income or expense category and details of any amounts deducted/deductible at source.

HMRC has stated that it won't provide its own software but it will ensure that basic apps and software products are available for



businesses with the most straight forward affairs. However, it is envisaged that most businesses will be required to use more comprehensive third party software (e.g. Cloud based packages such as QuickBooks or Xero).

HMRC are aware that a lot of businesses currently use spreadsheets to record their data and have now confirmed that they will be an acceptable form of digital record.

However, users will need to ensure that the spreadsheet is able to meet all the necessary requirements of MTD and that it is able to be submitted to HMRC in a MTD compliant format. HMRC have stated that this is "likely to involve combining the spreadsheet with software" so it is not wholly clear on the detail yet.

While the use of spreadsheets is a welcome concession, the practical realities are likely to mean that using MTD compliant software will be a more efficient option.

How does this impact on clients?

The roll out and impact has already begun. Individual tax payers and businesses have access to a digital account that they can use to check their records and manage their details with HMRC. At the moment, businesses keep their accounting records in a variety of ways, on paper (manual records), spreadsheets or accounting software.

These records are then used to prepare a tax return for the business or individual at a later date. With MTD, those individuals and businesses who maintain manual records will need to adopt digital records using software or apps.

Businesses and individuals will have to

report summary information to HMRC quarterly through their 'digital tax accounts' and then make an end of year declaration through the same system.

Unfortunately, it is clear that there will be a significant cost to tax payers, and increased pressure on both advisors and clients to meet five reporting deadlines during a year rather than one.

Is there any good news?

Yes, the rationale behind MTD is a good one. The ability to have a digital account with HMRC which deals with all the tax affairs of a business in one place is a welcome idea.

The changes will also help improve the quality of record-keeping for businesses, reducing the likelihood of mistakes, and help businesses to manage their affairs more effectively.

Business owners will now have access to information on a timelier basis which will offer insight into their business performance and this will aid decision making.

This is also an opportunity for some businesses to get control of their finances, to simplify and modernise their systems, in order to give them valuable information at the right time.

What can ASM do to assist with the transition and the new reporting requirement?

ASM Chartered Accountants have prepared a number of solutions for dealing with the transition to MTD and have invested in a range of MTD compliant software that can be used by businesses of all sizes and complexities. These solutions can be tailored to your business's needs and with our help we can assist you in meeting the requirements of MTD. MTD will transform the world of accounting and taxation but with our help we can ensure your business is focused on Making Tax Digital and not on making tax difficult.

MORE INFORMATION

Adrian Patton is a Senior Manager at ASM Chartered Accountants. If you require any further details on MTD please contact him at adrian.patton@asmbelfast.com or on 028 9024 9222. Alternatively contact michael.nixon@asmbelfast.com or leanne.hillock@asmbelfast.com