

# Guide to Making Tax Digital



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# Making Tax Digital - what does it mean for you?

Making Tax Digital is a government initiative that sets out a bold vision for a digital tax system to “make it easier for individuals and businesses to get tax right and keep on top of their affairs.” Not sure what it means for you? Here’s what you need to know:

## What is Making Tax Digital?

MTD will affect most businesses from April 2019 with further changes expected in 2020. From 1 April 2019, all UK VAT registered businesses above the £85,000 sales threshold will be obliged to record and file digitally. This is the first stage of the UK’s MTD initiative, to digitise tax records and submissions.



Businesses must instead use ‘functional compatible software’ (digital records) that can connect to HMRC’s system via its API link to file their UK VA returns.

Further announcements about MTD for Income Tax, Corporation Tax and Landlord with rental income above 10K are expected to follow, but not before April 2020 at the earliest.

## What is changing April 2019?

- MTD will outlaw manual records
- VAT sales and purchase transactions must be stored digitally
- Manual keying-in VAT return data from spreadsheets into HRMC’s online portal must cease

Digital links must be maintained between any accounting package or spreadsheet through to HMRC’s new filing API.

## Who's liable to enrol for MTD compulsorily?

Every business needs to comply the following conditions, if they met, then businesses mandatorily enrol for MTD:

- Should be VAT Registered, and,
- Should have taxable turnover above the VAT threshold (currently £ 85000).



# MTD - EXEMPT

### Exempt to enrol for MTD:

- Businesses whose revenue does not exceeds the VAT threshold during the year but they keep an eye on the turnover. Once the turnover gone over the 85k threshold, they need to comply with the MTD rules.
- Apply for exemption by informing HMRC in writing if the turnover occasionally crossed the VAT threshold limit.



## In simplified language: What, When and Who?

### What

- Keep Records Digitally – Spreadsheets OK
- Quarterly submission of Accounting Information must use Commercial Software that can “talk” to HMRC systems

### When

- Simplified
- From April 2019

### Who

- Businesses with Turnover > £85,000



### Key benefits of MTD:

- Real time – up to date view of tax liability
- Visibility – ability to see current tax position
- Cash flow – increased planning ability
- Efficiency – reduced duplication of information
- Flexibility – able to make in year adjustments
- Time – quicker to complete
- Autonomy – manage tax affairs in account
- Accuracy – reduced errors & missed deadlines
- Relevance – tax management for a digital world



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## Potential MTD challenges:

- Awareness – people unaware of change
- Skills gap – lack of new technology knowledge
- Hardware – investment required in computers
- Cost – additional accountancy support
- Cash flow – impact of payments brought forward
- Effort – submission required quarterly
- Culture – movement to digital world from paper

## Mandatory to comply in MTD:

A) Digital record keeping: All VAT registered businesses must keep and preserve certain records and accounts. Under Making Tax Digital, records must be kept digitally within functional compatible software.

B) Functional compatible Software: Functional compatible software is a software program, or set of software programs, products or applications, that must be able to:

- record and preserve digital records
- provide to HMRC information and returns from data held in those digital records by using the API platform
- receive information from HMRC via the API platform.

## What records must be kept digitally in MTD?

A) Designatory Data: You must have a digital record of:

- your business names
- the address of your principal place of business
- your VAT registration number
- any VAT accounting schemes that you use



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**B) Supplies Made: For each supply you make you must record the:**

- time of supply (tax point)
- value of the supply (net value excluding VAT)
- rate of VAT charged

**C) Supplies Received: For each supply you receive you must record the:**

- time of supply (tax point)
- value of the supply
- amount of input tax that you will claim

**D) Reverse Charge Transactions:** If your software records reverse charge transactions you do not need separate entries for the self-supply and purchase. If your software does not record reverse charge transactions you will need to record reverse charge transactions twice, once as a supply made and a second time as a supply received.

**E) Summary Data: To support each VAT Return you make; your functional compatible software must contain:**

- the total output tax you owe on sales
- the total tax you owe on acquisitions from other EU member states
- the total tax you are required to pay on behalf of your supplier under a reverse charge procedure
- the total input tax you are entitled to claim on business purchases
- the total input tax allowable on acquisitions from other EU member states
- the total tax that needs to be paid or you are entitled to reclaim following a correction or error adjustment, and
- any other adjustment allowed or required by VAT rules



## What is HMRC-recognised software and where can I get it?

HMRC have officially recognised a range of software providers supporting Making Tax Digital for VAT. Use below link to find software suppliers for sending VAT Returns and Income Tax updates:

<https://www.gov.uk/guidance/software-for-sending-income-tax-updates#VAT>  
Benefits of Software:



### Benefits of Software:

Following are the benefits for using software:

- records your finances digitally
- links your business and VAT information to all your transactions
- compiles your VAT data from the transactions stored in Software
- calculates the VAT you owe, and reminds you when your VAT return is due
- supplies your VAT data directly to HMRC

## Can we continue to use HMRC online tax services as before?

Yes, only those businesses who will be exempt for MTD compliances.

From 1 April 2019, any VAT Registered business required to comply with the Making Tax Digital then the system for filing current HMRC online VAT return will be closed. Once any business enrolled for MTD then it is mandatory to submit the VAT return through the MTD compliant software. If not submitted then such VAT return will be considered as invalid and HMRC also inform to the particular business through email and requested them to submit the same return with the MTD compliant software.

## Can we authorise to our accountant?

Yes. You can authorise your accountant or bookkeeper to act on your behalf in the Making Tax Digital VAT service. Make sure you're both using the same accounting software. There's bound to be some uncertainty around a big change like Making Tax Digital. But with MTD software, meeting your tax obligations will be a simple and transparent process. That means less time worrying about your taxes and more time growing your business.

## The end of the tax return

One of the biggest implications for small business owners is the eradication of the annual tax return. Under MTD businesses, self-employed people and landlords will instead be able to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax accounts, or more often if they'd prefer. HMRC has said that this won't involve completing a full tax return four times a year; it will simply mean providing more regular updates online.

The introduction of a 'real-time' tax system means that instead of reporting information on tax returns and paying liabilities long after the end of the tax year, you will be able to see a real-time view of your business tax affairs and liabilities through your digital accounts. This should make it easier to understand how much tax you owe and then budget accordingly.

## The role of accountants

HMRC has stated that it won't provide its own software, but will ensure that basic apps and software products are available for businesses with "the most straightforward affairs".

We at Makesworth Accountants, however, will choose to use more comprehensive commercial software.

- QuickBooks
- Xero
- Free Agent
- Sage





These tools use the data from your day-to-day business activity to build an accurate picture of your business's tax data, highlighting any possible errors and offering prompts for information that might otherwise be overlooked. Once your software has compiled the relevant data, you or your accountant will then submit it directly to HMRC, either via a computer or a smartphone.

Makesworth Accountant will be happy to talk through the options with you and explain how they plan to work with you as Making Tax Digital is rolled out. For more information please contact on 02079938850.

# Making Tax Digital Ready

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## For more information

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