James Magee
BUSINESSWISE CHARTERED ACCOUNTANTS

Making Tax Digital

How and When Will It Affect You?

Making Tax Digital

How and When Will It Affect You?

Individual taxpayers

We've been submitting personal tax information securely online to HM Revenue and Customs (HMRC) for many years now and from April 2017, every individual and business in the UK has a digital tax account. If you have chosen for us to look after your personal and/or your business's tax affairs then, managing this account is another part of the tax service we provide for you.

How HMRC receive information currently

Information about your personal and your business's tax affairs arrive with HMRC in various ways. An example would be information on an employed person's weekly or monthly wage or a pensioner's pension payments which comes directly to HMRC from the employer's payroll submissions or in the case of the state pension, from the Department for Works and Pensions (DWP).

Self-Assessment Tax Returns

Businesses and many individuals complete an annual Tax Return called a Self-Assessment, which is needed to substantiate the information from the third parties and the information submitted by the individual, or from us as your accountant. Some examples would be year-end accounts, rental income and expenses, income from investments and sale of assets.

Some big changes are happening

HMRC want to rely more heavily on third party information via the digital tax accounts, and less on the end of year Self-Assessment Tax Returns. They want to collect this information in Real Time, with the ultimate intention of abolishing Self-Assessment Tax Returns for many individuals.

The *biggest change* is that paper records will no longer be acceptable under tax law. Digital records and digital filing of quarterly reports, together with a year-end statement, will become mandatory for many taxpayers.

As HMRC move forward with modernising the whole tax system, the changes being made will impact on you. Because of this, we want to let you know what's happening and the timetable for the changes over the coming months and years.

Making Tax Digital for Business

Which businesses will be affected?

There are expected to be around 1.6 million companies, 2.4 million self-employed individuals (including Partnerships) and 900,000 landlords of residential properties affected by the changes to the way information is reported.

Who's exempt?

Individuals, businesses and landlords of residential properties where the gross income is less than £10,000 will be exempt. Also exempt are those who are not able to engage digitally for religious reasons, or due to a factor such as age, disability or location (e.g. no availability of broadband).

What will you have to do?

As a business or individual comes to their Making Tax Digital for Business (MTDfB) entry date, they will be required to start keeping digital records and provide quarterly updates of income and expenses to HMRC via a dedicated online system, which will mean using software specifically designed for this purpose.

After the end of the fourth quarter, a year-end statement will be required, which pulls together all of the submissions made, gives the opportunity to make any final adjustments and pulls in any gains from the sales of residential properties, if applicable.

Who's first?

Businesses with a turnover above the VAT registration threshold applicable on 1st April 2018 will be the first to be affected by MTDfB. The threshold for VAT has not yet been set for 1st April 2018, but we are working with the current threshold of £85,000 until it is known.

In this first tranche, HMRC mean businesses which are not incorporated (not limited companies) but include the self-employed, the majority of partnerships and those with residential property income.

Turnover above £10,000 but below £85,000

Individuals and businesses (including landlords with residential property) who have a turnover in excess of £10,000, but are below the VAT registration threshold which applies on 1st April 2018, will be required to start keeping digital records on their accounting period start date which falls after 6th April 2019 although they can choose to do this voluntarily prior to that date.

BUSINESSES WILL BE REQUIRED TO START KEEPING DIGITAL RECORDS AND PROVIDE QUARTERLY UPDATES OF INCOME AND EXPENSES TO HMRC VIA A DEDICATED ONLINE SYSTEM

Timeline for MTDfB

Entry to MTDfB will be phased depending on the accounting period start date. The earliest entry dates are shown in this chart:

6th April 2018	**Turnover above VAT threshold (currently £85,000)** Unincorporated businesses Self-employed individuals Landlords with residential property Partnerships with turnover above VAT threshold but below £10m
6th April 2019	**Turnover below VAT threshold but above £10,000** Unincorporated businesses Self-employed individuals Landlords with residential property Partnerships with turnover below VAT threshold but above £10,000 **VAT** for VAT registered incorporated and unincorporated businesses
1st April 2020	All Incorporated businesses Partnerships with turnover over £10m

Further consultation is underway and the dates and thresholds are subject to change following the introduction of the Finance Bill 2017 (No2).

VAT Threshold NOT VAT Registration

It should be noted that it is not the actual registration for VAT which is the trigger; it is the threshold which is key. A sole trader could have voluntarily registered for VAT for business reasons, but if the turnover is less than the threshold for VAT, the sole trader would not enter MTDfB until their designated date.

When will MTDfB apply to you?

To work out your own expected entry point on the chart, find the type of business and the level of turnover. Look to the left and your entry date will be the first day of your accounting period which starts after that date.

Example: *A sole trader with turnover of £75,000 who draws accounts annually to 30th April would fall into the middle row. They would therefore come into MTDfB at the start of their accounting period falling after 6th April 2019, making the entry point 1st May 2019. However, if that same trader had a turnover of £100,000, they would fall in the first row and so the entry point would be one year earlier – 1st May 2018.*

Moving your MTDfB entry date

HMRC have put in place rules which prevent a change of accounting date to move the MTDfB start date if the purpose of doing this is to avoid MTDfB obligations. This rule takes effect from 6th April 2018. If there are sound commercial reasons for moving an accounting date during the 2017/18 tax year then there is no legislation in place currently to prevent this.

Example: *The same sole trader with turnover of £75,000 who draws accounts annually to 31st March would fall into the middle row, and so come into MTDfB at the start of their accounting period falling after 6th April 2019, making the entry point 1st April 2020.*

What if there are 2 or more types of income?

If there are 2 or more types of income, and potentially different entry dates, the income must be aggregated. However, the reports made to HMRC have to be dealt with separately. For example, if a sole trader has turnover of £8,000 and property income of £5,000 the total exceeds the £10,000 reportable limit, and so they would be required to enter MTDfB from the start of their accounting periods which falls on or after 6th April 2019.

Note: *There are special rules which separate a partnership from each individual partner, and it is possible for a partner with 2 or more types of income to have two entry points to MTDfB. We will contact our partnership clients separately on this.*

Property Businesses

It is the current understanding that property businesses will make MTDfB statements on a quarterly basis for the business as a whole, rather than by individual property. The addresses of each property let will be required to be reported, but the gains on sales will only need to be reported on the year-end statement.

VAT

All businesses, incorporated and unincorporated, fall within the scope of MTDfB for the reporting of their VAT transactions from 1st April 2019.

Companies and Large Partnerships

Companies and large partnerships with turnover in excess of £10m will start to make the quarterly returns and keep their records digitally from April 2020.

Example: *An unincorporated business with a turnover of £100,000 would start to report for MTDfB on their accounting start date after 6th April 2018, and their reporting of VAT transactions would start on 1st April 2019. Companies will start to report their VAT transactions on 1st April 2019, whilst their MTDfB reporting obligations would start on the accounting period start date after 1st April 2020.*

“

ALL BUSINESSES, INCORPORATED AND UNINCORPORATED, FALL WITHIN THE SCOPE OF MTDFB FOR THE REPORTING OF THEIR VAT TRANSACTIONS FROM 1ST APRIL 2019.

Pilot

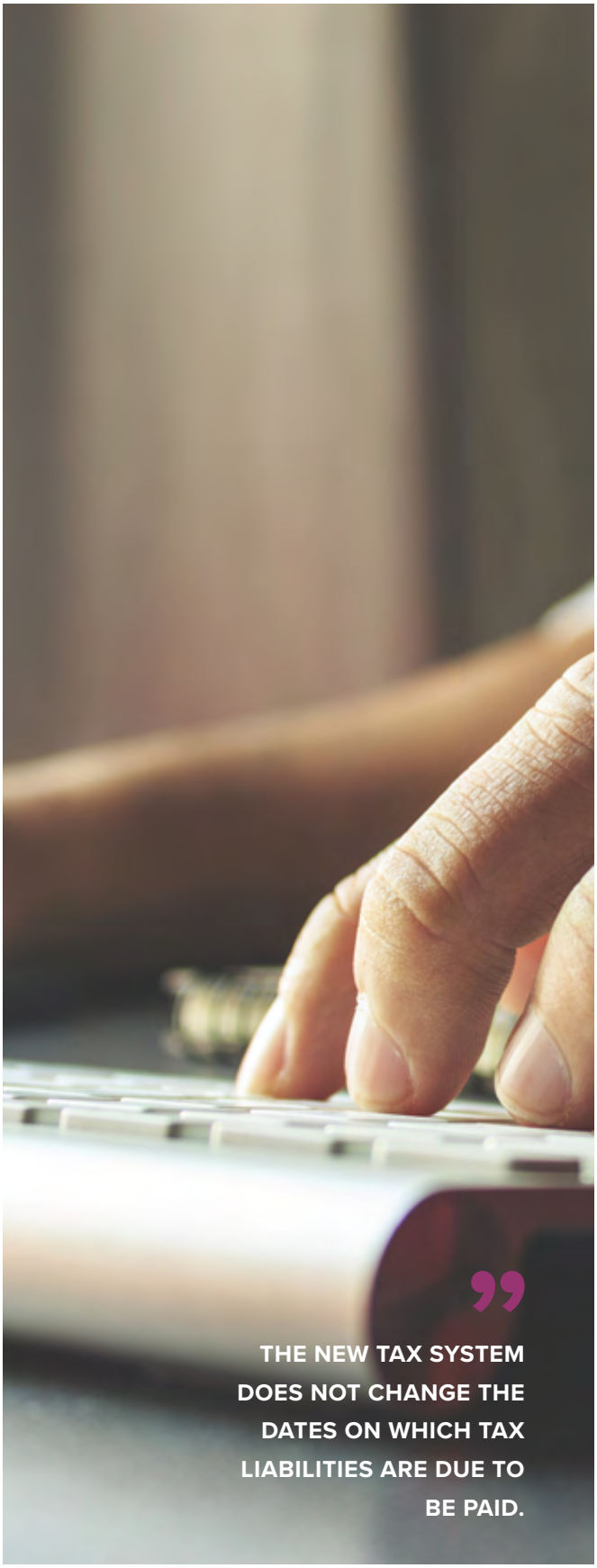
HMRC are running a pilot scheme for businesses who wish to enter and ensure their procedures are working well prior to their official entry date. If you feel it is beneficial to be part of the pilot, please speak to us.

Penalties

There will be a soft landing for the first 12 months from the entry to MTDfB for the country to become familiar with the new tax system, thereafter the government are currently consulting on the penalty regime it will implement as sanctions for none compliance and for late submissions of quarterly and annual statements.

Paying your tax liabilities

The new tax system does not change the dates on which tax liabilities are due to be paid.



We are here to help

If your business is comfortable with technology and you regularly file your payroll, Automatic Enrolment and VAT submission online then you may simply want a discussion on your obligations and procedures to ensure you are compliant.

Other small businesses and landlords with residential properties may require more support, or for us to deal with all of the MTDfB submissions for you. Whatever your support need, or if you simply want to discuss your entry date* or join the pilot scheme, then please speak to us.

*Entry dates and thresholds are subject to change

Disclaimer: This MTD factsheet is provided for clients of accountants and has been written for general interest. No responsibility for loss occasioned to any person acting or refraining from action as a result of the information outlined in this edition is accepted by the authors, ProActivTax, or any associated business. In all cases appropriate advice should be sought before making a decision. The content is correct as at 25 April 2017.

James Magee
Businesswise Chartered Accountants
34 Bower Mount Road
Maidstone
Kent
ME16 8AU

e: brendan@jamesmagee.co.uk
t: 01622 200040
www.jamesmagee.co.uk

James Magee
BUSINESSWISE CHARTERED ACCOUNTANTS