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ACCOUNTS

Managing the digital revolution

Ensuring the smoothest transition for your business.

Making Tax Digital (MTD) will mean most businesses and taxpayers access their tax affairs online through digital tax accounts in the near future. But what impact will MTD have on your business?

What is Making Tax Digital?

"Tax really doesn't have to be taxing", said former chancellor George Osborne as he announced plans at Budget 2015. MTD is intended to replace the self-assessed tax return and usher in a new quarterly digital reporting regime. It's arguably the biggest change to UK taxation since the introduction of PAYE in 1944.

The new system will ultimately change the way the majority of businesses keep their accounting records, how they report their income to HMRC and the services required from their accountants or tax agents.

It will also offer self-employed taxpayers the opportunity to pay tax through optional 'pay as you go' instalments, based on the data submitted with HMRC under the new digital initiative.

Businesses will eventually be required to use relevant software to keep their tax records, provide quarterly summaries of tax data and submit a finalised year-end position to HMRC. At least five tax returns (four quarterly updates and one annual declaration) will need to be filed each year.

These reforms, according to the government, are designed to make the task of managing, reporting and paying tax simpler. It requires most business owners to maintain digital records using (as yet unspecified) compatible software and it will enable HMRC to potentially recoup more than £8 billion a year in what it deems to be 'avoidable' lost tax revenues.

The timetable for rolling out the changes has been far from smooth. A significant twist in the tale arrived when MTD was shelved from Finance Bill 2017 following prime minister Theresa May's decision to

call a snap general election. Ministers then confirmed the Finance Bill will be reintroduced sometime after parliament returns on 5 September 2017. In July 2017, the government announced a new timeline for implementation. Although this pushes the start dates back, the switch to digital accounts is still going ahead.

What we already know

The government's previous stance was that mandatory quarterly reporting would come into force from April 2018 for businesses with turnover above the VAT threshold that pay income tax and national insurance. But, in light of recent developments, we now know the following:

- MTD will be available on a **voluntary basis** for the smallest businesses
- businesses and landlords with a turnover below the VAT threshold (currently £85,000) will be able to choose when to move to the new digital system
- businesses are not required to provide updates to HMRC more regularly than they already do
- all businesses and landlords will have at least two years to adapt to the changes before being asked to keep digital records for taxes other than income tax.

In addition, the following details have been confirmed:

- firms will be able to use spreadsheets to record their receipts and expenditure
- quarterly updates will not apply to charities
- accounting for income/expenditure on a 'cash in, cash out basis' will be extended.





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Who is likely to be affected?

Businesses, self-employed people and landlords who earn more than £10,000 a year were initially required to keep digital accounts. However, under the amended timeline, MTD will only affect businesses with a turnover above the VAT threshold. They will need to keep digital records for VAT only from 2019.

As a result three million small businesses will not be asked to keep digital records, or update the taxman quarterly, until at least 2020. The same exemption applies to those in employment and pensioners with secondary incomes of more than £10,000 per year from either self-employment or property.

Timeline

Digital accounts, which will unite each taxpayer's details in a single place – much like an online bank account, are being phased in from April 2020.

This table shows what has changed and what your business can expect:

Annual turnover	Quarterly tax reports	New timeline	Old timeline
Over £85,000 + VAT registered	VAT only	1 April 2019	1 April 2019
Over £85,000: all businesses/landlords	Income tax and national insurance (NI)	At least April 2020	6 April 2018
£10,000 to £85,000*	Income tax and NI	At least April 2020 – and voluntarily	6 April 2019
All companies	Corporation tax	At least April 2020	1 April 2020

*Small business threshold to be confirmed.

Software

The identity of the accountancy software to lead the government's digital tax overhaul is unknown. The MTD pilot scheme began in April 2017 and, as such, is nowhere near ready.

What we do know is this new breed of software will connect to an HMRC application programming interface (API), which will enable a piece of commercial software to share data with HMRC's servers. These APIs may be ready for testing by December 2017.

Free MTD software has been discussed, but the vendors have not found a business model to make this viable. This means you or your business should budget for any potential costs involved in making the transition. HMRC previously estimated MTD to cost around £280 per business, although this is subject to change.

It's worth bearing in mind that your accounting software needs to suit the size of your business – not just in 2017 but in the future. Factor in projections for three years after your business begins the digital transition to ensure the smoothest changeover in the long term.

Topical issues

Cyber security

With many more individuals keeping digital accounting records and electronic interactions between taxpayers and HMRC poised to soar in the near future, cyber criminals are expected to recognise an opportunity to target taxpayers and their agents. It is therefore imperative to take steps to protect your business from this growing threat.

If using cloud-based digital accounting software, ensure you have the utmost confidence in your cloud provider and where your information is being stored. Passwords should be strong

and changed regularly, while you need to be wary of suspicious 'phishing' emails and make sure you have the latest anti-virus software installed on all your systems.

Priorities and distractions

Already distracted by ongoing factors like Brexit, there were fears businesses were ill-equipped to handle the reporting requirements. It was these same fears that prompted the government to cave in to pressure and tone down its MTD plans to allow smaller businesses more time to prepare.

Accurate records

Despite the uncertainty surrounding MTD, it's more important than ever for your business to maintain accurate accounting records. The digital changeover will be challenging enough without the additional worry of disorganised records and potential penalties that come with it.

What happens next?

Now the ink has dried on a political pact between the Conservatives and the Democratic Unionist Party, we can expect digital accounts to be revisited in a second Finance Bill 2017.

At the time of going to print, software developers were due to meet to discuss the progress of the pilot scheme. We know they have tested agent registrations, but not the quarterly uploads process.

In the meantime, businesses need to think about preparing for the upcoming changes. Given the scale of MTD and the millions of taxpayers it will ultimately affect, it would be wise to keep an eye on developments and stay informed – standing still would be the worst thing to do.

Failure to start the transition now could result in HMRC expecting quarterly updates while you may be learning the basics of online record-keeping and trying to sign off tax returns. MTD will launch soon and will eventually impact on almost all businesses, landlords and taxpayers.

Contact us about managing the change to MTD.