MAKING TAX DIGITAL

Thursday 8th March 2018

The Showroom, Lincoln

*"What I'm very keen to signal to everybody out there…
is that we are serious about it and it will happen, so
there will be no question of any further delay on this,
so we all need to make sure that we're ready for it."*

Mel Stride MP - Financial Secretary to the Treasury
Minister of State with responsibility for Value Added Tax

What is MTD?

- Part of wider digital strategy

- Brings corporation tax, income tax and VAT in line with PAYE & NIC.
  - Payroll information is already submitted digitally (RTI).

- Modernise the interaction with HMRC.

- To reduce the tax gap by
  - improving record keeping and
  - reducing errors by minimising re-entry of data

When?

- Originally planned to go live in April 2018, but this has been delayed.

- The current plan is:
    - **MTD for individuals (ongoing)**
        - **Dynamic PAYE codes**
        - **Better use of information**

    - **MTD for VAT (April 2019)**

    - **MTD for Income Tax & Corporation Tax (2020 at the earliest)**
        - **Includes MTD for Businesses**
        - **and MTD for Individuals (replacement of Tax Returns)**

MTD – Exemptions

- **Insolvency** – MTD is voluntary

- **Religious grounds** – for practicing members of a religious society whose religious beliefs prevent them from using computers, or

- **It is not reasonably practicable**.
  - Each case is considered on its own merits.
  - Reasons *might* include:
    - remoteness of location
    - disability
    - age

MTD for VAT – Who?

- Initially will apply to those VAT registered businesses, landlords (where opted to Tax) and trading charities with turnover over the VAT threshold (currently £85k).

- Those with turnover under £85k and voluntarily registered for VAT will be exempt from MTD for VAT - BUT expect this to change over time.

- Please note once you're in your in.
  - The draft regulations have been written such that once you have submitted a VAT return under MTD you can no longer go back to the old system.

MTD for VAT – What's Changing?

- Keep records digitally
  - Software or
  - Spreadsheets (possibly)

- Direct filing of VAT returns to HM Revenue & Customs
  - Return has to be submitted via software
  - no manual entry of figures on the HMRC website.

- From April 2019
  - Begins with first VAT period starting on or after 1 April 2019
  - First Quarter End will be Quarter End 30 June 2019
  - Maybe part way through your accounts year!

MTD for VAT – What's Not Changing?

- 9 Box VAT return
  - Same information is being submitted

- VAT return frequency and payment deadlines
  - Monthly
  - Quarterly
  - Annual

- Eligibility for VAT Special schemes
  - Flat rate etc.

Current Options

File via software

File via HMRC website / gateway (hmrc.gov.uk)

Future Options

File via software

File via HMRC website / gateway (hmrc.gov.uk)

Currently only 1 in 10 VAT returns filed directly with HMRC

File via software

File via HMRC website / gateway (hmrc.gov.uk)

✓

X X X X
X X X X X

MTD for VAT – An Extra Warning!

- When MTD for Income Tax reporting starts (April 2020 at the earliest) then the deadline for submission with reduce from the 7th of the month after (5 weeks after QE) to the month end following (4 weeks after QE).

Digital Records

- Required to keep their records digitally.
  - This means transaction data
  - You do <u>not</u> have to take digital copies of receipts
  - Uncertainty over 'a timely basis' which is currently referred to

- Using either software or spreadsheets
  - Software does not have to be cloud based but can be
  - Free software should be available

- The records can be kept either by the taxpayer or by their agent, but they must be kept digitally.

- Spreadsheets will need to be linked to software for the submissions.

Digital Records - VAT

- **Data that must be recorded digitally**
  - Designatory data:
    - business name
    - the address
    - VAT registration number
    - a record of VAT accounting schemes you use

  - For each supply you make you must record:
    - the time of supply
    - the value of the supply
    - the rate of VAT charged

Digital Records - VAT

- **Data that must be recorded digitally**
  - You must have a record of outputs split between:
    - standard rate, reduced rate zero rate and exempt & outside the scope

  - For each supply received record:
    - the time of supply
    - the value of the supply including any VAT that is not claimable
    - the amount of input tax that will claim be claimed
    - If more than one supply is on an invoice, record the totals from the invoice.
    - Retail scheme users – record of Daily Gross Takings only

  - **Adjustments:** Total for each type – but not calculations

MTD for Income & Corporation Tax

- Income Tax was previously the focus of MTD
    - MTD for Businesses (MTDfB)
    - Pilot scheme is ongoing
    - Businesses and landlords

- From April 2020 at the earliest
    - When MTD is working
    - Based on pilot or on MTD for VAT?

MTD for Income & Corporation Tax

- Every Business will have a Business Tax Account
  - Requirement to:
    1. Keep Digital Records
    2. Make Quarterly Submissions
    3. End of Period Submission (EoPS)
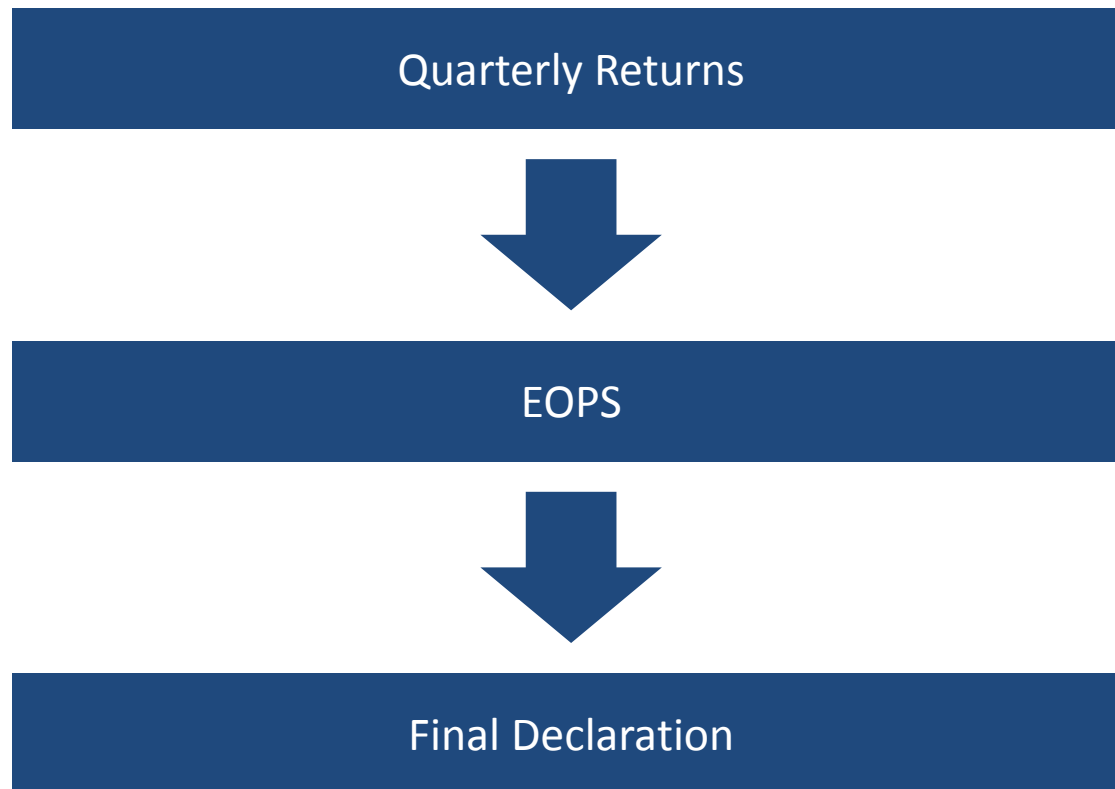   4. (For income tax - Final Declaration of other income)

- Submissions via accounting/tax software

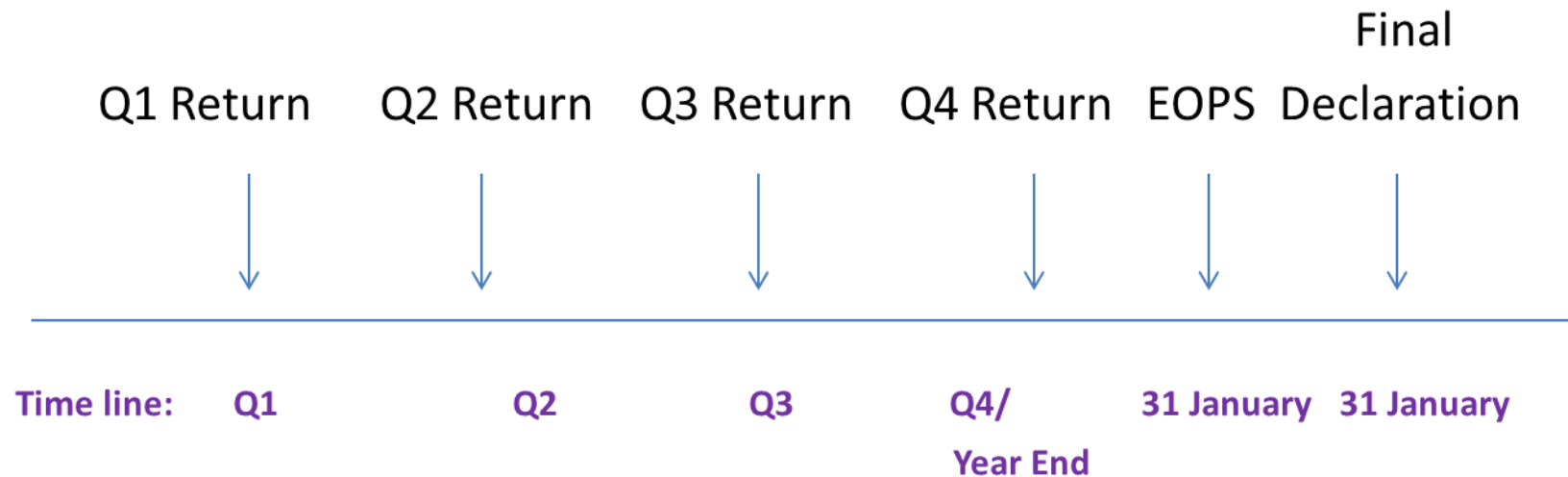- Very little is know about MTD for Corporation Tax, but likely to follow same lines.

MTD for Businesses - Who

- Currently suggested that initially MTD will apply to all trading businesses, including landlords and trading charities if turnover is over £10k.

- Note that this includes your entire 'turnover', so a sole trader with £8k turnover, plus £3k gross rental income a year will be caught.

- (Note - this is the threshold for turnover – it is *irrelevant* if you are registered for VAT or not).

Timeline for MTDfB

Final
Declaration

Q1 Return   Q2 Return   Q3 Return   Q4 Return   EOPS

Time line: **Q1**   **Q2**   **Q3**   **Q4/**   **31 January**   **31 January**

Year End

EOPS – End of Period Submission

What do I need to do to prepare?

- A big change for some businesses

- Very little change for others

- 3 aspects to consider…

3 Elements of MTD Preparation

- Digital Records – no more paper records

- Software – needs to file directly to HMRC

- Returns – needs to be generated from software

Digital Records / Filing Directly

For users of HMRC approved software (including QBO, Xero and v24 SAGE..) this will be fine.

May need upgrade (Sage…)

Software may not be compatible

Excel…

Paper Records

Checklist

Can you file directly from your software?

Are the returns produced totally in software? Training / support needed?

What about excel or paper records? Move to software? Use Streets?

What will be different going forward?

- Using software

- File VAT returns directly from accounting software

- File quarterly returns (detailed Profit and Loss style report)

- If you aren't VAT registered this will be a new quarterly requirement

Landlords & Charities
Does this apply to us?

Landlords & Charities

- The rules are the same.

- MTD for VAT
  - Trading turnover over £85k?

- MTD for Income/ Corporation Tax
  - Turnover over £10k

- Charites with trading income will be caught.

- Also more likely to have partial exemption calculations to deal with.

- Landlords – beware if your rental income is less than £10k/ £85k but you have other income sources, such as partnership or sole trade income…

Any Silver Linings?

- MTD for VAT first, then MTD for Income / Corporation Tax
    - Will make the transition easier

- Record keeping in real time
    - Potentially more expenses claimed – reducing tax liability?

- Using software
    - Tidier record keeping?

- Use of reporting functions
    - Better monitoring/control of cash flow
    - to understand business results …

Software

Do I need to upgrade?

Is it time for the cloud?

Which software is right for me?

- Using the best software for your business

- Being aware of what software developments have been made over the last 5 years

- Reviewing your needs

- Reviewing the way you work

Software – HMRC's View

- 'Functional Compatible Software'
  - Program, or set of compatible programs, that must:
    - Keep digital records
    - Provide HMRC information and returns using the APIs
    - Receive information from HM Revenue & Customs

  - If a set of programs are used, there must be a digital link between the pieces of software

HMRC Examples

Example #1

- Software to record sales and purchases

- Spreadsheet to calculate the return

- Bridging software to submit the return

- **All links must be digital.**

Example #2

- Software to:
  - record sales and purchases
  - calculate the return
  - submit the return

- Spreadsheet to:
  - keep track of fleet of cars and work out adjustments for fuel scale charges

- **It's Ok to type adjustment into accounting software . But a digital link may reduce errors**

Example 3 – VAT Group

- Software – three different packages to:
  - record sales and purchases
  - calculate amounts needed for the return
  - submit the return

- Spreadsheet
  - to compile the totals and create the return for the whole of the group

- Bridging software
  - to submit the return

- **The links between them must be digital. – BUT 'Soft landing' to give more time to update legacy systems (HMRC have proposed 1 year)**

Help & Support

Help & Support in the Future

- Filing VAT returns on your behalf – especially Excel users

- Filing MTD returns – especially Excel users

- Review of quarterly data before submission (cloud makes this easier)

- Submitting EOPS & Final Declarations

MTD – Quarterly Reporting

Quarterly Returns

Submitted by you	Submitted by Streets for excel records?

EOPS

Submitted by you or us	Submitted by Streets for excel records?

Final Declaration

Submitted by Streets once year complete

KEEP
CALM
AND
MTD

Digital Records / Filing Directly

Check if you will be affected by MTD VAT & MTD Income/ Corp Tax

Check if your software is compatible

Consider VAT complications

Consider a review of your accounting software

Q&A