

Making Tax Digital



CHARTERED ACCOUNTANTS



Making Tax Digital

HMRC have embarked on a massive project, Making Tax Digital (MTD), to insist that most businesses, including sole traders and landlords, keep their accounting records using computer software with the aim that the software will automatically update HMRC with relevant data on their business income and expenses on a quarterly basis.

Based on the current proposals and draft legislation, the requirements are to be phased in so that income tax and National Insurance contributions (NICs) will be brought within the new regime from April 2018, VAT from April 2019 and corporation tax from April 2020. For some small unincorporated businesses and landlords, the start date may be delayed by 12 months and those with gross income below £10,000 may be exempted from the requirements altogether. This income threshold is still subject to further consideration by HMRC.

Instead of submitting an annual self-assessment tax return, unincorporated businesses will be required to submit regular updates (at least quarterly) of income and expenditure within one month after the end of the update period. They can choose whether or not to include reliefs, allowances and accounting adjustments at this time or wait until the year end return.

By 31 January following the end of the tax year, or within ten months of the end of the accounting period if sooner, a declaration will be required finalising the business's profit or loss for the period and making any accounting adjustments required and claiming any reliefs and allowances not already included in the regular updates. This will establish the tax and NIC liability

for the year. There will be new style penalties for failure to comply.

At this time there is no proposal to alter the tax payment dates but there will be an option to 'pay as you go'. HMRC will use the regular updates to provide an in year estimate of the tax liability enabling business owners to manage cash flow. To enable taxpayers to budget and to highlight errors or issues more timeously is one of the main drivers for this change.

One very welcome aspect of the proposed changes is that HMRC will automatically pre-populate the Personal Tax Account (your online account with HMRC) with information they already obtain from third parties such as employers, pension providers and banks. No more hunting for that P60!



Bookkeeping and Accounting Systems

Unfortunately, the days of the manual cashbook appear to be numbered, with business owners having to consider whether their books and records will comply with the proposals of Making Tax Digital (MTD) and enable them to electronically submit information to HMRC quarterly when required.

Whilst businesses which are VAT registered and have computerised records may not see much difference in their quarterly reporting requirements, those who use manual cashbooks or spreadsheets will need to consider their bookkeeping provision.

All accounting records must be able to link into HMRC's system. This will be achieved by use of commercial accounting software or the possible provision of free software from HMRC, like with their basic payroll package. Records can still be kept on spreadsheets but those spreadsheets will still need to link to HMRC, most likely by means of computer software.

Our team in EQ are keeping abreast of the ongoing developments with MTD and offer a comprehensive service which will be fully compliant with the demands which will result from this consultation. We can offer support, training or a bookkeeping service which will ensure that our clients comply with all aspects of Making Tax Digital.

Accounting Needs

If MTD is going to mean computerised bookkeeping and quarterly reporting of information to HMRC then you may be wondering why you still need to prepare a set of accounts.

There are a number of obligations placed on incorporated businesses such as limited companies and limited liability partnerships with regards to the preparation and circulation of statutory accounts; one of which being the requirement to file a set

with Companies House within nine months of their financial year-end. No changes to these obligations are anticipated, following the introduction of MTD, therefore statutory accounts, prepared in accordance with relevant accounting standards, will continue to be a requirement. In most cases accounting profit and taxable profit will differ, due to the variances between accounting treatment and tax legislation, so whilst MTD aims to ease this process and provide more relevant day to day information in terms of potential tax liability it will result in no changes to the annual accounts requirements for incorporated businesses.

Currently unincorporated businesses such as sole traders and general partnerships also prepare accounts using relevant accounting standards, which are then used to calculate the resulting tax liability. For many, tax is the main driver for preparing accounts and the MTD proposals are aiming to make this simpler for the smallest businesses, meaning certain businesses may no longer be required to comply with these accounting standards. The quarterly submissions to HMRC may be sufficient to establish the tax liability for the year.

It is, however, important to remember that the accounts may have a number of other purposes than simply for tax. For example, businesses, or self-employed individuals, wishing to raise finance, or sell their business, will likely have to provide banks, investors, or potential purchasers with accounts, so some businesses, who qualify, may choose not to use the simplified options.



Keeping Your Data Secure

Data is already exchanged with HMRC and Companies House electronically on an annual basis when tax returns are submitted or accounts are filed. EQ ensure the data exchange is as secure as possible by taking the following steps:

- 1. Training** – Make sure you and any staff are aware of the possible cyber threats and the ways in which they can combat them. While no system is 100% secure, being vigilant and always on the lookout for bogus emails or phone calls can go a long way to protecting your data.
- 2. Keep systems up to date** – Keeping your software up to date, old versions of software are less secure and hackers can attack holes in these programs if they are not updated regularly. Having antivirus software that is out of date is like leaving your front door open with your banking details on the welcome mat. Always make sure that you are receiving downloads of the latest updates as there are new malware and ransomware programs appearing all the time.
- 3. Passwords** – Using strong passwords made up of special characters, numbers, upper and lower case letters is advisable.

EQ have also taken steps to secure their electronic correspondence with you. This will take the form of encrypted emails and a secure portal. Both can be used for the transfer of sensitive data which is vitally important to stop it falling in to the wrong hands.

For further information on securing your data, please contact our IT manager, Graeme Ferrier.

Summary

The MTD proposals will be included in legislation in the 2017 Finance Bill and the short timescale involved means we must be prepared for change. EQ are here to help you meet your reporting obligations and ensure you always pay the right amount of tax at the right time.

These proposals may seem daunting but they are also exciting and enable us to provide a better and more efficient service to our clients through the developments in technology.

One significant advantage of MTD is that we may need to communicate with our clients more regularly throughout the year where we do not do so already, giving us the opportunity to see how your business is progressing and give more timely advice within the relevant tax year.

If you have any questions on MTD and how it will impact on your business please get in touch.



**We can offer support, training
or a bookkeeping service
which will ensure that our
clients comply with all aspects
of Making Tax Digital.**





Working with you.

We are always happy to offer free, no obligation, initial consultations, and often act on a consultancy basis only.

For more information on any of the services outlined in this brochure, or to discuss a particular issue with one of our advisers:

Please contact our Taxation specialists at taxation@eqaccountants.co.uk

CUPAR

58 Bonnygate, KY15 4LD
01334 654044

DUNDEE

14 City Quay, DD1 3JA
01382 312100

FORFAR

Westby, 64 West High Street, DD8 1BJ
01307 474274

GLENROTHES

Pentland House, Saltire Centre, KY6 2AH
01592 630055



www.eqaccountants.co.uk