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# Making Tax Digital

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# Introduction to Making Tax Digital

Making Tax Digital is a key part of the government's plans to make it easier for individuals and businesses to get their tax right and keep on top of their affairs - meaning the end of the annual tax return for millions.

Every individual and business now has access to their own personalised digital tax account and these are being regularly expanded and improved. HMRC's ambition is to become one of the most digitally advanced tax administrations in the world, modernising the tax system to make it more effective, more efficient and easier for customers to comply.

According to HMRC there is widespread agreement that Making Tax Digital for Business is the right approach for the future. However a number of concerns about the pace and scale of change have been raised. As a result the government has announced that the roll out for Making Tax Digital for Business has been amended to ensure businesses have plenty of time to adapt to the changes.

Businesses will not now be mandated to use the Making Tax Digital for Business system until April 2019 and then only to meet their VAT obligations. This will apply to businesses who have a turnover above the VAT threshold - the smallest businesses will not be required to use the system, although they can choose to do so voluntarily.

The government remains committed to ensuring we can deliver a modern digital tax system for all businesses, supporting them to get their tax right and reducing the amount of tax lost through avoidable error.

We've set out below what the next steps will be.



# Four foundations of Making Tax Digital

## 1. Better use of information

Making Tax Digital presents significant benefits for our customers. It will mean that they will not have to give HMRC information that it already has, or that it is able to get from elsewhere – for instance from employers, banks, building societies and other government departments.

Digital tax accounts for all will mean that customers can see the information that HMRC holds and be able to check at any time that their details are complete and correct. HMRC will use this information to tailor the service it provides, according to each of our customers' individual circumstances.

## 2. Tax in real time

Our customers should not have to wait until the end of the year or longer to know how much tax they should pay. HMRC will collect and process information affecting tax as close to real time as possible, to help prevent errors and stop tax due or repayments owed building up.

## 3. A single financial account

At the moment most taxpayers cannot see a single picture of their liabilities and entitlements in one place – HMRC are changing that. By 2020, customers will be able to see a comprehensive financial picture in their digital account, just like they can with online banking.

## 4. Interacting digitally with customers

Our customers will be able to interact with HMRC digitally and at a time to suit them. They already have access to a digital account which will present them with an increasingly personalised picture of their tax affairs, along with prompts, advice and support through webchat and secure messaging. And digital record keeping software will be linked directly to HMRC systems, allowing customers to send and receive information directly from their software.



## Making Tax Digital for individuals

The Personal Tax Account brings together each individual customer's information in one online place. It allows customers to access the service from a digital device of their choice and at a time that suits them. It enables them to register for new services, update their information and see how much tax they need to pay.

At the moment, the information that HMRC receives from a range of sources is held on separate stand-alone systems, which can result in customers being asked to report, via a Self Assessment tax return, information that is already held by HMRC. HMRC is joining up these internal systems and will automatically include information it holds about a customer's circumstances or income in their digital account, meaning the customer will not have to do this themselves.

Under Self Assessment, over 10 million customers fill in a tax return to tell HMRC about their circumstances and income. This is a burden for customers and inefficient for HMRC as well: mistakes can be made or the information can be wrong or submitted too late, meaning the right tax is not collected at the right time and HMRC has to take action. This can lead to penalties and interest charges for the customer which could have been avoided.

More effective use of third party information, that is, information provided to HMRC by someone other than the customer or their agent, will reduce the reporting burden on customers and reduce errors, making it easier to declare the right tax.

As the Personal Tax Account develops, customers will use it to tell us when things change. Over time, customers will no longer need to complete tax returns at the end of the year.

We are beginning by using information HMRC already holds and will make better use of this by connecting it with customers and displaying it in their tax account.

## Making Tax Digital for business

HMRC's ambition is to become one of the most digitally advanced tax administrations in the world, modernising the tax system to make it more effective, more efficient and easier for customers to comply.

The majority of customers want to get their tax right but the latest tax gap figures (2014 to 2015) show too many find this hard, with a cost to the Exchequer of over £8 billion a year due to avoidable taxpayer mistakes. In 2014 to 2015 over £3.5 billion of revenue was lost due to these mistakes in VAT returns alone.

A modern tax system, based on digital technology will make it easier for businesses to get their tax right. Reducing the amount of avoidable errors will also reduce the cost, uncertainty and worry that businesses face when HMRC is forced to intervene to put things right.

The logic of digitising the tax system is widely recognised and millions of businesses are already banking, paying bills, and interacting online. Digitising routine business tasks such as record keeping is the next step and is one many businesses have already taken.

There is widespread agreement that Making Tax Digital for Business is the right approach for the future and we will continue to work closely with stakeholders to ensure Making Tax Digital is a success. However a number of concerns about the pace and scale of change have been raised. As a result the government has announced that the roll out for Making Tax Digital for Business has been amended to ensure businesses have plenty of time to adapt to the changes.

Businesses will not now be mandated to use the Making Tax Digital system until April 2019 and then only to meet their VAT obligations. This will apply to businesses who have a turnover above the VAT threshold – the smallest businesses will not be required to use the system, although they can do so voluntarily.



This change means that no business will need to provide information to HMRC under Making Tax Digital for business more regularly than they do now. VAT has been online since 2010 and over 98% of VAT registered businesses already file electronic returns.

Making Tax Digital will build on this by integrating digital record-keeping to provide a single, seamless process with quarterly updates generated and sent direct from the software the business/agent uses to keep their records.

We expect many of these businesses to take the opportunity to provide quarterly updates for other taxes too, but there will be no mandatory requirement to do so. Similarly, businesses that are not VAT registered and those below the VAT threshold who have voluntarily registered for VAT can opt to join Making Tax digital for Business, giving them the choice of whether to opt to use commercial software to keep track of their tax affairs digitally and update HMRC on a quarterly basis.

By introducing Making Tax Digital for Business on a voluntary basis for most and only making it mandatory for those who already interact with HMRC regularly and digitally, we can smooth the transition maximising the opportunities of a modern digital tax system.

The government has committed that it will not widen the scope of Making Tax Digital for Business beyond VAT before the system has been shown to work well, and not before April 2020 at the earliest. This will ensure that there is time to test the system fully and for digital record keeping to become more widespread.



## Next steps

The first businesses have already started keeping digital records and providing updates to HMRC as part of a live pilot to test and develop the Making Tax Digital service for income tax and NICs and we will continue to expand this pilot.

The government will re-introduce the legislation to give effect to Making Tax Digital for business that was published in the Finance Bill after the Spring Budget.



## Here is your 10 point guide to MTD

1. Timeline: VAT moves onto the new system in April 2019 for businesses over the VAT registration threshold; other taxes will follow but not before 2020. (See below for the original MTD timeframe).
2. MTD brings in mandatory digital records for business and landlords, with quarterly tax submissions to HMRC.
3. Digital records mean ‘intelligent’ digital accounting software; with the potential for scanned invoices; smart phone apps; and may be stand-alone or cloud. Spreadsheets permitted if linked to MTD submission software.
4. Push towards cash accounting for SME businesses, with the cash accounting threshold at £150,000 entry and £300,000 exit levels from April 2017. New cash accounting for unincorporated property business up to £150,000 gross income, becomes the default from April 2017. New rules for capital/revenue divide.
5. For individuals, wider use of third party income data - from banks, employers, and potentially DWP, sucked into Personal Tax Account: discrepancies would need to be challenged with the third party. HMRC’s Simple Assessment powers potentially replacing self-assessment for some taxpayers. Real-time PAYE coding changes aimed at reducing in-year under and over payments.

6. New points based penalty system proposed for all late returns across Income Tax, VAT and Corporation Tax.
7. Agent access will be through practice software: so, make sure you know what your software supplier is providing and when.
8. MTD for business means one month will be allowed to make each quarterly update; for smallest business, this is a three-line account. Updates made directly from the accounting software to a digital tax account.
9. Nine months permitted for year-end finalisation – the ‘quarter five’. In the consultations, HMRC envisages taxpayers submitting their own quarterly updates and agents making the final year-end update – the fifth return. New businesses will have to make a first return within four months of start-up.
10. Voluntary pay as you go option – based on forecast tax liability in digital tax account.



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