

Making Tax Digital – How will this affect you?



Everything you need to know about Making Tax Digital

The tax experts at Rowleys have been working hard to ensure clients are fully prepared for the UK Government's Making Tax Digital (MTD) initiative, which comes into force on 1 April 2019.

The rationale for the change is simple: the government wants to introduce MTD to help close the tax gap by helping businesses to "get their tax right". It has estimated that over £12bn is lost annually as a result of tax errors and mistakes and it wants to get its hands on this lost revenue.

Issues for clients to overcome

According to research by the Institute of Chartered Accountants England & Wales, conducted in September 2018:

- 62% of total businesses do not use accounting software
- 46% of VAT registered businesses do not use accounting software
- 25% of total businesses maintain manual hand written accounting records
- HMRC are of the view that Tax Revenues are being lost due to untimely recording of data in a suitable format.

These are quite shocking stats; so you can see why HMRC is spearheading the change.

Making Tax Digital Explained

MTD applies to businesses with a turnover above the VAT threshold of £85,000. From 1 April 2019, such businesses must do the following:

- Keep their accounting records on functional HMRC-compatible software
- Data from the software will then transfer to HMRC via an Application Programme Interface (API).

There are some exemptions

If your business is run entirely by practising members of a religious society whose beliefs are incompatible with the requirements of the regulations, you will not need to comply with MTD.

If you run your business from a remote area, where Internet access is patchy at best, then you will not be required to conform to MTD rules to keep business records or submit returns. HMRC is also sympathetic to reasons of age and disability and there may be further exemptions which we will keep you abreast of.

Any business subject to insolvency procedure will not be required to MTD changes.

If you do not currently submit your return electronically, then you are likely to be exempt, but this is a bit of a grey area which we feel needs further clarification by HMRC.

So what types of business is HMRC going after in its MTD drive?

This may sound too obvious to ask. But it is most certainly worth knowing so that you can be absolutely clear whether this new tax regime affects you or not.

If you fall into one of these categories then MTD affects you:

- Sole Traders
- Partnerships
- Property Rental Individuals/Partnerships
- Limited Companies

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What is an Application Programme Interface (API)?

Let's de-jargon the jargon for you.

An API is a digital link between your business's software and the HMRC. It means that the transfer of data is electronic and requires no human intervention. The link you will need is embedded within the functional compatible software and it is a two-way link which means HMRC can send information back to you via your compatible software.

What is Functional Compatible Software?

HMRC is working with a wide range of software suppliers to produce suitable 'Functional Compatible Software' for businesses and their agents. Software which has been recognised by HMRC is now available, whilst other suppliers still have products in development.

More suppliers and software will become available as the Making Tax Digital pilots progress.

Compatible software is defined as a program or programs that can:

- Record and preserve electronic records in an electronic form
- Provide HMRC with information from the electronic records and returns in an electronic form, and by using the API Platform
- Receive information from HMRC using the API Platform.

What records have to be kept digitally?

This is a question we get asked a lot and we are keen to dispel the myths.

We will begin with Designator Data

This is, quite simply:

- Your business name
- The address of your principal place of business
- Your VAT Registration number
- A record of any VAT accounting schemes that you use.

How about Transactional Data? Supplies you make

This is about supplies you make and you will need to record the following:

- Time of supply
- Value of supply
- The rate of VAT charged.

Supplies you receive

It is much the same for supplies you receive.

You MUST record:

- Time of supply
- Value of supply – **including** any VAT not claimable by you
- The amount of input VAT that you will claim.

What are your options for accounting records?

There are a number of options available to you:

- Desktop Accounting Software
- Cloud Based Accounting Software
- Bridging Software.
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Desktop Accounting Software

- This is a program based on your computer
- Data is held on your computer
- Additional users can log in at an additional cost
- Includes offerings such as Sage 50 or Sage Essentials V24 and above.

Cloud Based Accounting Software

- This is well worth considering. It is secure and can be accessed anywhere with an internet connection via your tablet, phone or laptop
- What's more, it allows for unlimited users including accountant access on most programs
- It can also capture digital images of records, essential for those wanting to be especially cautious
- As a practice, Rowleys has reviewed the market place for cloud based software and recommend Xero, Sage One or Quickbooks online.

Bridging Software

- Allows spreadsheets to be linked digitally using macros and specific links
- Needs to capture all accounting data and not just the totals
- Requires additional work to ensure all data is linked correctly and that changes to the spreadsheet are updated.

With the further advancements with MTD in the future to include quarterly returns for income tax or corporate tax from as early as 2020 this is a short term solution.

Due to this and the many variables with individuals' spreadsheets and the complexity of the links, we as a practice would not be able to support you with this option.

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How will the process change when you prepare and file your VAT Return?

From your first VAT period starting on or after 1 April 2019

- You will no longer be able to submit your VAT return via the HMRC website
- VAT returns will need to be submitted via the API using the functional compatible software
- VAT groups will currently have to use the adjustments option or journals to add the group totals to file the VAT return (Postponed until October 2019)

What parts of the process will remain unchanged when you prepare and file your VAT Return?

It is worth pointing out that there are various areas that will remain unchanged when MTD comes into effect.

- The periods you prepare your return for
- VAT schemes you operate within, such as the Retail scheme, flat rate scheme or TOMS
- Calculations you undertake and adjust for such as partial exemption, fuel scale charge, import duty, group registrations etc
- Dates for submission
- Data sent to HMRC.

HMRC is running a pilot scheme to help businesses make the transition to MTD

Most businesses are eligible to join the scheme.

These are the exceptions: trusts, not for profit organisations that are not companies, public sector entities, local authorities, traders based overseas, Annual Accounting Scheme users.

Here's how we can help

- Discuss your needs with us
- Assess the options and view the software
- Train and support you in your transition
- Take the burden away and complete your bookkeeping on your behalf

If you have any questions about any of the issues raised here, please do not hesitate to contact us.

**Please Contact: Matt Hutchinson, Associate Director,
Accounts & Audit Department by phone on 0116
2827000 or Email: matt@rowleys.biz**

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The Rowleys Partnership Limited
Charnwood House
Harcourt Way
Meridian Business Park
Leicester, LE19 1WP

T: +44 (0)116 282 7000
F: +44 (0)116 282 2170
E: post@rowleys.biz
W: www.rowleys.biz

For more information on the subjects covered in this update or to arrange a consultation, please contact Mark Hook at mark@rowleys.biz or call us on 0116 282 7000.