
MAKING TAX DIGITAL (MTD)

The Government's plans for MTD are a total transformation of the existing tax system.

The intention is that ultimately all taxpayers; individuals, partnerships and companies will have their own digital tax account, provide digital reports and be able to see all of their taxes in one place.

HMRC has now issued draft legislation and updated their guidance, however further announcements are anticipated. Indeed, only recently HMRC announced a six month delay to the deadline for MTD for VAT for some businesses and further changes may yet be announced.

In reality, whilst MTD is tax driven, the main areas where additional work is required for most of those affected are record-keeping and accounting.

The timeline is:

1 April 2019

Most VAT registered businesses with turnover above £85,000 will fall within the MTD for VAT regime i.e. for VAT returns only;

1 October 2019

The remaining VAT registered businesses with turnover over £85,000 which are eligible for a six month delay will fall within the MTD for VAT regime (trusts, not-for-profit organisations that are not set up as a company, VAT divisions, VAT groups, public bodies, local authorities, public corporations, traders based overseas, those required to make payments on account and annual accounting scheme users).

6 April 2021

This is the earliest date that all businesses (companies, partnerships, sole traders) and landlords with turnover or gross rents in excess of the relevant threshold, (currently £85,000 but to be confirmed), will come into MTD whether or not they are VAT registered.

This limit will be for all sources, profits and rents, on a combined basis.

MTD for VAT

MTD for VAT will be voluntary for those who are voluntarily VAT registered but currently under the threshold. They will need to monitor their turnover to identify when their MTD obligations begin.

For the first VAT return period starting on or after 1 April (or 1 October) 2019 VAT returns will have to be submitted via new API software.

In addition, digital VAT records must be kept containing the following information:

- The business name, address, VAT number and any VAT schemes used;
- For supplies made, the time they were made, their value and the rate of VAT applicable to each supply;
- For purchases, the time of purchase, their value, along with the amount of VAT charged which the business will reclaim;
- Summary data to support the return, including output VAT, acquisition VAT (if it still exists by April 2019), reverse charge VAT, claimable input VAT and acquisition VAT, the total VAT due to or reclaimable from HMRC and any other adjustments permitted or required.

MTD for VAT will require digital links between the return figures submitted and VAT records supporting those figures covering VAT due and claimable. However, it should be noted that HMRC has announced a “soft landing period” until 1 April 2020. This means that only the final digital submission of the VAT return to HMRC must be made via API enabled software with effect from 1 April or 1 October 2019, although be sure that any bridging software connecting to this API is also in place by this date.

MTD for VAT requirements can be met by a number of software packages not just one - provided they are digitally linked. So, for example, a business could record sales and purchases in an accounting package and transfer the figures to a spreadsheet which calculates the return figures before sending the information to bridging software to submit to HMRC via the approved API software.

Some adjustments and calculations are permitted outside the digital requirements, but care is needed to ensure only qualifying adjustments and calculations are treated in this way. Partial exemption and margin scheme calculations are permitted outside the digital framework.

It should be noted that HMRC will not provide API software but has compiled a list of approved software suppliers.

The list is available at:

<https://www.gov.uk/government/publications/software-suppliers-supporting-making-tax-digital-for-vat>.

Given the likely challenges in 2019, businesses may wish to address their MTD for VAT obligations in advance. HMRC’s pilot scheme has recently been extended and will be extended further in the coming months, opening it up to most affected taxpayers. Quantifying the work and resources needed to effect these changes should not be delayed.

MTD for other taxes

MTD will not apply to other taxes until at least 2021. The plan is that MTD on direct taxes will apply to all businesses and landlords with a turnover/rental income over a threshold yet to be confirmed, but currently thought to be £85,000. MTD will have a significant impact on companies, partnerships, trusts as well as individuals and all will be required to keep their records for each business activity digitally and make quarterly returns from these records to their digital account within a 30 day period – for each business (separately for each activity).

A final annual return for each business will also be required, within ten months of the year end or 31 January as now – whichever is earlier.

Behind the quarterly reporting requirements the existing requirements on recordkeeping (invoices, receipts and cash records) will not change.

The proposals give flexibility on when tax adjustments are made; either quarterly or at the year end. Clearly a better idea of liabilities will be available if adjustments are made earlier.

What to report

The quarterly returns will need to include:-

- For businesses – a trading summary;
- For landlords – the property address and income and expenses split by property;
- For gains – dates of acquisition and disposal and costs and proceeds values.

Deadlines

The proposed reporting deadlines are very short and penalties will apply to late filings:-

- For quarterly returns - one month;
- For year end - ten months from the accounting period end.

To find out how MTD impacts you and how we can help, please contact your usual Mercer & Hole partner.

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