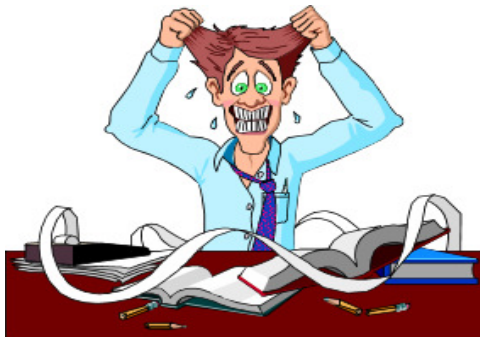


# MTDfB

## *factsheet*



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# MTDfB

## Q: What is MTDfB?

**A:** Some say MTD stands for 'Making Tax Difficult!' Others say it stands for 'Making Tax Different!' However, MTDfB stands for '**MAKING TAX DIGITAL FOR BUSINESS**'.

The aim of MTD is one of a compliance system where all communications between HMRC and the taxpayer is conducted digitally.

## Q: What is the background to MTD?

**A:** **Making Tax Digital** goes back to 2015 when the government announced it as an initiative to improve the effectiveness and efficiency of the UK tax system, and reduce its complexity. The goal is to transform the UK tax system by introducing **digital recordkeeping** and **quarterly reporting**. That is, there will be a requirement to submit quarterly and/or annual VAT, income tax and corporation tax information directly from MTD compatible software to HMRC.

*The ultimate aim of the full MTDfB project is that in future you as a taxpayer will not have to fill in a tax return; all the information will be received by HMRC from you and third parties, such as banks, pension providers, investment companies, etc. This information will populate your individual personal digital tax account at HMRC, including information you provide of your sole trader business or rental income on a quarterly basis to HMRC. You will be able to check the information HMRC holds and/or make changes. HMRC will then calculate your tax liability. Welcome to the digital revolution!*

## Q: OK I get all that but what are the other reasons for its introduction, seriously?

**A:** Well, the government thinks, rightly or wrongly, that it is losing about £9bn annually in tax as a result of errors or mistakes and it wants businesses and individuals to 'get their tax right'. It appears the main reason is to collect more tax from small businesses, especially those trading below the VAT registration threshold. In addition, they say the MTD scheme should help businesses know where they stand when it comes to tax affairs; being able to access tax information online in one place; being able to work collaboratively with an agent; and being able to plan and budget effectively. According to the government the benefits of MTD for businesses include remaining competitive, boosting productivity and being able to capitalise on going digital through cost and efficiency improvements.

## Q: What do you mean by digital recordkeeping?

**A:** This means you must use accounting software or spreadsheets to keep your accounting records. Paper accounting records will no longer be acceptable. This will become mandatory for almost all businesses and landlords whether they trade as self-employed, partnerships, limited companies or other entities.

For example, if you use a book to record your individual sales and expenses for accounting purposes and are required to submit information to HMRC this will not be complying with tax law. Also, if you transfer information from your accounting records to a spreadsheet by manually keying in information to calculate your VAT, for example, this also will not be acceptable – there must be a digital link between your software and the spreadsheet. Digital records can be kept in a range of digital formats, in different places and on different software but they must be MTD compatible. That is, the software must support the MTD obligations of keeping digital records and exchanging data digitally with HMRC.

Your record keeping software can be maintained on any device such as a PC, smartphone, tablet, etc. So, after 2020, you could be providing your sole trader/rental quarterly accounts information to HMRC via your smartphone as long as the software is compatible!

**Q: Where are we now with MTD?**

**A:** The government is behind in its implementation dates for all the taxes but the first MTD scheme will be for VAT which will come into effect from 1 April 2019 - more on this below. MTD for other taxes, such as income tax and corporation tax, will follow soon after but not before 1 April 2020. So be prepared!

**Q: Do we know what will be required for MTD for Income tax?**

**A:** Remember, MTD is not about submitting tax returns but providing information to HMRC to update your digital tax account. For a sole trader/partnership and certain landlords, they will have to submit income and expenditure details to HMRC **EVERY QUARTER**. There will also be a final submission, an 'end of year activity report', to make final adjustments which will need to be submitted within 10 months of the end of the accounting period or, if earlier, 31 January. Those are the 5 stages – 4 quarterly returns and a final one. A further sixth stage will be required to notify HMRC of trading investment income and capital gains.

**The quarterly information will be able to be submitted using a smartphone, tablet or PC subject to compatibility issues.**

**Q: Do we know what will be required for MTD for Corporation Tax?**

**A:** No, we do not have the full details yet.

**Q: So, let me get this straight. I will have to make separate returns for each business I have?**

**A: Not quite – it is tax led, not business led.** Once MTDfB is fully implemented, where applicable, you will end up having to make quarterly/annual returns to HMRC for **each tax that you pay**. These could include:

- RTi under PAYE – this is already being done – for salary data
- VAT quarterly returns under MTD for VAT
- Quarterly income and expenses data in summary form under MTD for a sole trader/partnership business, including final reports for Income Tax
- Quarterly data under MTD for a lettings business for Income Tax
- Quarterly or annual data under MTD for Limited companies for corporation tax – we don't have full details yet, but one of the requirements is likely to be to submit dividend information when voted/paid.

**Under MTD, HMRC will want you to submit real-time information to them or as close as possible to the transactions date!**

**Q: How much is all this going to cost me in terms of software, never mind the time involved?**

**A:** If you currently use mainstream software to maintain your accounting records, the additional annual cost for MTDfVAT software is likely to be around £100-£150 but prices have not been fully released. For income and corporation tax, we don't have details of the format of information HMRC will require.

## **MTD for VAT (MTDfVAT)**

### **Q: When does MTDfVAT apply from?**

**A:** MTDfVAT applies for VAT return periods starting on or after 1 April 2019. It is the first VAT period that starts on or after 1 April 2019.

### **Q: What happens after 1 April 2019?**

**A:** Businesses will have to move to a new system which allows them to report VAT information directly to HMRC by using software which can communicate with HMRC via an Application Programming Interface (API). Either your software provider will update your software (and you will have to pay for this) or, as an interim measure, some software providers are marketing an API enabled spreadsheet if your software is not enabled for this system. Again, you will have to pay for this. Currently, various software houses have introduced products that are undergoing trials to meet the new regulations.

The current system of using the HMRC online portal to submit your VAT returns will cease to apply for businesses that meet the criteria for filing VT returns under the new system.

### **Q: Who does it apply to?**

**A:** Anyone who runs a VAT registered business with a VAT taxable turnover above the VAT registration threshold (currently £85,000).

### **Q: What is taxable turnover for VAT?**

**A:** Taxable turnover for VAT are taxable supplies. Taxable supplies exclude exempt income and outside the scope of sales. Taxable supplies are only those sales that are charged VAT at 0%, 5% or 20%.

### **Q: My business currently has taxable supplies below £85,000. Will MTDfVAT apply to my business?**

**A:** You must first check that your taxable supplies for the last 12 months on a rolling basis at the end of each month is below £85,000. If it is, then MTDfVAT does not apply. If it isn't then MTDfVAT will apply from the first day of the following month. Once you are in MTDfVAT you remain in the system even if your taxable supplies temporarily go below £85,000, unless your business de-registers.

### **Q: My business currently has taxable supplies below £85,000 but I voluntarily registered for VAT. Will MTDfVAT apply to my business? If not, what system do I use?**

**A:** MTDfVAT will not apply to your business and you can continue to file your VAT returns as you do currently using the Government Gateway portal.

### **Q: Can I voluntarily register to use the MTDfVAT scheme even though I am below the criteria.**

**A:** Yes, and it may be a good idea as it is likely that all VAT registered businesses will have use MTDfVAT from 2020.

### **Q: My accountant currently submits my VAT return as my agent using the government online portal and I want him to continue to do so. How will MTDfVAT affect the current situation?**

**A:** Your accountant as Agent will need to register for an Agent Service Account. This will be a one-off process. Once registered, the Agent will be able to subscribe you to MTD and send updates on your behalf direct from their software to HMRC systems. They will have to purchase API enabled software to do so.

**Q: What will be the penalties for late or non-submission of quarterly returns?**

**A:** HMRC understands that some businesses may require extra time to make sure that their systems are fully compliant with MTD. That is why HMRC have provided for a soft-landing period of one year where they won't apply digital record-keeping or late filing penalties. Penalties for those who fail to keep or preserve records required by law will apply in exactly the same way as now, as will the requirement to file VAT returns online (unless digitally exempt).

**Q: What if I use a book to record my individual transactions, then transfer this to a spreadsheet in summary form and then send this information to HMRC via API enabled software?**

**A:** Sorry, no can do because there is no DIGITAL link between the spreadsheet (summaries) and your manual records (individual). Everything must be digitally linked.

**Q: If I keep my records on spreadsheet rather than accounting software will that be sufficient?**

**A: To an extent.** If you currently maintain individual records on a spreadsheet that records all individual sales, purchases and expenses you will additionally need to acquire software which will allow VAT information and updates to be made directly from the spreadsheets to HMRC. This can be done using API enabled bridging software or where this is possible, directly enabling the spreadsheet itself using APIs to report to HMRC.

**Q: What does API mean?**

**A:** Application Programming Interface (API): An API allows software to communicate with HMRC systems. It provides a secure link between your MTD compatible software and HMRC systems.

**Q: What is bridging software?**

**A:** Bridging software is HMRC's description of the digital tool that can take information from other applications such as a spreadsheet or an in-house record keeping system and lets the user send the required information digitally to HMRC in the correct format. The software will integrate the necessary APIs to do this.

**Q: So, I can use Microsoft Excel for MTD and just install an API for submission?**

**A:** Yes - Excel linked with API bridging software.

**Q: Hmm...Using spreadsheets might become cumbersome. What if I buy accounting software or what do other clients with accounting software have to do to comply?**

**A:** That depends on what kind of software you or they have. If, for example, you use Sage or QuickBooks or other well-known software, these software houses are currently developing API enabled software so that they have the functionality to maintain the digital records and digital links, prepare the VAT return (and other tax information) within the software and then submit the information directly to HMRC via the API software. In other words, it will be built into the software system. You will have to purchase this piece of software.

You could also purchase a single API enabled software package that records and maintains all the transactions in a digital format, prepares the VAT return (and other tax information) and submits this information to HMRC via an API.

**Q: So, if I am already using commercial software to record all business transactions and to submit the VAT return, does this mean that as long as the software provider updates the software for API I can continue this way?**

**A:** Yes, if the software provider provides the necessary updates to ensure compatibility with MTDfB

requirements for digital record keeping and digital reporting of data to HMRC for VAT purposes.

**Q: I have digital records on different software packages for my accounting records. Do these need to be digitally linked as well?**

**A:** YES. But, HMRC understands that it may be difficult to link these initially given the time and cost involved. So, HMRC will, for VAT, give businesses up to 31 March 2020 to update their systems and not apply any penalties. You will be able to use the cut and paste approach to transfer information between the packages, but not where VAT return information is submitted. This must be digital via an API. After 2020, if you continue with the same system, you must link your systems with bridging software which must be API enabled.

**Q: What about original records such as invoices, etc?**

**A:** You must still keep the original records such as sales, purchase and expense invoices, unless you use software that scans (and keeps) the information from the original records and puts it into your accounting software. (N.B. the C79 VAT import certificate must always be kept in original form).

**Q: Will HMRC not provide any software for businesses to use to keep digital records?**

**A: NO.** MTDfB compatible software will be provided by third party software providers, and HMRC is working closely with them to ensure the availability of a wide range of products at a variety of different price points. There are no plans for HMRC to offer its own software products.

**Q: Are there any exemptions from all this MTD whatsoever?**

**A:** You may be in luck provided you qualify. The exemptions are:

- Religious reasons forbid you from engaging digitally.
- Your age makes it difficult or impossible – you're never too young!
- There are disability reasons.
- Your location means that you have no broadband facilities – e.g. you live in the boondocks!
- Your business is under the VAT qualifying threshold.
- For income tax, a business or landlord with a very small level of turnover will not need to comply. The level has not yet been set.

**Q: What do I need to do now to prepare for MTDfVAT?**

**A:** As the upcoming changes are so fundamental you will need to review your current record keeping processes and accounting systems. For the smaller client, as your accountant, we will support you through these changes and provide the ongoing services that you may need. The following checklist may help you to prepare for the new regulations:

- Consider whether you qualify for a digital exclusion under the exemptions mentioned above.
- Review your accounting systems. Will it be API enabled in time? Does your software need to be upgraded or changed?
- If you currently maintain some records on a spreadsheet and it does not record all individual transactions either do so or acquire new software. You need to digitise all aspects of your record keeping.
- If you currently maintain your records on a spreadsheet and it records all individual transactions decide what API enabled software to purchase.

- If we prepare your accounting records currently from the paper records you provide to us, and want to continue as before, we will comply with the new regulations on your behalf. As agent we would need to purchase the relevant (API enabled) software to ensure our software can deal with the regulations.

**Q: Where can I find information about compatible software?**

**A:** HMRC have published a list which will be updated regularly at the following link:

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

**Stop Press!**

A US software developer called Avalara will be launching a free Excel extension for Making Tax Digital for VAT which will allow businesses to upload Excel data directly into HMRC's VAT filing API using Microsoft Excel. This will be useful for the smaller business (or landlord) who maintains all their records on excel. It may also be useful for larger companies (VAT groups) who use bridging software with other records.

Avalara's MTD Filer for VAT will be a free Microsoft Excel Add-In and will be available for free download in November 2018 for any excel version, and you will not have to be an existing customer.

**LINK**

**VAT Notice 700/22 Making Tax Digital for VAT – comprehensive details on the link below:**

<https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat>

***N. B. We STRONGLY refer you to Section 7 of the above Notice that provides examples of how your software will be required to be digitally linked for VAT purposes.***