Making Tax Digital

General Features

01 October 2017

A summary of the key elements of Making Tax Digital, and what's ahead.

As noted above, the Finance (No 2) Bill 2017 has just been published and, as expected, contains a number of provisions in relation to Making Tax Digital (MTD). We have set out below a high level summary of the key elements of the MTD proposals as they now stand, both in relation to MTD for Business (MTDfB), and how MTD applies for Individuals (MTDfI).

MTDfB: income tax

As you will be aware, the MTD timetable for income tax has been substantially deferred, and no unincorporated businesses or landlords will be mandated to keep digital records (though see below) or submit quarterly reports to HMRC for income tax purposes until April 2020 at the earliest. In the meantime, legislation to enable MTD for income tax is included in the Finance Bill, and draft regulations will be published at a later date. Currently, trials of MTD-compatible software are in 'private beta' stage (small scale, invitation only), but the 'public beta' stage (open to all unincorporated businesses and landlords, subject to software availability), the launch of the trials, is expected to take place in Autumn 2017.

Although eventual mandation of MTD for income tax is by no means certain, there are potential advantages to (i) helping clients transition to digital record keeping in this interim period and (ii) encouraging appropriate clients to join the public beta trials.

MTDfB: VAT

Whilst the timetable for income tax was deferred, the starting date for VAT of April 2019 remains as originally announced, though is restricted to compulsory (not

voluntary) VAT registrations. There are two elements to the VAT proposals:

1. Businesses will be required to maintain digital records, albeit only to enable them to meet their VAT obligations; and
2. VAT returns will need to be submitted directly from the software that the business (or their agent) is using, meaning that it will no longer be possible to simply type the VAT return figures into the HMRC portal.

Looking briefly at each of these, the first requirement means in practice that many small and medium sized businesses are effectively mandated into keeping their business records in digital form from April 2019, as most SMEs have a single set of records which forms the basis for all their accounting and tax obligations. Similarly, companies will need to consider whether and how they will need to adapt their record keeping to comply with MTD for VAT, notwithstanding the uncertainty around MTD for corporation tax (see below).

The second requirement is potentially more challenging than the first. At present, we understand that only around 12% of VAT returns are submitted directly from software, with around 87% submitted through the HMRC portal (the remaining 1% being filed in hard copy or by phone etc). There will no doubt be a large number of businesses who could, if prompted, submit their VAT return through software without a great deal of extra work. However, there will also be a substantial number of businesses which make significant and complex adjustments to the underlying figures, or combine data from different sources, for whom this second requirement will be problematic. We will be working with HMRC to explore options for businesses, particularly those in this latter category.

There will be a private beta test of MTD for VAT in Autumn/Winter 2017/18, before a public beta test is launched in Spring 2018. Again, it may be appropriate to consider which of your clients will need to change how they maintain their accounting records and whether it would be beneficial to participate in the trials.

MTDfB: corporation tax

MTD in relation to corporation tax remains one of the significant unknowns. HMRC are currently undertaking a series of consultation meetings with businesses, advisers and representative bodies (including CIOT and ATT) to understand the characteristics of complex businesses and the opportunities and challenges for

complex businesses under MTDfB.

However, as noted above, most companies will need to comply with MTD for VAT from April 2019, so clarity around any requirements for corporation tax is needed sooner rather than later (and some will say it is already too late), to ensure that the accounting systems they implement to accommodate MTD for VAT will also accommodate the requirements for corporation tax with or without the eventual introduction of MTD.

MTDfI: dynamic coding

Dynamic coding seeks to reduce the number of tax under/overpayments experienced by individuals within the PAYE system by making in-year changes to their tax code. Dynamic coding went ‘live’ on 2 July, and codes will be changed in-year when HMRC receive information from employers or the individual that would impact on the tax code. Later in 2017, HMRC will start to use the information it receives from banks and building societies and will update tax codes where it is necessary to collect any unpaid tax on that interest.

Agents do not usually receive copies of notices of coding, and you may wish to encourage your clients send you a copy so you can check whether it is correct. We understand that there have been some teething problems with the system, and calls to HMRC’s helplines have increased.

MTDfI: the Personal Tax Account

HMRC are continuing to make changes and improvements to the Personal Tax Account (PTA), both to make it easier for taxpayers to find what they are looking for and to increase functionality. Pre-population of the PTA has already commenced, for example with employment income, and will expand to include other sources of income such as bank and building society interest.

In the meantime, and because agents do not have access to clients’ PTAs (though we keep challenging HMRC to revisit this), following the decision by HMRC to stop providing pay and tax details over the phone to agents, HMRC are introducing a new system which will allow authorised agents to obtain online the following limited information for 2016/17: gross pay, tax deducted, employer (or pension provider)

name, employer PAYE reference. The system is currently in a private beta trial, and we are expecting it to be available more widely very soon. It may also be broadened to include other types of payroll information.

Further information

The above is just a brief snapshot of some of the key emerging elements of MTD. HMRC have held a number of Talking Points sessions where they explain the issues in more detail. In addition, the CIOT and ATT websites provide more information. A number of our branch events and conferences have sessions dedicated to MTD, so keep a look out for these, too.