Making Tax Digital update

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HMRC launch Making Tax Digital (MTD) income tax pilot for the self-employed and the MTD VAT pilot

Income tax pilot

In March HMRC launched their MTD income tax pilot for self-employed businesses. The pilot is voluntary and the intention is that it will start with the smallest businesses before being opened up to a wider range of businesses during the year.

Businesses that sign up will have to use MTD compliant software to keep their business records digitally and send quarterly updates of their income and expenses to HMRC. At the end of the accounting period they will need to send a final report to confirm their income and expenses for the year. If they need to claim allowances and reliefs, they can do this within that final report. They will then be able to see a tax calculation for the year in their business tax account as well as through their software. Agents that sign clients up to the pilot will need a software package that lets them send the updates to HMRC on their clients' behalf.

To be eligible to take part in the initial phase of the pilot, the business must be a sole trader with income from one business only and their current accounting period must end after 5 April 2018.

HMRC have said that sole trader taxpayers that take part in the pilot will not need to file a separate self-assessment tax return for the relevant tax year for the business, subject to the proviso that if they have income from any other sources they may still have to report it using a self-assessment tax return.

If you and your clients are already using software to keep records, you should check with your supplier when it will be ready to allow you to send MTD updates to HMRC.

At the time of writing, there were only two software suppliers offering MTD compliant packages – Iris and Rhino – but HMRC have said that there are a number of other products at various stages of development and they will be added to this page on the HMRC website as they become available. A MTD compatible software product includes an API (application programming interface) enabled spreadsheet. We do not believe there are any API enabled spreadsheets on the market at present, although we anticipate they will be added to HMRC's list as they become available.

Further details, including how to sign up for the pilot, can be found on GOV.UK.

VAT pilot

The MTD VAT pilot was due to launch on 3 April 2018. At the time of writing, eligibility for the initial stage of the pilot is expected to be limited only to a very small number of simple businesses, and the plan is to grow from there. More complex businesses are unlikely to join the pilot until October 2018, and public bodies not until November or December 2018.

If you or any of your clients take part in either the income tax or VAT pilots, we would be very interested to hear how it goes. Please send your feedback to technical@ciot.org.uk or atttechnical@att.org.uk.