The reconstruction of tax

General Features



01 July 2017

Mark Purdue considers how Making Tax Digital will affect the work undertaken for clients

Key Points

What is the issue?

Making Tax Digital has dominated the tax and accounting scene and signalled the start of an intense period of speculation, lobbying and debate.

What does it mean to me?

This is a new digital reality that brings both challenges and opportunities for tax advisers, not least because taxpayers will increasingly need to turn to trusted tax advisers for advice and support.

What can I take away?

How the profession reacts, tackles the challenges and takes advantage of the opportunities presented by MTD will be fundamental to its future success.

You can’t ignore Making Tax Digital. Since first announced in 2015, Making Tax Digital (MTD) has dominated the tax and accounting scene and signalled the start of an intense period of speculation, lobbying and debate.

Now, after a period of consultation, the end of the annual tax return is in sight. By 2020, the government’s vision for a fully digital tax system should be reality – enabling businesses and individual taxpayers to access and manage their own tax affairs online via digital tax accounts.

This is a new digital reality that brings both challenges and opportunities for tax advisers, not least because taxpayers will increasingly need to turn to trusted tax advisers for advice and support.

How the profession reacts, tackles the challenges and takes advantage of the opportunities presented by MTD will be fundamental to its future success. Now is the time to get informed and up-to-speed so that its impact is both positive and transformational.

Latest update

At the time of writing, the election results were in, but no firm news on who would form the government. When the new government is formed, MTD and the Finance Bill may not be the top priority. There are increasing rumours that deferral to 2019 may be on the cards – but for now, we all need to assume full steam ahead for April 2018.

Although this announcement provides some timely relief, it’s still all systems go for MTD. The MTD pilot has gone live with a small number of businesses and agents. As part of the pilot, MTD-enabled accounting and tax software is being tested to ensure it’s fit for purpose and a large number of businesses and agents are expected to take part in the pilot before MTD becomes mandatory.

MTD timeline and go live dates

- From April 2018 – Go Live for quarterly reporting for income tax purposes by unincorporated businesses and landlords with annual turnover above the VAT registration threshold.
- From April 2019 – Go Live for quarterly reporting for income tax purposes by unincorporated businesses and landlords with annual turnover below the VAT registration threshold.
- From April 2019 – Go Live for quarterly reporting of VAT for all VAT registered businesses (incorporated or unincorporated).
- From April 2020 – Go Live for quarterly reporting of Corporation Tax. At this stage, details are not yet known – expect a consultation process to start later this year.

There are exceptions and the smallest businesses and landlords with gross income of less than £10,000 will be exempt from quarterly reporting. Certain other entities (e.g. non-trading charities) are also exempt, as are the digitally excluded, i.e. those who cannot engage with HMRC digitally by reason of disability, age, location or religion. HMRC have confirmed that this group will not need to engage with HMRC more frequently than they currently do, and existing support mechanisms will continue.

This timeframe provides greater clarity as to when MTD will happen and which individuals and businesses will be impacted first.

Foundations

According to HMRC, there are four key foundations of Making Tax Digital:

- Better use of information.
- Tax in real time.

- A single financial account.
- Interacting digitally with customers.

Better use of information

The idea here is that people will not have to give HMRC information that it already has, or that it’s able to get from elsewhere, such as employers, banks, building societies and other government departments. A large frustration of the current self-assessment process is spending time collating data from clients that HMRC already holds. Requesting and chasing P60 data from a client, for example, will no longer be needed – HMRC will make this data available to agents via their third party software.

Tax in real time

Rather than waiting until the end of the year or longer to know how much tax they should pay, people will know in real time. HMRC has said it will collect and process information affecting tax as close to real time as possible, to help prevent errors and stop tax due or repayments owed building up. Supporting this real time tax view is one of the main drivers behind quarterly reporting. However, although for most businesses this may be useful information to help plan for cashflow, it’s worth noting that the statutory due dates for payment of self-assessment tax are not changing.

A single financial account

At the moment, most taxpayers cannot see a single picture of their liabilities and entitlements in one place. By 2020, they will be able to see a comprehensive financial picture in their digital account. Via their third party software, agents will have access to the same underlying data that their client can see.

Interacting digitally with customers

Delays in communication with HMRC can be a frustration at times, and MTD will offer enhanced communication channels directly with HMRC. Authorised software will be able to undertake a range of tasks and processes to make interacting with HMRC as seamless as possible: secure messaging, agent/client authorisation and payment notifications will all be possible in real time.

Impact on tax advisers

Focusing on these four foundations, MTD will affect the way in which tax advisers interact with HMRC and their own clients. At the most basic level, MTD will open up lines of communication – new reasons to talk to and engage with clients, and the availability of real time data will really benefit the profession.

From capturing tax payment information from the account to tell whether a client has paid their tax bill; being notified automatically when a client's circumstances change; to more complex scenarios involving cross-client or cross-tax year data querying. Advisers will be able to play a more fundamental part – offering more considered tax planning advice, building stronger relationships with clients, and adding more value above and beyond that of the traditional adviser/client relationship.

A new regime

Underpinning these four foundations, indeed I would argue, the entire foundations of MTD is the role of the adviser in the MTD process. Ultimately, the success of MTD relies on the ability of advisers to access clients' digital records.

A frequent question I receive is; when can I (as an agent) access a client's tax account? The simple answer is – you won't be able to, directly. Instead, agents will have access to the underlying data via authorised software. The mechanism by which agents will be able to access this data is referred to as Agent Access, and once everything is in place, the agent will be able to access any data the client can see.

The process for an agent to access data for an existing self-assessment client will involve minimal changes. Once the agent is set up for MTD (see below), they will be able to set up existing clients for MTD, and access their data (expected later this year).

For new clients, an enhanced version of the current authorisation process (64-8) will be available, where the agent and client both confirm via software that the agent is authorised to act for the client, and the authorisation will be instantaneous. Once in place, the agent can then access the client's data via their software. For new clients who are unable to engage digitally, the existing 64-8 process will remain.

So, how does an agent get set up for MTD? We're very much at the early stages of the pilot, but assuming your current software provider is taking part in the pilot, it's possible to apply.

The initial process involves setting up a new set of government gateway credentials, which will deal solely with MTD. Agents will need to set up two-factor authentication for enhanced security. Once set up, you can then create a link to your existing SA Agent Codes, which will expose your self-assessment client list to the new MTD world, ready for you to move clients across when the time is right. For those advisors that currently hold more than one Government Gateway ID for self-assessment, HMRC will be looking for these to be consolidated to this one new ID.

In addition to this, you need to authorise your individual software product(s) to access your client data – a simple process of logging into your new MTD account via your software, and granting authority. Authority is likely to stand for up to 18 months, or until you revoke access, sooner if required.

The finer details on Agent Access are now coming to the fore, but in short HMRC is making it possible for advisers to access their client's Digital Tax Account data online. This access will only be available through third party software, where the agent is authorised to act for the client.

Role of software

HMRC will not be providing software for MTD. Instead, HMRC is working in consultation with software developers on what software is required and how this requirement will be met.

Now is the time to talk to your software provider and ask some fundamental questions – do they have MTD-compliant software? Are they involved in the HMRC pilot?

HMRC has talked about free software and have said there's still a commitment to provide what they call 'simpler businesses' with free software. These are businesses which are unincorporated, below the VAT registration threshold and don't have employees. As a minimum, key functionality will include record keeping, quarterly updates and the ability to do the annual declaration. In addition, HMRC have confirmed that spreadsheets are suitable for 'record keeping', provided the

spreadsheet is integrated with software allowing the update to HMRC to be performed.