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## **Topical Guidance covering the application of professional standards to the provision of MTD for Income Tax services.**

### **Who is this guidance relevant to?**

This guidance is relevant to a member who is in a firm providing any service that contributes directly or indirectly to the preparation, submission, agreement of, or advice on any or all aspects of an individual's digital record keeping, filing of quarterly updates and the year end tax return under MTD for income tax. It includes advice for firms where members of PCRT bodies are amongst the principals and advice for employees of firms.

### **Introduction**

Professional Conduct in Relation to Taxation (PCRT) sets out the fundamental principles and standards of behaviour that all members and students of the PCRT bodies (AAT, ACCA, ATT, CIOT, ICAS, ICAEW and STEP) must adhere to in their tax work.

Several areas where members may welcome clarity on the application of PCRT to the requirements of MTD for income tax have been identified and this is provided in the attached document in the form of a series of frequently asked questions (FAQ).

Members have a responsibility at all times to adhere to the fundamental principles and standards set out in PCRT and, for CIOT and ATT members, the Professional Rules and Practice Guidelines. Tax advisers have a responsibility to serve their clients' interests whilst upholding the profession's reputation and the need to take account of the wider public interest. Adhering to the principles and standards set out in PCRT will ensure that this is achieved.

If a member fails to adhere to the principles and standards set out in PCRT they are liable to be subject to the disciplinary process.

### **Further Assistance**

If in doubt about the ethical or legal considerations of a particular case, a member should refer to PCRT and the associated Help Sheets on the website. They can also seek advice from the Professional Standards team by emailing standards@tax.org.uk. Where appropriate, guidance may be required from their legal advisers.

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## *General guidance for PCRT body members*

Q1. What is expected of PCRT body members in respect of the requirements of MTD for income tax? Do the PCRT standards for submission of tax information and tax filings apply to MTD for income tax?

PCRT sets out the requirements for professional competence and due care when dealing with a client's tax affairs and applies to all members who practice in tax.

Whilst the standards for submission of tax information and tax filings (Help Sheet A) apply to members submitting a tax return, or advising on any aspect of it, it should be noted that a quarterly update under MTD for income tax is not a tax return. The guidance set out in the PCRT Help Sheets is of relevance to all members undertaking work in respect of MTD for income tax but some adjustment in approach may be required because of the different nature of the quarterly update compared with a tax return.

It is understood that there will be a range of scenarios applicable to MTD for income tax, including the following:

- a bookkeeper or the client deals with the digital record keeping and submits all quarterly updates, and a member deals with the tax and accounting adjustments as part of the finalisation of the income tax position for the client for the tax year and submits the tax return.
- the member deals with the digital record keeping and all submissions during the year as well as the year end tax return.
- a midway point between the above.

Depending on the services agreed with clients, members should consider the following:

- They are responsible to the client for the accuracy of the filing based on the information provided (Help Sheet A paragraph 10).
- They should act in good faith in dealings with HMRC and take reasonable care and exercise appropriate professional scepticism when making statements or asserting facts on behalf of the client (Help Sheet A paragraph 12).
- They are not required to audit figures in the books and records provided or verify information provided by a client or by a third party, but should take care not to be associated with the presentation of facts they know or believe to be incorrect or misleading, nor to assert tax positions in a tax filing which they consider to have no sustainable basis. (Help Sheet A paragraph 13). In relation to the submission of quarterly updates on behalf of a client, where the member has not undertaken the digital record keeping themselves, the member should consider confirming that the process for performing the digital record keeping is of an appropriate standard. For example, they may want to query which software is used, the training of those involved and any checks undertaken to ensure there is an accurate recording system.

The client should be advised to review their year end tax return before it is submitted, and the member should obtain evidence of the client's approval (Help Sheet A paragraphs 29 and 31). In relation to quarterly updates, there is an expectation that the member will consider the client's circumstances and act accordingly. For example, if undertaking digital record keeping on behalf of the client it may not be necessary to obtain approval, but it

would be appropriate to document that the client has confirmed they have provided all information necessary to submit the relevant quarterly update for the period.

- They should draw the client's attention to the responsibility which the client is taking in approving the year end tax return as correct and complete.

#### Q2. I am an employee of a firm, and I am not tax trained. Does PCRT still apply to me in my work on MTD for income tax?

PCRT makes it clear in paragraph 1.7 that it applies to all members who practice in tax. We would also expect that non-members dealing with digital record keeping which supports the quarterly updates, or submitting the quarterly updates themselves, even though they may consider they are undertaking accounting work and do not consider they are working on the tax affairs of a client, will be made aware of the principles in this guidance.

#### *Practical guidance regarding accuracy*

#### Q3. I will be submitting the quarterly updates on behalf of my clients, how accurate should the quarterly update submissions be?

Whilst the information included in the quarterly updates does not need to include tax and accounting adjustments and no inaccuracy penalties will be imposed for inaccurate quarterly updates, "a member should take care not to be associated with the presentation of facts they know or believe to be incorrect or misleading" (Help Sheet A paragraph 13). Therefore, the PCRT bodies do not expect members to submit data that bears no resemblance to the transactions arising in the period. For example, there has been some suggestion of submitting four quarters of nil figures in quarterly submissions (even though there was income and expenses in those quarters) and including all entries in the year end tax return. This would not be a correct way to approach MTD for income tax under PCRT principles or compliant with the taxpayer's MTD obligations.

Generally, it is expected that the income and expenses arising in each quarter should be correctly identified from the transactions and reported on the quarterly updates on a cumulative basis subject to any specific relaxations or easements. For further information, members should refer to HMRC's guidance here, [Use Making Tax Digital for Income Tax - Create digital records - Guidance - GOV.UK](#)

#### Q4. Upon reviewing my client's records before filing the quarterly update, I am unsure what a line item relates to, should I delay filing the quarterly update?

Members are reminded that they are responsible to the client for the accuracy of the filing based on the information provided (Help Sheet A paragraph 10). However, the quarterly update should be made on the best available information at the time and there is no expectation from HMRC that the filing should be delayed. Having introduced a points-based penalty regime for late filing with financial penalties issued once an individual reaches the points threshold, late filing should be avoided.

#### Q5. Having read the technical guidance issued by HMRC I believe that it will be sufficient to submit 'nil' quarterly updates or estimates on behalf of clients and include details of their actual income and expenses only in the year end tax return. Is this acceptable under the standards of PCRT?

Members should take care not to be associated with the presentation of facts they know or believe to be incorrect (Help Sheet A paragraph 13). The PCRT bodies do not expect members to make 'nil' quarterly updates where this is factually incorrect, or include estimated figures based on the previous quarter/year, or submit quarterly updates based on partial information (except for where this is in line with HMRC easements or relations). Furthermore, HMRC have explained that it will not

be possible to submit one year's worth of data in the year end submission. Instead, it will only be possible to make adjustments to the figures reported in the fourth quarterly update.

Whilst we understand that no penalties will be issued for errors in the quarterly updates, when MTD for income tax becomes mandatory, HMRC will be able to issue penalties for failing to keep digital records. Incorrectly submitting 'nil' quarterly updates may contribute to HMRC deciding that there has been a failure to meet the digital record keeping requirements.

**Q6. I noticed a digital record keeping error following submission of the Q3 update, should I correct this on the Q4 submission?**

Underlying records should be corrected at the first available opportunity. Given the cumulative nature of quarterly updates, the correct position would then be reflected in the next quarterly update. For further information on correcting errors, members may wish to refer to HMRC's guidance here, [Use Making Tax Digital for Income Tax - Create digital records - Guidance - GOV.UK](#)

**Q7. What implications will there be for members if it transpires that there appear to be substantial changes in data submitted across the quarterly submissions and year end tax return? Will HMRC take steps against members if they see significant adjustments having to be put through?**

Members always have a responsibility to adhere to the Fundamental Principles set out in PCRT and are responsible to the client for the accuracy of the filing based on the information provided (Help Sheet A paragraph 10). If a member fails to adhere to the principles set out in PCRT they are liable to be subject to the disciplinary process.

HMRC have advised that their process for identifying anomalies is risk based. HMRC are aware that there will be circumstances for some customers where there are changes in data across submissions, acknowledging that there are a range of customers who vary in their knowledge of record keeping and that accounting and tax adjustments or reporting easements will result in the tax return differing from the quarterly updates. However if there are systemic issues it is possible HMRC may challenge the submissions.

#### *Responsibilities of our members*

**Q8. I have been engaged to submit the quarterly updates and the year end tax return. What data checking must I undertake before submitting the quarterly updates? Should the checks that I carry out on the data at the quarterly stage be the same as the checks I make when making the year end tax return submission?**

The member submitting the quarterly updates and the year end tax return should take note of the sections in PCRT Help Sheet A relating to member's responsibilities which notes that where acting as a tax agent, a member is not required to audit the figures in the books and records provided or verify information provided by a client or by a third party but "a member should take care not to be associated with the presentation of facts they know or believe to be incorrect or misleading" (Help Sheet A paragraph 13).

It is expected that the checks undertaken by members should be proportionate and reasonable based on the level of risk identified in respect of the client's affairs, the quality of their digital records, and the scope of their engagement terms. Where members are presented with data that includes any 'red flags', it is expected that members will challenge this with their client. For example, if members expect a certain level of income or type of expenses to arise in a quarter, they should check whether the data provided accords with their expectations when submitting quarterly updates. In cases where the data varies significantly, it is expected that the member would challenge this with their client, to determine if the variances can be substantiated, but if the number of transactions fluctuated around a reasonable number, it is not expected that this will be challenged.

Members are expected to carry out the same level of data review when making tax and accounting adjustments and submitting the year end tax return as they would when submitting a self-assessment tax return on behalf of their clients, in line with the current requirements of PCRT. It is expected that members should act in good faith in dealings with HMRC and take reasonable care and exercise appropriate professional scepticism when making statements or asserting facts on behalf of the client (Help Sheet A paragraph 12).

Note that a member must never knowingly be involved in tax evasion and should never be pressurised by a client to make an incorrect or inaccurate submission. Where necessary members should refer to the PCRT Help Sheet C1: Dealing with errors.

**Q9. In cases where a third-party bookkeeper prepares the data for the quarterly submission and I have been engaged to submit the quarterly updates, are there instances where we can just accept the data provided by the bookkeeper?**

As outlined in Q1, a member is not required to audit the figures in the books and records provided or verify the information provided by a third party. But “a member should take care not to be associated with the presentation of facts they know or believe to be incorrect or misleading” (Help Sheet A paragraph 13).

Where a bookkeeper who has been used to prepare the data adheres to PCRT you would expect them to be willing to:

- Provide the full digital records on a timely basis and in the correct format to enable submission of the quarterly updates.
- Provide explanations and assistance, as required, to the client’s agent so they understand the entries. If the agent is also preparing the year end tax return, it will be important to understand for example, whether the third party bookkeeper has already reflected any tax or accounting adjustments in the digital records.
- Demonstrate that they have procedures in place to undertake the digital record keeping and ensure the accuracy of the data provided.

Where members have a good understanding of the third-party bookkeeper’s processes and these are considered compliant with the requirements of digital record keeping, then it is suitable that a light touch would be applied when checking the data provided.

It will be important to clearly define the scope of work for clients within MTD for income tax, particularly where multiple agents are acting for the same client, and members will need to consider updating their engagement letters.

**Q10. What are members’ responsibilities when transitioning clients from one agent to another?**

Ultimately, the taxpayer will be responsible for ensuring that the MTD for income tax submissions are correct and complete and in the appropriate digital format, and that the record keeping system is compliant with the new requirements for the digital recording and transfer of data.

Members will need to check the existing position when a client moves from firm A to B, but as submissions are cumulative, whoever submits the latest update would need access to the software or a CSV doc when taking responsibility for clients’ MTD for income tax reporting.

Members are also reminded of their professional obligations when ceasing to act. Each professional body has their own requirements which members must adhere to, and members should refer to their professional body’s relevant guidance to ensure they are meeting their obligations.

*While every care has been taken in the preparation of this guidance the PCRT Bodies do not undertake a duty of care or otherwise for any loss or damage occasioned by reliance on this guidance. Practical guidance cannot and should not be taken to substitute appropriate legal advice.*



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