

Ready for the off

Tax advisers should not relax following the welcome deferral of the plans for Making Tax Digital.

TEN SECOND SUMMARY

- 1 HMRC sees Making Tax Digital as a route to becoming one of the world's most digitally advanced tax administrations.
- 2 The revised timeline for Making Tax Digital – when will clients be affected?
- 3 Making Tax Digital will mean significant changes to the tax agent-client relationship.

Making Tax Digital (MTD) is part of the government's plan to make it easier for businesses to stay on top of their day-to-day accounts. HMRC wants to be one of the most digitally advanced tax administrations in the world – improving efficiency, effectiveness and ease of compliance. The plans signal the end of paper accounting for millions of UK taxpayers.

From April 2019, legislation will require businesses above the VAT threshold to set up a digital tax account and file quarterly returns online. Mandatory MTD reporting for income tax has been delayed, but it has not gone away. HMRC still expects MTD for income tax to become compulsory, but not before 2020. When and how MTD will be implemented for corporation tax,

particularly for the largest and most complex businesses, is still a matter for discussion and consultation, but these businesses will need to be ready for MTD for VAT in 2019.

The proposed schedule is summarised in the **MTD Timeline** table.

Relationship changes

MTD is likely to result in significant changes to the tax agent-client relationship and now is a good time to prepare for the changes ahead. The guidance below provides information and suggestions about preparing clients and accountancy practices for MTD.

1. *Discuss MTD with clients now.* Make clients aware of what MTD is, what it means for them and how it will affect the adviser/client relationship as part of annual or regular reviews with them.
2. *Draw up a plan for clients.* Digitisation of tax records will become compulsory for all businesses by 2020 and beyond. As noted above, HMRC are staggering the roll out of MTD based on the type of business that clients operate. Prioritise those who are affected first by drawing up a plan that includes the following matters.
 - The MTD compliance dates, which clients will be affected and when.



FURTHER INFORMATION

Further resources for tax agents on MTD are available at: tinyurl.com/y8hy5n2f

- Clients' accounting periods and VAT quarters so that obligations are aligned with quarterly updates to HMRC, rather than having obligations falling in different months.
 - Segmentation of clients by type of business and sources of income.
 - Banking arrangements of clients and whether or not bank feeds can be used.
 - Digital ability of clients and whether they keep records digitally.
3. *Draw up a plans for the accountancy practice.* MTD will affect not only its clients, but also the accountancy practice itself as well as the relationship with clients. As part of MTD, accountants and tax advisers may also want to consider the following aspects.
- Reviewing the various professional services that they provide to clients and reviewing the responsibilities of themselves and their clients.
 - Reviewing fees especially if support is required by clients to help them in their MTD journey.
 - Reviewing staffing resources because the firm may need to provide more data entry and bookkeeping services.
 - Providing training and support to clients to encourage them to adopt good habits regarding the digitalisation of records and book keeping.
 - Reviewing accountancy and tax software of the practice to ensure that it is MTD

compatible and whether these systems link to the software used by clients.

- Reviewing professional engagement letters.

Conclusion

The key message is that accountants should not bury their heads in the sand. Despite delays, MTD is here to stay.

MTD timeline

	April 2016	April 2017	April 2018	April 2019	April 2020
Income tax	May 2016: Private beta launched	Control go live launched	From autumn 2017: public beta/ongoing pilot		Potential mandating for some/all of income tax
VAT		Until autumn 2017: design, policy, legislation	Spring 2018: public beta	Service goes live (for those above the VAT threshold)	Potential mandation (for those above the VAT threshold)
Corporation tax	Timings for corporation tax to be confirmed				Potential mandation for corporation tax