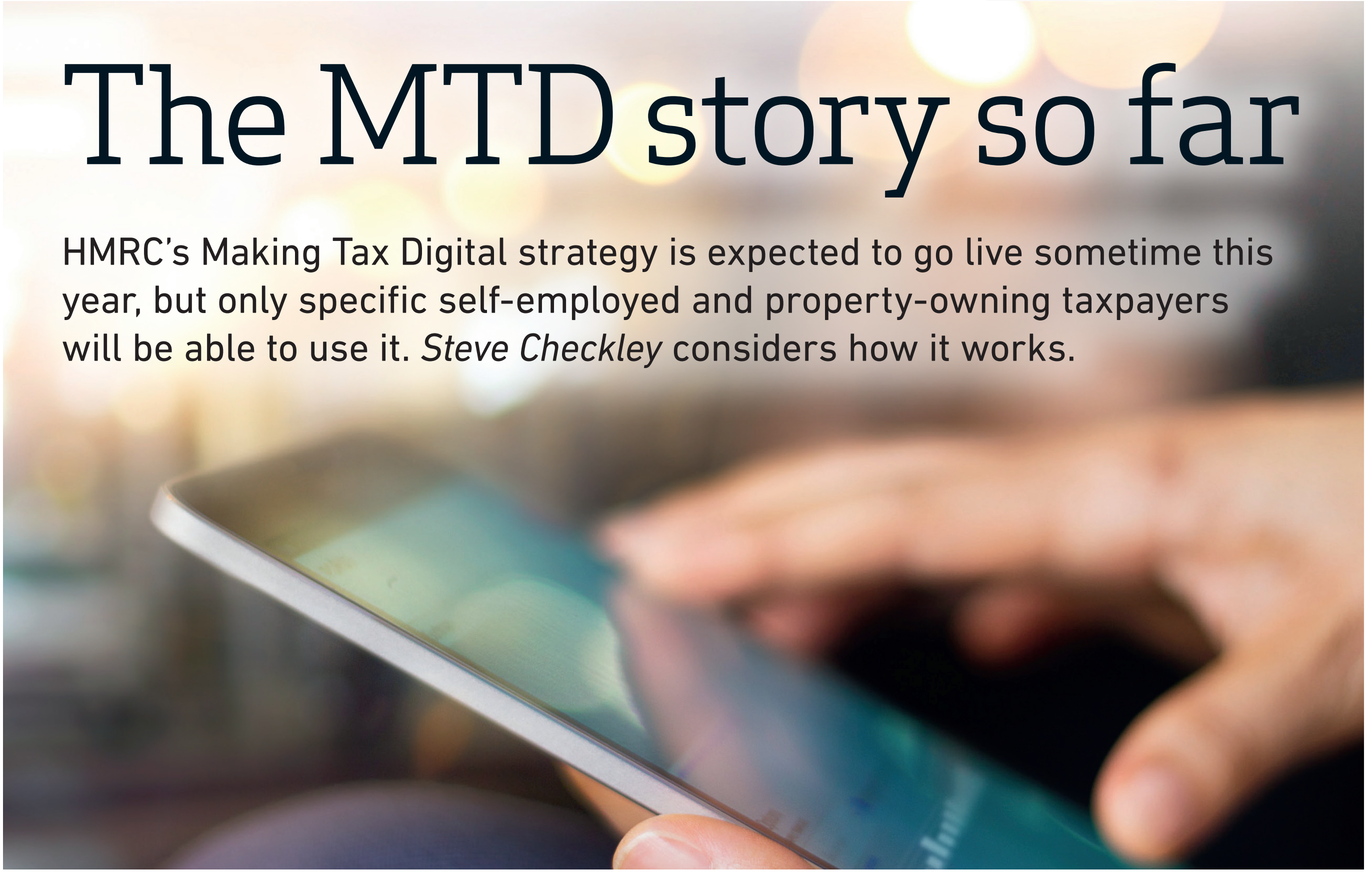

# The MTD story so far

HMRC's Making Tax Digital strategy is expected to go live sometime this year, but only specific self-employed and property-owning taxpayers will be able to use it. *Steve Checkley* considers how it works.



***Steve Checkley*** is the Managing Director of Acorah Software Products Limited, developers of the TaxCalc range of software used by more than 8,000 firms of accountants.
He has been with the company for over eleven years, serving seven as director.
He is also the chairman of BASDA's Accountants in Practice forum (AiP).
The body is designed to bring together software developers, accountants and accountancy bodies, and representatives from the regulatory bodies such as HMRC, HM Cabinet Office, Companies House and Members of Parliament.
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**TEN SECOND SUMMARY**

1. **This first version of MTD will allow the self-employed and landlords to submit online summaries to HMRC.**
2. **If a taxpayer has both self-employed and property incomes consideration will need to be given to matching the reporting periods.**
3. **HMRC may contact existing qualifying taxpayers to see whether they would choose to adopt.**

Much has been said about Making Tax Digital (MTD) in recent years. Starting with the introduction of the personal tax account in 2016, HMRC has been on an ambitious course to digitalise the UK's taxation system. A key aim of the strategy is for the self-employed and landlords to capture financial transactions using digital means and submit summaries on a quarterly basis.

HMRC's original plans were to go live in April 2018 and, although there is some delay to this, the department does intend to introduce MTD on a voluntary basis well before the official date of 2020. For income tax, MTD is intended to be a replacement for self assessment; however, a taxpayer cannot be in both camps – they are mutually exclusive – so which is right for clients?

## Income tax

This first iteration of MTD will cover the ability for the self-employed and landlords to capture financial transactions digitally and submit online summaries to HMRC. Updates will be made on a quarterly basis, much like making a VAT return if they were VAT registered. The data sent in the submission is similar to the current self-assessment tax return. However, aside from dividends and bank interest, at this time MTD is unable to process other income streams such as income from employments or partnerships, capital gains and so on. A client with any of these cannot choose MTD in preference to self assessment.

## Year ends to consider

Let's assume that a client has simple affairs and meets the above criteria. The next thing to consider are their year ends.

Under both self assessment and MTD, a self-employed person can choose any arbitrary year end for their business. With basis periods and overlap, the profits earned are matched to a tax year, but their accounting years can be quite different. In fact, 30% of self-employed taxpayers do not have a 5 April year end, although a landlord is always fixed to the tax year.

If they choose to adopt MTD, a taxpayer is expected to enter on the first day after the end of an accounting period. For landlords, this will be the 6 April, but for the self-employed this could be a different date. For example, an individual with a 30 September year end can adopt MTD on 1 October. However, the date of an income stream joining MTD is critical because, as mentioned, the choice is either MTD or self assessment. Thus, if a taxpayer has both self-employed and property incomes, going into MTD for one means going into MTD for the other.

Let's say a client has both self-employment, with a September year end, and property income. As we understand the rules, joining MTD on 1 October means also moving the property income into MTD and with it the obligation to create digital records and file "late" or even "missed" quarters. Quite how this is to tally with the penalties regime is yet to be revealed.

Further, advisers will need to consider that their client's year end will dictate their quarter dates. A landlord will have quarter dates (in effect) of June, September, December and March because they are locked to the tax year. A self-employed client with an accounting end date of February will have quarter dates of May, August, November and February. This could result in many visits from the client each quarter. To tidy-up the dates, use their last self-assessment tax return to move the self-employment date.

### Keeping digital records

There has been much talk about the concept of "digital records" which, in essence, means that records must be kept on a computer system. Ideally, some formal recordkeeping software would do the trick but, after much consultation, HMRC have allowed the continued use of spreadsheets.

When the announcement on spreadsheets was made, the accounting profession breathed a sigh of relief. Unfortunately, there was a catch: the data contained within them cannot be rekeyed into a submission system. HMRC claim that transposition errors are one source of taxpayer error. Somehow, the data needs to be imported by submission software. We have explained how this could work further on our blog (www.taxcalc.com/blog/).

### End of period statement

If the client has simple affairs and both income streams, their quarter dates are manageable. What's the next thing to consider?

The quarterly updates that are provided to HMRC are intended to contain enough information to enable the department to provide a tax estimate, but not enough to crystallise a liability. For that, a formal end of period statement must be given, which is more akin to either the self-employment or property pages of the self-assessment return. The difference is that the end of period statement must be submitted no later than ten months following the year end or the following 31 January (to prevent 5 April year ends getting an extra five days).

The end of period statement provides practitioners with an opportunity to take the client's data and construct financial statements upon which the submission can be made. Under MTD, HMRC favours cash accounting to keep the record-keeping obligation simple, but this is not the basis upon which the end of period statement has to be provided. The cash records can be used to prepare accruals accounts.

For other accounting period year ends, the ten-month rule can create some odd situations. Consider a year end of 30 September. This creates an end of period statement date of 31 July. If the client is accustomed to providing information after this date for a 31 January submission, they will need to be better prepared to meet this earlier date.

### Final statement

Once MTD is under full steam, the taxpayer has until 31 January to confirm all other income streams to HMRC. It's a little like self assessment but, if HMRC has already received this information, neither the adviser nor the taxpayer will be able to change it. For example, a taxpayer will have had their employment income submitted to HMRC in the form of their P60 and P11D. HMRC will have this, so will build it into their tax calculation. The software that practices use will be able to download this information to build into a separate computation.

Similarly, the end of period statements for self-employment and property will have been submitted, so these too will be pulled into the calculation direct from HMRC.

The final calculation is called the final statement and the submission to HMRC effectively fills in the gaps and closes off the tax year.

### From voluntary adoption to obligation

At present, HMRC has a date of April 2020 when at least some taxpayers will be obliged to adopt MTD. What they do not have right now is the criteria by which taxpayers will be chosen and this may be determined as late as the latter half of this year.

The year from now until March 2019 will be an interesting one. Once available for voluntary adoption, we expect HMRC to promote MTD above self assessment for those who qualify. The department may even contact existing qualifying self-employed and property-owning taxpayers to see whether they would choose to adopt. As a result, we expect more taxpayers to enter MTD from April 2019.

### Value added tax

So that's income tax largely covered, although MTD extends to other taxes as well. While corporation tax is probably some way off into the future, the April 2019 date for businesses registered for VAT is a certainty.

Here, like income tax, the obligation to keep digital records is made compulsory. Although spreadsheets can continue to be used, for businesses that are VAT registered with a turnover above the registration limit (so all non-voluntary registrations), information must be imported and sent to HMRC using submission software. This is important because many businesses use the Government Gateway, which will cease to be an option for them.

Business with turnovers below the VAT limit, but that are nonetheless voluntarily registered, may use dedicated VAT submission software or can continue to use the Government Gateway.