

Working smarter

HMRC explains how Making Tax Digital should benefit businesses and their advisers.

TEN SECOND SUMMARY

1. Businesses are already benefiting from digitisation by banking, paying bills and interacting with customers or suppliers online.
2. From 1 April 2019, all VAT-registered businesses with a taxable turnover above the VAT threshold must keep their VAT business records digitally.
3. Spreadsheet users must be able to submit the required data to HMRC digitally by using bridging software that is MTD compatible.

Increasingly, businesses and agents are embracing the opportunities of digitisation. Millions of businesses are already banking, paying bills and interacting with their customers or suppliers online. Many are already using software to manage their business and seeing the benefits it can bring.

HMRC's ambition is to become one of the most digitally advanced tax administrations in the world and Making Tax Digital (MTD) is introducing fundamental changes to the way the tax system works – transforming tax administration so that it is more effective, more efficient and easier for taxpayers to get their tax right.

VAT

The primary legislation for MTD relating to VAT and income tax is contained in the Finance (No 2) Act 2017, with secondary legislation for VAT laid in February 2018 and coming into force from April 2019.

From 1 April 2019, all VAT-registered businesses with a taxable turnover above the VAT threshold (£85,000) will be required to keep their VAT business records digitally. Having done this, they will then be able to submit their VAT returns using MTD-compatible software. Digital record-keeping may include dedicated record-keeping software and/or a combination of software packages or spreadsheets.

"MTD compatible software" means programs that can integrate with HMRC systems to send VAT returns to us. The information contained with the



MTD VAT return will be generated by pulling information from the digital records. This information will be the same nine boxes currently required for a VAT return, and the deadlines for sending VAT returns and making payments remain unchanged.

Technical testing of MTD for VAT started at the end of last year and a live pilot started in April. Initially, this was on a small scale with invited customers who met a specific set of eligibility criteria. This not only allows us to test the MTD service, but also our customer support model which is designed to help people make a smooth transition to MTD.

Our testing is going well – we have received our first VAT returns through MTD software from both businesses and agents, who have also provided positive feedback on using the service.

The next phase of testing – our "public beta" – is expected later this year, and we will be widening participation gradually to allow for testing at greater scale.

We have seen the software industry respond strongly to the challenge of producing MTD software, with more than 40 developers working actively on products in this first stage of the pilot and more than 300 have told us that they are interested in developing products.

We recently launched a page on GOV.UK listing those software developers that are already at the stage of having demonstrated a prototype VAT product (currently 22) and are ready to start testing with businesses and/or agents.



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We've also published a VAT notice that provides further information for customers and adds to the amendments to the VAT Regulations made earlier this year.

Income tax

The government has confirmed that MTD will not be mandated for taxes other than VAT before 2020 at the earliest. This ensures there is time to test the system fully and for awareness of what is required under MTD, including digital record-keeping, to become more widespread among businesses.

However, HMRC has already started piloting MTD for Income Tax, allowing some businesses and landlords to sign-up voluntarily. We also have a software page on GOV.UK, which shows the first products available as part of our income tax pilot.

Businesses and landlords who join MTD for Income Tax will need to keep digital records of their income and expenses and send quarterly summary updates to HMRC using MTD-compatible software. These can be generated and sent at the click of a button from their digital records. In response, they will receive an estimated tax calculation based on the information provided to help them budget for their tax.

As the pilot progresses, we will be building additional functionality, so businesses and landlords will eventually be able to send information about all types of income, not just business and property details, using software. This will include information such as dividends

and gift aid donations. Software developers will continue to build this functionality into their products, offering an increasingly rich experience for customers as MTD continues to develop.

Again, as with VAT, the deadline for making income tax payments is not changing.

Software

HMRC is working with the software industry to deliver the products businesses and agents will need to keep their records digitally and integrate with HMRC systems. By working with the industry, rather than developing software ourselves, there will be a richer, more flexible and tailored range of options for businesses and agents to choose from. It will produce software with functionality and technical support that can cater, not just to the requirements of the general business population, but also specific businesses and sectors such as agriculture, construction, landlords and freelancers.

HMRC will continue to work closely with software developers to enable them to bring new and more sophisticated products to the market.

Getting ready for MTD

We want to help businesses and their agents get ready for the move to MTD. They can start preparing now by keeping their records digitally if they don't already maintain them this way.

Remember that it is not necessary to keep any additional business records because of MTD. However, business records must be kept digitally to be compliant. Those who choose to use spreadsheets to keep their records must be able to submit the required data to HMRC digitally, for example, by using MTD-compatible "bridging software". Such programs allow relevant data to be exchanged digitally, from the spreadsheet or other source where the digital records are kept, directly to HMRC.

For businesses and agents who already use software to keep their records, they may want to ask their software provider for information about when their software will be MTD-compatible.

For agents, HMRC is delivering the ability for them to act on their client's behalf for MTD at the same time as we are delivering for businesses. In this way, agents can see and do what their clients can. Agents will need to sign up their clients to MTD with an Agent Services account. They will need the client's VAT registration number (VRN), company registration number (CRN) and National Insurance number (NINO), depending on their circumstances.

If an agent has a new client who wants them to act on their behalf in MTD, the agent can send a digital authorisation invitation from their Agent Services account. They will then be provided with a link that they can send to their client, who can accept it by signing in with their own Government Gateway details.

It may be sensible to start new clients on MTD straight away, so they get off on the right foot and don't need to make changes later.



➤ FURTHER INFORMATION

Software suppliers supporting Making Tax Digital for VAT:
tinyurl.com/y7r6lghl
 VAT Notice 700/22: Making Tax Digital for VAT:
tinyurl.com/y8uev24q
 Making Tax Digital pilot for income tax for self-employed:
tinyurl.com/y7pnc299
 Find software suppliers for sending Income tax updates:
tinyurl.com/ydbwuv3v