



**RAMSAY
BROWN
& PARTNERS**

CHARTERED ACCOUNTANTS

A Guide to
Making Tax Digital
Questions & Answers



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What is Making Tax Digital (MTD)?

HMRC reported that over £8 billion a year in tax is evaded from preventable taxpayer errors. Therefore, in the March 2015 Budget, the objective, MTD, was first announced as the solution.

This radical innovation is believed to be the biggest change to tax compliance that the UK has seen in a generation with the Government 's vision for an improved tax system and the end of the tax return.

This implementation will require the use of digital accounting software to integrate with their online tax reporting system. The taxpayer will need to update their profit/losses at least quarterly.

When will this be implemented?

From April 2019 all VAT registered businesses with turnover above the VAT threshold, £85,000 per annum, will be required to maintain digital records and send their VAT information to HMRC using third party commercial software. HMRC's online portal will remain available to all other businesses that complete a VAT return but have a turnover below the VAT threshold of £85,000.

The exemptions that currently apply for electronic VAT filing will be extended to cover MTD for VAT. There will be an automatic exemption for businesses which are registered for VAT but have turnover below the threshold. These businesses must elect for the exemption not to apply if they wish to submit their VAT information under MTD.

What does this mean to your business?

We expect that a business will have to keep digital records and submit its VAT returns digitally with effect from the first VAT return period beginning on or after 1 April 2019.

Please note that only VAT registered businesses with taxable turnover above £85,000 will be under the new regime of MTD from April 2019. However, HMRC have indicated that from 2020 all businesses including self employed as well as companies and landlords may be subject to MTD.

Examples of when you must register for MTD

Example 1 - Taxable turnover

- “A” is a self employed consultant with income of £120,000 in the 12 months to 31st March 2019. £50,000 of his turnover was in respect of taxable supplies and £70,000 was in respect of exempt supplies. He is registered for VAT.
- He is happy with the current system for filing his VAT returns and is concerned that he will have to buy new software to comply with MTD.
- He will be exempt from MTD as his VAT taxable turnover of £50,000 is below the threshold of £85,000.

Example 2 - A business already registered for VAT

- “B Limited” has taxable turnover of £1 million in the 12 months to 31 May 2019. Their first VAT return period commencing on or after 1 April 2019 is the quarter from 1st June 2019 to 31st August 2019.
- This will be the first quarter for which MTD will apply.

Examples of when you must register for MTD

Example 3 - A business already voluntarily registered for VAT

- “C” is voluntarily registered for VAT and the first time that their turnover for the period 12 months exceeds the £85,000 is at the end of November 2019. Their most recent VAT return was for the quarter ended 31st October 2019.
- “C” is required to comply with MTD for accounting periods beginning on or after 1 December 2019.
- The first VAT return period for which “C” has to comply with MTD will be the quarter beginning on 1st February 2020.

VAT schemes and MTD

HMRC has maintained that VAT schemes which exist at present such as the Flat Rate scheme and Annual Accounting will still be available under MTD.

Flat rate scheme

The flat rate scheme is for small businesses with net turnover below £150,000 per annum.

Under MTD for VAT, traders using the flat rate scheme will not have to keep digital records of their purchases, unless the purchase is for a capital item costing over £2,000 on which VAT can be reclaimed.

Digital records will be required when all businesses become subject to MTD.

VAT schemes and MTD

Annual Accounting

HMRC has stated that under MTD Annual Accounting for VAT will be retained with the current conditions which are as follows:

1. The scheme is available to businesses with VAT taxable turnover below £1.35 million.
2. Businesses can remain in the scheme until VAT taxable turnover exceeds £1.6 million.
3. One annual VAT return is filed; with the deadline being 2 months after the end of the annual accounting year.
4. The business makes payments by instalment, either monthly or quarterly during the year.
5. A final balancing payment is due when the VAT return is filed.

Tax administration and penalties

Under MTD for VAT the deadlines for submission and payment of VAT will not change.

Late submission penalties

HMRC have confirmed that they will adopt the points based system in phases. It is expected that the model will be implemented first for VAT starting in 2020, with other taxes following in stages, giving businesses a year to become familiar with their new obligations after they become subject to MTD.

In HMRC's summary of the model, a taxpayer would receive points every time they failed to provide a submission on time. At a specified threshold, a penalty would be charged. The points would be reset to zero after a period of good compliance.

Requirements of digital records

At this time we understand there will be no free software for MTD for VAT. HMRC is working closely with software providers to ensure that a range of suitable products will be available.

The commercial software must be able to:

- Keep records in a digital form
- Preserve digital records in a digital form
- Create a VAT return from the digital records
- Provide HMRC with VAT data on a voluntary basis
- Receive information from HMRC via the API (Application Programming Interface) platform. This will allow HMRC to send 'nudges' to the business or your accountant

Digitally excluded persons

In addition to the exemption for those with taxable turnover below the VAT registration threshold of £85,000, there is an exemption to maintain electronic records for a person:

1. Who the commissioners are satisfied is a practising member of a religious society or order whose beliefs are incompatible with the use of electronic communications.
2. For whom an insolvency procedure is applied.
3. For whom the commissioners are satisfied that it is not reasonably practicable to make a return using a compatible software return system for reasons of disability , age, remoteness of location or any other reason.

Digitally excluded persons

LEAVING MTD FOR VAT

It should be noted that even if the business' VAT taxable turnover subsequently falls below the exemption threshold they will still be obliged to keep and preserve digital records and provide VAT returns using functional compatible software unless and until they deregister from VAT.

Recommended software

Ramsay Brown and Partners partnered with Xero in 2016. Xero are a cloud based software that the HMRC are working with to support Making Tax Digital for VAT.

Ramsay Brown Cloud Accounting Limited are able to provide our clients with a tailored set up service and Xero Essential training in preparation for next year. The cost of this training is £600 inclusive.

With regards to the software itself, the monthly cost is £22 plus VAT, per month. You will need to initiate a bank feed, therefore, there is a bank feed charge that is also applicable that is normally charged at a cost of £0 to £3.50 plus VAT per month (dependent upon your bank charges).

To see a demonstration of the software, please go to:

<http://www.ramsaycloud.co.uk/demonstration.html>

What to do next?

You will need to start using an MTD compatible software. If you are not already, Ramsay Brown have two options for you:

Option 1

If you would like to book a set up and training session, please kindly contact Emma Pottinger at emma@ramsaybrown.co.uk who will be able to organise this for you:

Option 2

Alternatively, many of our clients are choosing to decrease their workloads by using our outsourced bookkeeping service. By taking over your bookkeeping for you, the cloud based software will still allow you still full access to your financial information. This will save you time and also give you the assurance that the financial information being prepared is accurate and will work with HMRC's MTD processes.

Please see the below video link on how this service could work for you:

<http://www.ramsaycloud.co.uk/bookkeeping-service.html>