



# MAKING TAX DIGITAL

What it means for you

Making Tax Digital is a government initiative that sets out a bold vision for  
“a transformed tax system and the end of the tax return” but 2020.

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## What is 'Making Tax Digital'?

Making Tax Digital (MTD) is all about making tax administration more effective, more efficient and easier for taxpayers, through the implementation of a fully digital tax system.

The roll-out of the initiative has already begun. Every small business owner and individual taxpayer now has access to a digital account that they can use to check their records and manage their details with HMRC.

Further changes are planned on the coming months and software providers are actively engaging with HMRC to help shape this process and simplify the shift for small businesses.

A Making Tax Digital pilot scheme is scheduled to begin in April 2017, with a phase rollout to unincorporated businesses starting in April 2018 and full implementation of the initiative expected by 2020. Businesses with a turnover between the minimum threshold of £10,000 and the VAT threshold will be given until April 2019 to comply. By this time you should see the following major changes to the way you manage and report your business taxes:

- Through your digital account you'll be presented with a complete picture of your business's tax affairs and you'll be able to manage all of your liabilities at the same time, in the same place.
- HMRC will collect and process information affecting tax in as close to real time as possible. This should prevent and tax due or repayments owed from building up.
- You'll no longer have to wait until the end of the tax year to know how much tax you have to pay.

## Who does Making Tax Digital apply to?

The changes outlined in the Making Tax Digital initiative will apply to a wide range of taxpayers, including most businesses, self-employed people and landlords, as well as individual taxpayers. However, HMRC has confirmed that it will legislate for an exemption 'for taxpayers who cannot engage digitally' and that the legislation will be based upon the existing VAT online filing exemptions. HMRC has also confirmed that there will be a minimum threshold of £10,000 annual sales at which MTD will kick in.

## How will the initiative be implemented?

As MTD is rolled out, a number of changes will be implemented. Here's a timescale of the developments that are most relevant to business owners:

<b>July – December 2017</b>	Digital tax accounts show taxpayers an overview of their tax liabilities in one place
<b>July – December 2018</b>	Businesses, self-employed people and landlords with turnover above the VAT threshold start updating HMRC quarterly for Income Tax and National Insurance obligations through accounting software
<b>2019</b>	Businesses with a turnover between the minimum threshold and the VAT threshold start updating HMRC quarterly for Income Tax and National Insurance obligations through their accounting software.
<b>2020</b>	MTD starts for VAT figures and returns Most businesses, self-employed people and landlords start updating HMRC quarterly for Corporation Tax obligations through their accounting software.

## A new way of reporting to HMRC

The move to a more digital tax system should come as welcome news to the many taxpayers who already choose to report much of their information to HMRC online.

Percentage of returns currently submitted online:



The shift to digital should also help to iron out some of the issues that can make the current method of reporting information to HMRC frustrating for business owners. Specifically, MTD promises to end bureaucratic form-filing and to remove the risk of missed deadlines and unnecessary penalties.

Taxpayers will not have to give HMRC information that it already has, or are able to get from elsewhere, e.g. employers (RTI), banks, building societies and other government departments. Taxpayers will see the information that HMRC holds through their digital tax accounts and can check at any time if details are complete and correct. HMRC will then be able to offer a bespoke service based on the information it sees.

By 2020, taxpayers will be able to see their complete financial picture in their digital tax account, as they would with their online bank account. What's more, they'll be able to set an over-payment of one tax against the under-payment of another, making it feel like they are paying a single tax.

## The end of the tax return

One of the biggest implications for small business owners is the eradication of the annual tax return. By 2020 most businesses, self-employed people and landlords will instead be required to keep track of their tax affairs digitally and to update HMRC at least quarterly via their digital tax accounts, or more often if they'd prefer. HMRC has said that this doesn't mean you'll have to complete a full tax return four times a year; you'll simply need to provide more regular updates online.

The introduction of a 'real-time' tax system means that instead of reporting information on tax returns and paying liabilities long after the end of the tax year, you will be able to see a real-time view of your business tax affairs and liabilities through your digital tax accounts. This should make it easier to understand how much tax you owe and to budget accordingly.

### The benefits of Making Tax Digital

- Know where you stand – with a full picture of your business's tax affairs in your digital account.
- Save time – by having access to all your business's tax info in a single place
- Save hassle – by managing all your business tax affairs online
- Plan and budget more effectively – with a real-time calculation of how much tax you owe.

## What next?

If MTD applies to you, you'll be required to use digital tools, such as software or apps, to keep records of your income and expenditure. HMRC has said that spreadsheets can be used, as long as they meet MTD's technical requirements. In order to do that, however, HMRC has said that it is likely that spreadsheets will need to be combined with software in some way. The question of how this could work will be explored in further detail during 2017.

HMRC has stated that it won't provide its own software, but will ensure that basic apps and software products are available for businesses with 'the most straightforward affairs'. Many other businesses and their accountants/bookkeepers will choose to use more comprehensive commercial software.

These tools use the data from your day-to-day business activity to build an accurate picture of your business's tax data, highlighting any possible errors and offering prompts for information that might

otherwise be overlooked. Once your software has compiled the relevant data, you or your accounts professional will then submit it directly to HMRC, either via a computer or a smartphone.

## Four scenarios to help explain how making tax digital could affect you

### **Making Tax Digital for Self-Employed Taxpayers**

**Richard's Story:** Richard is a self-employed landscape gardener. His business is growing and he has recently crossed the VAT threshold. He has taken on two employees. He has also appointed an agent to help him with his tax.

#### *What does tax feel like for Richard now?*

- Tax management isn't part of Richard's everyday activities for running his business
- Richard often does his books weeks in arrears and sometimes makes basic record-keeping errors
- The step change in tax responsibilities means Richard needs additional support
- Richard relies on his agent to tell him how much money to set aside for tax
- He doesn't entirely understand his tax position and lacks confidence to exploit growth opportunities

#### *How will Making Tax Digital help Richard?*

- Richard's record keeping software helps him keep on top of his business finances, including payroll, on the move
- Richard's digital tax account uses information from his record keeping software
- In his digital tax account, Richard can see all of his taxes information together in real time
- Richard's agent can see the same information
- Both Richard and his agent can set up new employees and register for new services from his digital tax account
- HMRC signposts Richard to interactive guidance and sends him relevant personalised messages
- Richard chooses to make a single payment quarterly to cover his Self-Assessment and VAT liabilities, simplifying his finances.

### **Making Tax Digital for small companies**

**Dave's Story:** Dave and his wife are directors of a small supply and fit plumbing company. It's busiest during the winter months and steady throughout the rest of the year. They have recently registered the company for VAT. Dave and his wife are the only employees.

#### *What does tax feel like for Dave now?*

- Dave keeps the company's business records on a spreadsheet
- He has an accountant prepare the Corporation Tax (CT) return
- Income fluctuates over the year and he worries about cashflow
- He also worries about his tax obligations and keeping on top of different reporting/ payment cycles for different taxes
- Whilst other areas of the company are easily managed 'on the go', tax management is not
- Dave feels disconnected from the company's tax position and misses out on useful support because he's not aware of it

#### *How will Making Tax Digital help Dave?*

- Dave chooses a third-party record keeping App to help him stay up-to-date throughout the year

- The App supplies Dave's accountant with the company's records throughout the year
- It also prompts Dave in real time to check potential errors
- Updating HMRC quarterly gives Dave more up-to-date information on the company's cash flow and greater certainty about the company's tax bill
- He also links his company bank account to the App so that income and expenditure automatically populates the company's quarterly update
- All of Dave's tax information is together in a single place. All he needs to do is review it and update the company's digital tax account with HMRC
- Dave has also authorised his accountant to view his digital tax account
- Through the App, HMRC can also signpost Dave to relevant help and support such as webinars
- The support feels tailored to the company and helps Dave to make the right decisions for the company

## **Making Tax Digital for employed customers with sources of untaxed income**

Geeta's Story: Geeta is in full time employment as a teacher. Tax is deducted from her wages by her employer. She also has income from private tuition and from a flat she rents out. Her private tuition and rental income add up to more than £10,000 pa. She's required to tell HMRC by sending a Self-Assessment tax return.

### ***What does tax feel like for Geeta now?***

- Geeta struggles to find time to keep records of her income and expenses and there are some gaps
- Tax doesn't feel simple to Geeta as each income stream is treated separately
- She wants to be sure she's doing things right so contacts HMRC
- She worries about how much tax she will owe and is unsure how much to set aside
- She finds submitting a return time-consuming, and is frustrated as HMRC already holds some of this information

### ***How will Making Tax Digital help Geeta?***

- As her secondary income is greater than £10,000 pa, Geeta should record her income and expenses digitally and update HMRC quarterly as a minimum
- Geeta chooses to use a third-party App on her smartphone to help her incorporate record keeping into her routine
- Geeta chooses to send HMRC information monthly from her App
- HMRC already has information about her teacher's salary so this is pre-populated into her tax account
- Geeta's tax account shows her up-to-date tax position, including how much tax would be due each quarter on her secondary income
- Geeta chooses to make regular payments to HMRC by direct debit to make budgeting easier
- Geeta's smartphone App signposts her to specific, personalised guidance offering her certainty around what she needs to do
- Geeta can also use Ask Ruth, HMRC's 24hr virtual assistant, to find the right guidance on any queries or seek help from an HMRC adviser through webchat

## **Making Tax Digital for pensioners whose pension exceeds their personal allowance**

Helen's Story: Helen is 65, lives alone, is retired and receives a small occupational pension as well as her State Retirement Pension. She has always been in paid employment and has had very little contact with HMRC before throughout her working life. She's digitally confident and uses a tablet for online shopping and banking.

### ***What does tax feel like for Helen now?***

- Helen finds tax confusing since she retired
- She now completes an annual SA return because the tax due on her state pension is too large to collect through her occupational pension but cannot understand why she has to tell HMRC about income they already know about
- Whenever she receives a letter from HMRC, Helen phones for an explanation
- Helen isn't convinced she's paying the right amount of tax

### ***How will Making Tax Digital help Helen?***

- HMRC receives Helen's State Pension details from DWP, and the NHS submits real time information about her pension
- All of Helen's income details are brought together in her Personal Tax Account
- Helen can see her tax position in real time – exactly what she's paid and what's due
- HMRC prompts Helen to visit her Personal Tax Account online if anything changes or if there's something she needs to be aware of
- Helen can easily keep track of the tax being deducted from her NHS state pension
- All she needs to do is check the details are correct
- If Helen does still have a question, she can use HMRC's 24hr virtual assistant (Ask Ruth) for advice