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Making Tax Digital

Making Tax Digital (MTD) represents a major change in the way taxpayers will interact with HMRC. It is part of HMRC's flagship programme to make the UK one of the most digitally advanced tax collection agencies in the world, and change is already underway.

This Briefing outlines some of the key developments involved – for businesses and for personal taxpayers.

Change for business

In July 2017, the government announced a new timetable for MTD for business (MTDfB). This means that as far as businesses are concerned, the first big change in the way they keep records and report to HMRC takes place from 1 April 2019. It will only be mandatory for the VAT regime, and only for businesses whose turnover is over the VAT threshold (currently £85,000).

VAT: where are we now?

Draft secondary regulations, published in December 2017, were legislated at the end of February 2018. The latest information is given below.

In outline, those in MTD for VAT will be mandated to keep some VAT records digitally, using functional compatible software. The VAT return will be calculated and submitted to HMRC via an Application Programme Interface (API). Submission can be from software, bridging software or API enabled spreadsheets. The transfer of data from the mandatory digital records through to receipt of information by HMRC however, must be digital, and manual transfer or transposition of data will not be permitted.

Functional compatible software is defined as a program or set of programs that can:

- record and preserve electronic records in an electronic form
- provide HMRC with information from the electronic records and returns in an electronic form, and by using the API platform
- receive information from HMRC using the API platform.

A VAT pilot for MTD will run from April, open initially only to very small, simple businesses. The scope will be extended later in the year.

Ongoing HMRC engagement

There are however, still areas in which HMRC have to provide complete clarity. These concern record keeping and the penalty regime for non compliance.

Record keeping

HMRC have indicated that they appreciate that there will be different 'customer journeys' in terms of record keeping. At the time of issuing draft guidance, they stated that options for digital transfer of information to HMRC would

include XML import/export, macros or linked cells. Similarly, earlier guidance contained the welcome news that adjustments such as partial exemption can be calculated separately outside the digital records, and transferred in digitally or manually, so long as the ultimate information transfer to HMRC is digital. There was also the acceptance that digital records will not have to be in one piece of software, provided that there is a digital link between any pieces of software used.

Example

A business may use one piece of accounting software to record sales and purchases, transferring the totals into a spreadsheet to calculate the VAT return. The information is then sent to a piece of bridging software to submit the VAT return to HMRC. Here three pieces of software are involved. To qualify as functional compatible software, the links between them will have to be digital.

However, the detail on record keeping is not legislated, and therefore remains covered only by draft guidance. HMRC have said that they are 'engaging' with stakeholders with regard to the VAT Notice, so further clarification is to come.

Penalties

HMRC stated earlier that there would be a 'soft landing' period of a year, when penalties for record keeping will not be applied. The aim of this was to give businesses 'in certain circumstances extra time to update legacy systems to be fully compliant.' However this is not included in the regulations, leaving a considerable area to HMRC's discretion.



Further developments

The VAT rules as legislated also provide that:

- businesses to which MTD no longer applies will not have to maintain ongoing records in digital format
- where HMRC are satisfied that keeping and retaining the specified information for each transaction is 'likely to be impossible, impractical or unduly onerous,' they can vary the detail required to be kept electronically.

Scope of digital records

The records to be kept digitally include:

- designatory data - business name, address, VAT registration number and a record of any VAT accounting schemes used
- supplies made - time, value and rate of VAT charged
- total value of outputs for the period, split between standard rate, reduced rate, zero rate, exempt and outside the scope
- supplies received - time and value of supply and amount of input tax to be claimed
- VAT account
- the totals (but not the underlying calculations) of any adjustments
- record of Daily Gross Takings if using a retail scheme.

How we can help

Whatever the small print, MTD will involve fundamental change in the way businesses keep records and report to HMRC, and it would be prudent to review the extent to which your business will be able to effect a smooth transition to a digital future. We should be happy to advise, or help with the submission of your VAT return if required.

MTD for personal taxpayers

For non-business taxpayers, MTD is already having an effect. Change comes via:

- use of HMRC's online Personal Tax Accounts (PTAs)
- Dynamic coding – real time changes in PAYE tax codes
- the introduction of Simple Assessment.

Personal Tax Accounts

Fast becoming HMRC's preferred method of contact with taxpayers, the PTA is at the heart of MTD for individuals.

PTAs are designed for taxpayers to interact securely with HMRC, update details, and check tax affairs in real time. They are undergoing continuous development,

so HMRC can add to the services provided. Many businesses will already interact online with HMRC via a Business Tax Account for PAYE and VAT purposes. The PTA is the personal equivalent of this.

Personal taxpayers wanting to use online services need to set up a PTA online. There is a range of HMRC online guidance to help, including brief, self-explanatory videos for every step involved goo.gl/tpMJJoQ

Services HMRC currently provide include:

- PAYE – check your tax code and an estimate of the tax you'll pay
- National Insurance (NI) – view your NI record
- check your State Pension
- claim a tax refund
- fill in, send and view a personal tax return
- check and manage tax credits and Child Benefit.

PTAs can be used to make payments of tax due, or provide bank details to HMRC when due a refund. They can also be used to provide details of taxable benefits from employment, such as a company car.

PAYE tax codes

From July 2017, HMRC have been using 'Dynamic coding' to update PAYE tax codes more frequently. This involves taking information from employers and pension providers, and other third parties (such as government departments, banks and building societies), in real time. Dynamic coding aims to reflect changes in work and income through real time changes in tax codes, so the right amount of tax is collected up front.

This has implications for employers, and for employees and pensioners. Employers will have to make more frequent changes to employee codes and deal with employee queries, while employees and pensioners may find PAYE codes change more often.

HMRC have recently outlined new procedures for taxpayers whose circumstances change between 6 January 2018 and 5 April 2018. If the change impacts the amount of tax due, HMRC will only start collecting the tax from 6 April 2018 - although the tax code should be adjusted before this.

Taxpayer responsibilities

HMRC expect PAYE taxpayers to report relevant changes in circumstances, such as a new employment, new benefit-in-kind, an increase in salary, and to check changes made to their codes.

There are a number of factors which can mean that PAYE taxpayers have paid the wrong amount of tax in-year – leading either to a bill or refund. What has happened until

now, is a reconciliation at the end of each tax year - the P800 tax calculation process - when HMRC check tax paid under PAYE and deal with under and over payments. With Dynamic coding, the hope is that unexpected bills and in-year overpayments will become a thing of the past.

But even with the new system, there can be mistakes. If earnings are even throughout the year, the new system may work very well for the taxpayer, but should pay fluctuate, for example due to commission or bonus payments, then the coding may be wrong. Those with multiple jobs may also find the system inaccurate. Action will then be needed to alert HMRC to the problem. Looking at the PTA will show how the figures have been worked out. The PTA can also be used to notify HMRC if a tax code appears to be wrong.

Simple Assessment

Simple Assessment enables HMRC to assess income tax or capital gains tax liability without the completion of a self assessment tax return.

Though HMRC may look to extend Simple Assessment in future, at present it affects just two groups of people:

- state pensioners with income more than the personal tax allowance
- PAYE customers, who have underpaid tax and who cannot have that tax collected through their tax code.

HMRC's policy is to write to those due to join Simple Assessment, sending either a P800 or a Simple Assessment letter (PA302). Taxpayers getting a PA302 from HMRC will see HMRC's figures for their income from pay, pensions, state benefits, savings interest and employee benefits. It is important to remember that the PA302 is a binding assessment: HMRC can enforce it. It is therefore essential that the PA302 is checked very carefully. If incorrect, it should be queried with HMRC. There are 60 days to contact HMRC with corrections. Again, this can be done via the online PTA.

How we can help

Whilst HMRC is keen to direct taxpayers to their PTA, please be aware that we, as advisers, do not have access to your PTA. This has been a problem in the development of PTAs that HMRC are only now taking steps to address.

If you have a query about information shown in your PTA, please bring it to our attention at the first opportunity. We can also advise on the correct tax treatment of any aspect of your income, so please do not hesitate to contact us on any of the MTD issues dealt with here.