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Tax Matters Digest

Making Tax Digital (MTD) – Bringing tax into the digital age

Acquiring Digital Tools

Most businesses and self-employed people will now be required to use digital tools to update HMRC on their tax affairs. HMRC are currently consulting with software developers on the development of these tools with the intention that third party software will be built to interact with the digital account and facilitate the quarterly reporting.

It is intended that the most basic software will be free and suitable for small businesses but this remains to be seen. Those with more complex tax affairs can pay for more sophisticated software; financial support may be offered.

HMRC are consulting on what sort of guidance taxpayers will need to make these decisions.

Digital Record Keeping

HMRC's intention is that records will be kept digitally. The archetypal example they give is a sole trader taking a photo of a receipt on a camera phone and an 'app' transferring the information into their accounting software.

As part of this utopian vision, the intention is that the laborious work of categorising expenses will be handled largely by the software recognition programmes. The categories will distinguish tax deductible and non-deductible items.

The updates will then be provided to HMRC at the click of a button for those with the required software after original configuration. Nudges and alerts will be a feature to clarify what reliefs can be claimed.

HMRC are consulting on the level of data which should be captured and the extent and type of nudges and prompts which would be appropriate.

Establishing Taxable Profit

Keeping records is one thing. Those records must then be turned into accounts and those accounts must then be converted into a taxable profit. And this poses an issue because the question is whether the adjustments required to generate accounts and tax numbers should be undertaken before every Quarterly Update.

HMRC are proposing to deal with the former issue in two ways: for the smallest companies they are proposing a cash basis to calculate profits, so removing the accounting adjustments; for those not qualifying for the cash basis, they will have complete flexibility in deciding when to make accounting adjustments and will not have to do this every quarter.

There will also be flexibility in deciding when to make tax adjustments such as disallowance of depreciation, and flexibility in when to claim reliefs and allowances.

HMRC are seeking views on whether this is the right approach.

The quid pro quo of not adjusting quarterly is of course that the figures being submitted to HMRC will be less accurate and so the taxpayer's view of his/her real liability will be diminished.

For more on the cash basis, please see our other articles in this week's Tax Matters Digest on Simplifying tax for unincorporated businesses and Simplified cash basis for unincorporated property businesses.

Partnerships

For partnerships, HMRC are proposing that there should be a designated partner who will fulfil the MTD obligations on behalf of all partners. This one update would then feed automatically into each partner's tax account. This means that each partner will not have to acquire software and maintain digital records.

Providing HMRC with updates

Specific taxpayers will be required to update HMRC every quarter or more often if they desire. The information required every quarter will only be summary data. HMRC are consulting on the level of detail which should be required.

Three options are proposed for when businesses will commence providing quarterly updates (Income Tax and NIC are scheduled to start in 2018, VAT in 2019 and the rest in 2020) and HMRC are seeking feedback on which is most appropriate.

End of year activity

The ultimate objective is the abolition of the annual tax return through regular quarterly updates to HMRC, followed by an online year end final update, which could be no more than confirming all the Quarterly Updates are accurate and complete.

HMRC are consulting on how long taxpayers should have to do this year end final update. The current proposal is nine months.

Exemptions

Those with income of less than £10,000 a year will not be required to comply with the MTD rules. There is also a proposal to defer the mandatory start date by one year for businesses with an income of above £10,000 but below a level yet to be confirmed.

There are also exemptions intended for those who cannot engage digitally, either through location, disability or age as well as charities and community amateur sports clubs. HMRC are consulting on how to identify these groups.

Closing date

The closing date for responses to this consultation is 7 November 2016. Please contact us using the details below if you would like any further information on this consultation or our response.

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