

HOW TO PREPARE MAKING TAX DIGITAL (MTD)

MTD is a key part of the government's plans to make it easier for individuals and businesses to get their tax right and keep on top of their affairs - meaning the end of the annual tax return for millions.

Every individual and business now have access to their own personalised digital tax account and these are being regularly expanded and improved. HMRC's ambition is to become one of the most digitally advanced tax administrations in the world, modernising the tax system to make it more effective, more efficient and easier for customers to comply.

Overview of what MTD means for you:

- Starts April 2019
- 4 quarterly reports during the year and final accounts 9 months after
- Records must be "digital"
- One account for each tax payer (individual or a business) where ALL information can be found
- Need to start taking action now!

Timeline of who it affects and when:



Exemptions from the new legislation

- Charities
- CASC
- Digitally challenged
- Under £10,00 turnover

It's worth noting that digitally challenged means no internet or religious reasons. And to be exempt regarding turnover, ALL income from earnings, property and profits must be under £10,000. This may change at a later date as it has been heavily criticised.

There are 6 key areas of tax this legislation will affect. It is important to understand what they are, how the changes will affect you and what you need to do in order to comply with the new legislation. The 6 key areas are:

- 1 BRINGING BUSINESS TAX INTO THE DIGITAL AGE**
- 2 SIMPLIFYING TAX FOR UNINCORPORATED BUSINESSES**
- 3 SIMPLIFIED CASH BASIS FOR UNINCORPORATED PROPERTY BUSINESSES**
- 4 VOLUNTARY PAY AS YOU GO**
- 5 TAX ADMINISTRATION**
- 6 TRANSFORMING THE TAX SYSTEM THROUGH BETTER USE OF INFORMATION**

1 BRINGING BUSINESS TAX INTO THE DIGITAL AGE

Headlines:

- HMRC systems need replacement
- Different systems for PAYE, Self-assessment, VAT etc.
- New systems with one digital account per tax payer for all information
- Tax Gap – by making us file quarterly information and keeping digital records, HMRC believe it will reduce errors and administration and speed up payment of taxes with “Voluntary pay as you go”

Assure UK's Breakdown:

Basically, HMRC systems are aging and they even have to bring in extra servers to cope with Self-assessment in January. Businesses have to go on several portals to file information such as PAYE, VAT, Self-assessment and the good news is each taxpayer (individual and business) gets their own digital tax account where ALL their information is in one place. Some businesses will welcome PAYG as it helps with cash flow and gives more certainty, others can choose to pay as they do now (Self-assessment Jan and July) corporation tax – 9 months after the year end.

One of the biggest changes coming into force is the need for businesses to file 4 quarterly reports. Knowing what information will be required by the HMRC is essential, so we have compiled an easy to follow list so you're in the know. Likely categories of information (non-property businesses):

Income:

- Turnover, takings, fees and sales or money earned
- Any other business income

Expenses:

- Cost of goods bought for resale or goods used
- Construction industry – payments to subcontractors
- Wages, salaries and other staff costs
- Car, van and travel expenses
- Rent, rates, power and insurance costs
- Repairs and renewals of property and equipment
- Phone, fax, stationary and other office costs
- Advertising and business entertaining costs
- Interest on bank and other charges
- Bank, credit card and other financial charges
- Irrecoverable debts written off
- Accountancy, legal and other professional fees
- Depreciation and loss/profit on sale of assets
- Other business expenses

- Goods and services for your own use
- Income, receipts and other profits included in business income or expenses but not taxable as business profits
- Disallowable element for each category

There is a lot of information here which could prove to be very time consuming to gather and to send off. The good news is our software does this with the touch of a button directly to HMRC.

Further to these 4 reports, the legislation also requires you to file a final 5th report to the HMRC. This will contain the final figures, including accruals, stock and tax adjustments. This report will be due 9 months after the year end.

With the focus on going “digital” it is important to understand what the HMRC regard as “digital”

- Hand-written cash books and ledgers – not digital
- Spreadsheets – yes, but in association with applicable software (not digital on their own)
- Cloud accounting software – yes this is digital!

Our cloud accounting software will comply with HMRC requirements. This is just one of the many benefits of cloud accounting. If you'd like to learn how else, it can help save you time and money click below.

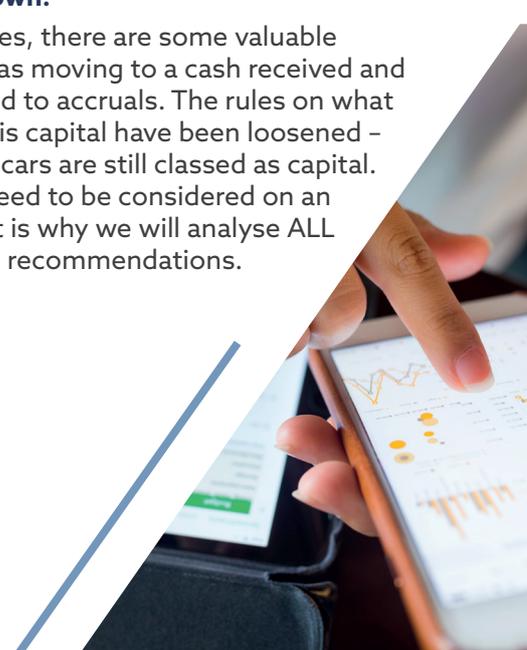
2 SIMPLIFYING TAX FOR UNINCORPORATED BUSINESSES

Headlines:

- Increase turnover threshold for the cash basis
- Reforming basis periods
- Simpler reporting outside cash basis
- Reforming the capital / revenue divide within the cash basis
- Cash basis for businesses under £150,000 turnover – SIMPLER THAN ACCRUALS BASIS

Assure UK's Breakdown:

For smaller businesses, there are some valuable simplifications such as moving to a cash received and paid basis as opposed to accruals. The rules on what is revenue and what is capital have been loosened – the bad news is that cars are still classed as capital. Any actions would need to be considered on an individual basis. That is why we will analyse ALL our clients and make recommendations.



3 CASH BASIS FOR PROPERTY BUSINESSES

Headlines:

- For unincorporated property businesses, the proposal is to extend the cash basis for trading income – providing an option for landlords to be taxed on the cash basis, rather than using the accruals accounting basis
- Over 2.5 million property businesses could benefit from having the option to use the cash basis
- No turnover limit
- But must be an individual or a partnership of individuals
- No restriction on interest costs other than announced previously – compare to the cash basis for traders
- No sideways relief for losses – but this is in effect no change

Assure UK's Breakdown:

If you are a property business you will be able to use the Cash basis whatever your turnover. There are some technical matters to consider and we again will advise everyone individually.

4 VOLUNTARY PAY AS YOU GO

Headlines:

- Voluntary PAYG will apply to those unincorporated businesses, sole traders and landlords, in respect of their Income Tax/National Insurance Contributions/Capital Gains Tax, from 1st of April 2018
- Incorporated businesses, in respect of their corporation tax affairs, from 2020
- Payment dates remain the same – Unincorporated businesses 31st of January and 31st of July
- Incorporated businesses – 9 months after the year end

Assure UK's Breakdown:

PAYG is voluntary and has been guaranteed for the life of this Parliament but do not expect it to last! In Australia, they have quarterly payments and we expect the UK to go down the same route. But for now, it's voluntary and some of you will not be worried by this. For others, it will require some discipline. If you do not go Voluntary for PAYG then payment of your tax will be due on the current dates that you are used to.

5 TAX ADMINISTRATION

Headlines:

- No new compliance powers to look at quarterly updating

- Tailor existing compliance powers to mesh with the new regime – enquiry and / or HMRC assessment if no quarterly return
- Retain all existing taxpayer safeguards
- Late submission penalties – HMRC are currently examining the options

Assure UK's Breakdown:

There are no new powers to HMRC – they will still have the right to enquire and if you miss a quarter or other deadline they can raise an assessment. As you are probably aware HMRC assessments generally err on the high side! Options for penalties for persistent offenders are currently being discussed.

6 BETTER USE OF INFORMATION

- Better and more effective use of third-party information to keep the tax collected closer to the correct liability
- Taxpayers update their digital tax account regularly – nearer to real time
- From April 2017 digital tax accounts will include information from employers and pension providers – easier to allocate allowances across multiple PAYE sources
- From April 2018 include savings income (only relevant where > Personal Savings Allowance) and adjust code

Assure UK's Breakdown:

At the end of the day this is good news with ONE ACCOUNT where you can upload and see all your information in ONE place – if HMRC have missed something or you need to add information we can do this as we have access to your account as your agent.

How can we help you comply?

- Provide you with digital accounting software
- Train you to enter your data easily and securely
- Submit the 5 reports required to HMRC on your behalf
- Make the process cost effective to your business

We are certified trainers and suppliers of the major digital accounting software and have many happy customers who are reaping the rewards of using cloud accounting. Some of the benefits are:

- HMRC compliant
- See your results 24/7
- Enter data "on the go"
- Automatic bank data
- No annual license fee
- Secure data protection with bank type encryption
- Real time information

ABOUT PROGRESS WITH ASSURE UK

Progress with Assure UK is an innovative accounting and assurance advisory business, serving clients across the United Kingdom.

Our clients range from individuals and entrepreneurs, to large not for profit organisations. We work together with them, support their aspirations and contribute to their success. In-depth understanding of our clients allows us to deliver focused accounting and advisory solutions. Clients have access to bespoke services and solutions, including audit and assurance, governance and risk, corporate funding, wealth management, online accounting and bookkeeping services, IT consultancy and digital marketing. Our success stems from our industry focus, which enables us to provide an innovative and personal service to our clients in a range of sectors.

If you would like further information on any item within this ebooklet, or information on our services please contact:



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