

FACTSHEET: MAKING TAX DIGITAL

Making Tax Digital (MTD) is the most fundamental change to the administration of the tax system for at least 20 years. The new policies are designed to save time, reduce errors and cut the risk of penalties. The essential elements for businesses and landlords are:

Paper accounting records will cease to meet the requirements of tax law. But MTD isn't completely paper-free. It's the actual recording of supplies made and received that must be digital. Where invoices and receipts aren't held digitally, they should be kept in hard copy as usual for VAT purposes.

**PAPER RECORDS
WILL NO LONGER
BE SUFFICIENT**

It will become mandatory for almost all businesses and buy-to-let landlords (self-employed, partnerships and limited companies) to use 'functional compatible software' to maintain their accounting records. This means a software program or set of compatible software programs which can connect to HMRC systems via an Application Programming Interface (API), which must be capable of:

- keeping specified records in digital form as required by the new rules
- preserving digital records in digital form for up to six years
- creating a VAT return from the digital records held in compatible software and submitting this data to HMRC digitally
- providing HMRC with VAT data on a voluntary basis
- receiving information from HMRC via the API platform.

HMRC will not be providing software to meet this requirement.

Quarterly reporting

There will be a requirement to submit quarterly updates to HMRC, directly from your accounting software, within one month of the end of each quarter. This is not the same as quarterly tax returns, an end of year declaration will be completed at the end of the 12-month period, which summarises your quarterly submissions.

Making Tax Digital for VAT



The new rules apply from the start of the first VAT return period beginning on or after **1 April 2019**, VAT registered businesses (including limited companies) with a taxable turnover above the VAT threshold (currently £85,000) will be required by law to store financial records digitally and start submitting your VAT returns directly from MTD-compatible accounting software. The current online VAT return will cease to be available.

HMRC will allow adjustments for partial exemptions to be calculated separately, outside of the digital records, and for these to be transferred in either digitally or manually. Ultimately, however, the final transfer of information to HMRC will have to be done digitally, in all cases.

The first MTD for VAT submission depends on the quarterly return date:

Quarterly filing dates	Start of first return period subject to MTD	First quarter end within MTD	First MTD VAT return deadline (month plus 7 days)
March/June/September/December	1 April 2019	30 June 2019	7 August 2019
January/April/July/October	1 May 2019	31 July 2019	7 September 2019
February/May/August/November	1 June 2019	31 August 2019	7 October 2019

The smallest businesses and landlords with gross income of less than £10,000 will be exempt. Also exempt are those who are not able to engage digitally for religious reasons or due to a factor such as age, disability or location (e.g., no availability of broadband). If you are exempt from Making Tax Digital you may still choose to follow the Making Tax Digital rules.

Some 'more complex' business have been deferred for MTD for VAT, until **1 October 2019**. This deferral applies to: trusts; not for profit organisations not set up as companies; VAT divisions; VAT groups; public sector entities such as government departments and NHS Trusts, which have to provide additional information on their VAT return; local authorities; public corporations; traders based overseas; those required to make payments on account; and annual accounting scheme users.

Other taxes

You will not be asked to keep digital records, or to update HMRC quarterly, for other taxes until at least 2020.

What do you need to do now?

The action required depends on the size and structure of your business, how you currently keep your records, and what taxes you are liable for:

- Consideration may need to be given to the possibility of an exemption.
- If you currently maintain records on paper or a spreadsheet, your processes will need to change, although spreadsheets can be used for record keeping, they will need converting to make them MTD compatible in order to make quarterly submissions to HMRC.
- If you currently use accounting software it may need to be upgraded. A list of MTD compatible software packages is available on the [HMRC website](#).

As your accountants, we will support you through these changes and provide the ongoing services that you need. However, the changes are so fundamental that it will be necessary to review your current record keeping systems and to reconsider what work you decide to do yourself and which activities you wish to include in the service we provide.

**How can we help?**

We can work with you to transfer your record keeping to cloud accounting. Cloud accounting is the use of an online accounting package, accessed via your web browser, or a mobile app, where your data is stored securely on remote servers, allowing you to keep your records secure, with regular backups. Cloud accounting is user friendly and logical to use, you can upload bank statements directly into the package, giving you real-time information about your business financial position, your bank balances and income and expenditure. You can also keep track of money owed to you and money you owe to your suppliers and, if you wish, we can access your data in real-time for advisory and compliance purposes.

You can engage us to prepare and maintain your accounting records and make your quarterly submissions. Our fees for this service will depend on the quantity and complexity of your transactions each quarter. Contact us to discuss your requirements.

Contact us:**DSP Accountancy Services**

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