BARNES ROFFE LLP

MAKING TAX DIGITAL

WHERE ARE WE NOW?
20 SEPTEMBER 2018

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Recap: What is MTD?

- Abolition of tax return announced by George Osborne in 2015 Budget

- Instead, real-time online individual tax accounts by 2020

- Are reports of the death of the tax reurn "…greatly exaggerated"?

4 Foundations of 2020 System (original)

- Tax simplified
- Making tax digital for business
- Making tax digital for individuals
- Tax in one place

Tax Simplified

- Taxpayers should not have to give HMRC information that it already has, or should be able to get from elsewhere — for instance, from employers, banks, building societies and other government departments
- Taxpayers will see the information that HMRC holds through their digital tax accounts, and be able to check at any time that their details are complete and correct
- HMRC will use this information to tailor the service it provides, according to each taxpayer's individual circumstances
- In 2016, HMRC would consult on how information from more third parties might reduce the reporting burden on taxpayers

Making Tax Digital for Business

- Businesses should not have to wait until the end of the tax year or even longer before knowing how much tax they should pay
- HMRC will collect and process information affecting tax in as close to real time as possible, to stop tax due or repayments owed from building-up
- From April 2018, businesses, including everyone who is self-employed and those letting out property, will update HMRC at least quarterly where it is their main source of income (or a secondary source of income above £10,000 and their main income is from employment or a pension)

Making Tax Digital for Individuals

- Individual taxpayers will interact with HMRC digitally, and at any time to suit them
- By April 2016, every individual and small business will have access to a digital tax account
- The digital accounts will present individual taxpayers with a personalised picture of their tax affairs, along with prompts, advice and support through webchat and secure messaging
- Taxpayers will see the information HMRC holds through their digital tax accounts
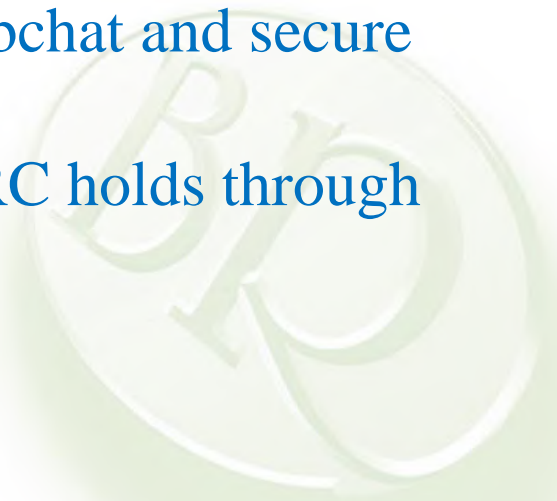
Tax in One Place

- At the moment, most taxpayers cannot see a single picture of their liabilities and entitlements in one place
- HMRC is changing that
- By 2020, taxpayers will be able to see their complete financial picture in their digital account, just like they do in their online banking
- And they will be able to set an over-payment of one tax against the under-payment of another: it will feel like paying a single tax
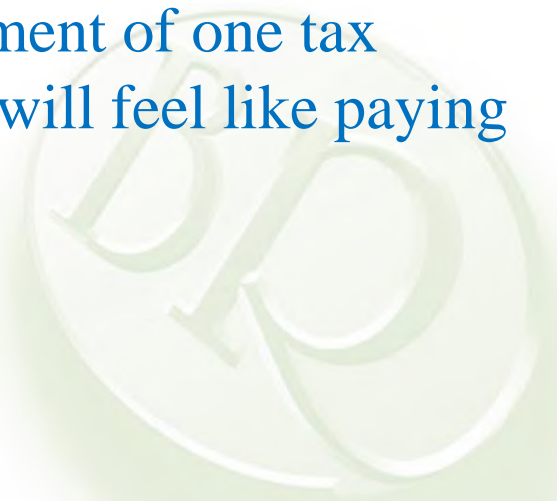
MTDfB Process

How will MTDfB affect how businesses do their income tax?

Here we give a summary of how this works for businesses paying income tax.

Stage	What will I need to do?
1: Record keeping	You will keep your business records (including VAT records where needed) using MTDfB compatible software. Software will provide guidance and prompts to help you.
2: Updating HMRC	The software will use your records to prepare your summary update to HMRC. Every quarter, your software will remind you to send your summary to HMRC. Once you have checked it, you will press the button to send the update to HMRC
3: End of year activity	MTDfB compatible software will prepare end of year figures from your quarterly updates so you can check them. You can make adjustments before sending to HMRC. You can also include any additional information not in your quarterly updates. You will have up to 10 months to complete end of year activity after the last day of the accounting period.

Why do it this way?

MTDfB compatible software will help you get your tax right.

MTDfB compatible software will make sending tax data to HMRC straightforward. It will save you time at year end.

Software will help you by:

Knowing our tax rules
Making calculations from your quarterly updates to HMRC; and
Filling in totals where possible

What about VAT?

Where possible HMRC will use one set of data to calculate VAT. You can choose whether to align your accounting periods for VAT and Income Tax so that you can do both at once. Or you can stagger them to spread the work out.
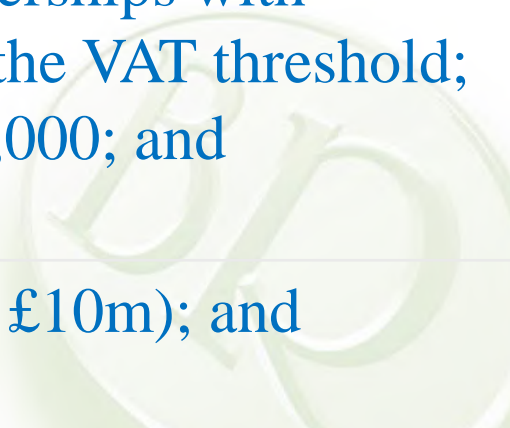
What about partnerships?

All partnerships will maintain records using MTDfB compatible software. Every quarter the nominated partner will submit the quarterly update. The nominated partner will undertake end of year activity and this will cover the whole partnership: individual members of the partnership will no longer need to report their profits or losses separately.

What will HMRC do with this information?

Quarterly updates will allow HMRC to estimate your tax position throughout the year and help you to understand how this is developing. MTDfB software will highlight any simple mistakes and alert you to them earlier, and direct you to specific guidance. Those submitting information on personal as well as business income will be able to review this in the digital tax account.

Original Timetable

2018	Accounting periods commencing on / after 6th April Unincorporated sole trades & partnerships with turnover above VAT threshold but below £10m; and Landlords with rent-roll above the VAT threshold
2019	Accounting periods commencing on / after 6th April Unincorporated sole trades & partnerships with turnover above £10,000 but below the VAT threshold; Landlords with rent-roll above £10,000; and VAT reporting
2020	Large partnerships (turnover above £10m); and Corporation tax

Original Consultation Documents

A ~ Bringing business tax into the digital age

B ~ Simplifying tax for unincorporated businesses

C ~ Cash basis for unincorporated landlords

D ~ Voluntary pay as you go

E ~ Tax administration

F ~ Transforming the tax system through better use of third-party information

(We look at B, D, E & F below)

Original Consultation Documents

Simplifying tax for unincorporated businesses

Possible reform of CYB system & overlap periods proposed but no commitment to change in HMG summary of consultation process

Now abandoned completely!

Original Consultation Documents

Voluntary pay as you go

A proposed system to enable payment against sources of income in real time, although not affecting actual due dates

Seen by many as forerunner to compulsion

Now proposed to be flexible, with PAYG payments refundable (all payments & refunds made electronically)
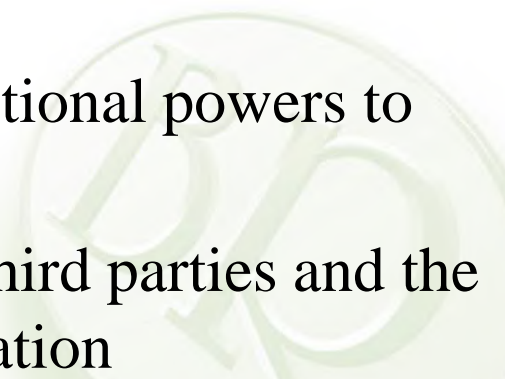
No credit interest ~ any takers?

Original Consultation Documents

Tax administration

- For late submission and late payment sanctions, some new proposals are advanced, based on a discussion paper on penalties issued in early 2015

- Non-deliberate late submission could move to a more flexible points-based system, imposing a penalty when a specified level of points have been reached through multiple failures across all tax obligations

- …the suggestion is that this will be suspended for the first 12 months that a taxpayer is within the new regime to allow time to adjust to the new requirements

- Late payment sanctions could move to a 'penalty interest' model (as well as the normal interest charge) which could escalate as the default lengthens

- An alternative is to align all late payment penalties across tax regimes

Original Consultation Documents

Transforming system: third party information

- Already, details of pay, pensions and benefits reported by employers and pension providers shown on the individual tax account

- From April 2018, supplemented by interest from banks and building societies

- Beyond that, HMRC is considering additional powers to require information from third parties

- Much of the consultation is directed at third parties and the ease and frequency of providing information
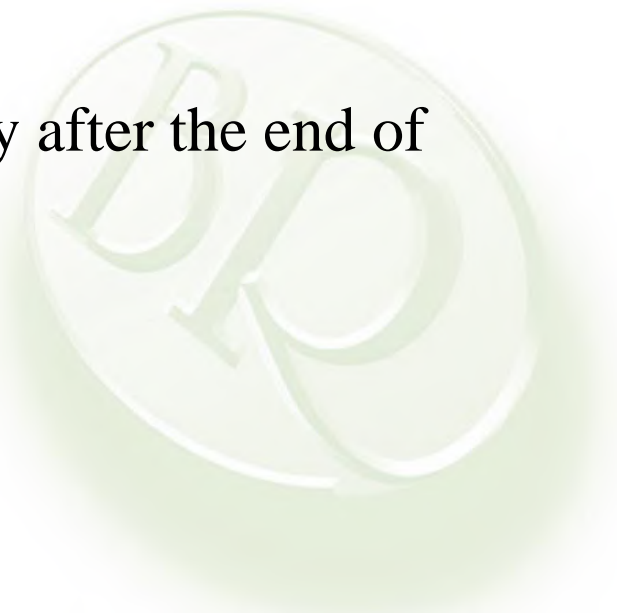
Original Proposals ~ Returns

For Each Source (VAT, Trade(s), Rental):

- 4 quarterly updates (dictated by the year end of the source)
- End of period statement (EPOS) due at the earlief of 10 months after the end of the period, or 31st January following the tax year in which the period ends

Then:

- One ***Final Declaration***, due 31st January after the end of the tax year

Problems With Original Proposals

- Too ambitious a time scale (for HMG!, especially post Brexit referendum)

- No proper software available despite HMRC'spromise of free software (produced by someone else!)

- Too many complexities in the tax system not easily shoehorned into MTD not addressed first
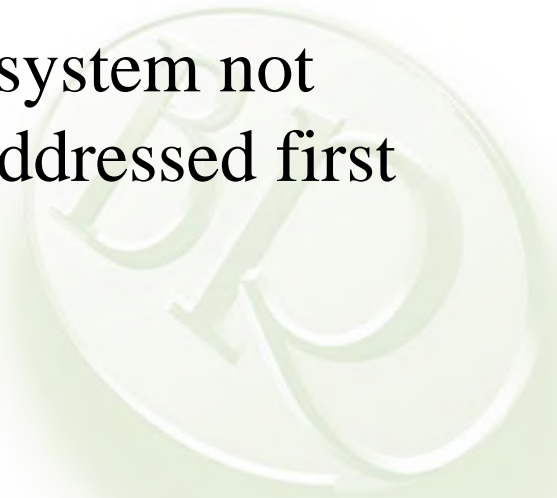
13th July 2017 Announcements

- Changes to proposals
- Businesses below VAT threshold exempt
- VAT quarterly updating from 2019 as planned
- Trades / landlords ~ quarterly updating delayed until 2020 at the earliest

Revised Timetable (Still the Same)

2019	VAT reporting
2020 at the earliest	Accounting periods commencing on / after 6th April Unincorporated sole trades & partnerships with turnover above VAT threshold but below £10m; and Landlords with rent-roll above the VAT threshold; and Corporation tax

Quarterly Updating for VAT

- Starts 2019

- Aren't we doing that already?

- No! Just filling 9 boxes online – 87% are entered manually

- From 2019, can no longer keep manual records for VAT if above the registration limit

- ***Digital record keeping for most businesses will be required by 2019***

MTDfB for VAT ~ at a glance

Businesses do now	Businesses will do under MTDfB
Keep records in a range of ways including on paper	Keep digital records using software or app (option to use excel if it links to MTDfB enabled software)
99% file their VAT returns online, mainly on a quarterly basis (either directly or through an accountant) Many keep digital records but most calculate VAT separately and submit their VAT returns using free HMRC product Alternative arrangements for the digitally excluded (tightly defined)	Generate and send quarterly updates – same 9 boxes as VAT return – direct from digital records. No separate VAT calculation, but with analysis between VAT rates Software can interact with agent software to allow them to check / send update Alternative arrangements for the digitally excluded (follows current definition)

Additional Sources

- "Making Tax Digital for VAT" ~ July 2018
- VAT Notice 700/22
- CIOT paper 10th August 2018
- Online Stakeholder Communications Pack

Making Tax Digital

The difference under Making Tax Digital is that the software which businesses use must be capable of keeping and maintaining the records specified in the regulations, preparing their VAT Returns using the information maintained in those digital records and communicating with HMRC digitally via their Application Programming Interface (API) platform

Exemptions

a) Religious beliefs incompatible with the use of electronic communications

b) Practicability issues ~ age / disability / remoteness / connectivity

c) Voluntarily registered and trading under the VAT threshold

• For (a) & (b), written application

• In (c) can elect in and out of MTD

…Curiously

- If within MTD for VAT because trading over the VAT threshold, and subsequently go under the VAT threshold, you cannot get out of MTD for VAT, by election or otherwise, and must remain within the regime until deregistration

Record Keeping

- Not manual

- Functional compatible software

- Software or spreadsheets that can connect to HMRC via Application Programming Interface ("API") & convey more information

- Spreadsheet users will use "bridging software" or API enabled spreadsheets

- Spreadsheets cannot be in summary form

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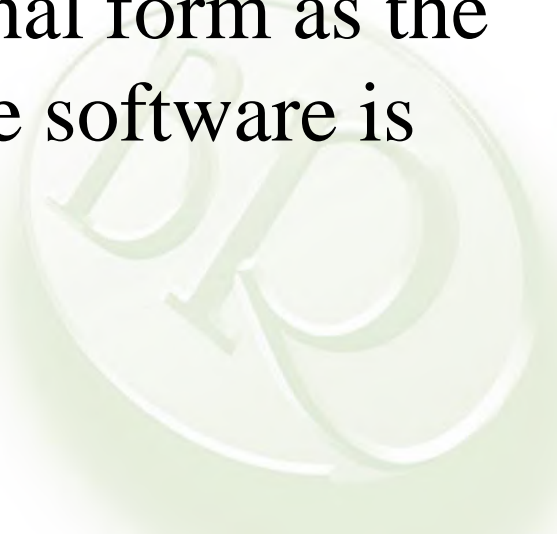**BSc FCA**

Partner

Functional Compatible Software

Functional compatible software is a software program, or set of software programs, products or applications, that must be able to:-

- Record and preserve digital records

- Provide to HMRC information and returns from data held in those digital records by using the API platform

- Receive from HMRC via the API platform

Functional Compatible Software

Example

A business receives an invoice and types selected data contained in the invoice into functional compatible software. They must still keep the invoice in its original form as the data in the functional compatible software is not a copy of the invoice.

Functional Compatible Software

Example

A business has functional compatible software that scans the invoices received and puts the information in its ledger. If the image is retained and contains all the detail required for VAT purposes then the business does not need to keep the original invoice unless it is required for another purpose.

Functional Compatible Software

Data transfer or exchange within and between software programs, applications or products that make up functional compatible software must be digital.

Digital Link

A 'digital link' is one where a transfer or exchange of data is made, or can be made, electronically between software programs, products or applications. That is without the involvement or need for manual intervention such as the copying over of information by hand or the manual transposition of data between 2 or more pieces of software.

Digital Link

HMRC will also accept digital links as:

- emailing a spreadsheet containing digital records to a tax agent so that the agent can import the data into their software to carry out a calculation (for instance, a Partial Exemption calculation)

- transferring a set of digital records onto a portable device (for example, a pen drive, memory stick, flash drive) and physically giving this to an agent to import that data into their software

- XML, CSV import and export, and download and upload of files

- automated data transfer

- API transfer

The list is not exhaustive.

Digital Link

Linked cells in spreadsheets, for example, if you have a formula in one sheet that mirrors the source's value in another cell.

Is this a digital link?

'Cut and paste' to select and move information, either within a software program or between software programs.

Is this a digital link?

Soft Landing

For the first year of mandation (VAT periods commencing between 1 April 2019 and 31 March 2020) businesses will not be required to have digital links between software programs. The one exception to this is where data is transferred, following preparation of the information required for the VAT Return, to another product (for example, a bridging product) that is API-enabled solely for the purpose of submitting the 9 Box VAT Return data to HMRC. The transfer of data to this product must be digital.

Soft Landing

For the first year of mandation (VAT periods commencing between 1 April 2019 and 31 March 2020), where a digital link has not been established between software programs, HMRC will accept the use of cut and paste as being a digital link for these VAT periods.

Soft Landing

For VAT periods starting on or after 1 April 2020, there must be a digital link for any transfer or exchange of data between software programs, products or applications used as functional compatible software.

The submission of information to HMRC must always be via an Application Programming Interface (API).

Bridging Software

This is a digital tool (incorporating relevant Making Tax Digital APIs) that is used to connect accounting software to HMRC systems.

API Enabled Spreadsheets

These are spreadsheets that incorporate relevant Making Tax Digitial APIs. They can either:

- Combine with accounting software to submit the required VAT information digitally to HMRC, and allow information to be sent back to the business digitally from HMRC.

- Be used to keep digital records and then directly submit the required VAT information digitally to HMRC.

Bridging Software

- Over 400 have indicated to HMRC that they will have functional compatible software

- 150 are progressing

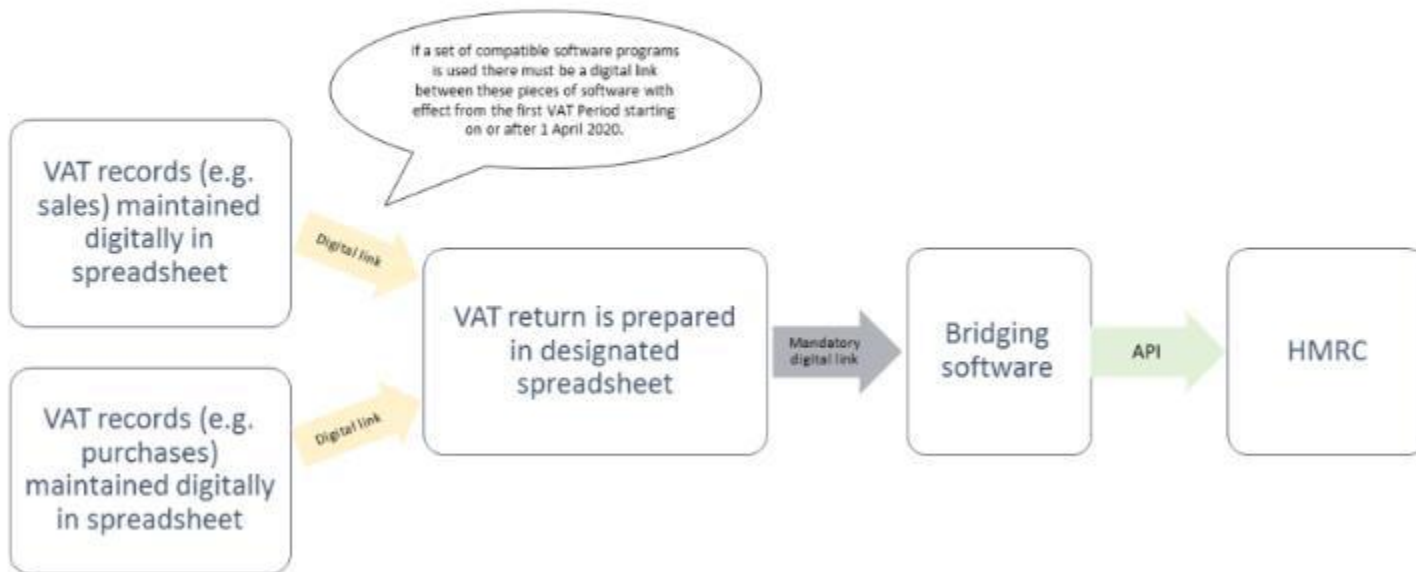- Some producing Bridging Software

Bridging Software

Using a spreadsheet and bridging software

Bridging Software

Bridging Software

Video Link http://www.absoluteexcelvatfiler.co.uk/

Recording

- Analysis required of net / tax at different VAT rates

- May be difficult posing mixed supplies

- More than just G / N / V

- No manual entries to HMRC (prevents transposition errors), but some manual entries (eg VAT Fuel scale charges)

- Errors dealt with as now ~ smaller errors adjust on next return ~ else use form VAT 652

Problem Areas

- VAT groups ~ need software that links group members together to generate submission

- Overseas business ~ could try to claim exemption on basis that compliance not practicable, or will their own software cope?

- Retail schemes ~ recording gross daily takings can continue

- Flat Rate Scheme ~ only need to record inputs relating to capital goods > £2,000 including the VAT

Where Are We?

- End 2017 ~ small scale testing
- 11.4.2018 ~ pilot started (small businesses)
- October 2018 ~ larger businesses join pilot
- November / December 2018 ~ public bodies join pilot

Software & Costs

- HMRC estimated £109 for a business to become compliant, with an additional cost of £31 per annum

- Providers (see gov.uk list) includes Xero & Sage

- Cloud based fee costs are +20% (or so) per "AccountingWeb". Based on a low monthly fee in the first place, maybe the costs will not be too prohibitive, at least for VAT reporting

Timing

- 1.4.2019 ~ Brexit!

- What about UK ⇔ EU transactions?

- Who knows the rules?

- Will software cope?

- Trials still at pilot stage. Public pilot scheduled for Summer 2018, now slipped back and at first not open to large business
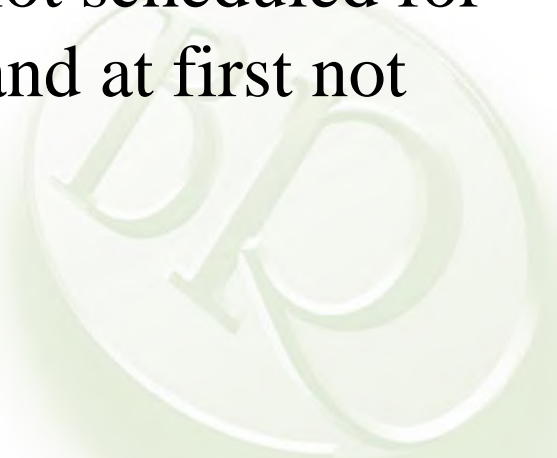
The Immediate Future

- Time for complacency?
- MTD is not dead. The vision is unchanged
- Only the pace of implementation has changed
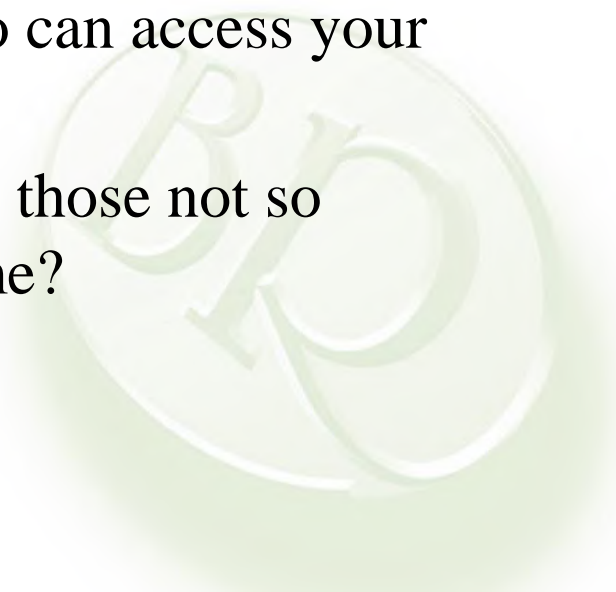- There is time (just) to try to get it right

MTD ~ VAT

- The whole purpose is to reduce error and reduce the huge "tax gap"

- 99% of VAT returns filed online

- Only 12% via software and HMRC wonders why

- 2015/16 HMRC statistic: 2,217,840 VAT registered businesses; 980,000 < VAT limit voluntarily registered

- VAT returns will be filed via API links from April 2019

- Those filing voluntarily < VAT threshold will continue to use HMG gateway

MTD ~ Benefits

- There will be benefits!

- Real time bank feed into digital accounting records

- Time saving posting own records or reduced payments to a third party to do it

- Accurate and timely management information

- Live on line help from accountants who can access your system

- Will benefits be sufficient to encourage those not so compelled to actually enter MTD regime?

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