

Making Tax Digital: mythbuster

HMRC is rolling out a digital tax system, so all businesses will need to maintain digital records. This process, called Making Tax Digital (MTD), is designed to improve the accuracy of business records and minimise errors by using new technology. In due course, the annual tax return will be abolished.

There are some misconceptions about what can and can't be done with MTD. We've given our thoughts on the most common myths below:

<p>MTD applies to VAT registered businesses with turnover higher than the VAT threshold from 1st of April 2019.</p>	<p>FACT</p>	<p>While this date only applies to those with turnover above the threshold, we recommend that all businesses – even those under the VAT threshold – review their position and get ready on time.</p>
<p>We can still prepare VAT returns on Excel and link these to HMRC's online portal.</p>	<p>MYTH</p>	<p>HMRC has said that, in theory, API-enabled Excel spreadsheets (spreadsheets that can link straight to HMRC's portal) can be used to submit VAT returns. Realistically, setting this up will be too expensive and time-consuming for most. We recommend that you consider investing in new software to help manage the change.</p>
<p>From 1st April 2019 software will need to be used for all elements of the VAT return, including partial exemption calculations.</p>	<p>MYTH</p>	<p>Initially, HMRC's portal will only receive the same nine VAT box entries that it receives currently. Partial exemption and group VAT calculations can still be prepared on Excel, with the adjustment being posted in accounting software.</p>
<p>Manual records are no longer acceptable for businesses with turnover above the VAT threshold.</p>	<p>FACT</p>	<p>From 1st April 2019 all VAT returns for businesses with turnover above the VAT threshold will be submitted through an HMRC-approved software package.</p>
<p>Many businesses are anticipated to suffer penalties due to the quick transition to MTD compliance.</p>	<p>MYTH</p>	<p>While businesses will be expected to be compliant from 1st April 2019, HMRC expects a 'soft landing' period from then until 1st April 2020. No penalties will be applied during this period, however HMRC will adopt a points-based penalty system in which an accumulation of late filings will lead to penalties.</p>
<p>Businesses that keep digital records on Sage are already MTD-compliant.</p>	<p>MYTH</p>	<p>To get access to the functionality in Sage that ensures MTD-compliance, a business must be on the latest version and be on a Sage subscription. Those without a subscription will need to pay an additional fee for the MTD functionality.</p>
<p>The current HMRC portal for submitting VAT returns will become redundant.</p>	<p>FACT</p>	<p>While VAT returns can already be submitted digitally through most software, they can also be manually typed in. HMRC are replacing this portal with one that will only accept information through a digital link.</p>

What should you do? The steps:

- + Your tax affairs should be up-to-date.
- + Consider how your business will be affected by MTD: what processes will need to change and what you and/or your staff will have to do. Consider also the impact this will have on your resources.
- + You will have to decide whether to input reporting information yourself, or if you want to assign responsibility to an adviser.
- + You may need to change your accounting records and software package. Virtually all businesses will need to purchase new accounting software that is compatible with HMRC's systems.
- + Your staff may need to be trained on the new process to ensure a smooth transition – factor this into your project planning.

In summary

Making Tax Digital is going to be a challenge, but forward planning will help all businesses to quickly adapt to the new regime. The change will carry administrative and cost burdens but it presents opportunities: new software may help your business in ways beyond MTD-compliance such as more effective and efficient reporting.

Chiene + Tait can help businesses decide and implement. We have software specialists who can help you to identify what – if anything – you need to do to be compliant, what advantages you can get from new software systems, and how to implement them.

If you have a query about Making Tax Digital, or you aren't sure how to become compliant, contact our team today:

mail@chiene.co.uk

0131 558 5800