

## Making Tax Digital (MTD)

Without a doubt, HMRC's drive to digitalise tax makes sense, why rely on an annual return of taxable income when all the data can be pushed to a centralised Personal Tax Account in real time?

There are concerns. Security, accessibility and the ability of taxpayers, particularly the self-employed and landlords to adapt to the demands of MTD.

In the rest of this article, we outline how MTD works in practice it is now mandatory for VAT reporting for businesses with a turnover above the registration threshold, and will in future become so for Income Tax and Corporation Tax.

### Who is responsible for sending information regarding income sources to HMRC?

Source of income	Responsible source
Salaries and benefits	Employers
Bank interest	Banks
Dividends	Payers
Pensions	Pension providers
Business income	Businesses or their advisors
Rental income	Landlord(s) or their advisors

### How, and from when, is the information sent?

Most of the third-party data is already being sent to HMRC by pension providers, employers, banks and other institutions. Currently, business and rental profits are returned annually by submitting a tax return. From April 2023, MTD will be extended to taxpayers who file Income Tax Self-Assessment tax returns for business or property income over £10,000 annually. Data will be uploaded on a quarterly basis directly from authorised accounting software used by the business owners or their advisors.

MTD for VAT is currently mandatory for all VAT registered businesses with turnover of more than the VAT threshold of £85,000. Businesses affected are required to upload their VAT returns directly from authorised accounts software. Most software suppliers have links to HMRC's digital accounts system. From April 2022, MTD will be extended to all VAT registered businesses.



### What HMRC say about MTD

*The Personal Tax Account (PTA) brings together each individual customer's information in one online place. It allows customers to access the service from a digital device of their choice and at a time that suits them. It enables them to register for new services, update their information and see how much tax they need to pay.*

*At the moment, the information that HMRC receives from a range of sources is held on separate stand-alone systems, which can result in customers being asked to report, via a Self-Assessment tax return, information that is already held by HMRC. HMRC is joining up these internal systems and will automatically include information it holds about a customer's circumstances or income in their digital account, meaning the customer will not have to do this themselves.*

*Under Self-Assessment, over 10 million customers fill in a tax return to tell HMRC about their circumstances and income. This is a burden for customers and inefficient for HMRC as well: mistakes can be made, or the information can be wrong or submitted too late, meaning the right tax is not collected at the right time and HMRC has to take action. This can lead to penalties and interest charges for the customer which could have been avoided.*

*As the Personal Tax Account develops, customers will use it to tell us when things change. Over time, customers will no longer need to complete tax returns at the end of the year.*

MTD therefore aims to add to the limited functionality of the PTA and transform it into a one-stop place to view your personal tax information. Of course, much will depend on the effectiveness of HMRC's online systems.





## Are there any benefits? And what are the disadvantages?

HMRC is keen to promote the idea that gathering data on taxpayers' affairs in real time provides an opportunity to forecast future tax liabilities based on actual data rather than estimated information.

But, MTD places the responsibility for meeting the quarterly deadlines on the shoulders of business owners or their advisors. This inevitably will take taxpayers away from running their businesses to spend more time organising and collecting data, or face increasing fees for professional support.

## Which accounts software is compatible?

As MTD will likely become the norm to send data to HMRC, once the process is fully rolled-out business accounting software suppliers will need to adapt their products to cope with the requirements of uploading the data they collect to HMRC.

We work with a number of providers and would be happy to recommend a suitable accounts software product for your business.

## What if I cannot use a computer?

HMRC has announced that they are willing to discuss options with taxpayers who for whatever reason, cannot cope with computers. These options include nominating someone else to do the work or providing the information over the phone.

According to HMRC, 99% of VAT returns, 98% of Corporation Tax returns, and 86% of Self-Assessment tax returns are already submitted online. They will therefore view this as an issue that affects only a comparatively small number of individuals.

## Our conclusion

As we have noted previously in this update, much will depend on the efficiency and security of HMRC's computer systems. It will also depend on the willingness of affected taxpayers in the engagement of pre-MTD planning. For example:

- Are you using accounts software? Is it MTD compliant?
- Are you confident that you can manage the reporting process effectively, and without increasing your tax or NIC liabilities beyond the amount that you are required by law to pay?

The downside risks of getting it wrong are significant, as HMRC will likely introduce penalties for late filing at some stage. We recommend that all business owners undertake an MTD compliance risk assessment as soon as possible. At a minimum, businesses should decide on the MTD compliant accounts software that they are going to use to meet their MTD obligations. We can help. You will benefit from being prepared.



**James MacDonald, Senior Manager**

E: james.macdonald@ecovis.co.uk

T: +44 (0)20 7495 2244

**Josh Mills, Manager**

E: josh.mills@ecovis.co.uk

T: +44 (0)20 7495 2244



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