



Making Tax Digital

Factsheet

Understanding the new government tax system.

What is MTD?

HMRC is changing the tax system to require most business owners to maintain digital records using HMRC compatible software.

Why are HMRC doing this?

Essentially HMRC want to crack down on what they see as the “tax gap” ie. The difference between what they think should be paid in taxes by small businesses and what is collected. Also, HMRC has calculated £9bn was lost in 2015-16 to “avoidable mistakes” and quarterly reporting will give HMRC a more accurate picture.

When is it happening?

MTD comes in 3 parts:

- Income Tax
- VAT
- Corporation Tax

VAT is first and will affect all VAT registered businesses (limited, sole trader & partnerships) with taxable turnover > £85k, for periods starting on or after 1st April 2019.

TIP: Voluntary VAT registered businesses (turnover <£85k) are not mandated, but can join. Once in, cannot leave!

MTD for VAT?

Transactions will have to be recorded digitally “as near to real-time as possible”. VAT returns will be submitted from your software (the current HMRC gateway will disappear.)

NB. The 9-box return remains, the quarter periods will not change and neither will the payment deadlines.

“Can I continue to keep my records on an excel spreadsheet?”

A spreadsheet does not have an interface with the HMRC portal, so the detailed transactions

would have to be uploaded into HMRC approved “bridging” software and then the submission made from the software. Clients that have already taken the step to move away from excel spreadsheets have seen benefits in time-saving, being able to use technology such as their smart phones to track business transactions, upload receipts and send invoices to customers. The VAT return is then done at the touch of a button.

“Can I continue to keep a written cash book?”

In short, NO! The transaction from the paper records would have to be manually entered in to the HMRC approved accounting software and the submission then made to HMRC.

“We have specific sales software and this sends information to our accounting system – will this be ok?”

The transaction trail must be digital and provided the individual data can be uploaded into approved accounting software, then the VAT return can be submitted to HMRC.

“We use desktop accounting software – will we be ok?”

This very much depends on the version you are running. Sage, you will need to be on V24 or later, Quickbooks 2018 or later.

If you are using some other accounting software or business specific (bespoke) software, you will need to check if this is going to be MTD compliant by contacting your software provider.

What is HMRC approved software?

This can either be a traditional Desktop accounting package or “Cloud” software.

More and more software providers are being approved. The main ones are:

- Xero
- Sage
- Quickbooks

The difference now, is that these are all on a subscription service because (like payroll software) you will have to be on the most recent version to be able to process submissions to HMRC.

“I have heard I will have to set up a Business Tax Account with HMRC – what is this?”

To make a submission, you will need to set up a Business Tax Account. You can also set up your own personal tax account which will allow you to amend your personal details such as address etc and see your state pension calculation.

How we can help..

- Review your current system(s) and recommend a course of action;
- Help get you started on “cloud” software;
- Help you and your staff with support and training throughout the process.



We have a dedicated team ready to help you. Contact us on either 01604 678470 or 01933 312950 or www.elsbyandco.co.uk/MTD for links to our upcoming MTD practical workshops.