

# DIGITAL TAX WILL BE TAXING

GROWTH

**HMRC's onward march towards full digitisation means that come April 2019, practices will have to deal with a brand-new VAT reporting process. Compliance will be mandatory and will involve significant changes to how practices record and report their commercial activities.**

By the end of March 2019, some one million UK businesses will need to have prepared for what many consider to be the biggest change for years in how they deal with HMRC. (Despite what some may think, this has nothing to do with Brexit.)

The changes, which will affect every single transaction a business makes, come from what HMRC calls Making Tax Digital (MTD). While HMRC has decided this is the answer to everyone's tax problems, the reality for many businesses is that it is going to make life more complex.

## THE BACKGROUND

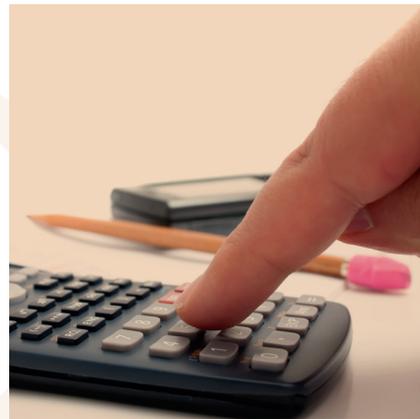
Jason Piper, senior manager for tax and business Law at accounting body the ACCA, says that it has been around five years since the then minister, David Gauke, announced bold plans for the death of the tax return. This became the policy Making Tax Simple before finally being called Making Tax Digital. Says Piper: "The underlying goal is to transform the whole UK tax system, both HMRC's internal IT infrastructure and the way that taxpayers engage with it."

The aim is that by having taxpayers keep their records digitally and engaging with HMRC entirely online, costs should be lowered and avoidable errors minimised. But as Piper puts it: "As a utopian ideal the seamless transfer of information, with taxpayers able to see all their records in one place in real time, has clear attractions. But from the start, practical issues around the ability of taxpayers to adapt, especially in the suggested timescales, have reared their heads."

And there has been no shortage of commentators ready to remind HMRC of government's record on large scale IT projects – and MTD would be one of the biggest - and riskiest were it to go wrong - ever attempted.

## CURRENT PLANS AND ROLLOUT

Problems with the rollout have been compounded by unprecedented political developments such as the 2017 snap election and the Brexit referendum - both of which delayed the ability of civil servants to consult with stakeholders.



As a result initial plans to force virtually all businesses to keep their records for profits taxes digitally from 2018 were abandoned; now all but the barest bones of MTD have been put on hold to free up resource

for Brexit. Nevertheless, practices will have much to worry about from next April.

## THE IMPACT ON FIRMS - AND WHAT THEY NEED TO DO

From April 2019 HMRC will have MTD in place for VAT for virtually all businesses above the compulsory registration threshold of £85,000. There is a relaxed deadline of October 2019 for a few "larger or more complex" businesses, including those in VAT groups or on the Annual Accounting Scheme. Income and Corporation Tax will follow at some point.

Of course, as Piper notes, MTD won't apply to those businesses not compulsorily registered for VAT – so as long as their turnover remains below £85,000, MTD remains optional for VAT. However if Income and Corporation Tax are imposed from 2020 (which is the earliest government have said they might be), they are likely to have a much lower threshold.

## SO THOSE WHO ARE VAT REGISTERED, AS EVERY PRACTICE WILL BE, NEED TO PREPARE – NOW.

For VAT, MTD subtly alters how the online filing works and makes a huge change to how businesses prepare for that submission.



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HMRC's existing web portal will close for MTD filers. Instead, they will need to use specialist software to create and submit their return.

"But the biggest, unprecedented, change," explains Piper, "is in how much control HMRC's processes will have over how you run your business. Under online filing, you submit your VAT return to HMRC in their prescribed digital format so it's easy for them to process. But you are in control of how the records are kept that help you work out the nine numbers you need for the return. Under MTD, it's not just how the nine figures reach HMRC that's legally regulated; it's how they're calculated, and the format (electronic) of the records that support it which is laid down in law."

In essence, he says that every transaction will need to be recorded digitally (on a spreadsheet or in accounting software) and those records have to automatically drive the return calculation. Practices will need to be online aware or have a very accommodating accountant.

### WHICH EXEMPTIONS APPLY?

There are ways to allow a business to stay outside MTD. On this, Piper says they are to "qualify for one of the existing exemptions from online filing for those who are digitally excluded or on grounds of religious belief. HMRC have said they will publish guidance on this in November 2018 and expect to have the application process ready by January 2019, but we can use the regulations and what we know about the current position to make some predictions."

The reality is that the exemptions won't apply - taxpayers can't get religious exemption for example by telling HMRC they're a member of a tiny religious sect that shuns technology. The bar to clear is incredibly high and involves proving that the individual's entire life revolves around their beliefs.

The other exemption he points to - digital exclusion - "is likely to get a lot messier for HMRC and for taxpayers." At the moment, around 4,000 taxpayers are exempt from online filing 'by reason of age, disability or geographical location'.

"That means they either can't use a computer to meet HMRC's requirements, or even if they could, they can't

get reliably online because there's no internet connection at their place of business. The same legal test will apply for MTD," says Piper.

However, historically HMRC has taken a hard line on this, leaving many businesses who couldn't file online themselves to pay an accountant to fulfil the digital obligations. But he says there the difference ends: "Filing the nine figures of the return isn't that expensive; paying a professional adviser to maintain the digital record of every single transaction would be a different story though, and that's what MTD would require. The stakes are much higher this time for small businesses, and we expect far more will apply for exemption because paying someone else to do what's needed just isn't economic."

Crucially Piper says that there's an 'any other reason' catch-all term built into the regulation. It is possible that tax Tribunals would include "the economic impact on the business of shifting to digital." That said, any practice worth its salt will be digitally maintaining records. Their only likely get out is if there's no available reliable internet connection. Also, it is worth noting that the digital exclusion bar will not apply if there is a business partner available who is able to file online.

### ACTION TO TAKE NOW

Piper says that if a business already uses an accounts software package then it may be lucky in that it will probably support MTD filing and record keeping - the key is to check without delay. He adds that some suppliers are asking customers to move from desktop licenses to cloud subscription services, which will be far more expensive.

"If you don't use any digital tool then you'll need to start, and quickly do your own research to find a suitable product," says Piper. He believes there will be an official HMRC tool made available, but government rules on commercial competition means that businesses might do better to search out resources that accountants use. Accountingweb.co.uk offers reviews on products.

Spreadsheets will still be fine for the basic record keeping Piper advises, but he cautions: "You will still also need access to a filing package, through what is known as 'bridging software'.



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In a variation on the current practice of phoning your accountant every three months with the nine figures, you could post them a USB stick, or email a spreadsheet with all your records (in the right format) once a quarter. Their software could do the rest, but it's likely to cost more than the current equivalent." There is also scope for things to go wrong, and it will mean an accountant doing more work, which will be reflected in their bill.

### AND FINALLY

MTD is not going away and it will disrupt how a practice copes with, and reports, its VAT. Those that don't prepare will find themselves sitting on a cliff edge once the present online portal closes next April. The answer is to prepare and take advice now.



### MORE INFORMATION

#### HMRC's MTD VAT notice:

[www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat](http://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat)

#### New record keeping requirements:

[www.icaew.com/technical/tax/making-tax-digital/mtd-guidance/mtd-and-vat](http://www.icaew.com/technical/tax/making-tax-digital/mtd-guidance/mtd-and-vat)