

Making Tax Digital (MTD)

MTD for VAT

Since April 2019 VAT registered businesses and organisations with a taxable turnover above the VAT threshold of £85,000 are required to:

- Maintain their accounting records digitally in a software product or spreadsheet. Maintaining paper records no longer meets the requirements of the tax legislation
- Submit their VAT returns to HMRC using a functional compatible software product that can access HMRC's API (application program interface) platform

These requirements will also apply to VAT registered businesses with taxable turnover below the VAT threshold from April 2022.

Businesses within scope need either a suitable commercial software product or need to appoint an agent/accountant to submit returns to HMRC on their behalf.

Digital records can be maintained in more than one program or software product. The use of spreadsheets, either to record individual transactions or as part of a suite of software and spreadsheets is permitted. An existing spreadsheet alone is not a free way to comply with the MTD for VAT requirements as it will not have the functionality to file the return.

Where records are maintained in more than one program or product there must be digital links between each of the software products/spreadsheets. Information cannot be transferred manually between products. Section 7 of the MTD for VAT notice includes several examples that illustrate the extent to which digital links are required. HMRC will not enforce the requirement to have digital links in place until 1 April 2021 (this deadline was extended because of the COVID-19 pandemic).

Retail schemes

Retailers can record gross daily takings (not weekly, monthly, or quarterly) rather than each individual transaction. This means that there does not need to be a digital link between tills and the accounting records; recording the daily totals in the digital accounting records meets the requirements.

MTD for Income Tax

After much lobbying from the accountancy sector, MTD for income tax has now been postponed. It will now be mandated from April 2024 for the self-employed and for those with property income and from April 2025 for most partnerships. The change to the tax year basis has also been delayed until at least April 2024. Much of the detail of the requirements is still unknown, but this is how it is likely to work.

MTD for income tax will apply to the self-employed, partnerships and to those who receive income from property, with gross income from these sources combined above a threshold of £10,000.

When MTD for income tax becomes mandatory, businesses within scope will be required to:

- Maintain their accounting records digitally in a software product or spreadsheet. Maintaining paper records will no longer meet the requirements of the tax legislation; and

- Submit information quarterly to HMRC and finalise their tax position after the end of the tax year. The quarterly updates and end of year reports will need to be made using functional compatible software that can access HMRC's API (application program interface)

Businesses within scope will need to acquire a suitable commercial software product or appoint an agent/accountant to submit returns to HMRC on their behalf.

The level of detail of the information required to be submitted to HMRC will remain the same as the current self-assessment tax return (though updates will need to be sent quarterly). The time window for submitting the quarterly returns will be from 10 days before the quarter end to one month after. The deadline for finalising the taxable profit for a period will be 31st January following the year of assessment in which the profits for that period of account are chargeable to income tax (the existing self-assessment deadline)

MTD for income tax obligations will apply from the start of the first accounting period beginning after 5th April 2024.

MTD for Corporation Tax

HMRC published a consultation on MTD for corporation tax in November 2020. The basic elements of the proposed design are set out as follows:

- All entities within the charge to CT would need to maintain their records digitally; and
- Use MTD compatible software to provide quarterly summary updates of their income and expenditure; and
- Submit an annual CT return using their MTD compatible software.

HMRC proposes commencing the voluntary pilot for MTD for CT in April 2024, with mandating to follow from 2026 at the earliest.