

## **Making Tax Digital (MTD)**

This is a standard article being issued to all clients to brief them about the proposed changes to the administration of taxation due to be implemented by the government. At this stage, the relevant legislation is not final and it is the intention that further briefing letters will be issued so that you will be aware of what is happening, as the changes will be fundamental.

Making Tax Digital, or MTD as it is referred to, is probably the most fundamental change to the tax system since the introduction of Self-Assessment twenty years ago. As the name suggests, the emphasis is on making the operation of the tax system digital and this is part of the government's stated objective of all tax administration being dealt with on a digital basis. Almost all businesses and the great majority of individuals will be used to using digital technology for functions such as record-keeping, banking and submitting VAT returns, and the proposals are to utilise the obvious benefits in a fully coordinated and joined-up manner. Although the legislation itself is not finalised, from past experience it is safe to say that these changes will be made and it is only the detail of how this will happen which remains to be determined.

## **What will MTD Change?**

Under MTD, H M Revenue & Customs intends to join up its internal records and create a single account for each taxpayer for all their different taxes. Each taxpayer will have a digital account which will enable them to view all their payments and offset overpayments in one tax against underpayments in another.

Significantly, MTD will implement new quarterly filing and liability to make payments of tax for all businesses and landlords. The first phase will cover unincorporated businesses and landlords, the second phase will deal with VAT and the third phase will affect companies.

These changes will see the phasing out of the annual tax return, although there will remain an annual compliance declaration instead of the annual tax return and Corporation Tax return. A further intention of the system will involve H M Revenue & Customs pre-populating individual tax accounts with information received from employers, banks and other organisations who routinely deduct tax.

## **Timescales and Compliance**

The implementation period is expected to be fairly short-term, however, full implementation will not be in place before 2020. Testing of systems is currently being carried out and digital tax accounts are being put in place and can be accessed. By the end of 2018, most businesses will be providing quarterly data in respect of their tax and National Insurance obligations and most of the changes will be introduced by 2019 and 2020 at the latest.

Although most of the professional bodies commenting on the proposals have indicated that the timescales are unrealistic, the evidence from the recent changes to Real Time Information (RTI) for employers and Auto-Enrolment for pension purposes have similarly been introduced on timescales which were regarded as being ambitious. In each case, the government has gone for a tight deadline and enforced this with a strong penalty regime for non-compliance. This approach has been effective, with high compliance levels, which has then given them manoeuvre room to dilute the penalty regime. Whilst it would be unwise to draw too many conclusions from this, the message is to be prepared to meet the requirements as the changes will be inevitable, even if penalties are initially relaxed.

## Ashdown Hurrey and the Digital World

Ashdown Hurrey is committed to enabling its clients to comply with the requirements and to keep them informed of the developments as they arise. Although clients may feel unprepared or unable to move to a completely digital approach with H M Revenue & Customs, in the timescales necessary Ashdown Hurrey will have the appropriate systems to allow clients to meet their obligations within the correct framework. Ashdown Hurrey has invested in the relevant technology to cope with the changes and is itself moving towards a predominantly digital approach, even if the “paperless” office remains some way off.

Accounting software providers will include the relevant ability to provide H M Revenue & Customs with the digital information they require, however, clients will still need to have their submissions checked before being sent to H M Revenue & Customs.

We encourage clients to embrace the new technology rather than to see it as an obstacle, but recognise that clients will need varying levels of support dependent upon their own internal systems. Ashdown Hurrey is moving to a position where the majority of correspondence with clients can be through the electronic medium and electronic approval of documents through our secure portal is part of this. Moving data electronically is quicker, safer and more efficient than through paper-based traditional methods and there are benefits available to all through this as well as for the government.

Ashdown Hurrey is committed to helping clients deal with MTD and you can be reassured that the changes will be handled for you safely. Further briefings will follow as the picture clears.

