

Making Tax Digital for Businesses

Making Tax Digital for Businesses (MTDfB) is part of HMRC's vision for state-of-the-art tax administration – and it's been a long time coming.

MTDfB involves keeping digital accounting records and submitting quarterly updates direct to HMRC from accounting software. For most businesses, there will also be a final end of year process finalising the tax liability, although software will have reflected the picture of liability emerging from quarterly updates during the course of the year.

Although there will be some exemptions, for most businesses, manual record keeping will become a thing of the past.

Client awareness

In a recent poll conducted by HMRC as part of one of its Talking Points webinars on MTDfB, the question was asked: 'Do your clients know much about MTDfB?' 79% of respondents replied that most clients knew little and would be reliant on agent input for information on the changes involved.

The detail of the proposals has been subject to considerable change en route. With all the stops and starts, many clients may perhaps have underestimated the fact that before long, there will be fundamental change to the way they interact with HMRC.

For practitioners, there has been the added difficulty of waiting for consultation outcomes and definitive answers from HMRC and the software houses. There is, however, important advice that can be given to clients now to open the dialogue and prepare for successful compliance.

There are many clients who will need to make the change to digital record keeping, and it would be prudent to start discussions on the subject with them sooner rather than later.

Different tax, different timetable

In July, the government announced not just a new timetable for MTDfB, but a new target tax: VAT.

From April 2019, businesses operating over the VAT threshold (currently £85,000 pa) will need to keep digital records for VAT purposes, and use MTD functional compatible software to make VAT returns. For the moment, at least, MTD won't be mandatory for other taxes.

Finance Bill 2017 was published on 8 September, with the legislation that will enable HMRC to put detailed requirements for the system in place.

Small print

So far, the theory is there, if the actual practicalities are still only a gleam in the eye of the software developers.

There are requirements for the keeping and preservation of records in digital form. There is a tacit understanding that spreadsheets will be acceptable at least for data capture – with the proviso that businesses using them will have to make sure they meet MTDfB requirements, including the facility to provide HMRC with automatic digital updates. This is likely to mean additional software to form the bridge between spreadsheet and HMRC.

As with electronic filing at present, there are provisions for exemptions; and there's detail for users of VAT schemes such as retail schemes and the flat rate scheme.





Plain sailing?

But as practitioners know only too well, dealing with clients can be very complicated.

You have taxpayers taking out 18-month old records, staring at them for a while as they try to figure out what they were doing back then, and then tentatively use them to fill in a lengthy HMRC form.

Or they can go to their accountants, drop a large carrier bag of records on their desks, and get them to work it all out... a world of paper, ledgers: book-keeping in a literal sense.

Not the words of a high street practitioner - but David Gauke, speaking in his capacity as Financial Secretary to the Treasury in 2016. His comments recognise the part that the large carrier bag still plays in the psyche of many small business clients.

His speech also bears witness to the fact that it's the professional adviser to whom clients turn to make sense of the complicated.

MTDfB: making the transition

The transition to MTDfB will involve major change for most clients. When considering your MTDfB client information programme, it could be helpful to assess and segment your client base now. Potential categories include:

- VAT registered, and non VAT registered clients
- Clients already using digital accounting

- Digitally confident clients not yet using digital accounting
- Clients who would prefer to delegate digital accounting to you
- Clients whose compliance record may necessitate special attention.

The most digitally competent will need to be kept up to date with developments at HMRC.

With clients who do not yet use digital accounting, but who feel confident that they can take the change in their stride, there will need to be a discussion of what the future will look like: what their record keeping options are, whether they will use cloud accounting etc.

Some clients may prefer not to engage digitally with HMRC themselves. For these clients, it may not just be the relationship with HMRC, that's changing. It could be the relationship with you, their professional advisers. Will they want to buy in book

keeping and filing services, delegating the digital role to you? Take for instance:

- the VAT registered plumbing business whose filing cabinet is still the footwell of the Transit van
- the farming client whose record keeping is meticulous – but on paper – who has traditionally relied on you to submit the VAT return electronically
- the retired-but-self-employed client who doesn't want the hassle of digital.

Here you may need to re-orientate the professional relationship, offering a new range of services to assist compliance.

There may also be clients who have, in the past, required additional input from you in terms of managing compliance deadlines. These may need special consideration in order to manage the transition to MTDfB successfully.

Opening the dialogue

Although MTDfB is still being fine-tuned, it's still HMRC's stated direction of travel. Given the extent of change involved, it could be wise to start the dialogue with clients now, keeping them up to date and looking at options for the future.

MTDfB involves major change, not just in terms of the relationship with HMRC, but quite possibly with you as adviser. The adjustments necessary are unlikely to be achieved overnight, and explaining the new legal framework of MTDfB to clients now should help to make the transition as smooth as possible.

The last thing you want is for clients who don't currently keep records in a digital format, to wait till just before April 2019 to move towards a digital system. Pro-active input now should enable you to manage the change successfully for both you and your clients.



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Making Tax Digital for VAT

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