



## Technical Briefing

### MAKING TAX DIGITAL



### The Headlines

Under Making Tax Digital (MTD) businesses, the self employed and landlords will be required to:

- keep digital accounting records; and
- use accounting software to make quarterly reports of income and expenses to HMRC.

These requirements are set to be phased in beginning from April 2018.

There are still many unanswered questions about the practicality of MTD **but it is happening.**

#### TIMESCALES

As the proposals stand, MTD quarterly reporting and digital record keeping will apply to the following enterprises for accounting periods starting on and after:

6 April 2018	for unincorporated businesses and landlords (self employed, partnerships and Limited Liability Partnerships) with turnover exceeding £85,000;
6 April 2019	for unincorporated businesses and landlords with turnover above £10,000 but below £85,000;
	for all VAT registered businesses for VAT related reports; and
1 April 2020	for all limited companies.

### DON'T PANIC

*We will be on hand to assist you every step of the way*



#### HAILSHAM

30-34 North Street  
Hailsham  
East Sussex BN27 1DW  
Phone : 01323 842 119 Fax : 01323 442 826

#### BRIGHTON

Towerpoint 44 North Road  
Brighton  
East Sussex BN1 1YR  
Phone : 01273 926 119 Fax : 01273 926 826

#### WEBSITE

[www.watsons.co.uk](http://www.watsons.co.uk)

#### EMAIL

[mail@watsons.co.uk](mailto:mail@watsons.co.uk)

## THE HEADLINES...continued

The most important and welcome change announced in the Spring 2017 Budget is that unincorporated businesses and landlords with turnover below the VAT threshold will be given a one year deferral not to have to comply with MTD until April 2019.

Those with low levels of sales or rents will be exempt from making quarterly reports and the Government appears to have confirmed that this minimum turnover threshold will be £10,000. It remains to be seen whether this threshold will be increased. We await the final legislation for clarity on this key point.

Those in employment who have secondary income of more than £10,000 per year through self employment or property will also be required to comply with MTD.

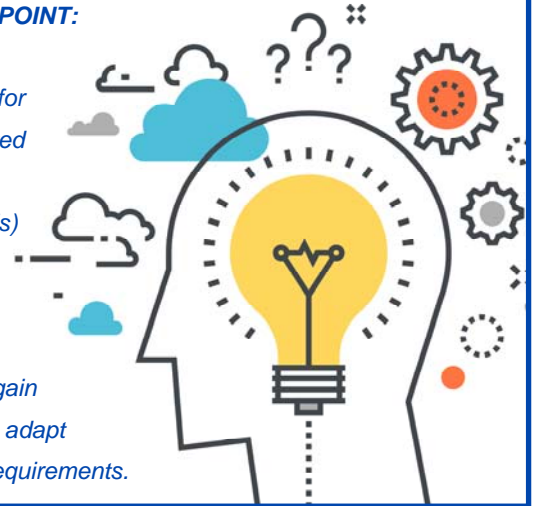


## EXAMPLE

Considering an unincorporated business with turnover above the VAT threshold with an accounting period starting on 6 April 2018 – the first businesses to which an MTD obligation would apply. Such a business will need to keep digital records from that date and its first quarterly report would be 5 July 2018 with the first MTD deadline being 5 August 2018.

## PLANNING POINT:

*There is an opportunity for unincorporated businesses (not landlords) to consider adopting a 31 March year end to gain more time to adapt to the new requirements.*



## QUARTERLY REPORTING

The submission date for the quarterly updates will be one month from the end of the quarter. Businesses (other than landlords) will be able to choose their periods of account and their update periods. The basic requirement will be for four quarterly updates a year. Penalties for non compliance will not be imposed for a year.

If your turnover is less than the VAT registration threshold you are permitted to complete just three lines on your Tax Return regarding your accounts:

- total income
- total expenses; and
- resulting profit or loss.

These three lines will be all you need to report quarterly under MTD. HMRC has promised that free software will be available to businesses in this category if they have no employees.

Where your turnover is higher than the VAT threshold you will be required to submit totals of around fifteen categories of expenses plus sales income for each quarter.

VAT reporting will not be combined with MTD quarterly reporting until at least April 2019, so until then you will need to submit VAT Returns in addition to your quarterly MTD Returns.

To finalise your accounts with HMRC you will have to send HMRC a final period statement (or year end reconciliation) by ten months after the end of your accounting period end. A business with a 31 March year end will have to submit a year end statement by the following 31 January as is the case now on a Self Assessment Tax Return.

## DIGITAL RECORD KEEPING UNDER MTD

MTD will make electronic record keeping mandatory for businesses and landlords. You will be permitted to use spreadsheets to record day to day transactions however to make MTD reports the data is likely to have to be transferred into MTD compliant accounting software. We envisage that most businesses will need to make at least some changes to the way they record and report their financial information. We can discuss how your accounting systems may need to change to prepare for MTD. This can include an assessment of your current level of computerisation to find out how much help you might need from us to get ready. We are also in a position to advise you on cloud based accounting software as now is a good opportunity to consider changing to a digital system.



## DIGITAL EXCLUSION

The Government has confirmed that those who genuinely cannot get online due to their individual circumstances such as disability, age, religious or geographical reasons will be exempt from the record keeping and quarterly reporting requirements described above and HMRC will provide non digital alternative options to them.

## REVISED CASH BASIS

Reporting income and expenses under MTD will be easier for businesses who draw up their accounts using the cash basis. This is a basic form of accounting which suits certain small unincorporated businesses.

Currently, in order to use the cash basis you must be a trading business not a limited liability partnership or property investor with turnover not exceeding the VAT registration threshold. You must switch to a traditional accruals basis of accounting once your turnover exceeds twice the VAT threshold.

The entry and exit thresholds for the cash basis will increase to £150,000 and £300,000 respectively on 6 April 2017. However, other restrictions remain including a block on setting losses against the trader's other income and a £500 cap on the amount of interest which can be deducted per year.

## REVISED CASH BASIS FOR PROPERTY BUSINESSES

Individual landlords will be expected to use a special form of the cash basis from 6 April 2017 where their annual rental income does not exceed £150,000. If you do not want to use this cash basis for your property business you will have to opt out by checking a box on your Tax Return.

All individual landlords (not companies) who let residential property from April 2017 will have restrictions imposed on the amount of interest and finance charges they can deduct each year. These restrictions will equally apply to landlords using the cash basis. However, cash basis landlords will be subject to an additional restriction. The deduction for interest and finance charges will be proportionally reduced if the total value of the outstanding mortgages connected to the property business exceeds the market value of the let properties at the end of the year.



**MTD is now not far away but we want to reassure you that there is nothing to worry about.**

**We can help you start to plan for quarterly reporting and digital record keeping as and when required.**

**When further details are available we will of course provide you with more information.**

**In the meantime please contact us if you have any questions.**

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*Please note this Technical Briefing is written for the general interest of our clients and is not a substitute for consulting the relevant legislation or taking professional advice. Watson Associates cannot accept any responsibility for loss arising from any person acting or refraining from acting on the basis of the material included herein.*

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