Making tax digital

Though plans have changed due to Brexit, practices still need to prepare for changes to tax systems from April 2019

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 thinks it is the answer to everyone’s tax problems, the reality is that it’s going to make life very complex for business.

Jason Piper, senior manager for tax and business law at the accounting body ACCA, says that MTD has been around five years since the then minister, David Gauke, announced bold plans for "The death of the tax return", which became "Making tax simple" before finally being named "Making tax digital". Jason says: "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."

Having taxpayers keep their records digitally and engaging with HMRC entirely online, everyone’s costs should be lowered, and avoidable errors should be minimised. “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, reared their heads,” Jason explains. And there has been no shortage of commentators ready to remind HMRC of the government’s record with large-scale IT projects. MTD would be one of the biggest government IT projects ever attempted – and one of the riskiest were it to go wrong.

The 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. The 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 consider from next April.

The impact on businesses

From April 2019, HMRC will have MTD in place for VAT for all businesses above the compulsory registration threshold of £85,000. Income and Corporation Tax will follow at some point. Of course, as Jason notes, MTD won’t apply to those not yet registered for VAT – “even if they do subsequently register for VAT, they’ll be outside of the regime until 2020. Unfortunately, that doesn’t necessarily mean they can relax.” So those who are VAT registered need to prepare – now.

For VAT, MTD subtly alters how online filing works and makes a huge change to how businesses prepare for that submission. HMRC’s existing web portal will close for MTD filers and they will need to use specialist software to create and submit their return. “But the biggest, unprecedented, change,” Jason says, “is in how much control HMRC’s processes will have over how you run your practice.”

"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’re 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 (so on a spreadsheet or in accounting software) and those records have to automatically drive the return calculation. Practices caught up in MTD, which the profession undoubtedly will be, need to be online aware, or have a very accommodating accountant.

There are ways for practices to stay outside MTD. On this, Jason 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 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 will rarely apply – taxpayers can’t get religious exemption just by telling HMRC they’re a member of a tiny 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,” Jason says. “At the moment, around 4,000 taxpayers are...