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Update

Business tax

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Making Tax Digital for partners and partnerships

What is Making Tax Digital and how will it affect me?

Affecting the self-employed, partnerships and landlords initially, Making Tax Digital (MTD) is the Government's plan to migrate the current tax system to a fully digitised online tax system by the end of 2020.

The Government has outlined a timetable which illustrates how they set out to achieve this by 2020 and it is envisioned that everyone will be affected, resulting in the death of the tax return as we know it.

At the moment, businesses keep their accounting records in a variety of ways, from paper records, spreadsheets or accounting software. These records are then used to prepare a tax return for the business at a later date. The Government are now proposing, with Making Tax Digital, unincorporated businesses will be required to:

- Maintain their records digitally, through software or apps
- Report summary information to HMRC quarterly through their 'digital tax accounts'
- Make an end of year declaration through their digital tax accounts

Will making tax digital apply to me?

In the Spring Budget, the Government announced its proposed timetable for the introduction of making tax digital, including the various thresholds, which can be seen in the table below:

Unincorporated businesses with an annual turnover above the £85,000 VAT threshold	6 April 2018
Unincorporated businesses with an annual turnover at or below the £85,000 VAT threshold but above £10,000	6 April 2019
Businesses with an annual turnover of less than £10,000	Exempt

What are digital records?

A digital record is a record of data for each transaction of the business. The proposed minimum required data will be:

- Invoice date
- Invoice value
- Income or expense category
- Deducted amount/percentage for expenses

Retailers with high volumes of low value cash sales transactions will be able to just record the trading date, gross cash takings and income category.

Digital records can be maintained using software which will be available from third party software providers. HMRC have confirmed there will be some products which are free of charge.

Transactions

Allowable and non-allowable expenses

Tax legislation contains a variety of rules on allowable and non-allowable expenses. So transactions will need to be categorised into expense types using your chosen software, for example you might separate advertising and professional expenses.

Storing digital records

The software will either store the records locally, for example on a computer, or in the cloud. HMRC expect that the software will, after an initial phase of manually assigning transactions to expense categories, start to recognise regular items and automatically assign them.

Under the original proposals, HMRC envisaged that a digital record would include not only a record of each item of income and expense but also evidence of each transaction such as copies of invoices and receipts. In the revised proposals the requirement to keep digital records will not include an obligation to store images of invoices and receipts digitally.

HMRC are aware that a lot of businesses use spreadsheets to currently record their data and have now confirmed that spreadsheets will be one of the options for maintaining digital records. But users will need to ensure that the spreadsheet is able to meet all the necessary requirements of making tax digital (i.e. not just keeping a record of each transaction but also providing quarterly summary updates and end of year information).

Businesses will need to use software appropriate to their business requirements. For example, a property partnership will need software that can record the partners' details and profit shares.

How will the quarterly return work?

Once all the relevant data for a quarter has been compiled into the software, the business will then feed this data directly into HMRC systems. The information that will be sent to HMRC will be summary data for the quarter, not all income and expense items. It is envisaged that the analysis of the data will be similar to the existing categories in the self assessment tax return. Smaller businesses will be able to prepare an update that contains only three lines of data – income, expenses and profit.

When the quarterly update is due, businesses will have one month to compile their records and complete the update.

How do I submit a tax return for the partnership under making tax digital?

Throughout the year, HMRC expect businesses to provide them with regular updates, building a picture of their net income for the year. However, many businesses will need to make adjustments to that information, for example reconsidering which expenses are not allowable for tax and make claims to reliefs or allowances, such as capital allowances. You will then make a declaration that everything is complete and correct as regards your business – an end of year declaration. You will have until 31 January or 10 months from the end of the accounting year end, whichever is sooner, to complete the end of year declaration.

If a partnership has any other income such as interest received or property income, the partnership will need to record and report all this income as well. The intention is therefore that the end of year declaration effectively becomes the self assessment tax return for the partnership.

How do partners obtain information about their share of profit?

There will be an option for the nominated partner to push quarterly summary information of their share of the profit to each partner's digital tax account. Each partner under this option would therefore have an estimate of their profit to date in the tax year.

When the end of year declaration is made, the nominated partner will be obliged to push each partner's share of profits to the digital tax accounts.

If you would like further information on any item within this brochure, or information on our services please contact your usual Moore Stephens adviser.

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