



## Switch to Making Tax Digital (MTD)

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In 2019, the UK Government began rolling out their transformation of the tax system. A new way in which businesses and individuals would have to file their Tax submissions. The transformation goes by the name 'Making Tax Digital'; and, ultimately, it represents the digitisation of the tax system.

MTD affects three main taxes:

- Value Added Tax (VAT)
- Income Tax, and
- Corporation Tax

Making Tax Digital aims to make the tax process simpler for everyone; businesses, individuals and, HMRC too. Below is a brief summary of where we are now and what businesses and individuals will need to do to remain compliant and/or, begin their journey.

### Phase One of MTD

The rollout of MTD began in April 2019. This first phase predominantly affected VAT-registered businesses with a taxable turnover of over £85,000 and, all businesses registering for VAT after this date, no matter what their taxable turnover. The biggest change to these businesses was the conversion of their business accounting records from paper to digital format; hence the name – Making Tax Digital.

Affected businesses had to adapt so that future VAT Returns could be submitted digitally via MTD-compliant software. Initially, the thought of having additional work to do, additional hoops to jump through and extra costs to cover too; well, the changes were not welcome news to small and medium sized businesses. However, with the benefit of hindsight, business owners now realise that there are advantages to maintaining records in this way, and I finish this article describing some of those benefits.

### Phase Two of MTD

With effect from 1 April 2022, Phase Two of the MTD rollout will see all remaining VAT-registered businesses having to adopt this new way of working. The businesses which will be affected are those VAT registered businesses with a taxable turnover under £85,000 and which have therefore, voluntarily registered for VAT.

All VAT-registered businesses that have not yet registered for MTD, will need to register and they will need to become MTD-compliant from the first day of their VAT quarter, which starts on or after 1 April 2022. To understand how to register for MTD and how to transition their accounting records to a digital form; businesses should speak with their Accountant.

## MTD and Corporation Tax

The process for filing Corporation Tax Returns is also changing. HMRC have been consulting on the design of MTD for Corporation Tax, with the aim of effecting its implementation from 1 April 2026 at the earliest with more detailed proposals to follow.

Similarly to the new processes introduced for VAT-registered businesses, MTD for Corporation Tax will mean that corporate taxpayers will need to keep digital accounting records and file their Corporate Tax Returns via MTD-compliant software.

It is expected that each quarter, businesses will need to submit a summary of their income and expenses, categorised in terms of the expenditure or income type etc. Then, annually, as is currently the case, businesses will need to submit a Corporation Tax Return, a Corporation Tax Computation, and a set of iXBRL accounts via their MTD-compliant software.

## MTD and Income Tax

The final stage of the MTD rollout will affect Income Taxpayers. With effect from 6 April 2024, Making Tax Digital will be introduced for Income Tax. This means that unincorporated businesses and landlords with a turnover of £10,000 or more, will need to submit their Income Tax Returns via MTD-compliant software.

The current proposal is that individuals will need to maintain their accounting records using MTD-compliant software and on a quarterly basis, they will need to file a 'summary' with HMRC. The 'summary' will summarise income and expenses, but it is not expected that the summary will include the 'usual' accounting or tax adjustments that are currently done as part of the yearend accounts or tax process.

Then, on an annual basis, the business will need to complete an end of period statement which is akin to the current tax return, and which will include these yearend accounting and tax adjustments. Again, this end of period statement will need to be submitted via MTD-compliant software.

## Benefits of MTD

Reports from businesses and individuals who have already implemented MTD are generally positive. Despite the additional time and effort required to implement new MTD-compliant systems, digital quarterly reporting has many benefits and businesses would be well advised to embrace the change. For example, under MTD management information will be significantly more up to date and far more accessible, meaning that passing data to Accountants, Bankers and HMRC etc., is far simpler. No more paper records means that businesses can be run much more remotely, and we now know the advantages that remote working can bring. In addition, paper records do not need to be kept, so business owners can have their garages and lofts back. But the biggest advantage by far is that having up to date management information will also allow business owners to run their business in a far more sophisticated way, especially because most of the MTD-compliant software have 'add-ons' which can provide real business insights which can be of great benefit.



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If you have not yet adopted MTD, but need to, my advice is that you should speak to a professional and take the opportunity not only to become compliant with the latest regulations but go one further; take the opportunity to implement new systems and processes which will deliver real, positive benefits for the future.

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