



Making Tax Digital – the Next Steps



Richard Alecock
Associate

01638 712267

richardalecock@whitingandpartners.co.uk

In this fifth edition of our Making Tax Digital Newsletter we look in detail at the next steps of the continuing MTD programme.

Currently, all VAT-registered businesses with a taxable turnover above the VAT threshold of £85,000 follow the MTD rules by keeping digital records and submitting their VAT returns using approved software.

The next stages have been set for HM Revenue & Customs's drive to turn the UK's tax administration into one of the

most digitally advanced in the world, improving efficiency, effectiveness, ease of compliance, and embracing other taxes.

This time next year, VAT-registered businesses not currently signed up to MTD with a taxable turnover below £85,000 will be required to follow the MTD rules from their first VAT return on or after April 2022.

A year later, self-employed and landlords with annual business or property income above £10,000 will need to follow Income Tax rules for MTD from their accounting period starting on or after April 6, 2023.

Further ahead HMRC has published a consultation on the future design of MTD for Corporation Tax probably by 2026.

With all that in mind, we recommend getting ahead of the game by acting now and selecting the right software, often Cloud, and boosting your efficiencies.

We can help to make transition painless – so let's start now.

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Business Advisers

MTD for Income Tax – Where are we Now?



Nick Edgley
Associate

01353 662595

nickedgley@whitingandpartners.co.uk

Since George Osborne announced the ‘death of the tax return’ in 2015 the government has been exploring ways to introduce the MTD system of quarterly reporting, that some VAT-registered businesses already undertake, to income tax.

This was placed on the back burner for a few years, but the government has now confirmed that from April 2023 MTD for Income Tax Self-Assessment, MTD ITSA, will be introduced. This is happening and it’s just two years away. If you are affected, then it is important to be ready before April 2023.

The underlying theme of MTD ITSA is digital record keeping and quarterly reporting for Sole Traders, Landlords and

Partnerships. It will apply equally to UK residents and non-residents. If you are an individual with any of these sources and your combined gross income from these exceeds £10,000, then you will be affected by the changes. Trusts and estates are exempt from MTD ITSA.

The quarterly reports will have to be made via MTD enabled software, although it is expected HM Revenue & Customs will provide some free tax software and access. Separate reports are required for each MTD income source, so if you have more than one source you are likely to have to make multiple reports. You could also have to make reports more frequently than quarterly, depending on your accounting year end, VAT and property ownership.

HMRC will expect digital records to include the amount, date and category of each transaction. A summary of the paper records will not be acceptable as digital records but it has confirmed that spreadsheets will be accepted as digital record keeping for now.

As well as the four quarterly reports, those caught-up will also have to submit an end-of-period statement, a fifth report. This

is expected to be in addition to the tax return reporting all other income sources.

Our advice is to start preparing now and consider the following:

- To make identifying transactions easier separate bank accounts for business/ rental income.
- Many software packages will take transactions from a bank feed to reduce the work required.
- Consider how you keep your records. If these are all manual and updated once a year, how will you change this to updating at least quarterly? Will a spreadsheet suffice or may you require software?
- Is this reporting you will undertake or will you require us to do this for you?
- Would you be interested in joining a pilot scheme to ensure you are ready?

It’s a minefield to navigate. To ensure you are ready for this before April 2023, we are here to help you ensure that you meet your responsibilities under MTD ITSA. Don’t hesitate to call your Whiting & Partners contact.

New VAT Penalty Regime



Emily Haines

01284 752313

emilyhaines@whitingandpartners.co.uk

HM Revenue & Customs has announced a new penalty regime affecting VAT tax payers for accounting periods beginning

on or after April, 2022 and for MTD-for-Income Tax from April 6, 2023.

The new points-based penalty regime takes in regular submission obligations. Each time a taxpayer misses a submission deadline, a penalty point is incurred. Points will accrue separately for VAT and Income Tax. Taxpayers will be allowed to build-up so many points depending on the frequency of submissions without incurring a penalty. When the points threshold is reached a fixed penalty of £200 will be issued.

HMRC will also align the payment penalty regime across VAT and Income Tax. A penalty will not be issued if payment is made or a time-to-pay arrangement is agreed within 15 days of the payment date. Between 16 - 30 days a penalty of 2% will be levied, after 30 days the penalty will 4%

HMRC will apply a ‘light touch’ approach in the first year allowing taxpayers 30-days to make contact before a penalty is issued.

Future in Cloud



Stephen Malkin
Associate

01553 774745

stephenmalkin@whitingandpartners.co.uk

This time next year, April 2022, all VAT-registered businesses will be required to keep their accounting records in a digital format and file their VAT Returns using software.

At the moment this requirement is only for businesses whose turnover exceeds the VAT threshold of £85,000 but this

includes all VAT-registered businesses from April 2022.

It is becoming increasingly obvious that the need to stay on top of record keeping will be an imperative part of running your business. Cloud accounting packages including Xero, Quick Books Online and Sage Business Cloud already host huge numbers of businesses and allow them to access up-to-date accounting information at any time, from any device and anywhere with an internet connection. This fits in well with the busy lifestyles of business owners in our increasingly digital world. As well as current information, at the click of a button, there are many other time-saving functions like on-line invoicing processes, credit control, bank feeds, stock maintenance and payroll that could be used on the Cloud platforms.

So, as well as potentially increasing performance in the business by using a Cloud-based system, it could really help make the transition to digital record keeping a lot less stressful!

The Cloud also allows your accountants to access both securely and remotely precisely the same data as you, so they can always be on hand to offer support, check your accounts at any point and assist you in extracting the necessary information required to be submitted online to HM Revenue & Customs.

All Whiting & Partner offices have Cloud specialists so please speak to your usual contact who will be more than happy to discuss your requirements in more detail.

Digital Links



Scott Butcher

01284 752313

scottbutcher@whitingandpartners.co.uk

From April this year HM Revenue & Customs requires businesses to digitally link all parts of their 'functional compatible software'. That is something of a mouthful so, in simple English, HMRC defines a digital link as 'an electronic or digital transfer, or exchange of data, between software programs, products or applications.'

Until April 1, 2021 manual links are allowed as part of a soft-landing period for businesses to update their systems. These modified systems will need to be in place for businesses to have digital-only links for their first VAT returns beginning on or after All Fools Day – no joke!

This will eliminate the need for physical intervention like manually inserting information from other software or copy-and-pasting between software programs.

HMRC have confirmed that spreadsheets will still be allowed from April but all calculations between spreadsheets will need to be linked using formulae. Businesses will also need bridging software to file VAT returns prepared from those spreadsheets.

The 'tax person', being politically correct, recognises that at certain points in

preparing your VAT Return specific calculations may be required. These may include partial exemption or a capital goods scheme calculation and therefore may require reckonings beyond the scope of your software program. These can be entered manually into your businesses MTD compliant software.

If you believe your business may need additional time to set up systems with digital links only, then you can apply to HMRC for this and should do so before the end of your soft-landing period.

If you are unsure whether your system now meets the requirements of Making Tax Digital please speak to your Whiting & Partners contact.

Deferral of VAT Payments



Millie Hunt

01480 468931

milliehunt@whitingandpartners.co.uk

When Covid-19 struck a year ago, HM Revenue & Customs allowed businesses with a VAT liability falling due between March 20 and June 30, 2020, to defer their payments. Over half a million businesses benefitted from the measure, deferring more than £28b in VAT payments.

Originally, businesses were required to pay the deferred VAT in full on or before March 31 this year. However, as part of the Winter Economy Plan announced in September last year, businesses are able to opt into the VAT Deferral Scheme from February 2021 up to and including June 21, 2021.

The Scheme allows businesses to:

- Pay deferred VAT in instalments without any interest.
- Select the number of instalments from 2 to 11 equal monthly payments.

All payments must be made by March 31, 2022.

To use this Scheme, your business must:

- Have outstanding deferred VAT to pay.
- Be up-to-date with VAT returns.
- Be able to pay the deferred VAT by Direct Debit.

Specific steps are required before opting into the scheme:

- Creation of a Government Gateway account.
- Submission of any outstanding VAT Returns from the last four years.
- Correct errors on your VAT Returns as soon as possible – any corrections received after December 31, 2020, may not show in your deferred VAT balance.
- Make sure you are aware of how much you owe, including the amount you originally deferred and how much you may have already paid.
- Consider the number of equal instalments you'll need, from 2 to 11 months.

Note that you may be charged interest or penalties could follow if you did not settle the deferred VAT, in full, by March 31, 2021, and have not opted into the new payment scheme by June 21, 2021. Extra help must also be agreed with HMRC by June 30, 2021.

Offices throughout East Anglia

Bury St Edmunds Office

Greenwood House, Skyliner Way,
Bury St. Edmunds, Suffolk. IP32 7GY
Telephone: 01284 752313
bury@whitingandpartners.co.uk

Ely Office

George Court, Bartholomew's Walk,
Ely, Cambs. CB7 4JW
Telephone: 01353 662595
ely@whitingandpartners.co.uk

Kings Lynn Office

Norfolk House, Hamlin Way,
Hardwick Narrows, Kings Lynn,
Norfolk. PE30 4NG
Telephone: 01553 774745
kingslynn@whitingandpartners.co.uk

March Office

The Old School House, Dartford Road,
March, Cambs. PE15 8AE
Telephone: 01354 652304
march@whitingandpartners.co.uk

Mildenhall Office

Willow House, 46 St. Andrews Street,
Mildenhall, Suffolk. IP28 7HB
Telephone: 01638 712267
mildenhall@whitingandpartners.co.uk

Peterborough Office

Eco Innovation Centre, Peters Court,
City Rd, Peterborough, Cambs. PE1 1SA
Telephone: 01733 564082
peterborough@whitingandpartners.co.uk

Ramsey Office

108 High Street, Ramsey,
Huntingdon, Cambs. PE26 1BS
Telephone: 01487 812441
ramsey@whitingandpartners.co.uk

St Ives Office

Raleigh House,
14C Compass Point Business Park,
Stocks Bridge Way,
St Ives, Cambs. PE27 5JL
Telephone: 01480 468931
stives@whitingandpartners.co.uk

St Neots Office

First Floor, Phoenix House,
2 Phoenix Park, Eaton Socon,
St Neots, Cambs. PE19 8EP
Telephone: 01480 470755
stneots@whitingandpartners.co.uk

Wisbech Office

12 & 13 The Crescent, Wisbech,
Cambs. PE13 1EH
Telephone: 01945 584113
wisbech@whitingandpartners.co.uk

Bank Feed

A bank feed is a secure, digital link between your bank account and Cloud accounting software which automatically imports transactions on a daily basis. This removes the need to enter transactions manually into the software, it reduces the time spent preparing VAT returns and gives more time to focus on primary business needs and demands.

Bank feeds also reduce the risk of errors which are usually caused by the manual

input of data. With the incorporation of bank rules, where the software automatically recognises when to analyse transactions, the process of reconciling bank accounts will run seamlessly and more smoothly.

If you want to know more about setting up a bank feed within your Cloud accounting software, please get in touch with your usual Whiting & Partners contact.