



Making Tax Digital – the Next Steps



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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 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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MTD for Income Tax – Where are we Now?



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Since George Osborne announced the ‘death of the tax return’ in 2015 the government has been exploring ways to introduce the MTD regime 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 owning property.

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 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 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 contact your Whiting & Partners contact.

Future in Cloud



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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

it 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 on-line 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



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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 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 to be 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 on whether your system now meets the requirements of Making Tax Digital please speak to your Whiting & Partners contact.

Deferral of VAT Payments



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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.

Please note that you may be charged Interest or penalties could follow if you do 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.

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