

MAKING TAX DIGITAL

MJD Accountancy Services
MJ DERBYSHIRE

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**Your guide to
Making
Tax
Digital**





Making Tax Digital (“MTD”) is the term used to describe the requirement to maintain tax records in a digital format and submit these records to H M Revenue & Customs (“HMRC”) on a regular basis.

MTD was introduced in April 2019 on a limited basis [initially for those who were VAT registered only], but now its application is being expanded.

Below we cover:

Who MTD applies to

Exemptions from MTD

Reporting requirements

Penalties

How we can help?

Who MTD
applies to

Splinters Ltd
Carpentry, Joinery & Woodturning

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NO
PARKING

Splinters Ltd
Carpentry & Joinery

01637 877131
07971 114060

DP14 DBZ

Who does MTD apply to?

From April 2019, MTD was compulsory for VAT registered entities/individuals with turnover in excess of the annual VAT registered threshold [£85,000]

From April 2022, MTD was extended to all VAT registered entities/individuals regardless of turnover.

From April 2026, MTD will be extended to all taxpayers who are self-employed and/or collect income from property, where the combined total from those sources exceeds £50,000.

From April 2027, the threshold will be reduced to £30,000.

Partnerships and other entities will be subject to MTD at a later date.



A person wearing a red and blue plaid shirt is seated at a wooden table in a meeting. Their hands are raised and gesturing, with the right hand held palm-up and the left hand held palm-down. On the table in front of them are a laptop, an open notebook, and a smartphone. In the background, another person is partially visible, also gesturing. A large red semi-circular overlay is positioned on the left side of the image, containing the text "Exemptions from MTD".

Exemptions from MTD

Exemptions

Income exemption

If total income from self-employment and property is less than £10,000.

Digital exemption

Entities/individuals can apply to be exempted from MTD if any of the following apply:

- It is not reasonably practicable for them to use digital tools to keep their business records or submit quarterly returns due to age, disability, remoteness of location or any other reason [often referred to as 'digital exclusion'].
- They are subject to an insolvency procedure.
- The business is run entirely by practising members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records.

Other exemptions

The following are also currently exempt from MTD:

- Non-resident companies
- Trustees, executors and administrators
- Foreign businesses of non-UK domiciled individuals.

A close-up, shallow depth-of-field photograph of a person's hands typing on a laptop keyboard. The person is wearing a grey sweater. The background is blurred, showing another laptop screen and office equipment. A red semi-circular graphic element is overlaid on the left side of the image, containing the text.

Reporting requirements

Quarterly updates

MTD requires quarterly reporting to HMRC of income and expenditure, including the data that comprises these items.

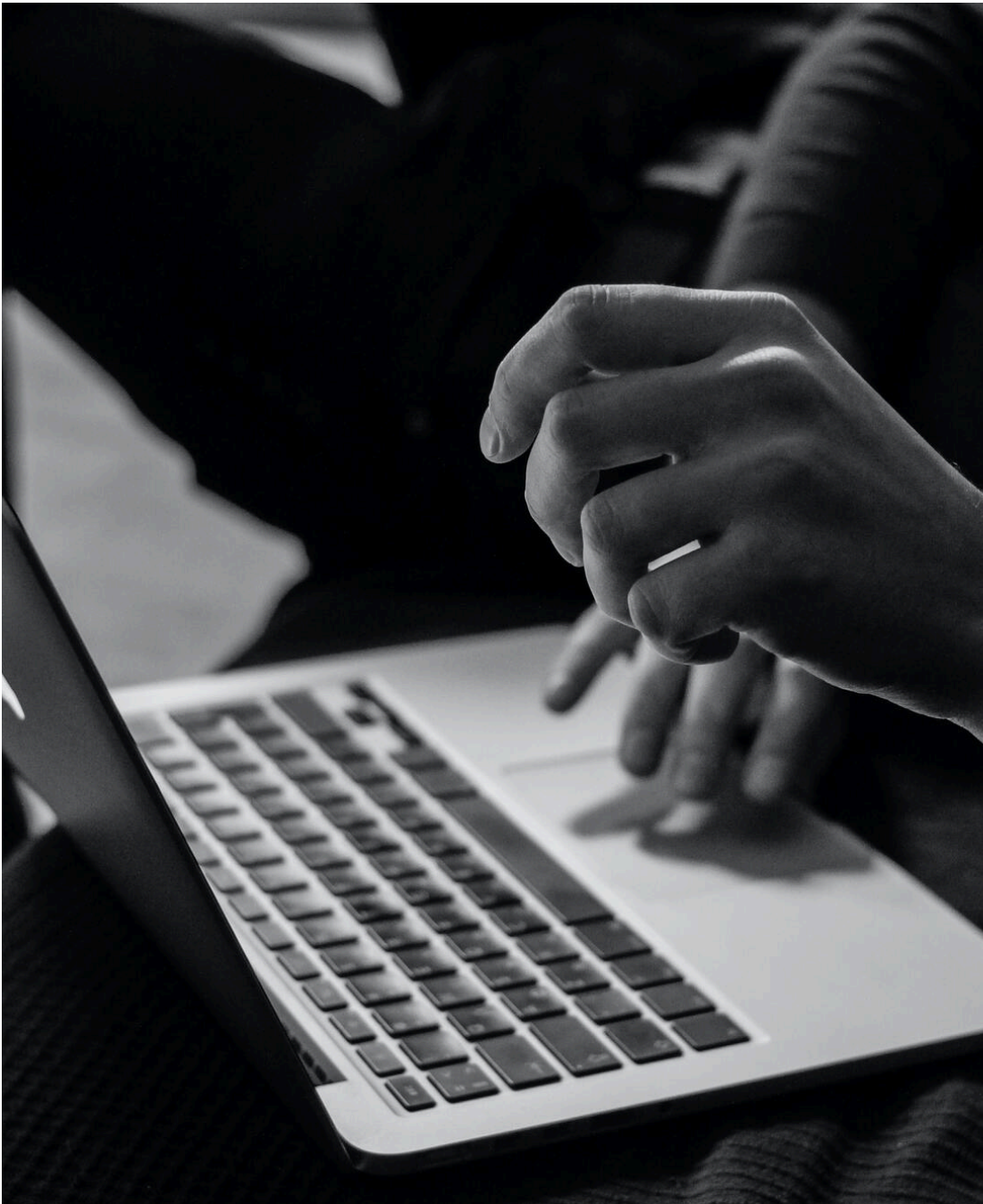
Reporting deadlines for MTD for VAT align to the VAT quarters, with a filing deadline of one month and seven days from the end of the VAT quarter.

Reporting deadlines for MTD for income tax are as follows:

	Period covered	Filing deadline
Quarterly update 1	6 April to 5 July	5 August
Quarterly update 2	6 July to 5 October	5 November
Quarterly update 3	6 October to 5 January	5 February
Quarterly update 4	6 January to 5 April	5 May

HMRC's plan is to also introduce standard calendar quarter reporting as an alternative, although it is currently not available as an option.

Quarterly update 1	1 April to 30 June	5 August
Quarterly update 2	1 July to 30 September	5 November
Quarterly update 3	1 October to 31 December	5 February
Quarterly update 4	1 January to 31 March	5 May



Annual updates for income tax returns

MTD quarterly income tax returns are not equivalent to traditional income tax returns, therefore an end of year return will also need to be submitted which reconciles the quarterly submissions to the annual taxable figures. The annual update will also include any income and tax reliefs not reportable under MTD.

Therefore, under MTD, instead of one annual submission, there will be five submissions.

Software

MTD reporting must be done using software that is MTD compliant.

There are various options in this respect, ranging from spreadsheet-based systems to comprehensive management accounting packages.

Various of these software packages are cloud based too.

A person is shown from the side, sitting at a desk and typing on a laptop. The desk is cluttered with a white coffee cup on a saucer, a pair of glasses, and some papers. The background features a large window with a view of a body of water, suggesting an office or study environment. A red semi-circular graphic is overlaid on the left side of the image, containing the text.

**Penalties for
late
submission
and payment**

A new system of points-based penalties is being introduced for all MTD submissions. This system consists of a combination of fixed rate and tax geared penalties.

For every submission deadline missed, you receive one point. The number of points required to generate a penalty varies depending upon the type of report [monthly; quarterly; annual]. Points get cleared after two years.

Penalties for late payment can be avoided if a 'time to pay' arrangement has been agreed with HMRC.

There will be an appeals procedure.

A woman with glasses and a colorful striped shirt is speaking to a group of people in a meeting. She is holding a pink highlighter and gesturing with her hands. The background is a red wall with a desk and a plant. A red semi-circle graphic is overlaid on the left side of the image.

**How can we
help?**

**There are various ways
that we can help.**

Helping you prepare for MTD

Our aim is always to understand our clients' businesses and needs. We can help clients implement the changes necessary to deal with the rigors of MTD, including recommending the appropriate software.

Assisting you to maintain MTD compliant records

For those who do not have the resources necessary to deal with MTD, we can provide training and book-keeping support to help you fulfil your obligations.

Reporting

We are already significantly involved in reporting for clients. We can extend these services to include quarterly MTD reporting and annual reporting.

Support

Whatever your needs, we are here to support you in fulfilling your MTD obligations.

A man with reddish hair and glasses, wearing a light blue button-down shirt over a grey t-shirt, is looking at a laptop. A woman with dark curly hair and glasses, wearing a red button-down shirt, is sitting next to him, resting her chin on her hand and looking at the laptop. They are in a modern office with large windows in the background. A red semi-circular graphic is overlaid on the left side of the image.

A final word

This publication is designed as an outline guide only. There is a good reason for this – there are any number of instances where:

- a specific tax or transaction cannot be considered in isolation because it overlaps with other areas of tax;
- there are a myriad of interrelated rules that can prevent tax relief from being obtained or can create unexpected tax liabilities.

Whilst by no means an exhaustive list, here are just a few of the areas where tax problems can arise:

- transactions involving shares in unlisted companies.
- parents passing income generating assets to minor children.
- transactions caught by H M Revenue & Custom's General Anti-Abuse Rule (GAAR) or Targeted Anti-Abuse Rule (TAAR).
- transactions caught by the Settlement Provisions (where value is given up in order that another person may benefit from that value).
- Value Shifting (diminishing the value of an asset such that another person's asset gains in value).
- directly or indirectly passing value to employees.
- transactions between connected persons.

The difficulty is that the legislation is drawn up so as to attempt to prevent its misuse – unfortunately that often results in long and complex legislation which creates restrictions not originally intended or foreseen when the legislation was drafted.



We are here to help you navigate through these complex rules in order to help you achieve your desired outcome.”

Thank you for reading

Guide to Making Tax Digital

