

## MAKING TAX DIGITAL – WHAT IT MEANS TO YOU

You may or may not be aware of HMRC's plans to radically transform the tax online filing system and therefore the way that you will report your business profits to HMRC is changing and affects **accounting periods commencing on or after 06.04.18**

### What's Changing

- From April 2017 the cash reporting rules change for the self - employed and for property landlords.
- From April 2018 to April 2019 the self - assessment tax return is being replaced by five new reporting obligations made during and after the tax year.
- Phase 1 of MTD applies from April 2018: it affects sole traders, partnerships and property landlords with taxable income in excess of the VAT threshold whose accounting period starts on/after 06.04.18
- Phase 2 of MTD applies from April 2019: it affects sole traders, partnerships and property landlords with taxable income in excess of £10,000 who are not by that stage already filing under MTD.
- Phase 3 of MTD applies from April 2020 for businesses paying Corporation tax.
- Your first tax return under the new system is due in the fourth month of your accounting period you will then have to file with HMRC every three months.

Detail on more precise filing dates has not yet been confirmed.

**For all of our sole trader, partnership and landlord clients with a year end of 5.04.17 we are recommending that from this tax year onwards you change your year end to 31<sup>st</sup> March which will give you an extra year before making tax digital affects you.**

### What equipment (hardware) and software or Apps do you need?

You will need a reliable internet connection and a facility to store your electronic data. If you are not already using software for your record keeping/ accounting, you will need to learn how to use a spread sheet, or some type of accounting software or App.

Your requirements depend on you, how you feel about technology and the nature of your business as every business is different: As your accountants we can deal with this for you. You can delegate all your bookkeeping and online filing to us or a bookkeeper if you feel you cannot cope with the new system or alternatively we can train you in the use of the software so you can keep the records yourself.

Because it is unclear at this stage exactly how the HMRC system would deal with a variety of Excel spread sheets we recommend that you use a cloud based accounting system such as Kashflow, Xero or Sage One which are designed to cope with HMRC requirements.

SARGEANT PARTNERSHIP  
5 WHITE OAK SQUARE, LONDON ROAD  
SWANLEY, KENT BR8 7AG

**CHARTERED ACCOUNTANTS  
AND STATUTORY AUDITORS**

T: 01322 614681 F: 01322 613290  
E: [INFO@SARGEANTPARTNERSHIP.COM](mailto:INFO@SARGEANTPARTNERSHIP.COM)  
W: [WWW.SARGEANTPARTNERSHIP.COM](http://WWW.SARGEANTPARTNERSHIP.COM)

PARTNERS: G SARGEANT FCA, J BROWN FCCA, E BEAL FCA MAAT  
TAX ASSOCIATE: I GREGORY  
VAT REGISTRATION NO. 474 7366 12



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### Digital exclusion opt out

You will be excluded from the electronic bookkeeping and filing elements of MTD if you are unable to handle it, due to age, disability or location, or if it is contrary to your religion.

### An example of the five tax returns per year are as follows:

The first tax year to be affected is 2018/19. This runs from 6 April 2018 to 5 April 2019.

If you have a 5<sup>th</sup> April year end your:

1. First report will be due in July 2018.
2. Second report will be due in Oct 2018
3. Third report will be due in Jan 2019
4. Fourth report will be due in April 2019
5. Fifth and final year-end report deadline: probably January 2020 in the first year.
6. Even though the filings will be required as above, don't forget that you will still have to file your self-assessment return for the 2017/18 tax year by 31 Jan 2019 too.

You will be able to change your accounting period and quarters. The end of year report then becomes due at the earlier of 10 months following the year end and 31 January.

**However before you change your accounting date we should say that HMRC are still looking at the tax effect of any changes to accounting periods. More detail is expected later this year.**

### If you currently use the cash basis (or would like to)

From April 2017:

- The entry threshold for the cash basis increases to £150,000, and the exit threshold to £300,000.
- The current general disallowance of capital expenditure will be replaced by a more specific disallowance for certain assets (including those not used up within 20 years).

### If you are a landlord with receipts under £150,000

From April 2017

- The cash basis will be the default method for unincorporated businesses.
- The accruals basis will only be used if:
  - Receipts are over £150,000,
  - You elect to use it instead, or
  - You are a company, an LLP, a trust or a partnership with corporate members.



### Tax payments

- You will be allowed to voluntarily pay your taxes as you go: the detail is still being decided.
- Eventually it is likely that you will be required to make four payments per year on account of tax.

### Penalties

- There will be no late filing penalties for at least a year while the new system beds in. After that you will suffer penalties if you file your returns late.
- Penalties already apply for errors in returns or documents.
- Late payment interest already applies.

### Individuals

Individuals in employment and pensioners will not have to use the digital service unless they have secondary incomes of more than £10,000 per year from self-employment or property.

### HMRC Trial

HMRC will be inviting a number of businesses to enter into a trial of Making Tax Digital. If you are invited to take part please can you let us know as it will affect the accounts and tax service we need to give you this year.

Elaine Beal and David Martin will be contacting those clients who will be affected first individually over the next few weeks to go through in more what it means to them, we will also be issuing more information as the situation develops. If you have any questions in the meantime please do not hesitate to contact either of us.