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Making Tax Digital – Your questions answered

What is it?

In brief, under its Making Tax Digital (MTD) project, HMRC aims to join up its internal systems and so create one digital tax account for each taxpayer for all their different taxes. One controversial part of MTD is the plan to make most businesses and landlords send in summaries of their income and expenditure on a quarterly basis, and potentially pay any tax due, rather than just once a year.

When will it be introduced?

HMRC has confirmed that the start of the phased introduction of MTD will be: April 2018 for income tax, April 2019 for VAT and April 2020 for corporation tax. However, for partnerships with a turnover in excess of £10m, MTD will be deferred until 2020.

Which clients are affected?

All self-employed businesses and landlords with a turnover over a certain threshold will have to adopt MTD. Under the original proposals, the turnover threshold was set at £10,000 but HMRC has said that following the consultation responses, this figure may change. Individuals in employment and pensioners will also be exempt, unless they have secondary incomes of more than the turnover threshold from self-employment or property. So anyone in receipt of dividends of more than £10,000 is likely to have to adopt MTD.

Responses to HMRC consultations

Some of the key decisions in HMRC's responses are:

- businesses can continue to use spreadsheets to record receipts and expenditure but this will need to be linked to compatible software to automatically generate and send their updates to HMRC - this is a slight concession as it was originally proposed that all businesses would have to use compatible accounting software
- businesses eligible for three line accounts (currently those with a turnover under the VAT registration threshold which is presently £83,000) will be able to submit a quarterly update with only three lines of data, i.e. income, expenses and profit
- businesses who genuinely cannot get online because of their individual circumstances such as disability or remote geographical location, will be exempted from MTD
- free software will be available to businesses with straightforward affairs
- activity at the end of the year must be concluded and sent either by ten months after the last day of the period of account or 31 January, whichever is sooner
- charities will not need to keep digital records
- the cash basis of accounting will be allowed for businesses and landlords with a turnover up to £150,000.

Making Tax Digital and Cloud Accounting

HMRC's Making Tax Digital online system is intended to be more transparent while removing some of the inaccuracies and inefficiencies that hinder paper tax filings.

This is not the same as lodging a return online. Most UK taxpayers have already done that for years. *Making tax digital* has three important distinctions:

1. Bank transactions and other financial information will flow automatically into people's digital tax account, whether or not they declare that income or those expenses.
2. Submissions will need to be made at least once per quarter.
3. Submissions will need to be filed using some form of software (you'll need to use an app that is integrated to your digital tax account).

However, a lot of desktop software currently doesn't have the capability to file tax online and a lot of development will be needed including all the security issues with dealing with people's bank accounts and the forthcoming introduction of the new General Data Protection Regulation (GDPR), which will apply in the UK from 25 May 2018.

The Economic Affairs Committee of the House of Lords have been informed by the Administrative Burdens Advisory Board within HMRC, that small businesses could face a wait of 10 to 12 years before they see a return from investing in becoming compliant with Making Tax Digital. In fact some institutions are predicting a 25% increase in small business accounting costs from having to comply with Making Tax Digital

However, it needn't be this way and in fact you can use Making Tax Digital as an incentive to bring your business into the 21st century by adopting cloud accounting. By using an industry-leading cloud accounting system you get instant access to the information you really need in real time with all the security features built in. So you will be in complete control of your numbers and your business making it easier for you to *make the right decisions.* And of course it will enable you to be fully compliant with Making Tax Digital.

The Lowdown on Lifetime ISAs (LISA)

Save up to £4,000 each year, and receive a government bonus of 25% - that's a bonus of up to £1,000 a year. You can use some or all of the money to buy your first home, or keep it until your 60 – it's up to you.

Open a Lifetime ISA account between the ages of 18 0r 40, and any savings you put in before your 50th birthday will receive an added 25% bonus from the government

Lifetime ISA Accounts available from April 2017

There is no maximum monthly contribution – you can save as much or as little as you like up to £4,000 a year

USE IT TO SAVE FOR A FIRST HOME

Your savings and the bonus can be used towards a deposit on a first home worth up to £450,000 across the country. Accounts limited to one per person rather than one per home, so two first time buyers can both receive a bonus when buying together.

If you have a Help to Buy ISA you can transfer those savings into the Lifetime ISA in 2017, or continue saving into both – but you'll only be able to use the bonus from one to buy a house.

USE IT TO SAVE FOR RETIREMENT

After your 60th birthday you can take out all the savings tax free.

You can withdraw the money any time before you turn 60 but you will lose the government bonus (and any interest or growth on this). You will also have to pay a 5% charge.

ISAs IN GENERAL

The total amount you can save each year into all ISAs will also increase from £15,240 to £20,000 from April 2017

Planning any redundancies? – Big tax change coming

Draft legislation published ahead of next month's Budget shows that what are known as Payments in Lieu of Notice (PILON) will no longer be exempted from tax up to £30,000 after April 2018.

At present, redundancy payments are made up of a number elements including compensation for losing your job and PILON. Up to now, the first £30,000 of the PILON element has been exempted from income tax where the payment was not a contractual right

Changes proposed in the draft legislation will remove the exemption for all PILON payments apart from where they relate to bonuses that the employee would have received if they had kept their job. Employers will also have to pay National Insurance contributions on PILON amounts over £30,000 for the first time.

The difference between a non-contractual tax-free PILON, where the employee was entitled to a £30,000 exemption, and a contractual PILON, which attracted tax and NICs, was long thought to be unfair. Employers should start preparing for these changes now, particularly if they are envisaging reorganizations or re-structuring that could involve termination by PILONs and redundancy.

If this is going to effect your business please call us to arrange a meeting to discuss.