



LEWIS BROWNLEE

CHARTERED ACCOUNTANTS & TAX ADVISERS

MAKING TAX DIGITAL FOR SELF-ASSESSMENT



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WHAT IS MTD?

Making Tax Digital (MTD) is a key part of the Government's plans to make it easier for individuals and business to get their tax right and keep on top of their financial affairs.

It is a fundamental change to the way the tax system works, transforming the process of tax administration.

The tax system will become:

- More effective
- More efficient
- Easier for taxpayers to get their taxes right

Over recent years people have begun to do more and more things online, and this has become even more relevant over the last year with the restrictions in place due to COVID-19. MTD involves taking the next step to keeping your business records digitally. It will help taxpayers and businesses get their taxes right and keep their records correct.

Making Tax Digital for Income tax is a new way of reporting earnings to HMRC. It will involve using software to keep digital records and send Income Tax updates to HMRC instead of filing a Self-Assessment Tax Return.

MTD can make things much simpler for many businesses. Digital software platforms enable you to see a clear view of your businesses day-to-day financial situation. They can streamline tedious and often outdated processes and avoid the duplication of work that we often see in manual systems.

Ultimately, MTD will give you more control over your business and finances.



REQUIREMENTS

1. Keep digital business records

You will need to keep digital records of all your business income and expenses when it comes from self-employment and property

2. Get compatible software

You will need to keep your records in an appropriate format using software which then sends the financial data to HMRC

3. Sign up

You can sign up now for your current or next accounting period.

This will be on the GOV.UK website: <https://www.gov.uk/guidance/sign-up-your-business-for-making-tax-digital-for-income-tax>

You will need the following details to do so:

- Business name
- Email address
- National Insurance number
- Accounting period
- Accounting type such as cash or standard accounting

You will also need the Government Gateway user ID and password you use when you file your Self-Assessment return. If you do not have a user ID, you can create one when you sign up.



REQUIREMENTS

4. Send business income and expenses updates

This will be summaries of your business income and expenses. You will be required to use software to summarise regular transactions on a quarterly basis and submit these to HMRC.

An example of a quarterly basis would be for the periods to 31 August, 31 November, 28 February and 31 May.

HMRC would then give you a tax estimate based on the information you have provided. This will allow you to set aside the funds needed to settle your tax liability across the year, therefore no nasty surprises when the tax falls due!

5. Finalise your business income

At the end of your accounting period, you will need to finalise your business income in a declaration. This involves confirming that the updates you sent throughout the period are correct and allows for the opportunity to make any accounting adjustments required to those figures.

6. Submit a final declaration instead of a Self-Assessment tax return

This will be done after the end of the tax year. This will involve telling HMRC about any personal income you have (such as capital gains) or about any reliefs available to you. You will then be able to view a tax calculation in your software, or by signing into your self-assessment account. You must submit your final declaration and pay the tax owed by 31 January the following year, so this remains the same as the current deadline.



IMPLEMENTATION DATES

You can choose to voluntarily follow the rules now, however you must follow the rules for your accounting period that starts on or after 6 April 2023 if your taxable turnover from your self-employed business or income from property is above £10k.

From this point you will be required to keep all business and property records in a compliant software. Any other income can be recorded by any other suitable means for now. This means that it is less than 2 years from now when the majority of businesses will need to begin to keep their records and report to HMRC in this way.

Although that may seem like a long way off there is a lot to do in that period. There are decisions that need to be made about what software to use. There will be undertaking the transition to using that software, time to train to use and be comfortable with using that software and time to ensure you are doing it correctly, before quarterly reporting to HMRC becomes live.

See some implementation date examples below:

YEAR END	APPLIES FROM	1ST QUARTERLY RETURN DATE	DUE DATE
5 APR 2024	6 APRIL 2023	5 JULY 2023	5 AUGUST 2023
30 APR 2024	1 MAY 2023	31 JULY 2023	31 AUGUST 2023
31 DEC 2024	1 JANUARY 2024	31 MARCH 2024	30 APRIL 2024
31 MAR 2025	1 APRIL 2024	30 JUNE 2024	31 JULY 2024



BENEFITS

1. More timely reporting of your financial data (no burden every January).
2. A greater understanding of your income, expenses and tax liabilities.
3. It will enable you to plan the cashflow for your tax liabilities, rather than it being a last minute shock when your tax return is prepared.
4. It is estimated that most digitally-enabled businesses can save as much as one day per week in administration time by going digital. An example of this are bank feeds which feed directly in to the software from your bank, so automatically pulling in the income and expenses from the bank account. These then only need allocating to the appropriate place, and the allocation can be automated by setting up rules within the software.
5. Being paperless and digital has environmental benefits.
6. There are also cost savings to be had through reduced costs for the storage of records or the secure destruction of confidential waste.
7. Businesses using MTD for VAT are reporting wider productivity gains and a reduction in input errors.
8. It will reduce errors and inaccurate estimations which occur as a result of keeping inadequate accounting records.
9. MTD will not result in a higher level of tax to be paid, only the way it is recorded and submitted.
10. There are no changes to the dates by which the taxes are payable.
11. Engaging with MTD and keeping good records could reduce the need by HMRC to investigate your affairs.



EXEMPTIONS

HMRC expect that most customers will be able to meet the legal obligations of MTD, but they do accept that it may not be possible for a small number to do so.

An exemption only applies if HMRC are satisfied that:

- It is not reasonably practical for you to use digital tools to keep your business records or submit your returns because of age, disability, remoteness of location or some other such reason. You can apply to HMRC for an exemption if this applies to you.
- Or if your business is run entirely by practicing members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records.

If you believe your business may be exempt from complying with MTD for any reason please do get in touch with someone at Lewis Brownlee to discuss this.

The vast majority of people will need to comply.

If any of the above reasons do apply to you however, you would need to apply to HMRC for an exemption, and this will only be granted if HMRC are satisfied that an exemption applies to you.



SUMMARY

Once signed up to Making Tax Digital for Income Tax you will need to be using software that lets you send Income Tax updates to HMRC and keep records of income and expenses. There are a variety of Cloud based softwares which will be compatible, such as Xero, Sage Business Cloud, and Quickbooks Online.

Leaving compiling your records and preparing your tax return to only one month in advance of the deadline will no longer be acceptable once we are under the MTD regime. From April 2023 figures will need to be recorded on a timely basis and sent to HMRC every 3 months.

To ensure the figures you submit to HMRC on a quarterly basis are correct, it will involve prompt submission of these figures to your accountant or tax adviser to allow them time to check over these figures and file them in advance of the deadline. It will involve being much more organised and keeping the records written up all throughout the year rather than leaving until after the period end.

For further information watch our video here: <https://youtu.be/5rnmnLWRyn0>

It is best to start these discussions now to ensure there is time to take all the steps necessary to get ready. We will not be able to assist all of our clients with this in February and March 2023, so leaving it until the deadline is not an option.

To make this as stress free and straight forward as possible, we recommend making the switch at least one year before the mandatory date.

If you are ready to start preparing for these changes, you can call us on 01243 782 423 or email cloud@lewisbrownlee.co.uk and we will be in touch.

Services Lewis Brownlee can assist you with include:

Audit & Assurance
Year-End Accounts
Cash Flow Forecasting
Management Accounts
Tax Planning & Returns
Outsourced Back Office
Payroll & Benefits-in-Kind
Virtual Finance Directors
Virtual Financial Controllers
Business Advisory & Transformation
Cloud Based Accounting & App Stacking

If you are interested in any of these services please email:
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