

How will the
Making Tax Digital
initiative affect the
way I work?

Making Tax Digital: Explained



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Agenda

Making Tax Digital

- Re-cap – what is it?
- Consultation Process

Consultation Documents

- Brief look at each document in turn
- Key points of note

Agent Access

- Latest Update

Timeline

- Upcoming dates of note

Making Tax Digital Re-cap

Digital Tax Accounts: What are they?

Background

- Announced in March 2015 Budget
- Ambitious Plan to bring tax compliance fully online
- Allowing self-serve of tax affairs
- Every Person will have a Personal Tax Account
- Every Business will have a Business Tax Account

Digital Tax Accounts: What are they?

How will they work?

Examples of what an individual will be able to do;

- View earnings
- View/Edit notice of coding
- Pay Tax or claim refund
- Report additional income/outgoings to HMRC
 - Quarterly Reporting
- Apply for certain benefits
- State Pension Forecast
- Appoint Accountant/family helpers

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Available now

Digital Tax Accounts: What are they?

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Available now

By 2017

Digital Tax Accounts: Quarterly Reporting

- Trading and property income to be reported
 - Digitally
 - Quarterly (or more frequently)
- Current consultation on what data is reported
- Main worry for the profession

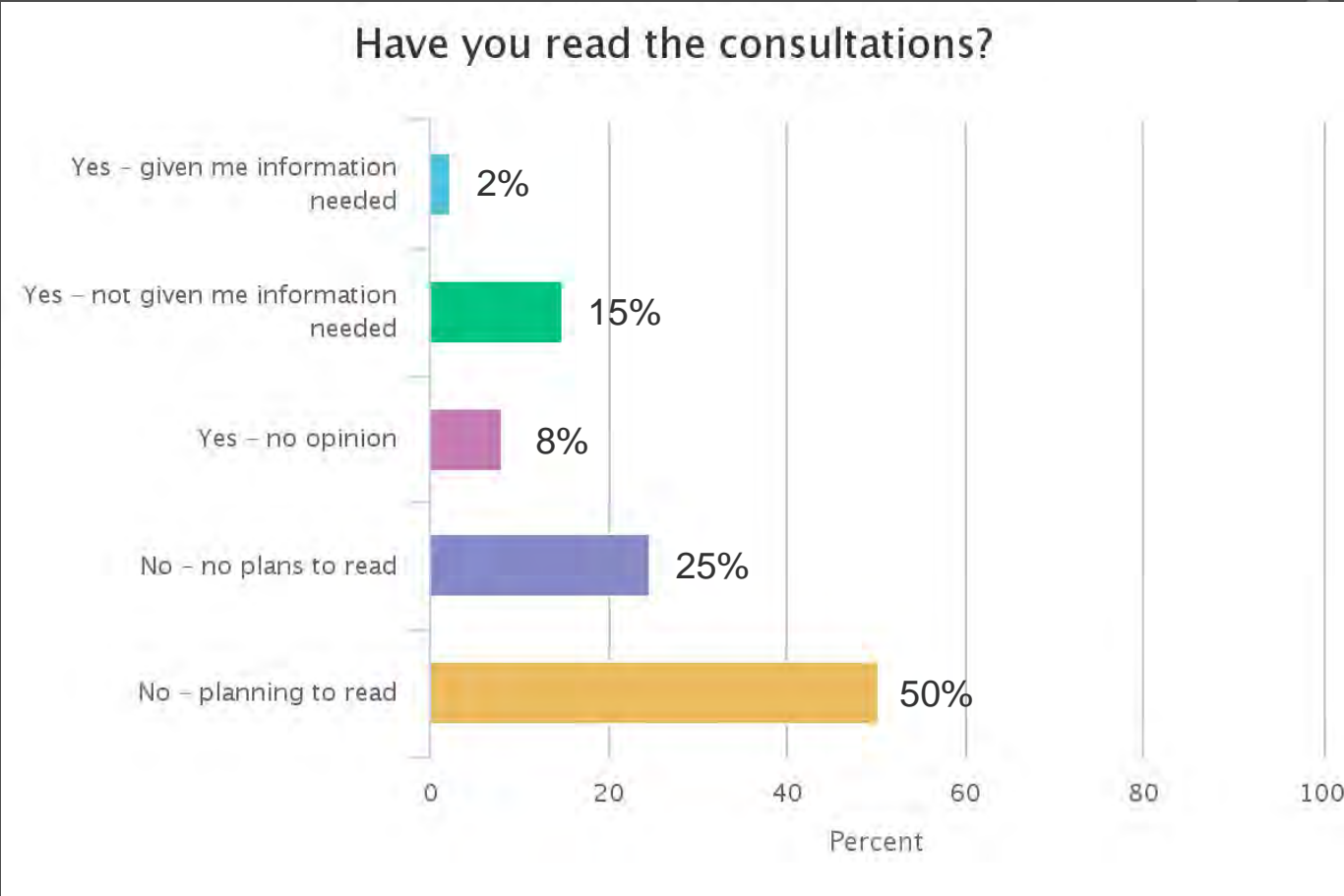
Consultation Documents

Six in total

- Bringing Business Tax into the Digital Age
- Simplifying tax for unincorporated businesses
- Cash Basis for Property Income
- Tax administration
- Voluntary Payments
- Transforming by use of third party data

Live Poll

Have you read any of the consultations?



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Making Tax Digital:

Bringing business tax into the digital age

Bringing Business Tax into the Digital Age

Largest consultation document

- Acquiring Digital Tools
- Digital Record Keeping
- Establishing Taxable Profits
- Providing HMRC with updates
- “End of Year” activity, and
- Exemptions

Acquiring Digital Tools

Extend use of software

- Free for certain businesses with straight-forward affairs
 - Definition not yet know
 - Confirmed – HMRC requirement for free software extends to unrepresented taxpayers only
 - HMRC will not offer their own software
- Extending use of software (Digital Records and updates) – for three reasons
 - Business confidence of knowing they got their tax correct and plan cash flow
 - Level playing field (reduction in the tax gap by competitors getting it wrong)
 - Reduction in the administrative burden
- HMRC to offer digital assistance to those who need it
- Software linked to Tax Account
 - This is the key area for accountants – “Agent Access” (discussed later!)

Digital Record Keeping

- Mandatory use of software to record transactions
 - For clarity, transaction data will not be submitted to HMRC
- HMRC compliance check in-built
 - Prompts and nudges
- Transaction Detail
 - Scanning and copying of receipts
 - Consultation document also specifies data fields needed for a record to be complete
 - Date of invoice/expense, type of expense, amount, payment date etc.
- Proposed expenses categories mirror current SA103F

Establishing Taxable Profits

- Adoption of Cash Basis would mean quarterly update would be the taxable profit
- If using accruals;
 - Adjustments made at end of period
 - Or in-year, if preferred
- Allowances and reliefs
 - Flexibility to use in year
 - E.g. capital allowance adjustments can be made in a quarter, even if the formal claim is made at year end
- Loss Relief
 - Can be used, once established
- Partnerships
 - Partnership update – updates all partners' digital tax accounts
- Joint Property
 - One owner updates all tax accounts

Providing Updates to HMRC

- Quarters based on accounting dates
 - Starting with first accounting period after 5 April 2018 (proposed)
 - e.g. accounts normally to 31 December, then quarterly updates commence 1 January 2019
 - Another proposal is this sets the quarter dates, and updates start for the first quarter post April 2018
 - e.g. accounting date is 31 December, so quarter dates are 31 Mar, 30 June, 30 Sept, 31 Dec
 - First quarterly update would be from 1 July 2018 to 30 September 2018
- Flexible
 - Choose your period
 - Align with VAT quarters
- Maximum three month length
 - No minimum
- 30 days to provide update

End of Year Activity

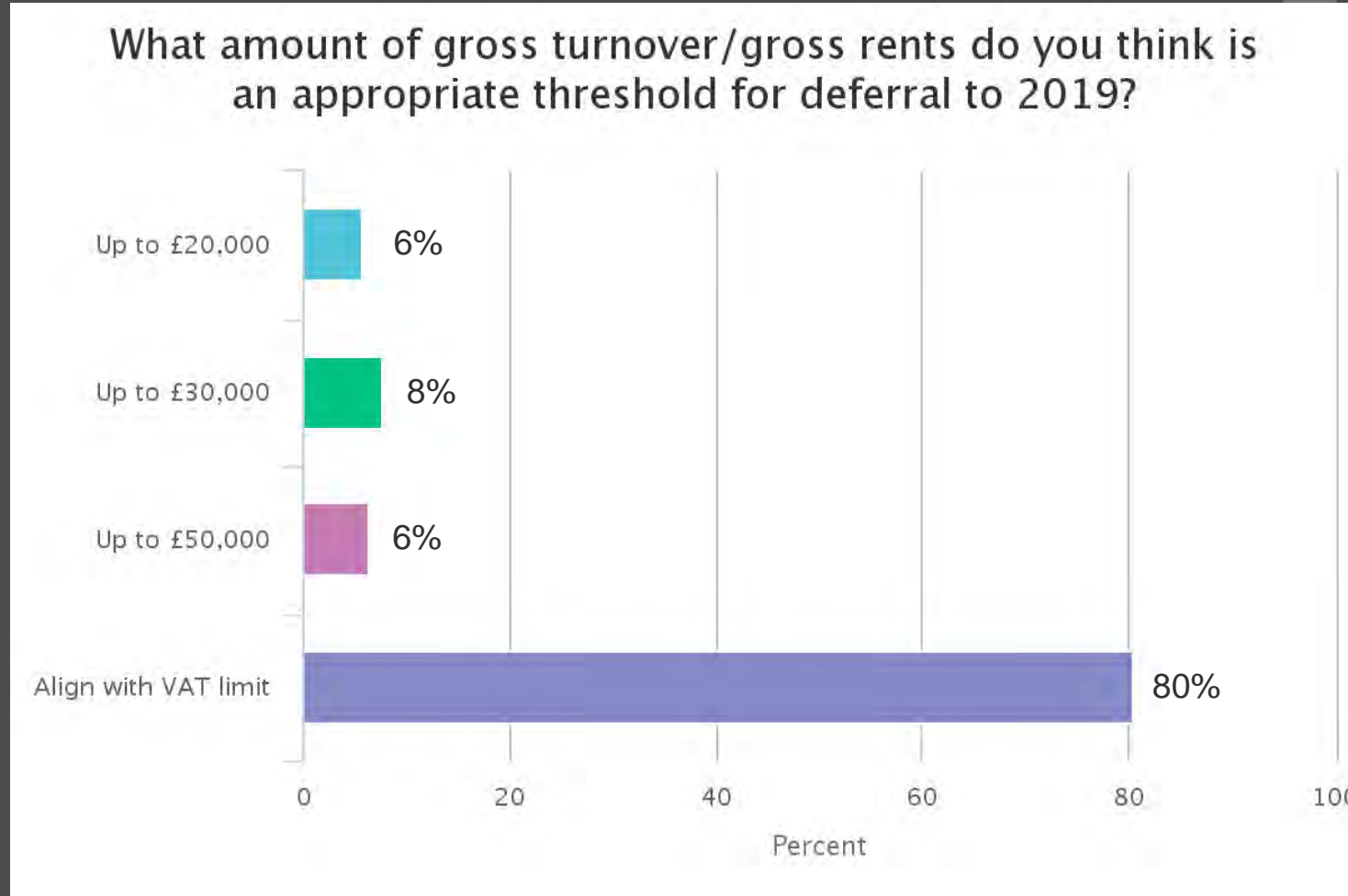
- Standalone process, in addition to Quarterly Update
- Accounting adjustments, tax relief claims made
- Comparable to SA100 submission and declaration
- Time limit proposed is nine months from the end of the period of accounts
- Simple businesses will be able to make declaration when quarterly update made

Exemptions

- Which entities are exempt;
 - Businesses/landlords with income below £10,000
 - Charities
 - Community Amateur Sports Clubs
 - Insolvent businesses and insolvency practitioners
 - Digitally Excluded
- Deferring for smaller businesses
 - Those with a turnover above £10,000, but below an upper limit
 - Will be deferred to April 2019
 - Upper limit not yet specified – discussed in the consultation document

Live Poll

What amount of gross turnover/gross rents do you think is an appropriate threshold for deferral to 2019?



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- Digitally Excluded
 - Someone unable to file digitally by reason of
 - Religion
 - Disability
 - Age
 - Location
 - Or for any other reason

Making Tax Digital:

Simplifying tax for unincorporated businesses

Overview

Four main sections

- Increase the turnover threshold for Cash Basis
- Reforming Basis Periods
- Simplifying Reporting Requirement
- Modifying the Capital/Revenue divide in Cash Basis

Cash Basis

Proposals

- Increase the threshold from the current (VAT Limit) £83,000
- Current withdrawal limit is £166,000 (twice entry limit)
- Various alternative limits proposed
 - £100,000
 - £125,000
 - £150,000
 - Double VAT limit (£166,000)
- Also, if the entry threshold is increased, should the withdrawal threshold be increased?

Basis Period Reform

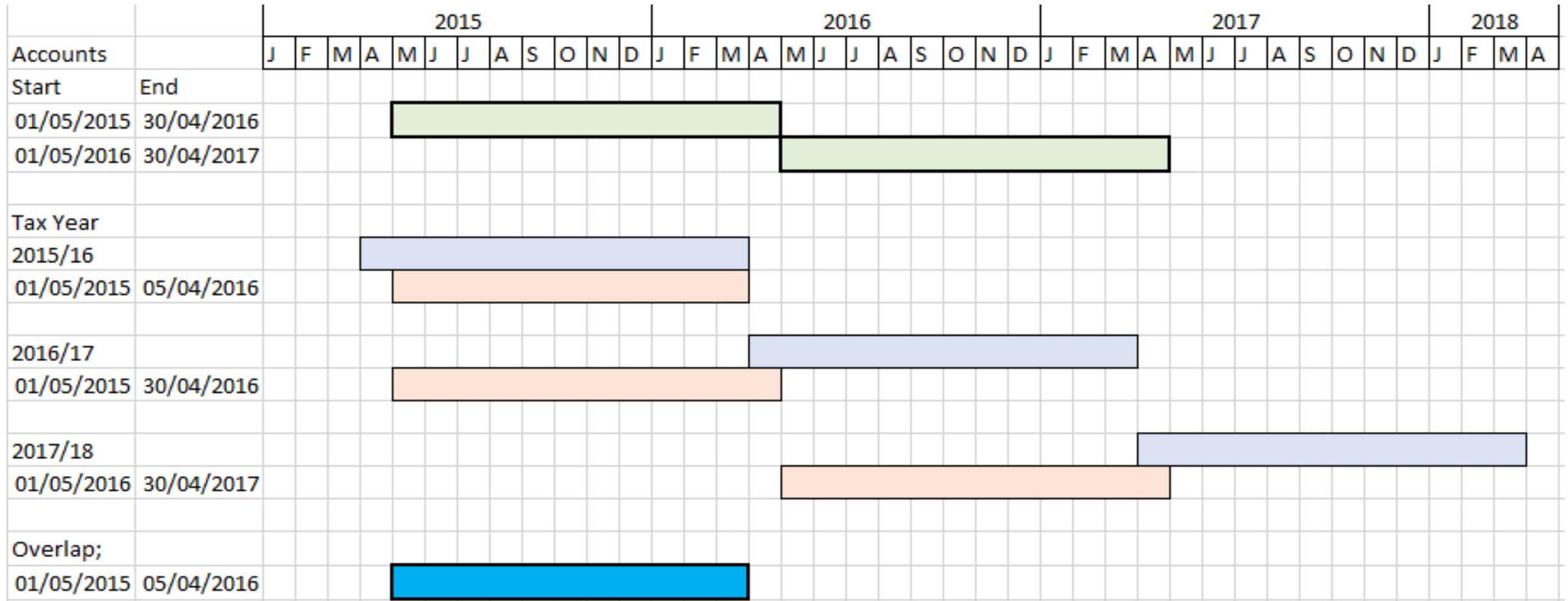
Current – Re-cap

- Current basis period is annual accounts that end in the tax year
- “Complex” rules for opening years or change of accounting date that can create Overlap Profits
- Overlap Profits relieved on
 - Cessation, or
 - Change of accounting date

Basis Period Current - Example

Example of commencement case

- Commencement 1 May 2015
- Accounts annually to 30 April



Basis Period Proposals

Proposals

- No special opening/closing year provisions
- Basis period = accounting period(s) which end in the tax year
- No new overlap relief to arise
 - Existing overlap relief only used on cessation
- Document suggests the quarterly update could be chosen as accounting periods
- So four (or more) each tax year
- As basis period based on accounting dates, then each quarter part of the basis period
- Optional – HMRC suggest may suit those with simple business affairs

Possible Planning Point;

Consider change of accounting date before the new regime to use existing overlap?

Accounting Period Proposals

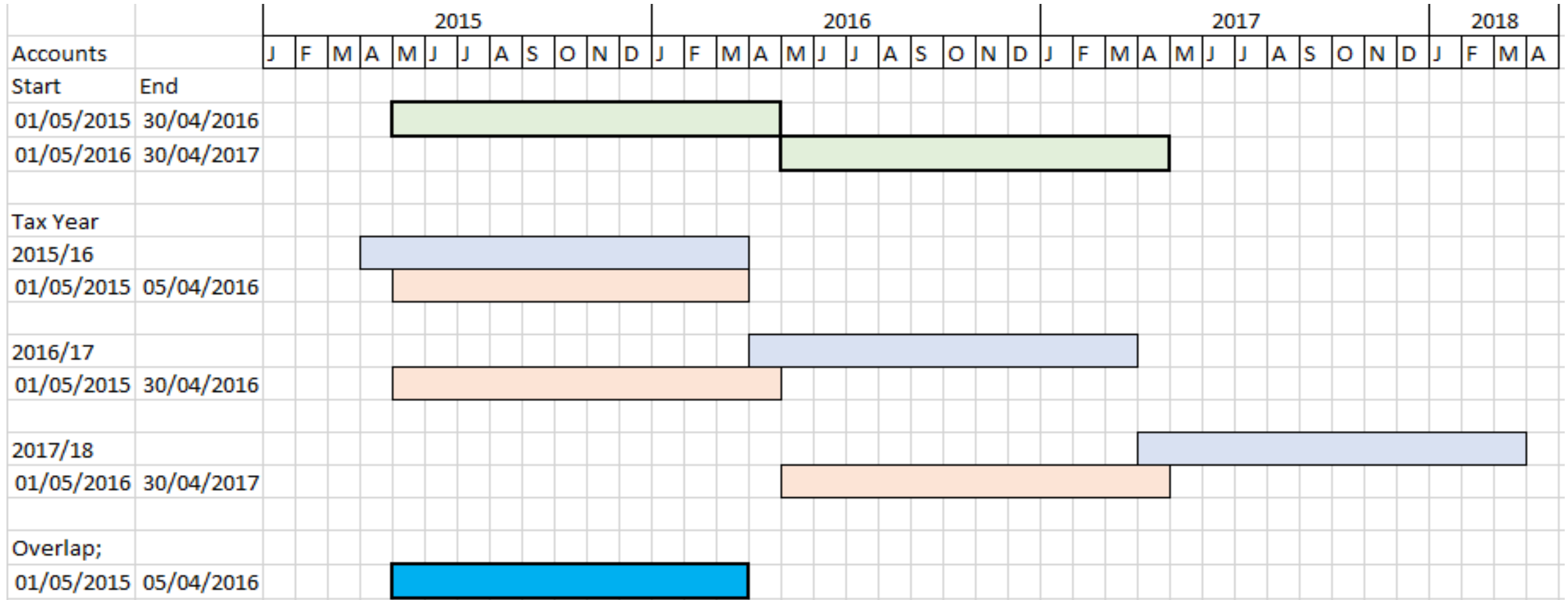
Proposals

- Similar rules to current CT rules
- 12 month maximum
 - From commencement date, or
 - Last period end date
- No minimum
 - As mentioned could be the periodic update
- Basis Period = aggregate of profits in all periods ending in the tax year

Basis Period Current - Example

Example of commencement case

- Commencement 1 May 2015
- Accounts annually to 30 April



Basis Period Proposal - Annual

Example of commencement case

- Commencement 1 May 2018
- Accounts annually to 30 April

		2018												2019												2020												2021			
Accounts		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A
Start	End																																								
01/05/2018	30/04/2019																																								
01/05/2019	30/04/2020																																								
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Tax Year																																									
2018/19	None																																								
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Basis Period Proposal - Quarterly

Example of commencement case

- Commencement 1 May 2018
- Accounts Quarterly

		2018												2019												2020												2021						
Accounts		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A			
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Simpler Business Reporting

Proposed changes to GAAP

- Closing Stock Adjustment
 - “Optional”
 - Any change in value reflected on eventual disposal
- Contracts exceeding 12 months
 - Recognised Revenue – only adjust contracts exceeding 12 months
- Bad Debt
 - No general provisions
 - Only specific, and only when recovery action has failed
- Accruals and Prepayments
 - Ignore accrual and prepayment adjustments, unless timing impact is more than one year

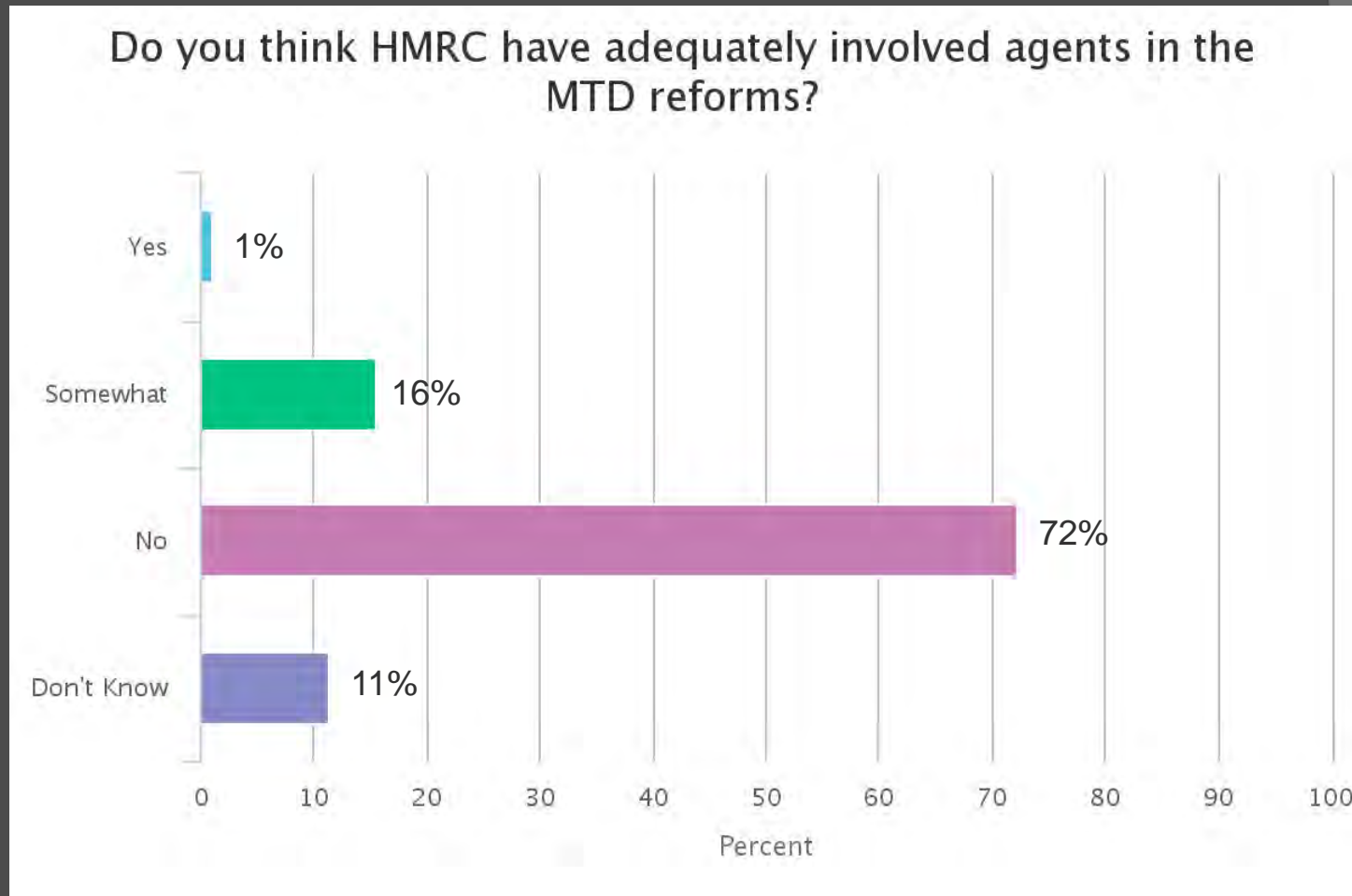
Reforming Capital/Revenue for cash basis

Current position and Proposed changes

- Currently, only capital expenditure which would qualify for capital allowances are considered
 - This means there is still the need to confirm capital, and
 - That the transaction would qualify for capital allowances
- Proposed to extend relief. Applying to all capital expenditure, except
 - Real property (inc. fixtures)
 - Intangible assets with a life in excess of 20 years
 - Goodwill
 - Financial instruments
 - Any other asset that does not have a limited effective life

Live Poll

Do you think HMRC has adequately involved agents in the MTD reforms?



Making Tax Digital:

Simplified Cash Basis for unincorporated property

Proposal

- Extend Cash Basis rules to property income
- People and simple partnerships only
- Income recognized when received, and expenses when paid
- No maximum registration threshold (unlike cash basis for trade)
- Mortgage Interest (secured on property) would be allowable
- FHL included

Eligibility

Eligible

- People
 - Including non resident landlords
- Partnerships with only individual partners

Ineligible

- Partnerships with corporate partners
- LLP's
- Trusts
- Unit Trusts
- Other complex entities

Making Tax Digital: Tax Administration

Overview

- Consultation on four main aspects
 - Compliance Powers
 - Penalties for late submission
 - Penalties for late payment
 - Interest

Compliance Powers

- No proposal to introduce powers to enquire into quarterly updates
 - Keep power to offer repairs to obvious errors
- Enquire powers into year end declaration
 - 12 month enquiry window proposed
- Power to issue Determinations (where year end declaration not made) to remain
- Power to issue Discovery Assessment also to remain
- “Taxpayer Amendments” following year end declaration
 - Separate consultation to be issued

Late Submission Penalties

- Two possible approaches considered;
 - Simple Points System
 - 1 point per late submission
 - When you accrue X points, a penalty is due
 - Escalator Points System
 - 1 point per late submission
 - Plus additional point if submission still outstanding when next submission due
 - When you accrue X points, a penalty is due
- Points cleared after 24 months
- No points for first twelve months, to ease transition
- Proposal that “Deliberate failings” still covered by a tax geared penalty regime

Late Payment Penalties

- Two possible approaches considered;
 - Penalty Interest
 - Payments 14 days late
 - Set at a rate to encourage payment (e.g. higher than commercial bank loan rate)
 - Example of 10% interest rate given in documents
 - Align existing regimes to Income Tax (surcharge approach)
 - 5% surcharge at 30 days, six months, and twelve months
 - VAT proposal – 3% at 30 days, and 60 days
 - Alternate: 4% surcharge at 30 days, 10% at six months, 15% at twelve months
 - VAT proposal – 3% at 30 days, 10% at 60 days

Late Payment Interest

- Continue with existing IT/NIC rules
- Align VAT/CT rules with IT/NIC?

Making Tax Digital:

Voluntary Pay As You Go

Outline

- Initial discussion document in December 2015 covering existing SA payments
 - Feedback was extending voluntary arrangements would be a positive step
- Under this consultation – the taxpayer can make and manage their own arrangements
- Key drivers;
 - Must be flexible
 - Simple
 - Repayable
 - Electronic
- Nothing changes the statutory due dates!

What is proposed

- Customer fully in control of when and if payments are made
- Can be at regular (e.g. monthly), or irregular intervals
- No such thing as a missed voluntary payment!
- Remain as a credit until a liability arises
- Allocated on a First In First Out basis
- Various ways of paying;
 - Fixed amounts by Direct Debit
 - Variable amounts via Direct Debit
 - Ad-hoc payment via software after quarterly upload

What About Payments on Account?

- Document considers whether current system may be confusing
- For example,
 - Based on prior year's liability POA1 should be £2,000
 - Based on recent quarterly updates, is should be £1,500
 - What to pay? Claim to reduce?
- Is there scope for improving?
 - Possibility of comparing estimated liability, based on quarterly updates to date
 - With Payment On Account due
 - Allowing taxpayer to over/underpay based on this comparison
- What would happen if annual income actually meant payment were insufficient?
 - Interest charge

Other considerations for consultation

- Ability to elect an overpayment as an voluntary payment
 - So it is not refunded
- Allowing partnerships to access partner liability information
 - To allow partnership to release funds, and make voluntary payment
- Similar for other third parties?
 - E.g. authorize spouse to make payments on your behalf?
- HMRC want to consider incentives to those taking part
- For example
 - Cash Rewards (as previous done for e-filing of PAYE returns)
 - Monthly draw
 - Pay interest on voluntary credits
 - Access to 'streamlined security processes' to receive quicker refunds

Making Tax Digital:

Transforming the tax system through the better use of information

Overview

Focus of this document is “more effective use of third party information”

- Third Party information means – Provided by an organization, about a customer
 - Data the customer would otherwise have to provide
 - Examples
 - Employers
 - Pension Providers
 - Bank/Building Societies
 - Other Government Departments

Main changes

- Never having to provide data HMRC already holds
- Digital Tax Account automatically updated by HMRC
- More accurate tax liability indicator
- Plans to extend coverage over time

Specific Changes

Document split into four sections

- Make better use of current third party data
 - Strategy for the next two years to provide a
 - Transparent service, and
 - Reduce year end adjustments
- Information standards and security
 - How data will be used
 - Safeguards
 - Principles of resolving queries
- Impact on current providers
 - Changes necessary by current data providers
- Future Ambitions
 - Up to 2020
 - Opinions invited on which providers to approach

Make Better Use of Current Third Party Data

Planned changes

- October 2016
 - Use prior year's savings interest information for adjusting PAYE tax codes
 - Already do, to an extent – but with the changes to Saving Allowance, extending to all
- April 2017
 - Start to use RTI data 'in year' to ensure tax code is correct
 - Automatic reallocation of personal allowances and reliefs where not fully utilized
 - All notifications via Tax Account to the taxpayer
- April 2018
 - Use all known data 'in year' to calculate tax liability
 - Starting with savings interest

Information Standards and Security

Details

- Transparency
 - Make available all information held
 - E.g. details of each individual bank interest payment
 - Only process the minimum information required
- Safeguards and Security
 - Confirming statutory duty
- Query Resolution
 - Process between taxpayer and provider
 - HMRC will defer use of information until query resolved
 - Making as estimated year end assessment if necessary
 - HMRC's direct involvement only in limited circumstances

Information for current information providers

Details

- This section outlines changes needed to current systems
- HMRC to introduce minimum data standards

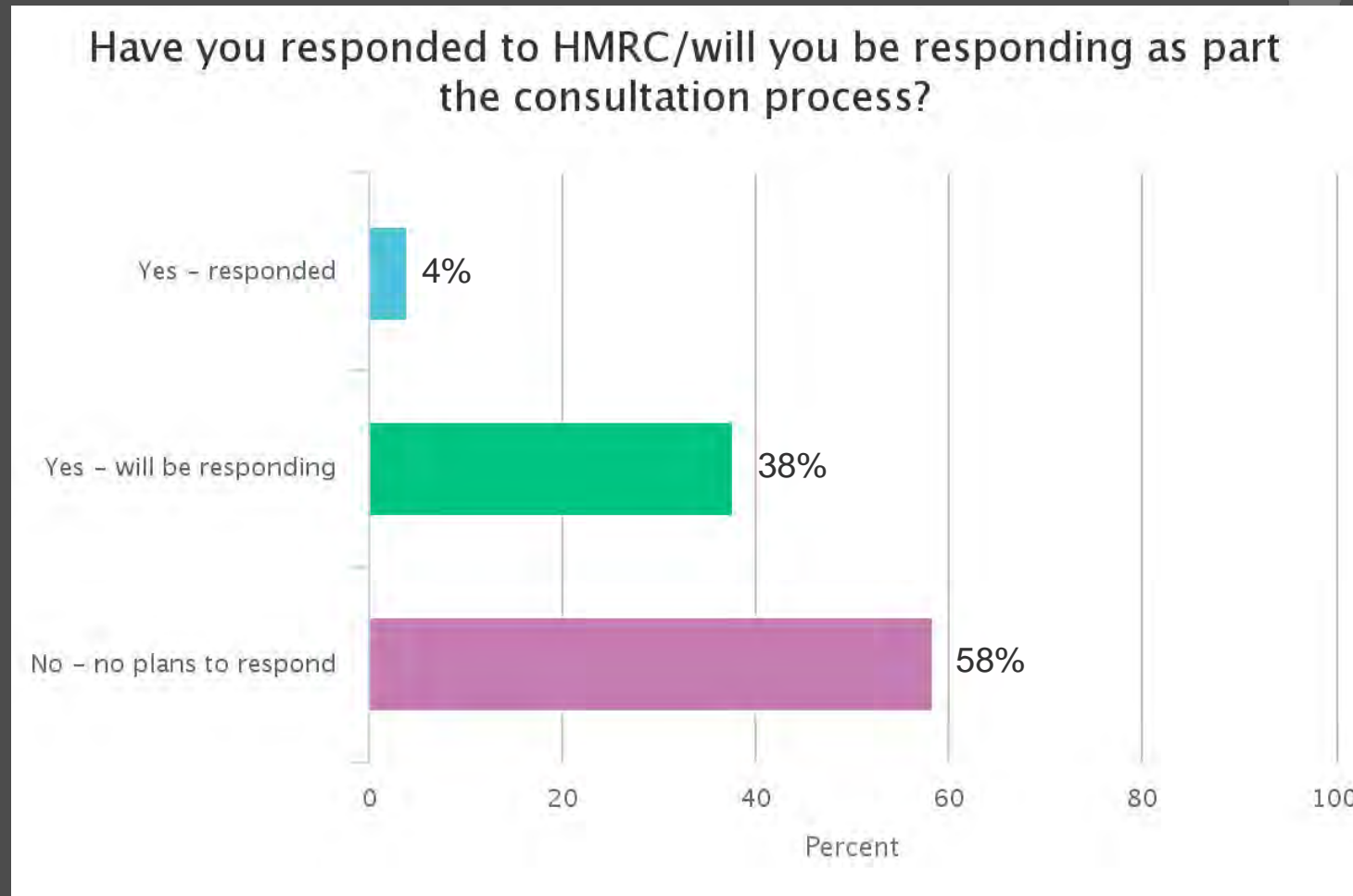
Future Ambition

Details

- Two approach
 - Enable software providers to develop a ‘one stop’ service for customers
 - Explore additional third party data providers
 - Dividends and Shares
 - Property income via letting agents

Live Poll

Have you responded to HMRC/will you be responding as part of the consultation process?



Agent Access

Agent Access

Two parts for an agent to see a client record

- Agent authorized to act for client
- Agent's software authorised to access the data

Agent and Client authorisation

- Existing 64-8 to apply in MTD
- For new clients – two way authorisation
 - Via software, agent confirms they act for client – client confirms via their software, or
 - Via software, client appoints agent – agent confirms via their software
 - This process would offer instant access to client data
- 64-8 to remain as alternative

Agent Access

Second part – agent authorising software

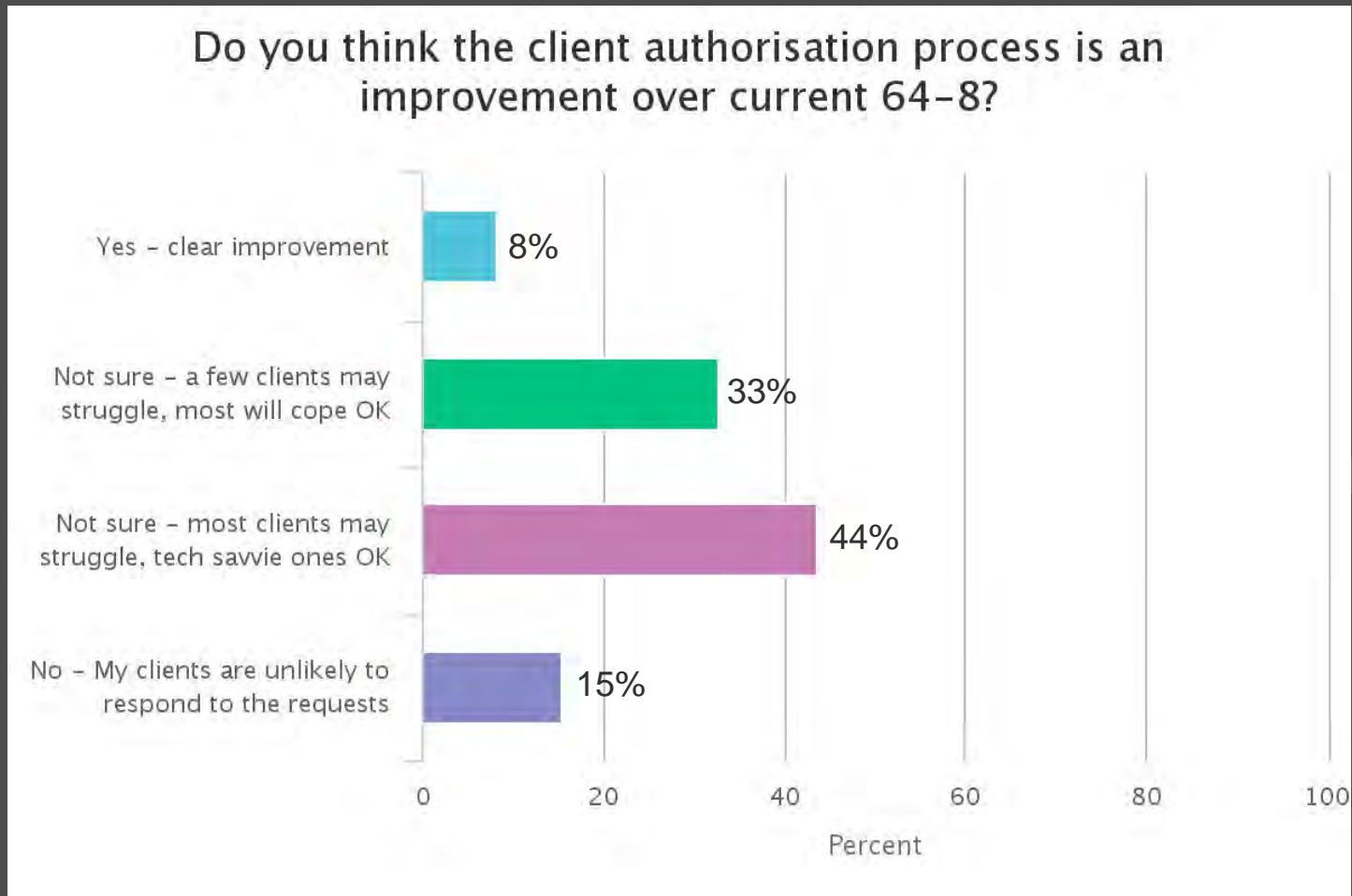
- Only authorised software can access data
- Agent logs into software
 - Accesses Government Gateway,
 - Confirms they are happy to authorise
- Remains valid for approx. 12 months
- Potential issue with 2 factor authentication (e.g. mobile phone code) for larger firms

When will this happen?

- By end of this year, HMRC will expose the end points we (software providers) need
- Watch this space – early 2017

Live Poll

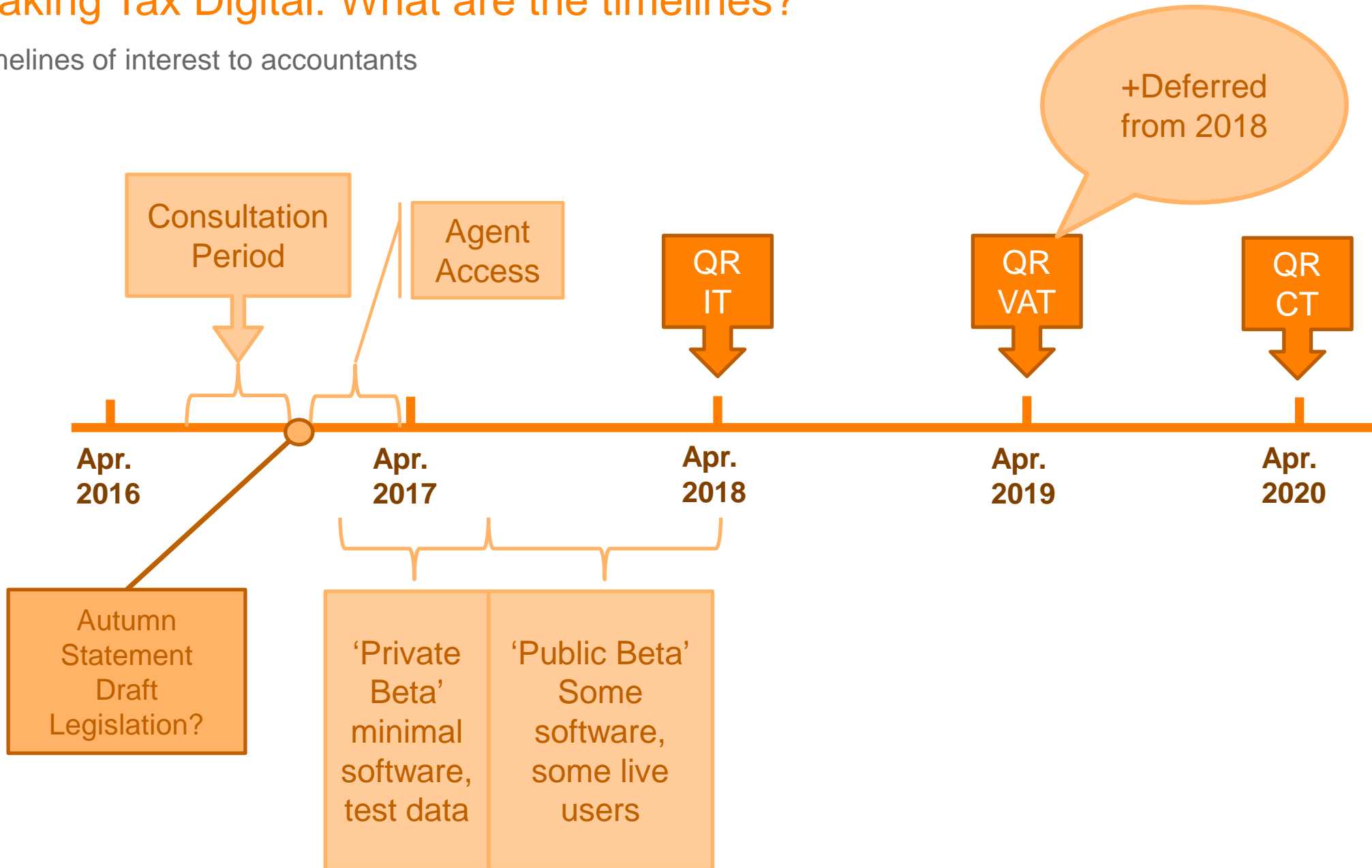
Agent Access: Do you think the client authorisation process described is an improvement over the current 64-8 process?



Timeline

Making Tax Digital: What are the timelines?

Timelines of interest to accountants



HMRC Beta Programs

Private Beta

- Early 2017 (Jan/Feb) start
- Test environment
 - Data not stored – SA100 still required
- Main focus is to test the communication and API mechanisms
 - But will test whole process

Public Beta

- Mid 2017 to early 2018
- Test entire process in a live environment

Don't forget to take HMRC's
online survey!

<http://bit.ly/2daU3g4>

Link available in chat
window

Making Tax Digital: Q&A

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