

Making Tax Digital - what does it mean for you?

Making Tax Digital is a government initiative that sets out a bold vision for ‘a transformed tax system and the end of the tax return’ by 2020. Not sure what it means for you? Here’s what you need to know:

What is Making Tax Digital?

Making Tax Digital is all about making tax administration more effective, more efficient and easier for taxpayers, through the implementation of a fully digital tax system.

The roll-out of the initiative has already begun. Every small business owner and individual taxpayer now has access to a digital account that they can use to check their records and manage their details with HMRC.¹

Further changes are planned in the coming months and years; you can see a breakdown of the roll-out and timescales opposite. Software providers like FreeAgent are actively engaging with HMRC to help shape this process and simplify the shift for small businesses.

Making Tax Digital is expected to be fully implemented by 2020. By this time you should see the following major changes to the way you manage and report your business taxes:

- Through your digital account you’ll be presented with a complete picture of your business’s tax affairs and you’ll be able to manage all of your liabilities at the same time, in the same place.
- HMRC will collect and process information affecting tax in as close to real time as possible. This should prevent any tax due or repayments owed from building up.
- You’ll no longer have to wait until the end of the tax year to know how much tax you have to pay.

Who does Making Tax Digital apply to?

The changes outlined in the Making Tax Digital initiative will apply to a wide range of taxpayers, including most **businesses, self-employed people and landlords**, as well as **individual taxpayers**. However, HMRC has suggested that the initiative won’t apply to “the small minority who genuinely cannot use digital tools”, or to small businesses with an annual income below a proposed threshold of £10,000.² This threshold would be based on the firm’s income from the previous year.

The benefits of Making Tax Digital

- **Know where you stand** - with a full picture of your business’s tax affairs in your digital account.
- **Save time** - by having access to all your business’s tax info in a single place.
- **Save hassle** - by managing all your business tax affairs online.
- **Plan and budget more effectively** - with a real-time calculation of how much tax you owe.

1. More information is available at <http://www.gov.uk/personal-tax-account>.

2. ‘[Making Tax Digital - Bringing business tax into the digital age](#)’, HM Revenue and Customs (accessed 15 August 2016)

How will the initiative be implemented?

As Making Tax Digital is rolled out, a number of changes will be implemented. Below is a timescale of the developments that are most relevant to business owners.

July - December 2016

Testing starts for digital reporting of accounts by small businesses.

Authorised agents are able to manage their clients’ digital tax accounts.

January – June 2017

New online billing system begins.

July - December 2017

Digital tax accounts show taxpayers an overview of their tax liabilities in one place.

July - December 2018

Most businesses, self-employed people and landlords start updating HMRC quarterly for income tax and National Insurance obligations through accounting software.

2019

Most businesses, self-employed people and landlords start updating HMRC quarterly for VAT obligations through their accounting software.

2020

Most businesses, self-employed people and landlords start updating HMRC quarterly for Corporation Tax obligations through their accounting software.

The full range of HMRC services are available through digital tax accounts.

Timeline adapted from ‘[Making Tax Digital](#)’, HM Revenue and Customs (accessed 12 July 2016).

What does Making Tax Digital mean for you?

A new way of reporting information to HMRC

The move to a more digital tax system should come as welcome news to the many taxpayers who already choose to report much of their information to HMRC online.

86%

of Self Assessment tax returns

98%

of Corporation Tax returns

99%

of VAT returns

... are currently submitted online

Source: ['Making Tax Digital'](#), HM Revenue and Customs 2015 (accessed 11 May 2016).

The shift to digital should also help to iron out some of the issues that can make the current method of reporting information to HMRC frustrating for business owners. Specifically, Making Tax Digital promises to end 'bureaucratic form-filling' and to 'remove the risk of missed deadlines and unnecessary penalties'.

The end of the tax return

One of the biggest implications for small business owners is the eradication of the annual tax return. By 2020 most businesses, self-employed people and landlords will instead be required to keep track of their tax affairs digitally and to update HMRC at least quarterly via their digital tax accounts, or more often if they'd prefer. HMRC has said that this doesn't mean you'll have to complete a full tax return four times a year; you'll simply need to provide more regular updates online.³

The introduction of a 'real time' tax system means that instead of reporting information on tax returns and paying liabilities long after the end of the tax year, you will be able to see a real-time view of your business tax affairs and liabilities through your digital accounts. This should make it easier to understand how much tax you owe and to budget accordingly.

What next?

The upshot of all these changes is that, if Making Tax Digital applies to you, you'll be required to use digital tools, such as software or apps, to keep records of your income and expenditure.

HMRC has stated that it won't provide its own software, but will ensure that basic apps and software products are available. However, many businesses and their accountants will choose to use more comprehensive commercial software, like FreeAgent.

These tools use the data from your day-to-day business activity to build an accurate picture of your business's tax data, highlighting any possible errors and offering prompts for information that might otherwise be overlooked. Once your software has compiled the relevant data, you or your accountant will then submit it directly to HMRC, either via a computer or a smartphone.

Your accountant will be happy to talk through the options with you and explain how they plan to work with you as Making Tax Digital is rolled out.

3. ['Making Tax Digital: Myth-Buster'](#), HM Revenue and Customs (accessed 12 July 2016)

