

Next year sees the next stage in the rollout of Making Tax Digital. This HMRC mandated process is extending Making Tax Digital for self-employed people, which means Higginson & Co needs to start preparing our clients for this major change.

Over the next few months, we will be sending out regular information in respect of what is the most significant change in our relationship with you and with HMRC since the advent of Self-Assessment.

The Making Tax Digital (MTD) pilot scheme was launched for self-employed people in March 2018, with plans to roll it out further. Although the MTD timeline was delayed by the pandemic, from 1 April 2022, it will be something that all VAT registered businesses and their accountants need to get to grips with for their next VAT period.

We are continually upgrading our systems and capacity in order to enable us to deliver this compliance change for our clients.

So, who is affected?

Clients affected by the extension of Making Tax Digital in the following categories:

- VAT-registered business
- Self-employed people / Sole traders
- People running a partnership
- People receiving land or property income

What is Making Tax Digital?

MTD is at the core of HMRC's efforts to become one of the most digitally advanced tax administrations in the world. The aim is to make life "easier!" for business owners, accountants and HMRC. It should give a more up-to-date picture of finances and tax owed, as well as making submitting tax information a mandatory quarterly requirement.

The updated system means that digital tax records will be kept, and a tax return will be submitted **every three months** as opposed to paper-based accounting records and an annual tax return as is widely the case now.

When is MTD happening?

Digitisation of VAT, income and corporation tax is rolling out at different stages, which makes onboarding clients to the system in line with this timescale important. We as your Accountants need to ensure we are all clear about the key dates so that they can help to prepare you for the changes ahead of time.

April 2022 – MTD is already a requirement for VAT registered businesses with a taxable turnover of more than £85,000 and is available on a voluntary basis for any VAT registered company. **However, from 1 April 2022**, all VAT registered businesses will have to switch to the new system from the first VAT period on or after that date.

April 2023 – MTD for income tax will come into effect from 6 April 2023.

Originally only a requirement for sole traders and landlords earning more than £10,000, HMRC has confirmed that this is now the effective **date for all unincorporated businesses**.

April 2026 – MTD corporation tax is still in the consultation and design stage, but it is anticipated that this will come into force for limited companies from 2026.

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An Introduction to digital record keeping

Recent research carried out by The Accountancy Partnership revealed that almost one fifth (18%) of small business owners use a paper filing system for their finances, one in 10 (10%) keep their receipts and documents loose in a drawer or old shoebox and 8% use their phone to keep records.

This shows that MTD is going to significantly change the way that many business owners keep their records, so by introducing our clients to the digital record keeping solution that we provide we can start to acquaint you with the procedures involved in bookkeeping this way. This may involve setting up processes in which clients supply their information to us to enable us to provide this service to you.

There are any number of software solutions available. All of which operate in a similar way by capturing your accounts data in a digital way. We have however chosen to focus on what we believe provides our clients with the best overall outcomes.

What are the challenges?

For individuals and businesses paying tax, the way they file their taxes is becoming a much more complicated process than they have been used to. There are a range of challenges, which we can help you to overcome.

These include:

- All records must be kept digitally
- Digital record keeping includes land and property income
- Filing must be carried out every quarter, rather than once per year
- All other income for an individual will be incorporated into the MTD submission process, including: pension relief contributions, dividends, bank interest, pensions received

What are the solutions?

- Specialised tax software
- Bookkeeping software
- Bridging software
- Receipt capturing tools

After reviewing these software packages, we settled on using KashFlow and other products from the IRIS suite that links directly with the compliance software that we use for preparing your accounts and tax returns. This enables us to provide a complete integrated solution for our clients and allows for a quicker comprehensive compliance with the new requirements being forced on all tax-payers by HMRC.

HMRC says research has indicated those businesses who are operating under MTD fully and integrate their accounting and tax software reporting spend less time on their tax. Micro-businesses who use software to manage their accounts have over 10% higher productivity. There is a cost burden but also a cost benefit.

Next Stages

1. For those clients that we currently provide bookkeeping and vat services using KashFlow there will be very little change. We will be in contact with each of you regarding any additional issues.
2. For those clients that we provide bookkeeping and vat services for that use sage or any other product we will be in contact re any suggested changes. We have a digital capture solution that will ensure compliance, but we may discuss streamlining processes to move this service across to KashFlow in order to obtain the additional integrated benefits.
3. We will contact those clients with property income separately to discuss what you now need to start to get together in order to comply. We may advise you that you will need to set up a separate bank account to receive your rental payments into and to pay any expenses out of. If you are using a letting agent, we will discuss with you what we believe that they will now need to provide you with in a monthly statement. If you wish to discuss any matters prior to us being in contact, then please email info@higginsonandco.com and this will redirect the enquiry to the right person.
4. For clients using their own sage software we have started a process where you will have been contacted by sage as appropriately to offer advice and training in using their digital capture solution "Autoentry". They are doing this in association and collaboration with us. If you have not been contacted or have any other issues, then please also email info@gigginsonandco.com and we will ensure that the matter is dealt with. We have discussed with sage the process of moving clients to a true cloud based sage solution. This enables us to link directly with your data for real-time information. There may also be some costs savings from sage here.
5. For clients using other software please contact us on info@higginsonandco.com so that we can discuss your current provision and compliance issues.

We realise that the above list is not exhaustive. We also realise that this is a significant change and will come with additional costs, but we do believe that the benefits in saving your time are also significant but difficult to quantify in monetary terms. This is a mandated process from HMRC and you will need to comply. We can ensure that you can do so in as painless a manner as possible.