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
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?
Consultation Documents

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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?

- Up to £20,000: 6%
- Up to £30,000: 8%
- Up to £50,000: 6%
- Align with VAT limit: 80%
Exemptions

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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
Basis Period Proposal - Quarterly

Example of commencement case

- Commencement 1 May 2018
- Accounts Quarterly
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 then 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?

- Yes - responded: 4%
- Yes - will be responding: 38%
- No - no plans to respond: 58%
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

Consultation Period

Agent Access

QR IT

QR VAT

QR CT

Apr. 2016

Apr. 2017

Apr. 2018

Apr. 2019

Apr. 2020

Autumn Statement
Draft Legislation?

'Private Beta' minimal software, test data

'Public Beta' some software, some live users

+Deferred from 2018
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
Next week you will receive our latest eBook via email …
And finally…

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