# Making Tax Digital (MTD)

## What is it?

MTD is part of the UK Government's project to fully digitise the UK tax system.

## Why?

The UK Government wishes to make it easier for businesses to get their tax right and keep on top of their financial affairs.  HMRC's aim is to be more efficient and become one of the most digitally advanced tax administrators in the world.  Countries such as Australia and New Zealand have had a similar system in place for many years.

## What does it mean?

It means the businesses that are mandated for MTD will need to maintain digital records and provide information to HMRC via MTD functional compatible software.  The first stage covers VAT reporting, with the project later covering quarterly corporation tax reporting.

## Who is it for?

The first businesses to be mandated for MTD will be all UK VAT registered businesses with an annual turnover above the current VAT threshold of £85,000 per annum.  There are limited exceptions to this, meaning the vast majority of qualifying businesses will need to comply.

## When?

MTD commences for the first VAT return commencing on or after 1 April 2019, meaning the first VAT returns to be filed under MTD will be for the month ended 30 April 2019 or for the quarter ended 30 June 2019.

Other aspects of MTD such as quarterly corporation tax reporting will not be introduced until 1 April 2020 at the earliest.

## CONTACT US

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|---|---|
| Glasgow | 0141 221 2984 |
| Edinburgh | 0131 225 6366 |
| Stirling | 01786 451745 |
| Dumbarton | 01389 765238 |

**cloud@frenchduncan.co.uk**

frenchduncan.
chartered accountants

**www.frenchduncan.co.uk**

# FAQ's

**What if we don't comply?**
Penalties will apply for businesses that do not comply with the MTD regulations. HMRC have stated there will be a soft landing period for penalties to allow businesses time to update their systems and fall into line with the new requirements.

**We already use software, do I need to do anything?**
Its great that you are already maintaining your records digitally. There may be some changes you are required to make to the way you record transactions and file your returns. Please contact us for more details.

**Will there be free software?**
It remains unclear whether or not HMRC will provide free software, however this looks increasingly unlikely. In any case, free software is unlikely to be maintained or have the benefits which commercial software provides.

**Can I use spreadsheets?**
HMRC will consider spreadsheets an acceptable form of recording information, but bridging software will be required to connect to HMRC's systems via an Application Programming Interface (API). HMRC are not issuing a standard format or API meaning a third party would be required to develop this.

**Will HMRC now see all transactions on our VAT returns?**
No, the submission to HMRC will still only be the 9 summary boxes on the VAT return. The detailed transaction data will not be submitted to HMRC.

**What if we use more than 1 system to maintain our financial records?**
There must be a digital link between the different systems. The soft landing period for penalties is in place specifically to allow businesses sufficient time to update legacy systems and get the help the need to do so.

**If we go digital do we still need to keep paper records?**
No, HMRC accepts digital record-keeping (i.e. scanned or photographed invoices) as long as the image is clear, legible and all information is recorded in the digital copy. This includes terms and conditions that may appear on the reverse of the invoice.

**I think my current processes already comply with MTD, do I need to do anything?**
Drop us an email or call and we would be happy to advise on your existing systems.

**My business is not VAT registered but I'm interested in going digital, where can I find out more and can I opt into MTD?**
Yes, businesses can voluntarily opt into MTD. Please contact us for more details.

**My business is VAT registered but has turnover below the VAT threshold, do I need to do anything?**
Not right now, however the whole HMRC system is going digital and your business may eventually be required to move to digital software.

**What if our turnover falls below the VAT threshold at a later date?**
If your business is mandated for MTD and later falls below the VAT threshold, it will remain a mandatory requirement. The requirement only ceases upon VAT deregistration.

**My business is already exempt from submitting electronic VAT returns to HMRC, does this change?**
No, any exemptions that already apply to electronic submission of VAT returns will be extended to cover digital record keeping requirements under MTD.

**What benefits are there to going digital?**
Other than keeping compliant and avoiding penalties, there are significant benefits to going digital in respect of security, efficiency, automation, integration, reporting, collaboration, real-time info creating opportunities for tax planning & strategic decision making.

**How do I become compliant?**
Contact your usual French Duncan contact or cloud@frenchduncan.co.uk where we will be delighted to discuss your requirements, next steps, costs and timescales.