



**Guide to:  
Making  
Tax Digital**

2019/20

# What is (MTD) Making Tax Digital?

Making Tax Digital is the name of the Government plan, which changes the way UK businesses file their tax returns.

Tax has long been a paper-based system and that's why it's changing. HMRC see the future of tax as app and online-based.

Each UK taxpayer will have access to their own digital account where they can check their records and manage their details.

By bringing the entire tax system fully online, HMRC aims to reduce errors and false reporting, to set the standard for the rest of the world.

## MTD has started...

Making Tax Digital is being rolled out in phases. MTD for VAT has already started and in less than a year Making Tax Digital will start for income tax.

MTD for VAT was rolled out in April 2019. This initially only involved businesses and the self-employed who are above the VAT income threshold of £85,000.

The rest of the rollout will continue with those businesses becoming fully digital by 2020.

Smaller businesses, with turnover between £10,000 and £85,000, won't need to worry about MTD until at least 2020, although you can opt-in now. Businesses with annual sales below £10,000 can take part if they choose to.

If your business has a taxable turnover above the VAT £85k threshold, you'll already file your VAT returns quarterly.



## Who is impacted by MTD

Firstly let's be clear on who is impacted by MTD.

The first phase is about bringing VAT returns completely online and at the moment, it only applies to VAT registered businesses. This phase applies to Sole Traders, Partnerships, Limited Liability Partnerships and Private Limited Companies.

PAYE will not be affected. The second phase of MTD will include Corporation Tax and Income Tax, we'll tell you more about this further in the guide.

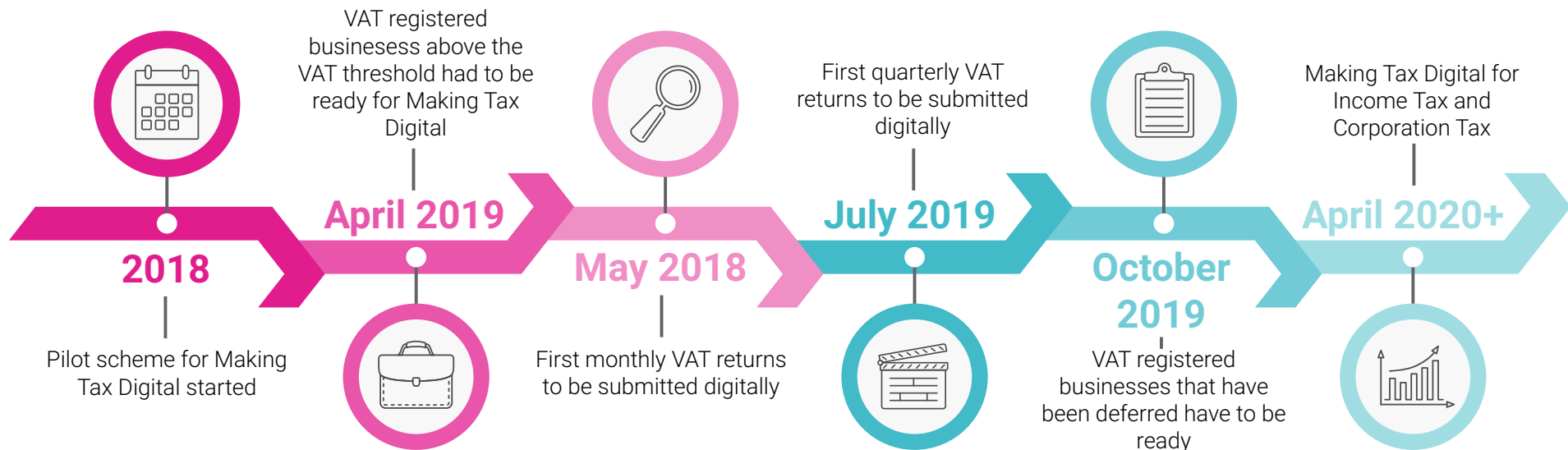
HMRC have said they will make some exceptions "for taxpayers who cannot engage digitally."

## Does Making Tax Digital apply to people using the Flat Rate Scheme for VAT?

The Flat Rate Scheme for VAT is when you pay a fixed annual percentage rate of VAT to HMRC based on your turnover.

If you operate the Flat Rate Scheme, you won't need to keep a digital record of any purchases.

Read more about VAT and the [Flat Rate Scheme here](#).



"If you're using spreadsheets you'll need to change this."

### Is MTD for VAT compulsory?

Making Tax Digital for VAT returns is compulsory for any VAT registered businesses. Except for businesses that have been deferred to October 2019 or apply to be exempt.

Businesses that have been deferred are more complex businesses. Find a complete [list of these businesses here](#).

To apply for an exemption you have to be unable to use electronic communication or you object to using it based on religion. You're automatically exempt when you're already excused for filing VAT returns online, your taxable income is below £85,000 or your business are subject to an insolvency procedure.

HMRC has acknowledged that changing VAT processes could cause some confusion. They'll be taking a soft approach for the first 12 months.

Be careful though, that doesn't mean they won't apply penalties if they believe they're necessary.

### How do I keep digital records for Making Tax Digital?

If you're managing your business finances using spreadsheets you'll need to change this.

This is because HMRC's new rules do not allow you to use spreadsheets because they aren't in line with the rules for MTD for VAT. You are also not allowed to copy and paste the information as it could cause human error.

To continue using your spreadsheets, you should look at using approved MTD software.



## What is Making Tax Digital software?

To file your VAT returns and other tax digitally, you're going to need to make use of some form of approved accountancy software that is digitally linked to HMRC.

You're going to need an HMRC-approved method of recording and storing your digital records. Once you have this information, it'll need to be sent to HMRC. If you're not using approved software, you can use bridging software that connects non-compatible software to HMRC systems.

You're required to use approved software. The software will allow you to manage everything from one package and ensure you're fully compliant. We can fully support you with this, [please get in touch](#).



## What is Making Tax Digital for income tax?

The next step for Making Tax Digital is to introduce the same procedures for Income Tax and Corporation Tax.

A pilot is running already for Making Tax Digital for Income Tax for any self-employed people or landlords who wish to try it now.

The idea is that any tax administration should be easier and more accurate than before.

Although MTD for Income Tax isn't compulsory yet, it's useful for anyone who wants a more accurate real-time idea of their tax situation, rather than waiting to fill in a Self Assessment return at the end of the financial year.

Your business will have to comply with MTD. We can support you, so it makes sense to get ready now.

As with VAT returns, you'll need to use compatible software to keep a record of your income and expenses, with a summary, sent to HMRC every three months.

**Need help with MTD? Get in touch today**

## How will it impact you?

Now Making Tax Digital has started, you might have noticed some major changes.

Your online account will show a complete picture of your business tax affairs and you will be able to manage all of your liabilities in one convenient place.

HMRC aim to collect business information as close to real-time as possible – this means no more drawers full of receipts and all your expenses will be logged as they happen or when they're spent.

You won't have to wait until the end of a tax year to see how much you'll have to pay – this will help with planning and ultimately making your business more profitable.

**"Your online account will show a complete picture of your business tax affairs."**



## The end of the Tax Return as we know it!

How much do you hate the annual tax return? Trawling through piles of old receipts and paperwork and making sure everything is reported on accurately. Well, no more!

With digital tax, all you have to do is regularly log your financial updates online and HMRC will do the rest.

The "real-time" tax system will make the whole process a lot smoother; good news for everyone. Especially when you're a sole trader.

## Don't worry, we can help you!

As a sole trader, you're considered by HMRC to have a small business. You'll need to start doing your business' administration digitally.

Your business will have to comply with MTD. We've been working on preparing for MTD for some time now.

With our help, you'll start seeing the benefits of your taxes and expenses being kept digitally. [We're here to advise you](#) on the best way for your business to go digital.

"You'll have to start doing your business' administration digitally"

We're proud of the work we do in the self-employed sector and we help create measurable financial benefits for the businesses and people we partner with.

Our customers are very happy with our service. We have an average Feefo rating of 4.6.

Read the reviews [here](#).

Average Customer Rating: ★★★★★ 4.6/5 | feefo 



# We're here to help you!

Speak to us on 01252 704 030 or [go here](#), we're happy to help.

[tax.insyncgroup.co.uk](http://tax.insyncgroup.co.uk)



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