



Briefing Paper: Making Tax Digital!

What does this mean for UK businesses?

➤ One of the most important issues facing both business and the tax profession over the next 18 months or so is HMRC's ambitious plans to making tax digital (MTD). The House of Commons' Treasury Committee and the Federation of Small Businesses have both warned that businesses will be financially impacted and have urged HMRC to proceed with caution.

What's the issue

David Gauke, the Financial Secretary to the Treasury made it clear in a speech in December 2015 that the government intended to embark on a programme of bringing the digital revolution to Whitehall. Mr Gauke confirmed that "people in all walks of life are embracing digital technologies and the tax system should not be an exception". Accordingly, the government intends "to make fundamental changes to the way the tax system works, transforming tax administration to make it more effective, more efficient and easier for people and businesses to pay their taxes".

According to the Financial Secretary, "these reforms will transform the experience of millions of taxpayers". Following this speech, HMRC published a number of consultation documents and is currently busy analysing the responses. In due course, the digital programme will be rolled out and UK businesses will be required to adopt the digital regime.

More detail

HMRC has announced that businesses will be required to file all tax returns "digitally" by 2020. However, implementation for each tax will be phased with VAT filing obligations to be implemented by 1 April 2019.

Filing tax returns digitally will require investment in time and resource. Businesses will need to purchase and use third party software, with testing for the systems scheduled to begin in April 2018 and continuing for approximately 6 months. Once live, businesses will be required to file VAT returns digitally either directly or via their agent.

Whilst 2019 seems to be a far distant date, businesses need to start planning for digital tax filing now. Coupled with a possible Brexit at the same time, it seems likely that businesses will have plenty to do if they are to stay ahead and be prepared for the changes. Indeed, larger businesses have already indicated that they will require at least a two-year lead time to budget and to

consider and implement any system changes. Some smaller businesses are not even aware of the MTD proposals.

What problems lay ahead?

There are many bumps in the road ahead. In particular:

- Current VAT & Accounting software is not sophisticated enough to prepare and submit digital returns. This means that businesses will need to invest in new software that "talks" to HMRC's. It is likely that larger business will need at least two years to prepare, test and integrate new systems.
- Businesses that are partly exempt for VAT purposes or have non-business activities are required generally to apportion the amount of input tax that can be reclaimed. Off-the-shelf software packages are unlikely to cater for such apportionment.
- Similarly, any business that has an asset within the Capital Goods Scheme (CGS) where adjustments to input VAT are required annually will probably need to consider bespoke software.
- Businesses operating in the travel sector – operating the 'Tour Operators' Margin scheme will also probably need a bespoke package.
- Budget considerations – any change to systems and software will need a budget and an implementation strategy. With the average cost per small business estimated at £2,000 (and much more for complex or large businesses), plans need to be made now to ensure that budgets are set, are adequate and that an implementation plan is agreed.



- Brexit – although Article 50 has yet to be triggered, if the timetable for Brexit starts in 2017, all of those changes will also need to be taken into account at more or less the same time.

What do points make? – penalties

With the introduction of digital filing for all tax returns, HMRC has said that it will introduce a new penalty regime where businesses fail to comply with filing obligations.

A business will be expected to file all digital returns by a given deadline and any failure to do so will accumulate penalty points (a bit like the current regime for driving offences). Once a certain number of points have been accumulated, a financial penalty will be imposed. Penalty points will be incurred for the late submission of:

- EU Sales lists
- VAT returns
- Corporation tax returns

A non-compliant business could soon rack up penalty points but HMRC has stated that a 'light touch' will be applied during the early days of MTD.

What should businesses be doing now?

Businesses need to look at the reports that the accounting systems generate in order to assess whether the changes required by MTD are likely to be minor or significant. Most of the well-known brands of accounting software do already have the facility to file a return using the software. However, this does not extend to any other data that HMRC requires for the "summary". In addition, the current software is configured to submit the return via the Government Gateway and this is likely to change to a portal on .GOV.uk at the same time.

The two step authorisation process currently in use for Self-Assessment is being rolled out for all taxes. This means that businesses will need to authorise everyone who is able to submit the return separately, otherwise the main person authorised will have to provide the authorisation code to all relevant staff for each return., or only have one person responsible for submitting the return using the software.

Depending upon the level of detail required by HMRC, it will be important for businesses to ensure that the data submitted under MTD is free of error before submission, as it is likely that HMRC will interrogate the data for errors and it will then not be possible to make an unprompted disclosure for penalty purposes. The penalties for "prompted" disclosures of errors are significantly higher than for "unprompted" errors.

Automation and process

Businesses that have multiple legacy systems or who need to make manual adjustments, will more than likely be forced to invest in additional technology, ranging from middleware,

software upgrades, new ERP implementations or specialist VAT compliance software.

Both software companies and businesses will want to develop and implement technology solutions that are scalable across different countries, to ensure consistency in data and process. It will be interesting to see to what extent HMRC will seek to build on established guidance from the OECD on Standard Audit File for Tax Purposes (SAF-T) and other similar digital tax filings developed by European tax authorities.

HMRC should provide clear details on the new requirements at the earliest opportunity to enable software companies (both traditional accounting systems and also specialist tax technology firms) to add the new UK digital filings to their development roadmap.

However, regardless of what technology solution businesses adopt, there will also be key considerations across people, process and data. Businesses would be wise to start reviewing the quality and granularity of their tax and transactional data currently available and also where it currently resides. Any change in software or filing will impact established processes and will more than likely require training and changes to manuals and guidance.

Summary

HMRC's timetable for the introduction of MTD is ambitious. During the consultation process that ended on 7 November 2016, HMRC were urged to reconsider the implementation date(s) for the various business taxes. Presently, however, it seems that HMRC intends to stick to its original plan even though this is likely to also coincide with the UK leaving the European Union and all of the tax implications that follow from that.

This all means that there is no time like the present. Time is of the essence and businesses should start to make plans for the changes now. Grant Thornton UK LLP will continue to liaise with HMRC as the implementation dates get closer and we will provide updates on progress of the making tax digital strategy as and when appropriate. In the meantime, if you wish to chat through what MTD tax digital means to you and your business, please contact us.

Further information

Please feel free to get in contact if you would like further information.

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