

E-BOOK

Making Tax Digital - The Next Phase

A quick guide for VAT registered businesses



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Making TAX
DIGITAL

What is Making Tax Digital (MTD)?

Making Tax Digital (MTD) is part of government plans to make it easier for businesses to get their tax right.

MTD will require all VAT registered businesses to digitally record their VAT transactions and submit their VAT returns to HMRC with specialised Cloud Accounting software.

The goal of MTD is to make tax:

- ✓ More effective
- ✓ More efficient
- ✓ Reduce the risk of mistakes



Who will be affected by MTD and when?

All UK businesses that are VAT registered and above the £85,000 VAT threshold will now be required to keep accounting records digitally and submitting their VAT returns to HMRC with specialised cloud accounting software.

The government will be introducing the digital system for all VAT-registered businesses with a taxable turnover below £85,000 by **April 2022**.

By **April 2024** all VAT-registered businesses and unincorporated businesses ie. self-employed, partnerships with business or property income that only have individuals as partners and landlords, will need to submit their tax returns digitally using compatible cloud accounting software.

Making Tax Digital for Corporation Tax will not be mandated until at least **April 2026**.

There are exemptions to comply for those that do not use computers for religious reasons and those that are unable to comply because of age, disability or location – claims for exemption need to be made directly to HMRC.

Timeline of key dates



All VAT registered businesses *above* the threshold must submit returns digitally.



All VAT registered businesses *below* the threshold must submit returns digitally.



All unincorporated businesses with annual business or property income above £10,000 will need to follow MTD Income Tax rules for their next accounting period on or after April 2024.



Making Tax Digital for Corporation Tax will not be mandated until at least April 2026.

Getting your business ready for MTD

It is vital to establish how you will comply with these new regulations and make sufficient plans and decisions in readiness for these changes.

What processes might you need to change?

It is required that all eligible businesses use software to submit their VAT returns digitally. Paper records will no longer meet the legal requirements in tax legislation.

A business must either use HMRC compatible accounting software, 'bridging software' (mainly for spreadsheet users) or appoint an agent to submit returns to HMRC on their behalf.

| FORECASTING | BUDGETING | PLANNING | HMRC | VAT |

Could you be impacted by the change in the next 12 months?

If your business is currently under the £85,000 turnover VAT threshold, could you foresee going over this in the next 12 months? If so, while you're not impacted from day one, you will be as soon as you hit this threshold.

Embracing the upcoming changes early is not only the best way to prepare to stay compliant, but also to unlock the key business benefits of effective planning, forecasting and budgeting. By adopting a Cloud Accounting platform you'll keep a closer eye on your finances and have advance warning of future tax obligations.

Getting your business ready for MTD ...continued

What is considered HMRC compatible software?

HMRC have officially recognised a number of software providers supporting Making Tax Digital for VAT. Honey Barrett have chosen Xero, Sage Business Cloud and QuickBooks as our Cloud Accounting partners. HMRC lists all three as software that will be compatible with MTD for VAT.



Xero

Xero is one of the world leading cloud-based accounting software packages for small to medium sized businesses. Honey Barrett are certified Xero Gold Partners. We can provide training, bookkeeping services and ongoing support.



Sage Business Cloud

Sage Business Cloud Accounting is the perfect accounting assistant, allowing you to track costs, reconcile accounts, work from anywhere, and stay compliant. Honey Barrett are Sage Priority Club Members.



QuickBooks

QuickBooks is a business accounting software program used to manage sales and expenses and keep track of daily transactions. It can be used to invoice customers, pay bills, generate reports for planning, tax filing, and more.

Your next steps with Honey Barrett

Honey Barrett can advise on and discuss all available options to ensure a proactive approach is taken to address these mandatory changes.

We can offer demonstrations of the cloud-based MTD compliant accounting software we have chosen to partner with at your convenience.

For those wishing to continue to use Excel spreadsheets, we offer a service to review your VAT return on a quarterly basis and make relevant submissions to HMRC.

Alternatively we are able to recommend 'bridging software' for spreadsheet users, or other accounting software that will ensure that you do not miss the deadline for compliance.

If you would like to talk to a Making Tax Digital Advisor or you have any questions about the changes, please don't hesitate to contact us at one of our offices.

Eastbourne

☎ 01323 412277

✉ eastbourne@honeybarrett.co.uk

Bexhill

☎ 01424 730345

✉ bexhill@honeybarrett.co.uk

Wadhurst

☎ 01892 784321

✉ wadhurst@honeybarrett.co.uk

www.honeybarrett.co.uk

