

# Making Tax Digital for Income Tax – Are you Ready?

*Sage has your back  
every step of the way*

# Agenda



Recap on Making Tax Digital



Making Tax Digital Roadmap & Timescales



What the proposed legislation means



When and which clients will be impacted



How Sage will help and support you & your clients



Q&A's

# Recap on Making Tax Digital

# MTD for VAT so far .....



Over **1.5 million** sign-ups for MTD for VAT so far

Over **89% of all business** mandated to join MTD for VAT are now signed up to the MTD service

**c30% of non-mandated** businesses have signed up to submit MTD VAT returns voluntarily

Over **11 million** VAT returns have been successfully submitted through the MTD service

## MTD evaluation for VAT published in March 2020 found that:

Some businesses had already reported wider productivity gains and reductions in input errors

Businesses using fully automated MTD software were starting to benefit from improving working practices, reducing scope for error and time savings

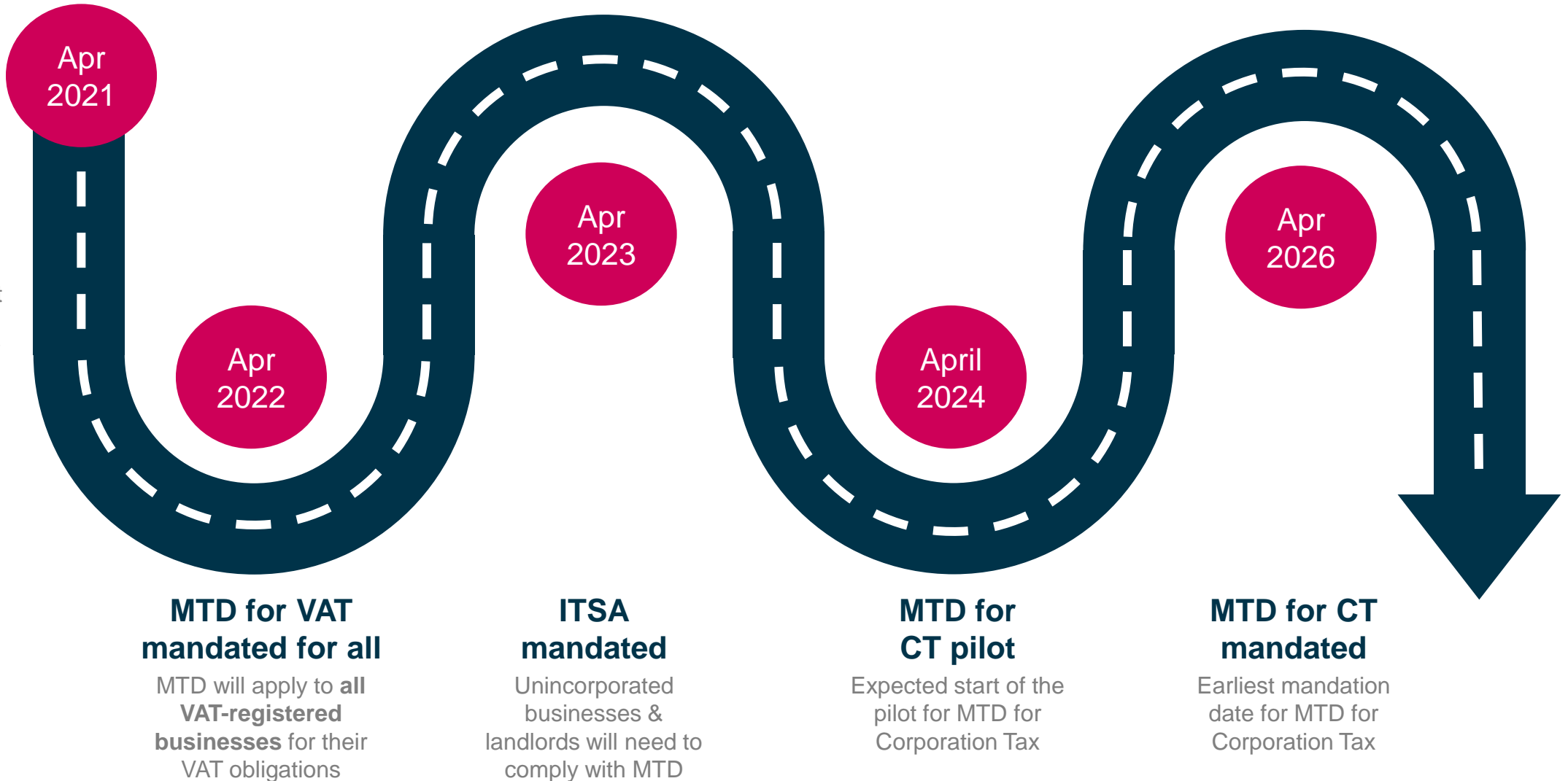
MTD had the potential to be a significant driver of technology uptake among businesses

# HMRC Roadmap & Timelines



## End of MTD VAT digital link soft landing

HMRC mandating  
use of **digital  
links** from record  
keeping to  
submission for first  
VAT return period  
starting on or after  
**1 April 2021**





# Introduction to MTD for Income Tax

# Introduction to MTD for ITSA



- Finance (No.2) Act 2017 provides certainty about the broad framework in which Making Tax Digital will operate
- Secondary legislation for VAT came into force from April 2019
- Income Tax (Digital Requirements) Regulations 2021 draft SI



Self-employed businesses and landlords with annual business or property income above £10,000 will need to follow the rules for MTD for Income Tax from their next accounting period starting on or after 6 April 2023



- Keep digital records of income and expenses for each business
- Update HMRC at least every 3 months via software
- Submit allowances & adjustments for each business at least once a year
- Finalise of business income sources with an End of Period Statement

# Who is affected



**Landlords**  
900k



**Sole trade  
businesses**  
2,535k



**Partnerships**  
450k

**Second income:  
Landlords**

Primary income is from employment, they don't see themselves as 'business owners'

**Second income:  
Non-landlords**

Primary income is from employment & have a side line, often gig workers & early start ups

**Self-employed:  
Blue collar**

Self-employed trades people, such as plumbers & electricians

**Self-employed:  
White collar**

Self-employed working in an office or other professional environment

**Client  
challenges**

**Type of  
records**

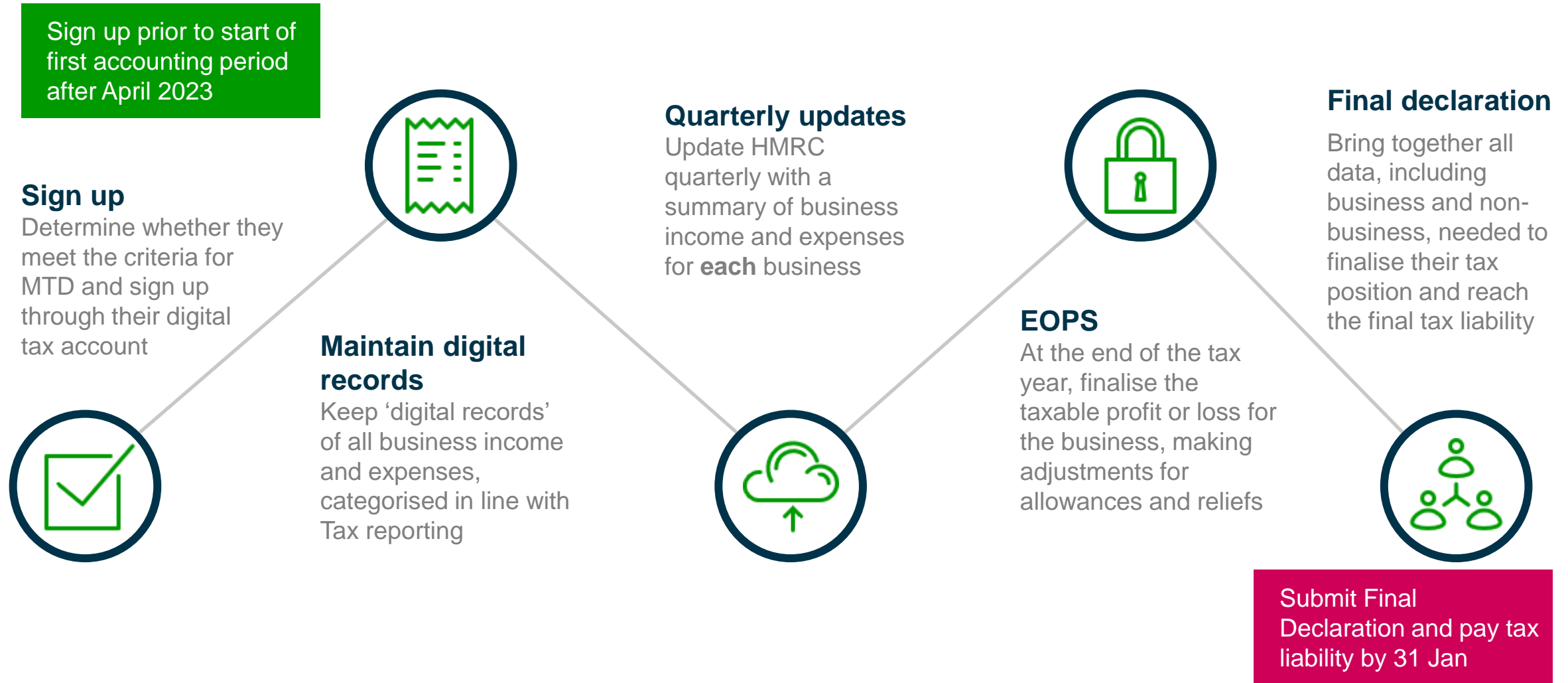
**Quality of  
records**

**Feeling  
towards tax  
returns**

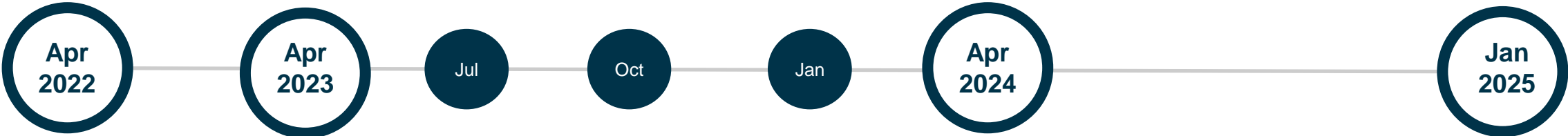
**Future  
business  
needs**



# What It Means For Those Affected



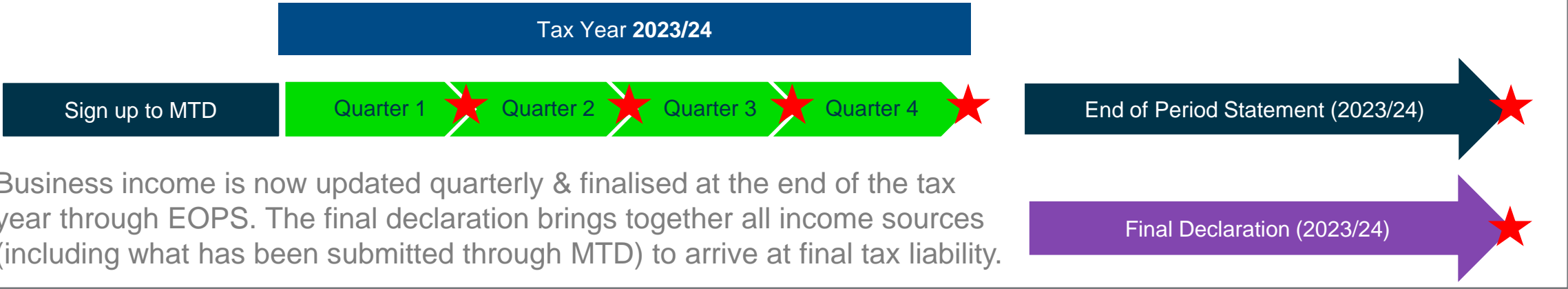
# What it means in Year 1



## Self assessment: Non MTD



## Self assessment: MTD





## Sign Up

- Businesses that fall within the scope of MTD will need to be signed up prior to the start of their first accounting period post April 2023.
- Driving awareness with clients will be key to ensure a smooth transition, keep in mind overlap with previous tax year.
- Clients can sign up directly or by you as their agent. You'll need to be authorised to act for the client to do this.
- Expected that there will be a sign up 'window' for each business, depending on their accounting year end.



- ✓ Segmenting your base will help to identify clients early & manage the process.
- ✓ The business accounting period start & end dates will determine when they need to transition.
- ✓ Identify clients with more than one eligible business.



# Maintain Digital Records

- ‘Digital records’ for a business means records of each of the transactions made in the course of the business, including amount, dates and HMRC tax categories.
- Keeping only paper records will no longer be acceptable.
- Spreadsheets will continue to be accepted, but compatible software will be needed to send the updates to HMRC, retaining digital links.
- Date, amount & tax category must be captured as a minimum.

**Digital link: that is, no manual intervention is required anywhere in the process, from record keeping through to submission.**

For example, linked cells in a spreadsheet, XML or CSV import or an API transfer.

**COPY & PASTE IS NOT A DIGITAL LINK**



- ✓ Start getting clients in to ‘good habits’ now when it comes to record keeping.
- ✓ Promote benefits of efficiencies of ‘going digital’.
- ✓ Consider process for distinguishing transactions where there’s more than one business.



# Update HMRC Quarterly

“An electronic submission of summary totals for specified categories from the digital records of **each business** on a quarterly basis (obligation period) from the software to HMRC.”

- The first submission should include ‘designatory data’ about the tax payer & the business.
- Updates are due from 10 days before, to one month after the quarter end date.
- The update does not need to include a statement that the data is complete & accurate – no tax is paid at this point.
- HMRC return a calculation of the tax liability based on the information sent.



- ✓ Consider the impact on your work load of more frequent reporting.
- ✓ Revised terms of engagement & fees.
- ✓ Consider the accuracy of a tax estimate.
- ✓ Remember updates are for each business.





# End of Period Statement

sage

- Process to **finalise** the taxable profit or allowable loss for **any one source** of business income.
- The process will pull the information already submitted in the quarterly updates & make adjustments/additional information – such as allowances & reliefs.
- If not already included in quarterly updates, disallowable expenditure must be adjusted for.
- The submission must include a declaration that the information is complete & correct.
- Once submitted, HMRC return a tax calculation.



- ✓ Consider the benefits of filing immediately after the tax year.
- ✓ Annual adjustments can be submitted 'real time' – you don't have to wait.



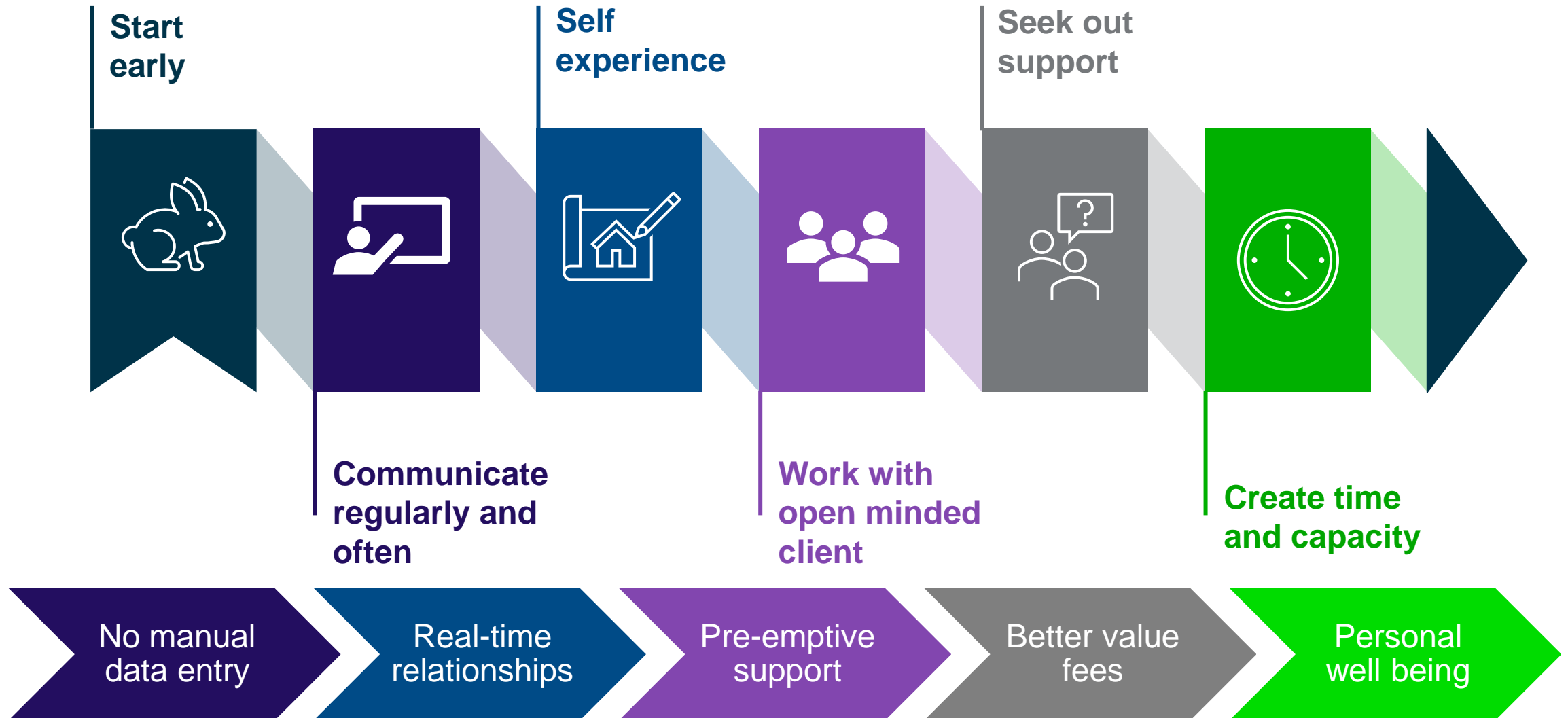
# Final Declaration

- Also referred to as crystallisation, this is the process to bring together all data needed to finalise tax position & reach the final tax liability.
- It takes in to account all sources of income & gains, whether business or otherwise.
- It effectively replaces the SA100 tax return.
- 31 January deadline for filing & payment of tax.
- Any income tax liability must also be paid by 31 January.
- HMRC will provide a Submission Interface to allow filing without the need for software.



- ✓ Think about the full end to end workflow.
- ✓ Encourage clients to provide more 'real time' updates on non-business income sources.
- ✓ End of the January rush?

# What did we learn from MTD for VAT?



# MTD – your 4 step journey



- Headspace
- Practice MTD strategy and pricing
- Understand HMRC proposals & educate team
- Identify Sponsor and Champion in your firm
- Review software, process, authorisation, engagement
- Agent Services Account (part 2)

## Plan & prepare



**Be MTD  
ready**

## Client segmentation



- Trading types by client (could be multiple)
- Year ends
- Bookkeeping method – software, manual, Excel
- Rank and capability – skill vs. will

- Onboarding
- Configuration
- Training
- Review
- Service plan
- Record and monitor
  - # checked + converted
  - # adopting automation # seeking advisory

## Onboard & measure



## Communication



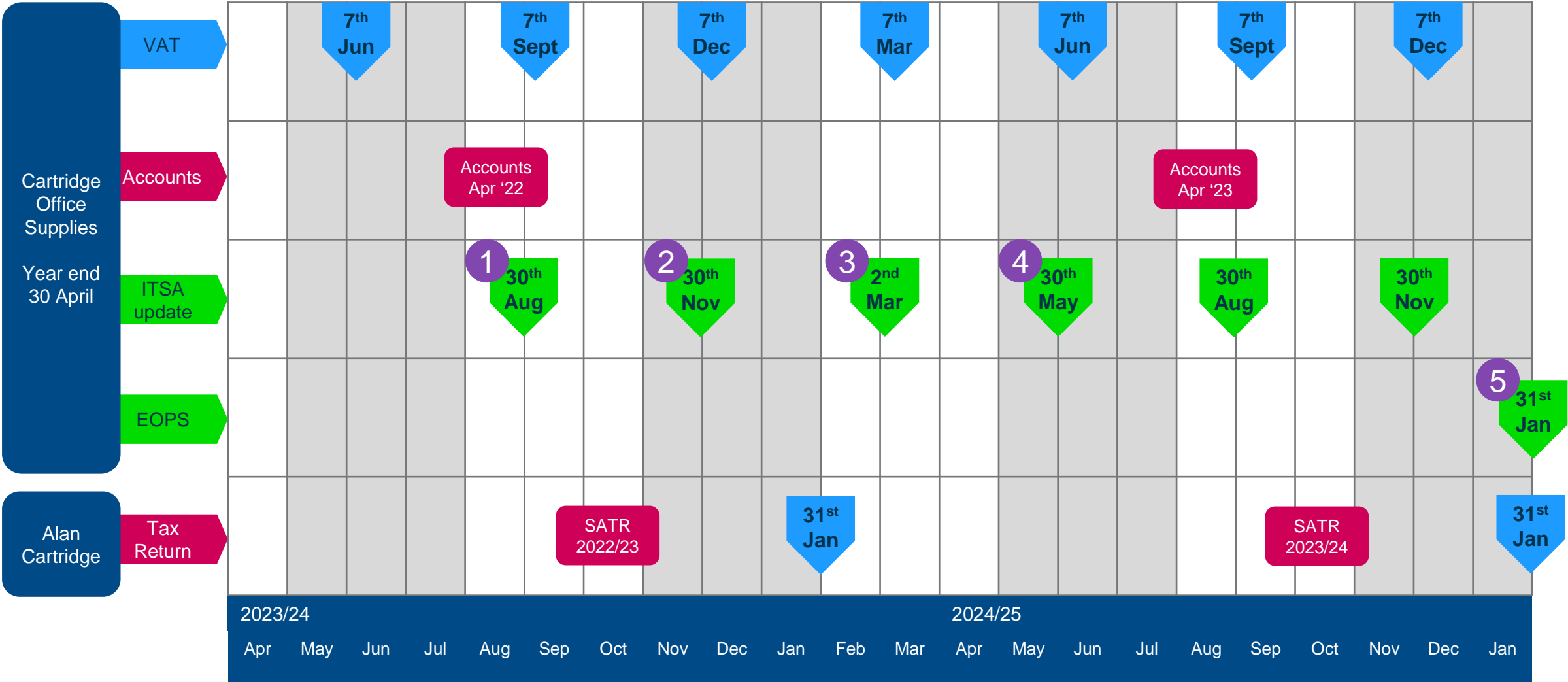
- Who and when
- Client communications – emails, letters, calls, visits, webinars/client seminars
- Practice – social, blogs, video
- Timing

Discovery meeting

MTD solution

Onboard & keep informed

# Submission Timeline | from April 2023








# Challenges and Priorities



## Priorities

	Segmentation
	Business bank accounts
	Capturing revenue values for 2021/22 including BTL
	Awareness with clients, changing habits and behaviours
	Awareness with colleagues

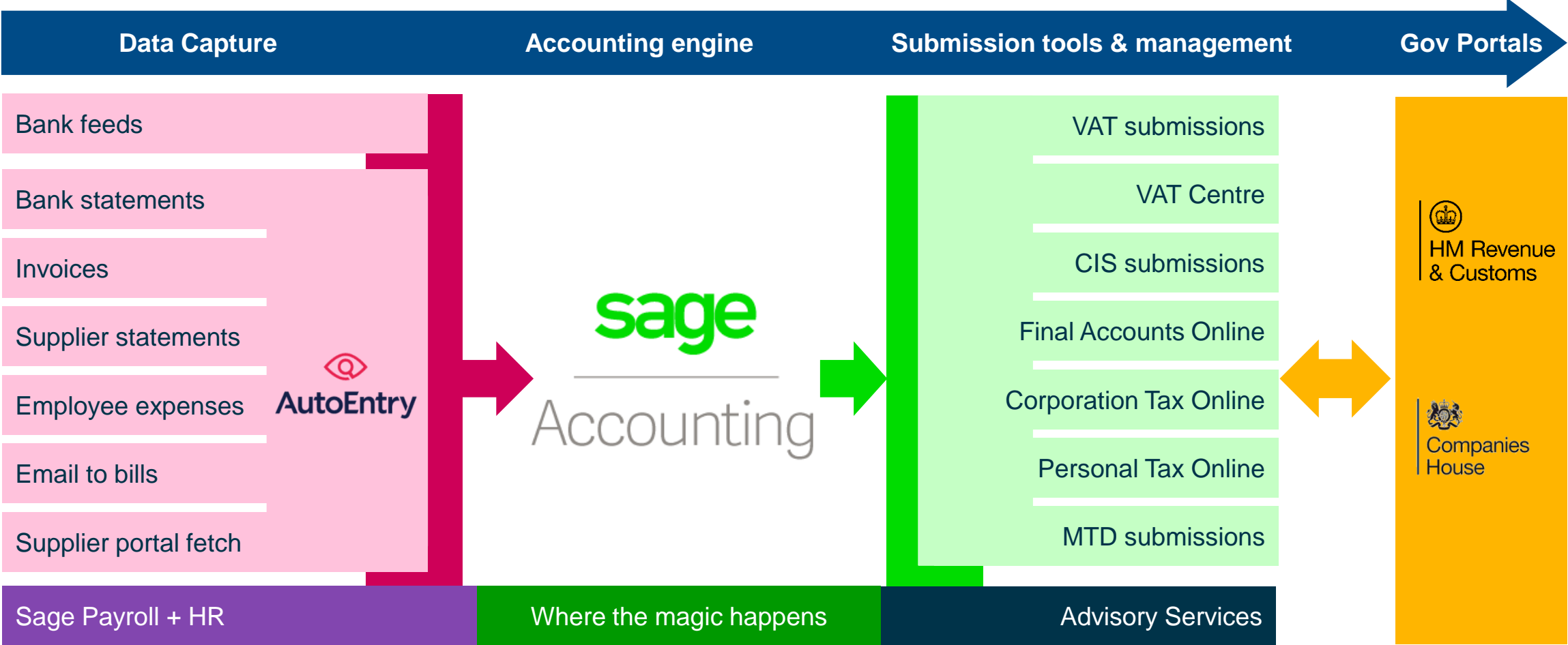
## Key challenges

Review, reprice, re-engage every client. Set fees? Clients on instalment plan?
Letters of engagement
Creating multi-discipline skills sets within departments and keeping on top of legislation
Reviewing internal operations, increasing automation, increase delegation of approval, managing risk
Transform the way you work today

## What are your needs?

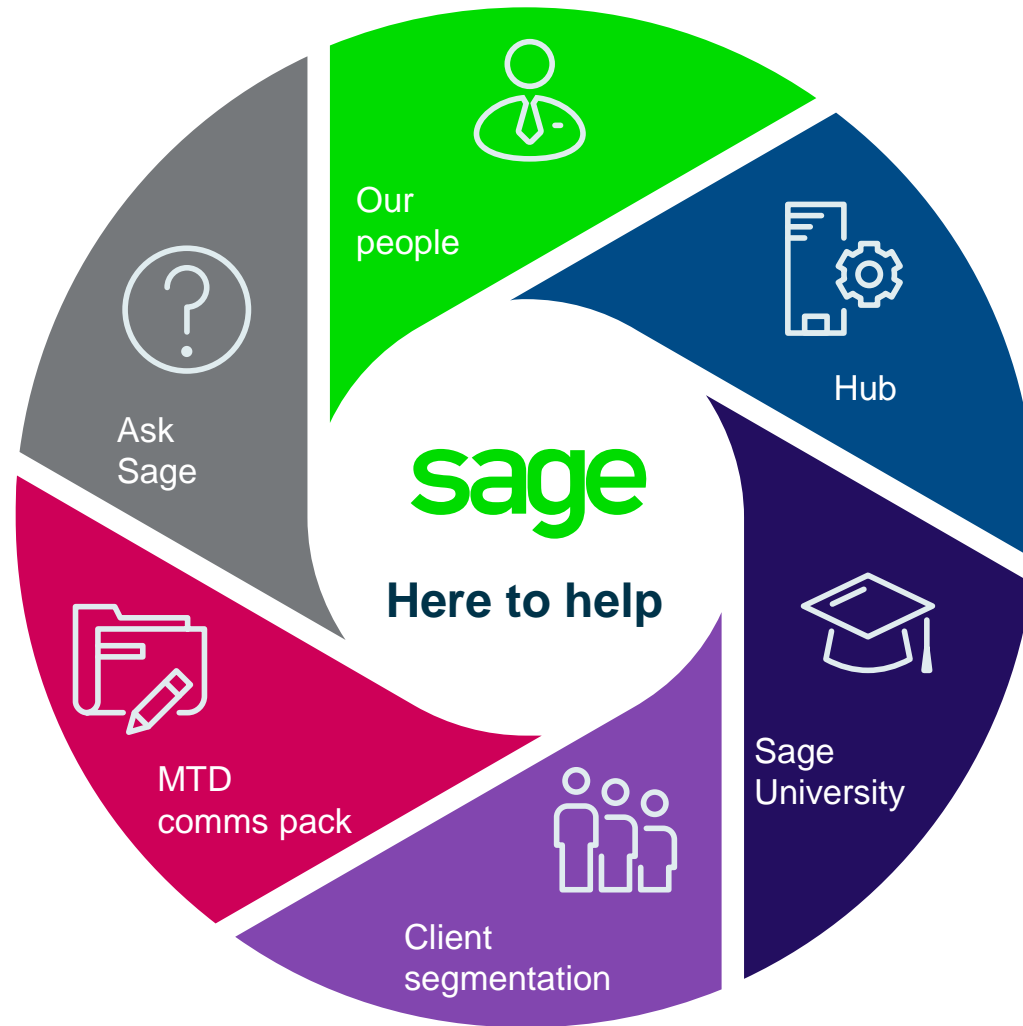
- 1 Productivity, Performance and Profitability
- 2 Support with operational change
- 3 Leveraging value from being more digital

# Optimising the workflow to improve productivity



2021 is the year to grasp, plan, execute and optimise in this dawn of digital euphoria

# Help from Sage





## Questions from the audience