

# Making Tax Digital: what small businesses and the self-employed need to know

by Sam Bromley

## What is Making Tax Digital?

To improve efficiency, HMRC want to go paperless. Making Tax Digital involves keeping digital records and using software to complete tax returns. Eventually, keeping paper records won't meet the requirements of tax legislation.

HMRC say that Making Tax Digital is an important part of the government's plans to "make it easier for individuals and businesses to get their tax right and keep on top of their affairs."

HMRC already introduced the personal tax account in 2015, which they hoped would help make it easier for people to manage their tax affairs.

HMRC are phasing in Making Tax Digital gradually. Making Tax Digital for VAT will start from **1 April 2019, affecting VAT-registered businesses with a taxable turnover above the VAT threshold of £85,000.**

Eventually HMRC will introduce Making Tax Digital for Income Tax and Corporation Tax. What's more, it's expected they'll extend Making Tax Digital to all VAT-registered businesses, but there's little detail on this at the moment. The earliest these changes will be phased in from is **April 2020**.

## Making Tax Digital: timeline

The government originally wanted to phase Making Tax Digital in completely between 2018 and 2021. But after consultation with the industry, the first stage only becomes compulsory for VAT-registered businesses from April 2019.

- **April 2019** – VAT-registered businesses with a taxable turnover above the VAT threshold of £85,000 need to keep digital records and submit digital VAT returns using compatible software (some 'more complex' businesses\* get a six-month deferral)

- **October 2019** – more complex businesses who were deferred need to comply with Making Tax Digital
- **April 2020** (at the earliest) – HMRC will implement Making Tax Digital for Income Tax and Corporation Tax (self-employed people and landlords can currently sign up for the Income Tax pilot, instead of filing Self Assessment returns)

\*'more complex' businesses include trusts, 'not for profit' organisations that are not set up as a company, VAT divisions, VAT groups, those public sector entities required to provide additional information on their VAT return (Government departments, NHS Trusts), local authorities, public corporations, traders based overseas, those required to make payments on account and annual accounting scheme users.

## Making Tax Digital for business

Making Tax Digital only affects [VAT-registered businesses](#) from April 2019 – but eventually, all businesses will have to comply. Here's what the different phases mean for businesses across the UK.

## Making Tax Digital for VAT

VAT-registered businesses with taxable turnover above the VAT registration threshold (£85,000 currently) will need to keep digital records and send digital VAT returns from April 2019. For lots of businesses, this means from accounting periods starting on or after 1 April 2019.

If your business has taxable turnover below the VAT threshold, you can still sign up to Making Tax Digital voluntarily.

HMRC encourages this, claiming software will help you “better understand how your business is performing.”

HMRC say the digital records you need to keep include:

- the time of supply (tax point), the value of the supply (net excluding VAT) and the rate of VAT charged for each supply
- information about your business, including business name and principal business address
- your business's VAT registration number and details of any VAT accounting schemes you use

You should use compatible software to submit your returns (see examples of compatible software below). This will pull information from your digital records, which need to be preserved for up to six years.

You can use spreadsheets to calculate or summarise VAT transactions and work out what information you need to send to HMRC. But ultimately you'll need to use compatible software to send that information. You might also need what HMRC calls 'bridging software', which converts your records to the right format before you submit.

## Making Tax Digital for individuals (Income Tax)

It's not compulsory (yet) but self-employed people and landlords can sign up for a digital tax returns pilot scheme.

The pilot lets you keep records digitally and send [Income Tax](#) updates to HMRC instead of filing a Self Assessment tax return.

HMRC say this leads to a more real-time system and lets you see how much Income Tax you might owe as you go.

Both **sole traders with income from one business and landlords who rent out UK property (excluding furnished holiday lettings)** can sign up.

You'll need to use compatible software to keep records and send an income and expenses summary to HMRC every three months. You'll be able to see estimates of how much tax you'll owe.

At the end of the accounting year, you'll send a final report and your tax for the year will be calculated. This is the point at which you'll claim any allowances and reliefs.

## Making Tax Digital for Corporation Tax

There's not much information out there on when Making Tax Digital will come into play for [Corporation Tax](#). HMRC are waiting to see how the VAT rollout goes first before making any decisions.

The only news we have at the moment is that the earliest it'll be introduced is April 2020.

## Making Tax Digital software

Businesses will need to use compatible software to send digital tax returns. Your digital records don't all have to be in one place, but HMRC wants data to flow and be exchanged digitally between applications by 31 March 2020. Until then you can use copy and paste to transfer information. We have a guide to the [best accounting software for small business](#).

The product you use to submit digital tax returns needs to be compatible with HMRC. [HMRC has a list of compatible software](#) – examples include Xero, Quickbooks, and Zoho.

Businesses that don't already use accounting software are likely to face one-off and ongoing costs. There are also likely to be costs when training staff to use the software and comply with Making Tax Digital.

While the government has estimated costs of £70 a year over four years for small businesses implementing Making Tax Digital, the Institute of Chartered Accountants in England and Wales puts it at £1,250.

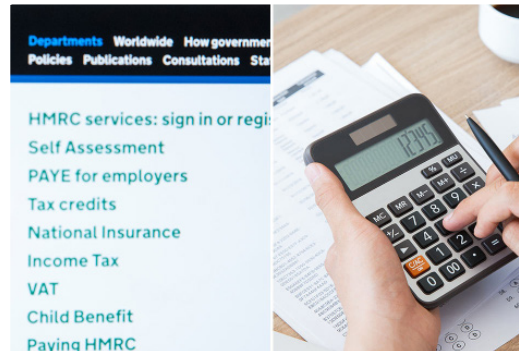
## Further reading



### What is IR35? A guide for the self-employed

This is what contractors and freelancers should know about IR35 rules.

[Read more](#)



### The self-employed guide to Self Assessment tax returns

Here's what you need to know about completing your tax return.

[Read more](#)



### Self-employed tax deductible expenses: what can I claim?

In-depth guide to self-employed tax deductible expenses.

[Read more](#)