

Making Tax Digital

Arezou Ahmadkhan
Mehrnaz Dashti
Solmaz Safari

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Executive Summary

This assignment will talk about MTD introduction by HMRC. First it will define what MTD is and the benefits of going digital such as tax being simplified this can help businesses check their tax and bring all the important information in one place also it can be accessed at any time. "Making tax digital for business" and "tax being in one place", HMRC will start this program from April 2018 to collect information and will give every business a unique user code, therefore businesses can access their statistics online at any time. The assignment will then explain making it more efficient for businesses and how it will allow businesses to spot mistakes quicker rather than using paper forms. It will be clarified how the role of accountants will change and will no longer ask them to work fixed hours but will allow flexibility. It will be talked of how accountancy is changing and going towards being more digital and how HMRC needs to catch up with technology to keep up to date and on track of achieving its goal of being best digitalised tax firm in the world. It will be explained how easy the digital application will be to use by businesses and how it will put everyone at ease the business owners, their accountants and HMRC itself as less mistakes are expected to happen. It will be further explained about more benefits of using MTD this time reflecting on HMRC itself and how it will benefit of less mistakes, less delays and more accurate information. Lastly the assignment will talk about the cost and readiness of HMRC to introduce the MTD system to businesses. The assignment will go over the main points HMRC has to meet before going digital. Making sure that everything is ready before launch is vital part as it will define the success.

In March 2015, recent tax system proposed changed and developed to a digital tax system which means is the end of the yearly tax return for million-taxpayers. Making Tax Digital (MTD) service is a part of HMRC's plan has been proposed as a modern digital project to make it tax information online correct for all individuals and companies, which is essential for any businesses to hold their tax records and offer to HMRC quarterly. (The Treasury Committee, 2017) The quarterly update included a short sum of a taxpayer digital record of revenue and expenses. MTD system since the presentation as a self-assessment system has caused a big change in the UK tax system that taxpayer can get their annual tax return. (Jigsaw Research, Making Tax Digital for Businesses, 2017) However, businesses under the MTD system will be beginning keeping and reporting their record for income tax and National insurance and VAT from April 2019. HMRC believed the MTD system is the easiest way for the taxpayer to keep their tax obligation. (HMRC, HM Revenue, 2017)

Definition of Making Tax Digital

In December 2015, David Gauke defined: making tax digital (MTD) is a project name of the HMRC transformation scheme to digital modernise tax government project by beginning tax digital services in the world. The object of introducing the system is an automatic system, which is more impressive and practicable for the individual and businesses to submit their accounts and tax returns. (Gauke, 2016)

HMRC defined four core of the MTD, which described some change the suchlike timeline and several aids to individual and business's taxpayer. In this report, we will be discussing the four key foundations, which included: Tax Simplified, Making Tax Digital for Businesses, and Making Tax Digital For Individual Taxpayers, Tax in One Place. (HMRC, 2017) It sets out the following four key objectives:

1.Tax simplified

Individual taxpayers and businesses under Digital tax account could check their tax and bring all main elements their need it in one place based on the correction will happen with complete and correct of the information. Simplifying tax will able taxpayers to access the more personally custom-made services, which are provided according to taxpayer's position at any time. (Capium, 2017)

2.Making tax digital for businesses

HMRC would start a process to collect the information in time better than before. Every business has an own digital tax account that would be an easier way to report their information to HMRC. Businesses from April 2018 will be able to update a quarter and does not have to wait until the end of the financial tax year to pay their tax. It is not necessary for companies to update anything other than essential information as long as they keep the needed info. (HMRC, 2017)

3.Tax in one place

A system where taxpayers can view a single picture of all of their obligation and entitlements information in one place, which will be started by 2020.taxpayer, will be able to offset an overpayment of on tax against the underpayment of another, who will fell similar paying one tax. (Capium, 2017)

4.Making tax digital for individual taxpayers

All individual taxpayer currently has availability to the own personal digital tax account, which frequently developed. Also, they are to become too connected online digital services by web chat and safe messaging services. (HMRC, 2017) Making tax digital for the individual is arranged the Personal Tax account (PTA), which provide lots of clear, services whom PAYE taxpayer needed. HMRC required and recovers and improves full services to some of those who are completing self-assessment tax returns. (CIMA, 2017)

The Benefits of Making Tax Digital

The United Kingdom eventually benefit significantly due to making tax digital, it helps government to collect revenue faster and makes accountants more efficient. (HMRC, 2017)

- More Efficient Businesses

Nowadays the internet is more accessible and most people can use it for shopping, internet banking and communicating with the government. so, because of this instead of using paper for tax, businesses and individuals could use digital systems to handle taxes. (ACCA, MAKING TAX DIGITAL, 2016)

Submitting tax returns once a year and relying on paper, leads to mistakes which cost everyone. HMRC estimates that “a cost to the Exchequer of over £8 billion a year due to avoidable taxpayer mistakes. In 2014 to 2015 over £3.5 billion of revenue was lost due to these mistakes in VAT returns alone.” (HMRC, 2017)

With accounting software and technology, an accountant can discover mistakes as they happen and by entering the business expenses in QuickBooks they could claim them back easily. As digital systems are real time, accountants would know how much a business owes in taxes instead of guessing how much they will have to pay. (ACCA, 2016)

- Changing the Role of Accountants

Some accountants assert that making tax digital will make their work harder because they have to file taxes four times instead of once a year, it means they spend four times more time supplying relevant information. But in fact, changes in making tax digital will help accounting professionals and accounting will not be a 9 to 5 profession and could be done remotely via the internet. But this will take time to fully implement and over the long run accounting software will take over much of that chasing for information, as accountants will do more than ensure compliance. (ACCA, 2017)

But as noted above, many of these supposedly reluctant clients are in fact steadily moving towards digitized accounting themselves and reaping the rewards. This will take time and pressure to fully implement, which is precisely why MTD is necessary. But over the long run, accounting software will take over much of that chasing for information, as accountants will do more than ensure compliance. (ACCA, 2016)

- Subcontractors

HMRC hold everything that it needs and removing the need for taxpayer to provide it.

cash flow is clear for HMRC so reducing the tax evasion.

Minimising the time delay and likelihood of missing the deadline to pay tax liability.

An authorised agent will be able to manage tax affairs digitally on behalf of company.

HMRC online help will be available via web chat to help with personal tax affairs. (HMRC, 2015)

According to HMRC website making tax digital provides several key benefits to taxpayers: (accountingweb, 2017)

Ease of use – taxpayers could contact HMRC via an online tax account and some information could be uploaded to HMRC automatically.

Reduced Paperwork – duplication minimised as taxpayers won't have to inform HMRC of information it already possesses

Reduced delays-as making tax digital is on a more real-time basis, contributors need to be updated in terms of reducing errors, missed deadlines, debts and penalties

Convenience -tax tasks, for instance filing, registration, payment and updating information can be operated wherever and whenever is convenient.

Making tax digital cost

More than 80% of accountants estimated the cost to a small business to implement Making Tax Digital will be more than £200. Nearly half put the figure between £200 to £500, 27% predict somewhere between £500 and £1,000, and 9% go higher than £1,000 with their estimates. (Bill Committee, 2017)

HMRC's own figure of the true cost of MTD ranges from £280 up to nearly £3,000 per business. (HMRC, 2017)

Readiness for make tax digital in business

HM Revenue and Customs Research identified three main factors influencing taxpayers' readiness to agree with the requirements: (HMRC, 2017)

Having enough digital capability for using the software on digital devices. This is the combination of being confident with using digital devices and also having the infrastructure in place.

Being willing to make the transition to MTD, for a remarkable ratio of customers, MTD would mean a change in their current tax practice. Taxpayers need to understand the benefits of a new tax system to encourage them to change their practice. Some customers are attached emotionally to their practice, which they believe works well and systematic, albeit offline. Some consider that the possible negative consequence outweighed any positive aspect of digitalization and were therefore reluctant to change.

Having the ability to overcome barriers that stop smooth and easy transition. The main barriers to making tax digital are around time burdens, cost, ICT skills and the impact on how they use agents. Barriers are both physical (for instance not having enough time to prepare tax related information four times in a year) and psychological (for instance general lack of trust in technology)

Conclusion

HMRC introduced MTD project (making tax digital) in 2015 which allowed taxpayers to fill their tax return online rather than filling in paperwork and sending it off. It allowed more flexibility on SME owners and sole traders. Tax was simplified, using MTD made tax returns easier to understand allowing taxpayers to view all relevant information in one place. MTD is cost effective meaning that when every business has its own unique code to access HMRC tax website it is less likely to make mistakes as it would be using paper forms send in by post. When accountant makes the entries online it is easier to spot mistakes and easier to correct them. Accounting will no longer be a 9-5 job but will allow flexibility. The accountant will be able to fill in tax return anytime and anywhere even from the comfort of their own home.

Personal tax payers can already use the tool and are finding it very handy, introduction of the tool to business owners will be a revolution. If HMRC wants to achieve its objective of being the best digitalised tax return system in the world, it has to be prepared before launch and has to make sure that it has everything in place for the launch of MTD such as willingly overcome barriers arising with the launch and having enough digital capacity.

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Appendix

Current breakdown of Administrative Burden impacts (all £m)

Profile (£m)	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022	2022 to 2023
Steady-state (on-going) costs	£2	£46	£52	£52	£52
Administrative burden (on-going) savings	£0	(£8)	(£16)	(£16)	(£16)
Transitional (one-off) costs	£4	£111	£16	£0	£0
Net impact	£5	£149	£52	£37	£37