



**THOMPSON
WRIGHT**
CHARTERED ACCOUNTANTS

A Guide to Making Tax Digital



What is Making Tax Digital?

Making Tax Digital (MTD) is HM Revenue & Customs (HMRC) initiative to digitise the UK tax system through the phasing in of new digital tax recording and reporting requirements.

This scheme aims to bring the UK's tax system into the modern era by innovating the approach that businesses use to report their affairs.

Under MTD, businesses and other taxpayers need to use HMRC-compliant software and processes to submit information digitally every quarter.

This will help to ensure that the tax information HMRC holds is accurate and up to date.

Although businesses may need to make a greater number of submissions each year, the point at which tax is due will remain unchanged.

At present, MTD has only been integrated into the VAT system, but it will eventually be phased in for all forms of taxation over the next few years.



Making Tax Digital for VAT

Almost all VAT-registered businesses earning above the VAT threshold (currently £85,000) must now keep their records digitally and submit their VAT returns using MTD-compatible software each quarter.

Any business registered for VAT, but not earning above the VAT threshold, can still sign up for MTD, but only on a voluntary basis.

However, VAT-registered businesses with a taxable turnover below £85,000 will be required to follow MTD rules for their first return starting on or after April 2022.

Please note, the 'soft landing period' for digital links ended in April 2021, which means that businesses face potential penalties if they do not use HMRC-compliant software or process to report their VAT affairs.

What is MTD-compatible software?

If your accounting software is 'MTD-compatible', it has the facility for VAT Returns to be filed with HMRC and receive information back from HMRC directly, such as confirmation that a VAT Return has been received.

HMRC has published a list of accounting software providers who currently have MTD-compatible software.

However, we can help you find online accounting software that is suited to you and your business's needs.



Making Tax Digital for Income Tax

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 accounting periods starting on or after 6 April 2024. General partnerships will also need to comply with these rules from April 2025.

This is the next important phase of MTD and like the requirement for VAT, it will require self-employed businesses and landlords to report income using compliant software on a quarterly basis.

In some cases, businesses and their agents are already using compliant software to keep digital records, which may make this transition simpler.

If you are a self-employed business or landlord you can voluntarily use software to keep business records digitally and send Income Tax updates to HMRC instead of filing a Self-Assessment tax return.

HMRC is currently piloting this system with a select number of businesses to develop an effective Making Tax Digital service for Income Tax.

Making Tax Digital for Corporation Tax

HMRC intends to introduce its MTD initiative into the Corporation Tax regime from 2026 at the earliest.

At the moment, not much has been confirmed about this phase of MTD, as the Government is still consulting with businesses and their agents to help design an effective MTD for Corporate Tax system.

The Government will also provide businesses with an opportunity to take part in a pilot for MTD for Corporation Tax before it becomes mandatory in the years ahead.



How we can help

With the requirements of MTD in mind, we can offer dedicated advice on cloud accounting systems that are compliant with MTD.

Our dedicated cloud solutions can offer you a fully-optimised online accounting service. With just a click of a button, you can access every essential financial tool in one location, empowering you to make decisions that help your business grow and flourish.

Aside from the added advantage of helping you with the digital record-keeping and reporting required for MTD, our online accounting services also offer businesses and individuals many great benefits, such as:

- **Time-saving** – Access your online account in seconds, allowing you to spend more time on what is important – you and your business.
- **All your records in one place** – User-friendly dashboards make finding records, invoices, bills and reports easier than ever before.
- **Software that suits you** – We use the latest and most advanced accountancy software and apps stacks to suit your business's needs.
- **Agile accounting** – Access your records on-the-go from a mobile or tablet device, whenever you need them.
- **Expert advice** – Whether you are already an expert or just starting out, our team will ensure that your business will get the most out of online accounting.
- **Safe and secure** – We only use certified online software with bank-level security and 24/7 customer support.
- **Real-time collaboration** – Work, share and create in real-time with your accountant or another member of your team.

If you would like to find out more about our online accounting services and expertise, please contact us.