

Preparing for making tax digital

If you have not heard of the strapline 'Making Tax Digital' yet, you soon will. If your business prepares VAT returns, then you should already be aware of some of the new requirements.

Since 2019, all VAT registered businesses with a turnover of £85,000 have been required to submit their VAT returns under making tax digital rules. From April 2022, this requirement was extended to all VAT registered businesses.

The next stage of the Making Tax Digital plan is to extend the rules to include the reporting of income tax. Currently it is planned that this will become mandatory for all self-employed businesses and individuals with property income of more than £50,000 from April 2026. The income threshold will then fall to £30,000 from April 2027.

Although this seems quite a long time away, businesses and landlords really do need to start thinking about how they will deal with the changes, so they don't leave it to the last minute. HMRC have already put this deadline back twice and have also changed the criteria slightly, however, it is clear that HMRC are committed to introducing Making Tax Digital at some point and so we must be ready when they do.

It has always been HMRC's intention that this will then be applied to limited companies however there is no date for this yet.

General Requirements of Making Tax Digital

- All transactions must be recorded digitally using a compatible software package or other software such as a compatible spreadsheet.
- If you are using more than one piece of software to record your transactions, then they must be digitally linked.
- You must be able to submit any returns including VAT returns directly from the software to HMRC.

Current Requirements of Making Tax Digital for Income Tax

- You must submit a quarterly update summarising your business income and expenses for each quarter. This must be submitted within one month of the quarter end. The quarter end dates will be 5 July, 5 October, 5 January, and 5 April, although you can choose to use month end dates of 30 June, 30 September, 31 December, and 31 March.
- You must submit an end of period statement. This is a summary of your businesses annual income and expenses including any accounting adjustments and reliefs that you are entitled to. You will also have to confirm that any information submitted is correct and complete. The end of period update must be submitted by 31 January after the end of the tax year.
- You must submit a final declaration. This replaces your tax return and will include any personal income received in the year. This must be submitted by 31 January following the tax year end.
- Any tax payable is still payable by 31 January following the tax year end as it is now.

For more help or advice about any of the ideas covered in this guide, Westcotts is here to help. To contact a member of our team for further advice please find the contact details of your local office on our website by following this link. <https://westcotts.uk/contact-us/>