



Making tax digital

James Fry reveals how proposed changes to the tax system will impact on dental businesses.

The Government announced in the March 2015 Budget a plan to transform the tax system and end tax returns. Her Majesty's Revenue & Customs (HMRC) has been in consultation over 'Making Tax Digital' – a move it sees as simplifying the tax system. This consultation does not apply to companies, but, by 2020, the plan is that HMRC will have moved businesses and individuals to a digitised system. The new system will update tax affairs in close to real time. It will also remove the need to tell HMRC information

which it already holds about you and, as information is automatically uploaded, bring an end to the tax return.

HMRC currently receives information on separate standalone systems. It recognises that taxpayers should not have to give information it already currently holds. HMRC is therefore in the process of joining up its systems – from next year a taxpayer completing his or her own return online will see that any employment income will already be completed on the return.

HMRC also believes that it should be able to collect information on behalf of the taxpayer to ease the reporting burden – for example from banks and building societies. Each taxpayer will have his or her own online account where they will be able to check that the information held about their own affairs is correct.

Those who are self employed currently settle their annual tax at January 31, following the April 5,

tax year end, as well as also making payments on account towards the next tax year on the same day and July 31. Many of these small businesses will not know how much tax they are due to pay until after their end of year accounts have been prepared. HMRC plans to collect accounting information closer to real time to reduce tax owed or repayments due from building up.

Large businesses and landlords will be within the new system from April 2018 and their first quarterly returns will be due in July 2018. Medium sized businesses will be given an extra year and join in 2019, although the criteria to determine which businesses will fall into this category have yet to be announced. Small businesses and landlords with turnover less than £10k per annum will be exempt from reporting. This turnover limit is very low and there is speculation that it may be increased following the consultation period.

Ninety-nine per cent of VAT registered



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business already complete VAT returns online and generally have to prepare that information quarterly. Providing HMRC with additional information at the time of submission of the VAT return arguably has minimal impact to those businesses. Businesses that are not VAT registered – the vast majority of those with a business in the dental sector – will need to put plans in place to be prepared to be able to report regularly to HMRC.

The idea is that businesses will use software to electronically transmit data to HMRC, be it via a computer or smartphone. HMRC argues that by using software that automatically collects the data as part of normal day to day activities, there is less chance for basic errors in the data. HMRC statistics state that £6.5bn is lost a year through error, and it believes that automation is less burdensome than the current system of completing annual returns.

The consultation is discussing when payments of tax will become due, with an aim to bring payments closer to when profits arise. Instead of annual large payments, businesses

may well start to make regular smaller payments of tax to HMRC.

There are a number of positives to be taken from this move. Paying regular amounts of tax to HMRC, rather than singular large payments, will allow businesses to budget more effectively and with greater certainty over cash flow. Having to keep better organised records to be able to provide the required information with HMRC will allow businesses to also review their own performance more regularly. Many business owners and self employed individuals who gather together their invoices once a year and pass them to their accountant at the year-end tend to find they are missing important documents and also receive a shock when the final tax bill is calculated. Keeping organised accounting records allows for better planning and regular meaningful conversations with your business advisers. Rather than a meeting once a year to discuss historical information that could be no longer relevant to the businesses current position, meetings can be held to discuss real time performance. Most accounting

software now has the facility to be shared online with your accountants, so you can instantly look at the same information without the need to be sat in front of the same computer or send copies of the data on an easily lost and unsecure memory stick. HMRC also allows taxpayers to share their online account with their accountants for the same reasons. Having all your information in real time allows for greater collaboration to make proactive and informed decisions with greater certainty.

Undoubtedly, for those in the dental industry making tax digital is going to create extra work in making sure their accounting systems are able to talk to HMRC and provide the necessary information. It is also clear that action needs to be taken sooner rather than later as the implementation date of April 2018, is not far away. The key benefit of having the real time financial position is in giving both greater certainty in decision making and availability of funds; arguably, this advantage outweighs the inconvenience of what is effectively a change in internal administrative procedures for the business owner.



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