

FOCUS ON

# Don't let quarterly tax returns take you by surprise

In the March 2015 Budget the then Chancellor of the Exchequer, George Osborne, announced the end of the personal tax return. During the Autumn Statement on 23 November this year, Philip Hammond seemed set on taking this forward.

Come forth "Making Tax Digital" (MTD) which will mean that all GP practices will be required to make quarterly submissions to HM Revenue & Customs (HMRC) and will also result in significant changes to the way practices will interact with HMRC as digital reporting and digital tax accounts become a reality.

## The Criteria

The vision for MTD is to have a digitalised tax system that is more effective, efficient and easier for taxpayers.

**Digital records** - Businesses will be required to maintain their records on apps or software that is compatible with HMRC's interfaces. Any practices still keeping records manually, or using a spreadsheet such as Excel, are likely to be forced to change.

**Quarterly reporting and the year end declaration** - While it was widely publicised that the government was looking to scrap the annual tax return, it now appears that it will simply be replaced – with four quarterly 'updates' and one final year end declaration.

**Voluntary pay as you go** - Businesses will be able to opt into a pay as you go system for the collective payment of taxes. It has been stated that quarterly tax payments will not be made mandatory during this Parliament, but with discussions of an early General Election given the current political environment, this may come sooner than expected. The cashflow effect of this being introduced could be very damaging when it happens.

## Why is it changing?

- HMRC's aim is to reduce the burden for taxpayers and provide greater certainty over tax bills through direct prompts from HMRC.
- Businesses will not have to wait until the end of the year to know how much tax they will pay.
- Tax payers will be able to send and receive information from HMRC at the click of a button with alerts to help businesses with advice and queries.
- It will make it easier for businesses to comply with their reporting

## Who will Making Tax Digital apply to?

At this stage, the MTD proposals only apply to sole traders and partnerships and so GP surgeries will certainly be caught by this.

## When will Making Tax Digital start?

There is a detailed timeline in the MTD roadmap. Key events are:

- On the current schedule, GP surgeries will be expected to update HMRC with business information at least quarterly from April 2018.
- Reporting information is to be brought closer to real-time which is likely to mean submission of figures within one month of the quarter ends.

These are very significant changes and there are many details yet to be decided. Consultation on these issues is on-going.

HMRC will be using an agile approach to development. This means that changes can be introduced, as the result of feedback from users, on an ongoing basis during the development phase. A recent report issued by the Treasury Committee has called for the implementation of MTD to be pushed back "until at least 2019/20, possibly later". We will keep you updated of changes as they occur.

## How will Making Tax Digital work?

MTD will not require GP practices to file four tax returns every year. Instead, businesses will send summary data to

HMRC about their business each quarter, or more often if the business prefers. The summary data will consist of total income and total expenditure, with the expenditure broken down into categories such as staff costs, property expenditure and medical expenditure.

Businesses will need to send this information from online accounting software - HMRC has confirmed that they will not be providing their own bookkeeping /accounting software and that the use of “digital record keeping software that links to and updates business’s digital accounts with HMRC” will be mandatory, except for taxpayers who are exempt from MTD (typically those with incomes below £10,000).

Each business will have a proposed nine months after the year end to file an “end of year declaration”, submitting final figures. If this takes effect then the filing deadline for GP practices with a March year end would be 31 December rather than 31 January, falling right into the Christmas and New Year period.

Here are a few details of note as specified by HMRC during this consultative phase:

- The business won't have to keep any additional paper records
- If the business is registered for VAT, one report may cover both income tax and VAT reporting requirements.
- Allowances and reliefs, such as Annual Investment Allowance on the purchase of surgery equipment or cars, could also be notified to HMRC either in-year or at the end of the year; for instance if an asset has been bought, the suggestion is that HMRC could be told at the time the asset is bought that it's going to be eligible for Annual Investment Allowance
- HMRC believe that the cash basis of accounting should be extended to larger businesses, as this will be simpler for them to use. It has suggested doubling the current entry threshold, which matches the VAT registration threshold - so a business would be able to begin using the cash basis of accounting if it has income below £166,000, using today's VAT registration threshold.

This will not be of benefit to GP practices with incomes above this level who will have to continue to account for their figures on the accruals basis (ie adjusting for income received after the quarter end but which relates to the quarter being submitted, for example QOF)

### The move to Cloud Accounting

The extent of the changes being introduced will inevitably push GP practices down the route of using Cloud based accounting systems if they aren't already using them. I'm sure we will shortly see a flurry of software providers making sure that their software will be MTD compatible

Surgeries should either talk to their software provider, or accountant, to ensure that the method that they are currently using for keeping practice records will not cause a headache when it is time to submit information digitally. If you decide to look at a Cloud accounting package for your surgery to be sure you are ready for Making Tax Digital you need to ensure that three criteria are met:

- The package should be user friendly and straight forward to operate
- Your chosen Cloud accounting package needs to be compatible with HMRC
- It is important that the package provides the ability to accurately report on the period required

### What do you need to do?

Start talking to us about how your practice will be affected and what you can do to understand and embrace the changes as soon as possible. Change is coming and by taking proactive steps now you will be fully prepared for what lies ahead

### Contact us

For further information, please contact James Gransby, Head of Healthcare:



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