

# Making Tax Digital



Verna Gellvear

Customer Readiness & External Stakeholder Team

# What is Making Tax Digital?



HM Revenue  
& Customs

- **Making Tax Digital is the government initiative to transform and digitise the tax administration system, to create a modern, digital service.**
- It aims to make the tax administration system more effective, more efficient, and easier for businesses to get their tax right.
- **Part of a long-term vision:** to have all taxes managed through a single, digital account, with similar, effortless processes.
- MTD requires taxpayers to **maintain their records digitally, and file digital quarterly updates of summary information (ITSA) / file digital returns (VAT), through MTD-compatible software, to HMRC.**
- **It is designed to deliver a wide range of benefits for both HMRC and the taxpayer.**
- MTD will benefit (1) HMRC by bringing in more tax revenue, through reducing errors and (2) benefit taxpayers through productivity gains and shift to increasing digitisation.

# The MTD timeline so far

---

- **Budget 2015** – The then Chancellor announces the ‘death of the tax return’. He further clarified the end of the "complex, costly and time consuming" tax return. In the same year, the government set out its long-term vision for the digitation of the tax system – Making Tax Digital.
- **April 2017** - HMRC launch a private pilot to test MTD for Income Tax.
- **July 2017** - Following a wide range of consultations, and after listening carefully to the concerns of businesses and stakeholders, a decision was made to slow the pace of the introduction for Making Tax Digital (MTD) but the commitment to the values that underpinned the vision remained.
- **April 2018** – HMRC launch a private pilot to test MTD for VAT with a small number of customer types.
- **October 2018** – HMRC launch a live public pilot to test MTD for VAT. All eligible VAT registered can voluntarily sign up.
- **April 2019** – MTD for VAT goes live, all VAT-registered businesses (1.2m) with turnover above the VAT threshold must sign up (some complex customers had a short deferral to October 2019 – under 50k affected).
- **July 2020** – Government announces that:
  - The remaining VAT-registered businesses must sign up to MTD from April 2022;
  - Unincorporated businesses and landlords with over £10k total business and property income must sign up to MTD Income Tax from April 2023;
  - A consultation on MTD for Corporation Tax will be launched from Autumn 2020.



# MTD Progress (VAT)...

---

There have been **over 1.4 million sign-ups for MTD for VAT.**

---

**Over 89% of all businesses** mandated to join MTD for VAT are now signed up to the MTD service.

---

**Over 30% of non-mandated businesses** have signed up to submit MTD VAT returns voluntarily.

---

**Over 7m VAT returns have been successfully submitted through the MTD service.**

---

There is a wide variety of MTD for VAT software products on offer for businesses - currently over 500.

---

Businesses can use bridging software products and continue to use spreadsheets or older software products to meet MTD requirements.

---

Existing subscribed users of over 250 products have been **upgraded to MTD for free where they have been using the latest version.**

---



# MTD Progress...

---

## MTD Evaluation:

Our evaluation of MTD for VAT, published in March 2020, found that:

- ✓ **Businesses using fully automated MTD software were starting to benefit from improving working practices, reducing scope for error and time savings.**
- ✓ **Some businesses had already reported wider productivity gains and reductions in input errors.**
- ✓ **MTD has the potential to be a significant driver of technology uptake among businesses.**

## Feedback:

- We are already receiving positive feedback on the benefits MTD is bringing to businesses. See GOV.UK for examples - <https://www.gov.uk/government/case-studies/case-studies-for-making-tax-digital>.
- We received neutral to positive feedback on our announcement of the future mandation of MTD for VAT for other businesses, and for ITSA.



# MTD Progress (ITSA)...

---

Through the ITSA pilot, HMRC has worked with businesses, agents, and software providers to successfully prove that the end-to-end MTD Income Tax service works in a live setting.

---

The first businesses in the service have met their Income Tax obligations entirely through MTD and have not needed to complete a separate tax return.

---

There are **currently 6 commercial products being used in the MTD for ITSA service**. We anticipate many Income Tax businesses will be able to take advantage of the free software provision that support businesses with the simplest affairs.

---

We continue to engage with the software industry to ensure businesses have a wider choice of products. We anticipate a significant increase in product availability as the pilot progresses.

---

**We will expand the pilot service for Income Tax from April 2021** to allow more businesses and landlords to help us improve how the service works for them.

---



**2017** ★  
**ITSA Pilot Starts**

Sole traders with income from one business and landlords who rent out UK property

# MTD Road Map

## 2023

### ITSA Mandation

unincorporated businesses and landlords with total business or property income above £10k



### ITSA Public Beta

Wider testing

## 2022

**VAT Expansion**  
 (businesses with turnover below the £85,000 VAT threshold) for their first return on or after 1 April 2022

## 2021

### ITSA Extended pilot

to allow more businesses and landlords to help improve how the service works for them

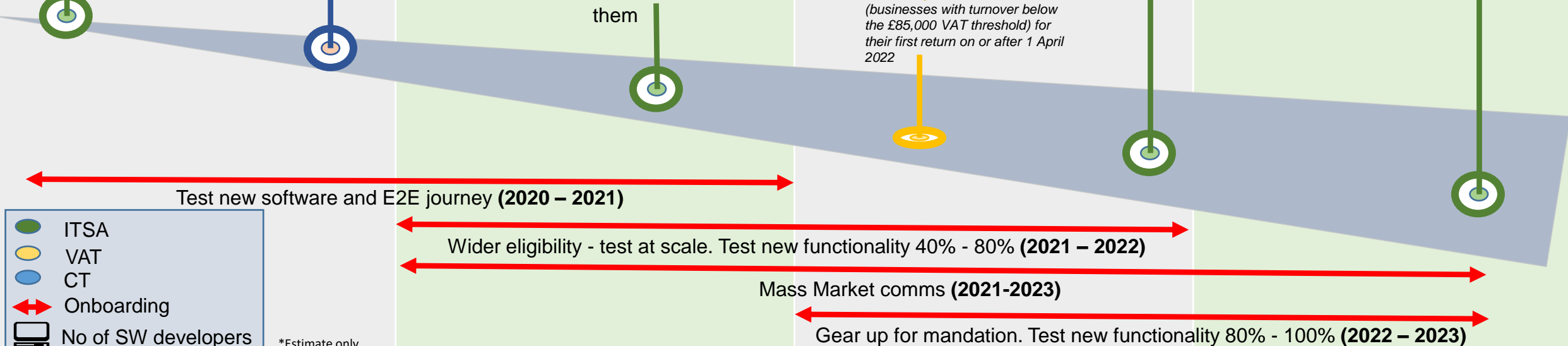
## 2020

### ITSA Announcement

ITSA mandation announcement



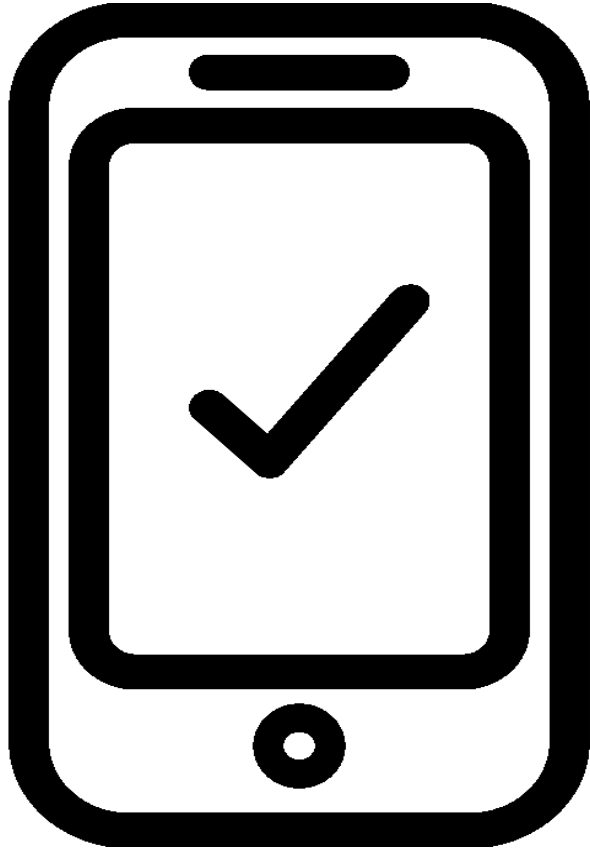
**CT**  
 As part of the Tax Administration Strategy, the government announced plans to consult later this year on extending Making Tax Digital to those entities within the charge to Corporation Tax.



- ITSA
- VAT
- CT
- Onboarding
- No of SW developers

\*Estimate only

# Upcoming milestones



- **2020** – Consultations on the detail of introducing Making Tax Digital to incorporated businesses with Corporate Tax obligations.
- **April 2021** - The pilot service for Income Tax will increase the number of businesses and landlords eligible to sign up, their feedback will help improve how the service works for them.
- **April 2022** - All remaining VAT registered businesses must sign up to MTD (affecting accounting periods that start on or after 1 April 2022).
- **April 2023** - All unincorporated (self-employed) businesses and landlords with annual business or property income above £10,000 must sign up to MTD (affecting accounting periods that start, or deemed to start for tax purposes, on or after 6<sup>th</sup> April 2023).





# The New MTD Cohorts

---

## Who will be affected by the changes?

- In total the changes to MTD VAT and ITSA would affect around **4.7m** businesses, including **c.1.3m** landlords.
- **3.4m** non-VAT registered, self-employed sole traders or landlords, with turnover between £10k and £85k, who would be required to use MTD for ITSA.
- **1.37m** VAT registered businesses in total which include:
  - **285k** below £85k turnover who have already signed up to MTD for VAT voluntarily.
  - **650k** below £85k turnover who are yet to sign up to MTD for VAT.
  - **430k** who are mandated to MTD already (turnover above £85k) – but also have ITSA income above £10k so would be required to use MTD for ITSA.

# Will MTD for CT impact Charities?



The CT consultation document proposes that charities and other not-for-profit entities are within scope of MTD for CT, but we invite views on this.



MTD for VAT has shown that, at least for larger charities, operating the MTD requirements has not proved to be more difficult than for a comparable business.



Discouraging some charities from joining MTD by making it voluntary will mean that many will not get the benefits of going digital enjoyed by other entities.

# VAT Migration

Review of HMRC's plans for the migration of VAT customers March  
2021

# What are we doing?



From March 2021 HMRC intend to migrate all of their remaining VAT customers from the VAT Mainframe (VMF) on to their Enterprise Tax Management Platform (ETMP).



HMRC are withdrawing the facility for VAT returns to be submitted via the XML channel



Customers who have already signed up to Making Tax Digital (MTD) are not affected by this change and do not need to take any action, as their records are already stored on ETMP.

Any VAT businesses with taxable turnover above £85,000 who have not yet signed up to MTD must do so now or they may be charged a penalty. Further guidance on penalties is available at:

<https://www.gov.uk/vat-returns/surcharges-and-penalties>

# Why we are moving records to ETMP



Reduced cost and resulting efficiencies saving public money



Having one IT platform delivers economy of scale benefits for HMRC in terms of training for developers, IT contracts, governance, and workplace IT



COVID-19 has emphasised the need for the tax system to be more adaptable, resilient and responsive. The transition to one platform will aid us in offering greater flexibility and scope to provide targeted support to people and businesses in the face of future national crises and will increase the resilience of the tax system.

# What you need to do: Businesses filing through their BTA



Business should continue to file their VAT returns through their Business Tax Account as normal. Further information on Business Tax Account is available at:

<https://www.gov.uk/guidance/sign-in-to-your-hmrc-business-tax-account>



MTD for VAT will be extended to include businesses with taxable turnover below £85,000 from April 2022. Selecting MTD software and signing up to MTD now may save businesses considerable time and effort as we approach that deadline. Further information on signing up to MTD is available at:

<https://www.gov.uk/guidance/sign-your-business-up-for-making-tax-digital-for-vat>

# Businesses who pay by Direct Debit



For Direct Debit payments to continue after migration, HMRC will need a valid and current email address for customers. This allows HMRC to comply with UK banking regulations requiring them to notify customers of the date and amount to be taken by Direct Debit (we have chosen to do this by email).



HMRC will therefore request affected customers to provide this information, ideally via their Business Tax Account.



Without a valid email address, HMRC may be unable to collect VAT payments.

# eXtensible Mark-up Language (XML) customers



XML is the functionality available in some software products that allows users to file VAT Returns directly to HMRC from their software. It is not the same as MTD enabled software. Customers unsure as to whether their software product uses XML should contact their software provider.



Only a small number of our customers use XML to file their VAT returns. XML is not compatible with HMRC's digital strategy for VAT services. This option as a way of filing VAT returns will be removed from April 21.



HMRC will contact businesses who file their VAT returns via XML, and their software providers, in advance of April 21.



Agents using this channel to submit VAT returns on behalf of their clients will need to use their online services account

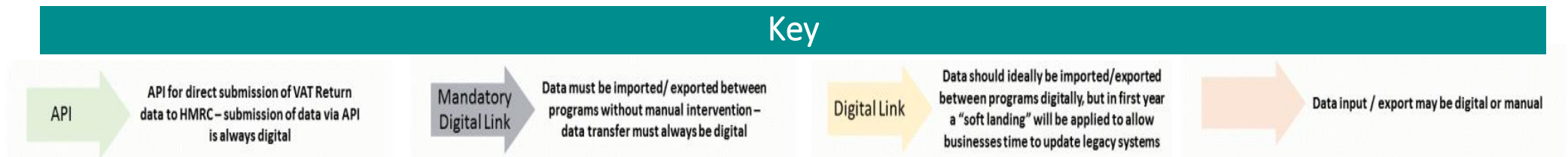
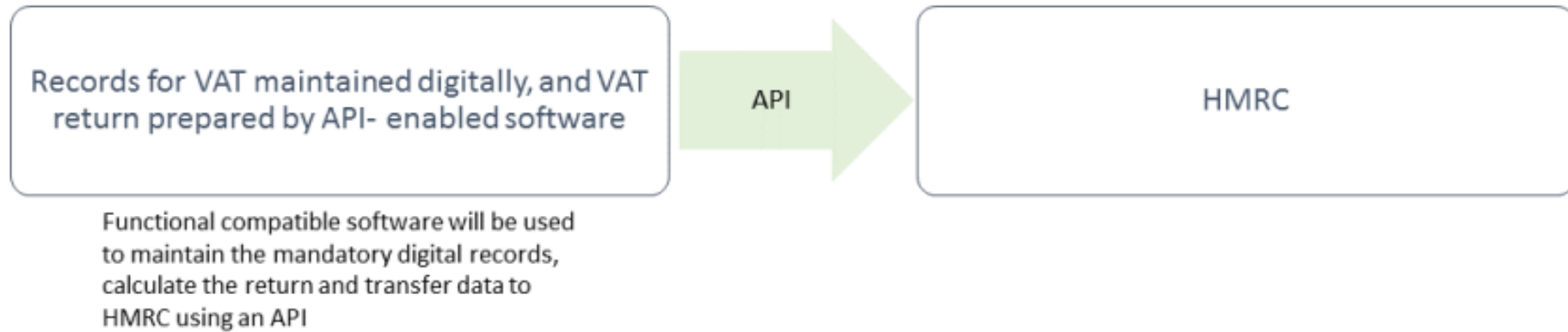




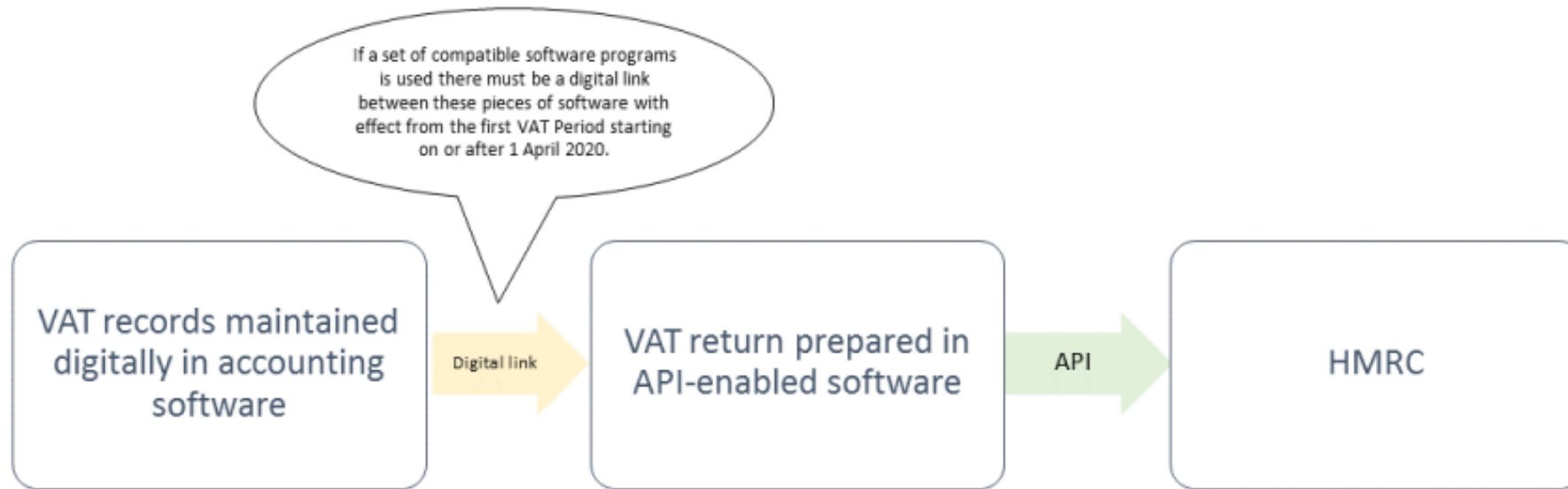
# Digital Links



# Example 1 - Using a single API-enabled software package



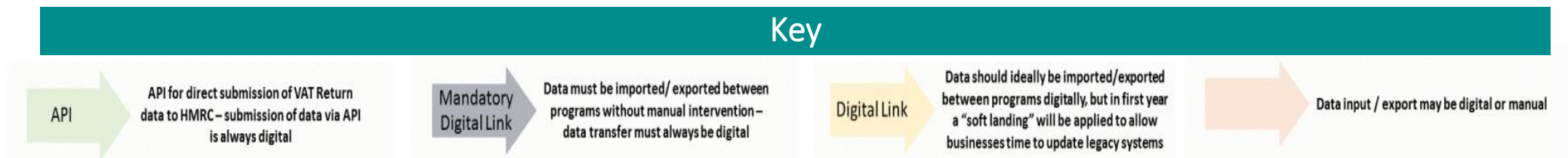
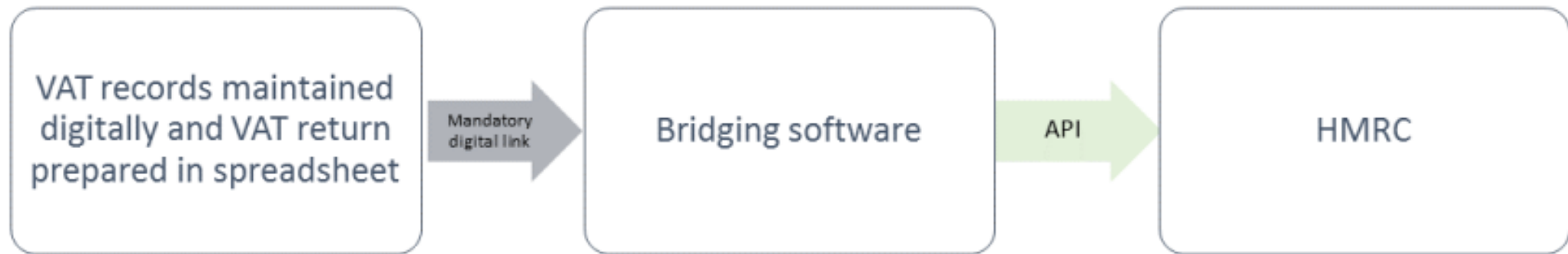
# Example 2 - Using API-enabled software and accounting software



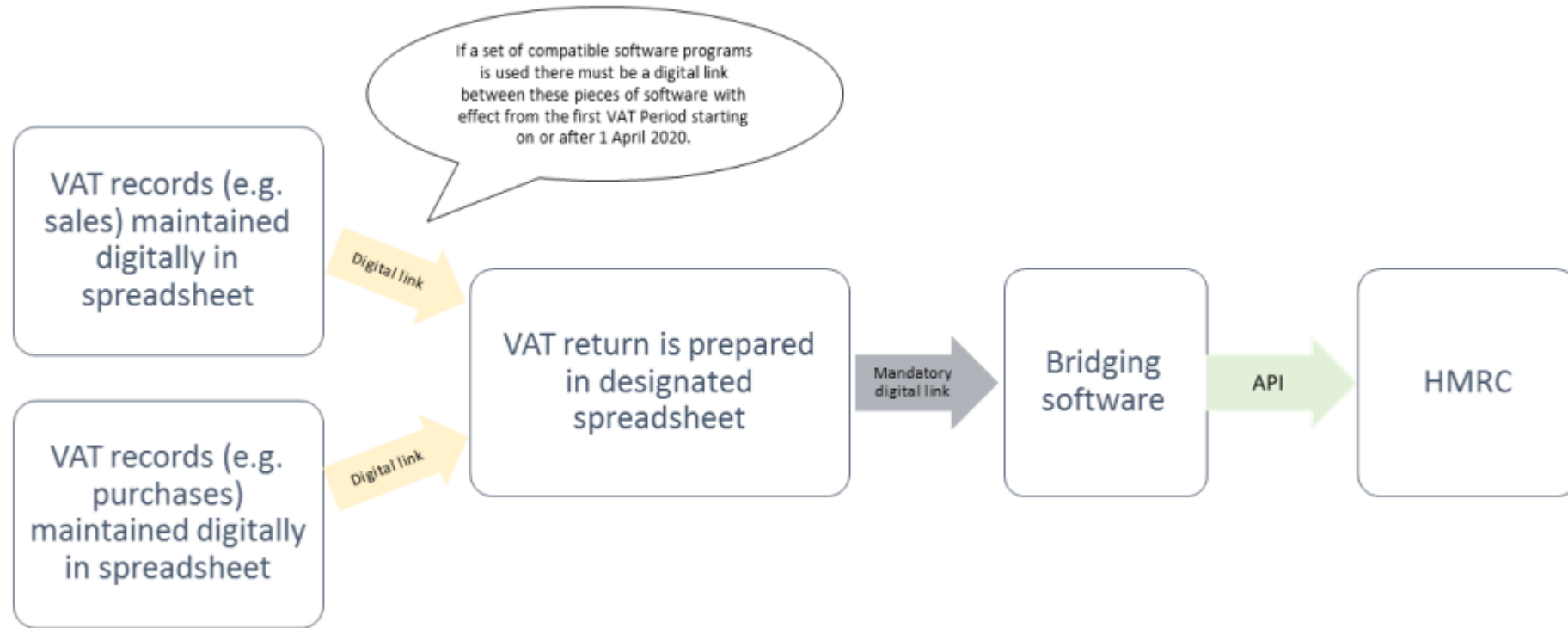
## Key



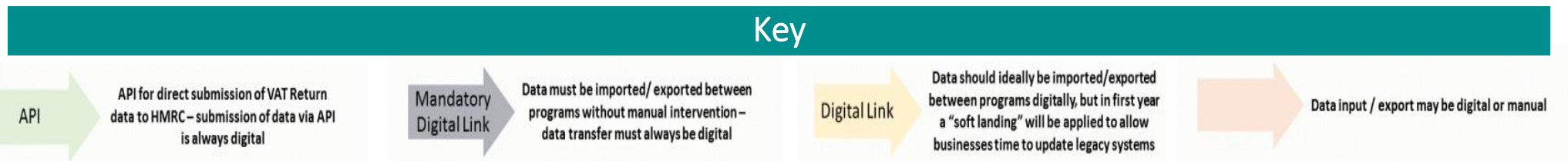
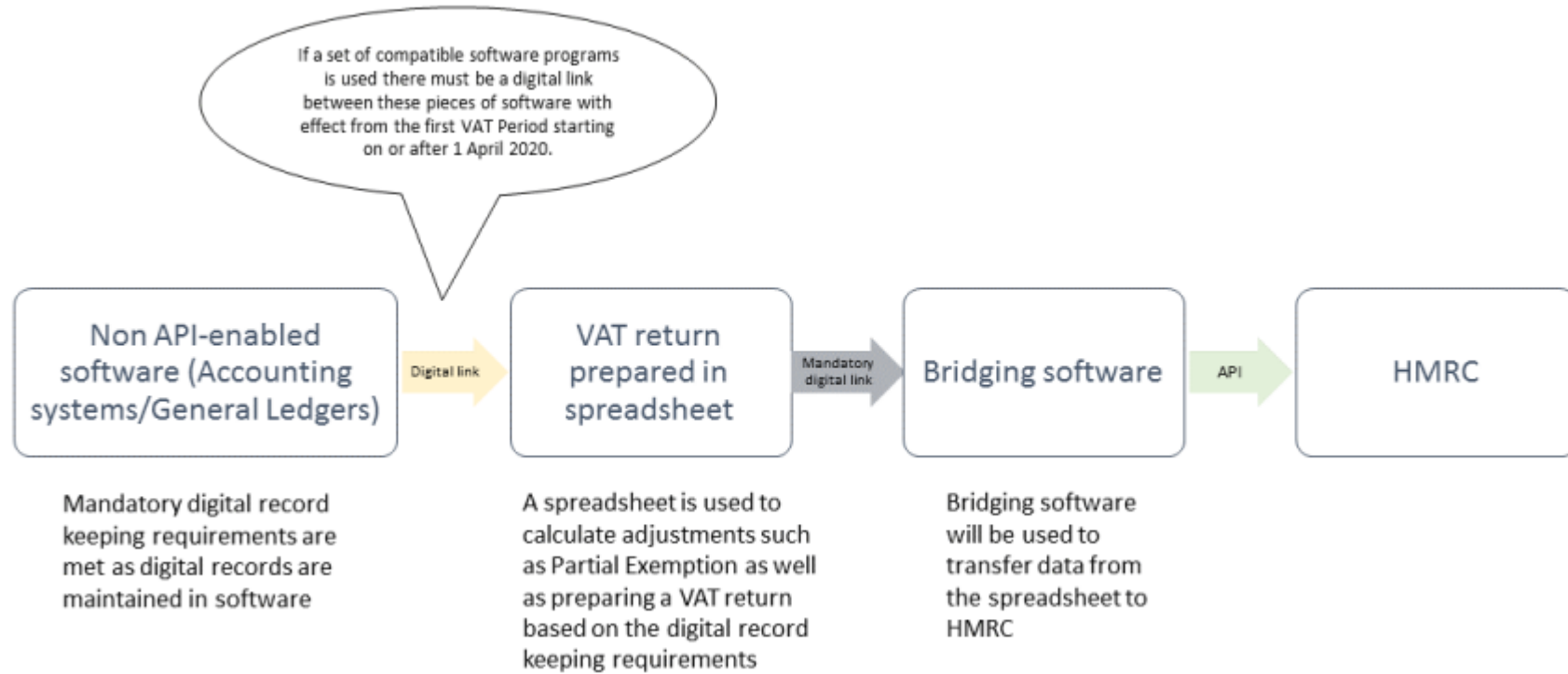
# Example 3 - Using a spreadsheet and bridging software



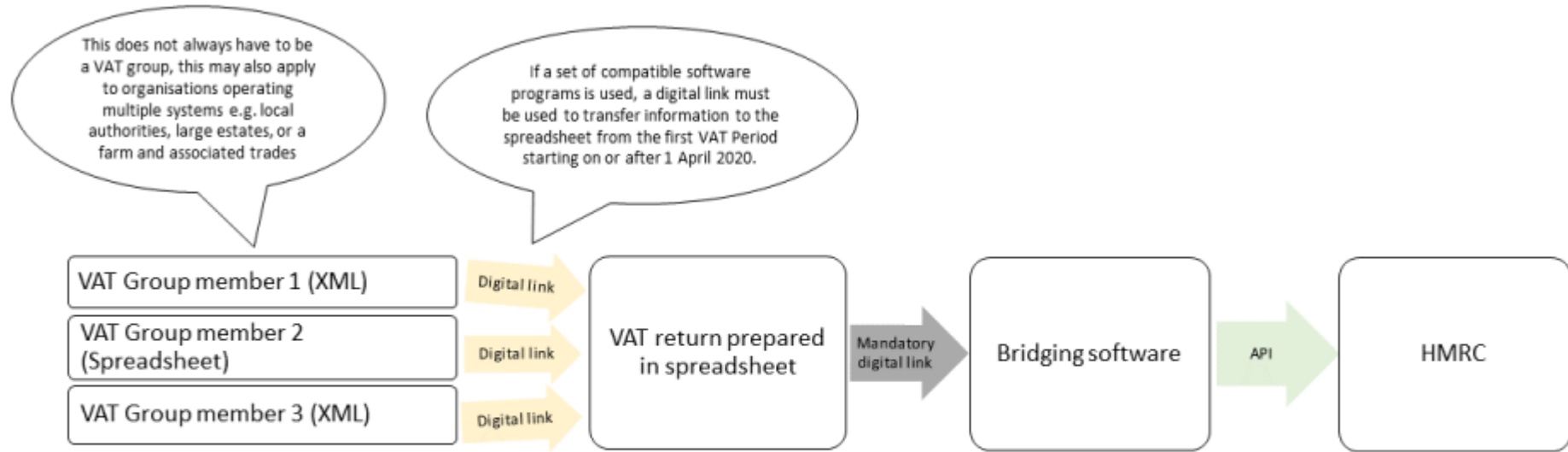
# Example 4 - Using multiple spreadsheets and bridging software



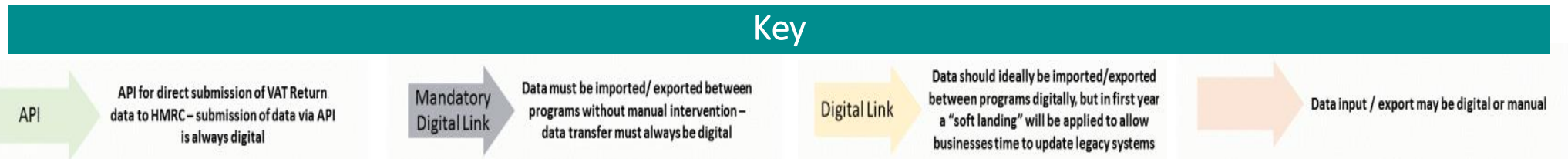
# Example 5 - Using accounting software, a spreadsheet and bridging software



# Example 6 - VAT groups or different parts of the same business



The mandatory digital record keeping requirements will apply to each member of the VAT Group. However, while HMRC expects that each group member will operate digital links within their individual functional software, it does not expect the software systems of each group member to be linked to other members' systems.



## Thank you for listening

Customer Readiness External Stakeholder Team

[makingtaxdigital.mailbox@hmrc.gov.uk](mailto:makingtaxdigital.mailbox@hmrc.gov.uk)

