



## Making Tax Digital – A Guide for the Self Employed

This factsheet is for the many self employed taxpayers and property landlords who are unaware of HM Revenue and Custom's radical plans to transform the tax online filing system.

### The Facts

- The way that you report your business profits to HMRC is changing.
- From April 2017 the cash reporting rules change for the self employed and for property landlords.
- From April 2020 the self assessment tax return is being replaced by five new reporting obligations made during and after the tax year.
- Phase 1 of MTD applies from April 2019: it affects only businesses with a turnover over the VAT threshold (Currently £85,000) and then only for quarterly VAT submissions.
- Phase 2 of MTD applies from April 2020: it affects sole traders and property landlords (with a likely turnover in excess of £10,000).
- Your first reporting obligation under the new system is due in the fourth month of your accounting period, you will then have to file with HMRC every three months.
- If you are not already using software for your record keeping/ accounting, you will need to switch and learn how to use accounting software (I can assist with this).

### What equipment (hardware) and software or Apps do I need?

- Your requirement depends on you and how you feel about technology but you WILL be required to keep your records in a digital format
- As your Accountant I can continue to act on your behalf and can assist you with the software
- I can take your digital records and fulfil all your reporting obligations as well as providing the usual Annual Accounts
- I can also undertake all your bookkeeping and maintain your digital records if you feel you cannot cope with this new system.

### Digital exclusion opt out

- If you are reading this guide you are probably online and this might not apply.
- You will only be excluded from the electronic bookkeeping and filing elements of MTD if you are unable to handle it, due to age, disability or location, or if it is contrary to your religion.

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## Five digital submissions per year

The first tax year to be affected is 2019/20 for those registered for VAT. For others the likely start date will be 2020/21. This runs from 6 April 2020 to 5 April 2021.

Assuming you choose an accounting period that is co-terminus with the tax year your:

1. First report will be due in June/July 2020.
2. Second report will be due in Sept/Oct 2020
3. Third report will be due in Dec 2018/Jan 2020
4. Fourth report will be due in March/April 2021
5. Fifth and final year-end report deadline: probably January 2022 in the first year.
6. Don't forget that: you will still have to file your self assessment return for the 2019/20 tax year by 31 Jan 2021 too.

The end of year report becomes due at the earlier of 10 months following the year end and 31 January.

## If you currently use the cash basis (or would like to)

From April 2017:

- The entry threshold for the cash basis increases to £150,000, and the exit threshold to £300,000.
- The current general disallowance of capital expenditure will be replaced by a more specific disallowance for certain assets (including those not used up within 20 years).

HMRC are still looking at changes to basis periods, and simplified reporting with fewer adjustments. More detail is expected later this year.

## If you are a landlord with receipts under £150,000

From April 2017

- The cash basis will be the default method for unincorporated businesses.
- The accruals basis will only be used if:
  - Receipts are over £150,000,
  - You elect to use it instead, or
  - You are a company, an LLP, a trust or a partnership with corporate members.

## Tax payments

- You will be allowed to voluntarily pay your taxes as you go: the detail is still being decided.
- Eventually it is likely that you will be required to make four payments per year on account of tax.

## Penalties

- There will be no late filing penalties for at least a year while the new system beds in. After that you will suffer penalties if you file your returns late.
- Penalties already apply for errors in returns or documents.
- Late payment interest already applies.

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