



SPECIAL BULLETIN

JULY 2020

MAKING TAX DIGITAL AND MORE

Just a fortnight after a summer statement Chancellor Rishi Sunak insisted wasn't a 'mini-Budget', the Government has slipped out a raft of policy statements on the eve of parliamentary recess – including big news about Making Tax Digital.

The new measures were bundled up in the draft legislation supporting the Finance Bill 2020-21 published on 21 July 2020.

After a Budget in March, non-stop fiscal announcements throughout March and April, and another statement earlier this month, it's been a turbulent time for accountants and their clients.

This most recent release would seem to trail the Autumn Budget, widely expected to be a whopper, potentially packed with tax reforms.

The consultations announced this week signal areas in which the Government is considering making changes, such as pensions tax and research and development (R&D) tax credits.

Here's what you need to know from today's announcements.

Making Tax Digital

The Treasury announced that it plans to expand the Making Tax Digital (MTD) reporting regime to all VAT-registered businesses from April 2022. At present, it only applies to those with a taxable turnover of £85,000.

Then, from 2023, it will also extend to cover all unincorporated businesses and landlords turning over more than £10,000.

This new urgency has been driven by the difficulty of implementing support measures for business without comprehensive data. Jessie Norman, Financial Secretary to the Treasury, said in a written statement:

"The COVID-19 pandemic has also highlighted the need for a more flexible, resilient and responsive tax system that provides businesses and HMRC with more up-to-date information on businesses and their finances, and enables easier identification and better targeting of taxpayer support."

Finally, the Government declared its intention to consult in the autumn on a further extension of MTD to cover incorporated businesses which are liable to pay Corporation Tax. Jessie Norman wrote:

"This timetable allows businesses, landlords and agents time to plan, and gives software providers enough notice to bring new Making Tax Digital products to market, including free software for businesses with the simplest tax affairs."

Though it might be convenient for the Government to have centralised information, business bodies seem less convinced. Mike Cherry, chairman of the Federation of Small Businesses, said:

"At a time when government should be backing small businesses and the self-employed to drive recovery from a severe recession, the last thing we need is wholesale expansion of MTD without the right support in place.

"Done wrong, this would mean more costs and paperwork for small firms at a critical time."

Tax reforms up for debate

Consultations are the Government's mechanism for testing policy with the public and stakeholders. They're often announced as part of formal fiscal statements, to feed into full budget events six or so months later.

There were no consultations announced on 8 July, but today's announcements more than make up the shortfall.

There was a call for evidence to inform a review of the business rates system, with the intention of reducing the burden on business. This has long been on the cards but any subsequent policy changes now need to reflect the impact of COVID-19.

With that in mind, the Government has announced that the next revaluation of business rates will apply from 2023, and will be based on property values recorded at 1 April 2021, during lockdown.

A consultation into what costs companies can include in R&D tax credit claims was announced in the Spring Budget 2020 and formally launches today, with a deadline of 13 October for responses. In particular, it will consider whether R&D tax credits ought to apply to investments in data technology and cloud computing.

The Government is calling for views on pensions tax relief reform, with a focus on low-earners and how their take-home pay might be affected by the way pensions tax relief is implemented by their pension scheme operator.

Lizzy Holliday of the Pensions and Lifetime Savings Association said:

"The publication today by the Government of a call for evidence on the net pay/relief at source issue shows long overdue progress towards fixing the tax anomaly that is leaving 1.75 million of the lowest paid pension savers in 'net pay arrangements' worse off. On the minimum auto-enrolment contributions, those affected are losing up to a total of £63 a year each, and in many schemes it can be at least double this figure."

Other subjects on which consultations were announced include the economic crime levy, the design of a carbon emissions tax and a national insurance contributions holiday for employers of those who have served in the armed forces.

There were also some major consultation outcomes reported, most notably the results of a consultation on a stamp duty land tax surcharge for non-UK residents.

The consultation report includes news that a non-UK resident surcharge will apply from 1 April 2021, supported by legislation in the finance bill for 2020-21.

This is intended to tackle pressure on the supply of properties in the UK housing market from overseas investors.

Comprehensive spending review

The Chancellor also chose today to announce a review of spending across government departments. Sunak said:

"The Comprehensive Spending Review is our opportunity to deliver on the third phase of our recovery plan – where we will honour the commitments made in the March Budget to rebuild, level up and invest in people and places spreading opportunities more evenly across the nation."

Alongside the expected statements of a desire to invest, innovate, innovate and boost the economy came a clear message that the various ministries will be expected to prioritise, find efficiencies and make savings.

What this means for you

This renewed push to make digital record-keeping and reporting universal only underlines the importance of getting set up with MTD-compatible cloud accounting software as soon as possible.

And as a clearer picture of what might be in Autumn Budget 2020 emerges, we can start to have conversations about tax planning for 2021/22 – it's never too soon.

 **Get in touch if these announcements raise questions or concerns about your financial situation.**