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CHARTERED ACCOUNTANTS

MTD for corporation tax

The government's Making Tax Digital (MTD) programme is intended to move the UK towards a fully digital tax system, which is planned to allow taxpayers to easily keep digital records and report their tax liabilities and payments in real time.

It is the government's intention that this will both reduce taxpayer errors and increase the information available to HM Revenue & Customs (HMRC).

Following the roll out of MTD for VAT for most businesses in April 2019, the government is now considering the further extension of MTD to other taxes. In November 2020, HMRC released a consultation on the design of MTD for corporation tax (CT). The proposals set out in this document are expected to impact the 3 million businesses within the charge to CT, including non-resident companies and other corporates. The plans will not affect businesses who are subject to income tax, such as sole traders, who will instead fall within the MTD ITSA regime.

The consultation confirmed that MTD for CT will not be made mandatory until 2026 at the earliest. There is expected to be a voluntary pilot starting from 2024. While this may seem a long way in the future, the switch to digital reporting of corporation tax may require significant changes to accounting systems and record keeping procedures, and so affected businesses should make sure that they are aware of the proposals and are ready to prepare when more information is made available.

We are currently waiting for the government to publish their formal response to last year's consultation, which will confirm next steps; however, the current proposals are set out below.

Digital record keeping

The move to MTD would require all affected businesses to keep their accounting and transaction records in a digital format. MTD compatible software would allow businesses to keep digital records and to seamlessly provide data from these records to HMRC in an approved, secure format. Each quarter, businesses will need to submit an update of their income and expenses to HMRC, categorised depending on their type. However, there will be no requirement to make tax or accounting adjustments to these figures for quarterly reporting purposes, although businesses may do so on an optional basis.

The government has proposed the following minimum categories for income and expenditure:

Income

- Trading income.
- Interest and income/gains from non-trading loan relationships.
- Income from land and buildings.
- Finance income.
- Other income.

Expenditure

- Costs of goods.
- Payments made to CIS sub-contractors.
- Wages, salaries, pension and other staff costs.
- Car, van and travel expenses.
- Rent, rates, utilities and insurance costs.
- Repairs and maintenance of property and equipment.
- Phone, fax, IT stationery and other costs.
- Advertising costs.
- Business entertaining costs.
- Accountancy, legal and other professional fees.
- Finance expenses.

- Bank, credit card and other financial charges.
- Interest expenses.
- Other trading expenses.
- Property business expenses.
- Investment management expenses.
- Irrecoverable debts written off.
- Dividend payments.
- Loans and other benefits provided to directors, participators and others, including director loan account balances.
- Capital expenditure (split by land & property, cars & vans, other plant & machinery and intangibles).
- Gains and losses on asset disposals, change of use, sales proceeds (split as for capital expenditure).
- Depreciation.
- Gains not falling under any other heading.

For businesses who currently make these types of categorisations throughout the year in their current accounting software, this should not represent too much of a change. However, for those who wait until the year-end to categorise their income and expenditure, or those who do not currently use as many categorisations as HMRC have suggested as a minimum, this may represent a major change in how they keep their records.

For corporate groups, it is proposed that a nominated company would be able to maintain the digital records and provide the quarterly updates for the group. HMRC also consulted on whether a mixed approach, where some companies are dealt with at group level while others maintain their own records, would be desirable for some groups.

As well as financial data, it is proposed that businesses would also report some non-financial data under MTD, such as the company type, the industry classification, SAO details, and the group structure.

Quarterly reporting

For 12-month accounting periods, the quarterly reports will need to be made one month after the end of the quarter. For accounting periods that cannot be divided into three month quarters, businesses will have the choice of filing a 'short' update to complete the period, or splitting the next update across two accounting periods.

Very large companies (those with annual profits over £20 million) are currently required to pay their CT in quarterly instalments throughout their accounting period. As they are already paying their CT in 'real time', HMRC has not proposed that these entities make quarterly reports under MTD (although they will still need to keep appropriate digital records and complete the annual CT filing).

The consultation also considered whether the quarterly reporting requirements should be waived for the following types of business:

- Dormant companies.
- Multinational enterprise groups that are required to meet country-by-country reporting requirements.
- Foreign permanent establishments of UK companies where an election for foreign permanent establishment exemption has been made.
- Certain controlled foreign companies.

Tax claims and elections

HMRC propose that the current method of claiming allowances and reliefs for CT purposes should be retained. For the majority, this will mean they are included in the annual CT filing, although there will be the option to include the expected effects of claims in the quarterly updates provided to HMRC. The consultation stated that they are also exploring ways in which digitalisation can streamline the making of claims.

Similarly, the suggestion is that any elections that need to be made for tax purposes can either be made as part of the quarterly updates or as part of the CT filing. However, these will need to be made in line with the current deadlines – for example, if an election needs to be made before the start of an accounting period, businesses will not be able to revoke it during the accounting period.

Annual CT filing

On an annual basis, as presently, businesses will need to submit a CT filing containing the final calculated CT liability to HMRC, along with annual accounts in iXBRL format. While the vast majority of businesses already file their CT returns and accounts electronically, under MTD, they will need to use MTD compatible software, or linked software, to make any accounting and tax adjustments to their digital records before providing these to HMRC. They have also proposed that the iXBRL tagging requirements for the annual accounts be strengthened, although do not go so far as to suggest that the tagging will take place at a transactional level. It is unclear how the iXBRL tagging will interact with the data reported quarterly (and, indeed what the value to HMRC is of having two types of digital data).

HMRC have also proposed that the CT filing deadline be aligned with the accounts filing deadline, and brought forward to 9 months after the end of the accounting period.

Exemptions from MTD for CT

Very few exemptions have been proposed, due to the government's view that most businesses already file their CT returns electronically:

- The digitally excluded – those for whom it is not reasonably practicable to use digital tools to keep business records or meet the other requirements of MTD because of age, disability, remoteness of location or for any other reason.
- Companies where an insolvency practitioner has been appointed to act on their behalf.

Next steps

As we set out above, we are currently waiting for the government to confirm next steps on MTD for CT, and we would not recommend that any company takes any steps to prepare before more definite information is available. However, companies should be aware of the scope of the proposed changes and be ready to engage both with their tax advisers, to ensure that they are properly prepared, and directly with government to help ensure that MTD for CT meets the needs of the corporate population.

If you have any questions on MTD for corporation tax, please get in touch with your usual Saffery Champness partner.

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