

# Making Tax Digital (MTD) for corporation tax

## (Lecture B1227 – 12.56 minutes)

On 12 November 2020, the government published its consultation on the potential design of Making Tax digital for corporation tax (MTD for CT )and has stated that a simplified version of this consultation will be issued for small companies in due course.

The consultation will run for 16 weeks from 12 November 2020 to 5 March 2021. Following this the government proposes to run a voluntary pilot of MTD for CT from April 2024, and has stated that MTD for CT will not be mandated prior to 2026.

### *Who will it apply to?*

MTD for CT will apply to all companies resident in the UK, as well as the activities of non-resident companies in the UK and other corporates that, under UK domestic legislation and tax treaties, are subject to a UK CT charge.

### *What it will mean?*

Under the proposals, entities within the charge to corporation tax would need to:

- maintain their records of income and expenditure digitally, requiring that for each transaction the date, amount and amount category be recorded;
- use MTD compatible software with integrated *iXBRL tagging* to provide quarterly summary updates to HMRC; accounting and tax adjustments as well as are claims for incentives, allowances and reliefs will be optional at this stage;
- provide an annual CT return, iXBRL tagged accounts and tax computations using their MTD compatible software, making any outstanding tax adjustments and claiming allowances and reliefs at this stage.

### *Transactions categories*

The categories needed for MTD for CT will be more detailed than the current CT600 as they want to get a reasonable tax estimate from the uploads. As part of a company's Company Tax Return, entities already provide a breakdown of income and profit, categorised under a number of headings. However, with the exception of certain types of expenditure that must be identified for tax purposes, there is no equivalent standardised categorisation of expenses within the Company Tax Return (CT600) and supplementary pages.

The government wants such categories to have some parity with the categorisation required under MTD for IT and so are proposing minimum categories as follows.

For income:

- trading income;
- bank, building society or other interest and income and gains from non-trading loan relationships;
- income from land and buildings;

- income relating to finance;
- income not falling under other heading.

For expenses:

- costs of goods bought for resale or goods used;
- 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;
- expenses related to finance;
- bank, credit card and other financial charges;
- interest expense on bank and other loans;
- 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.

#### *iXBRL tagging*

This will be integrated into MTD software to facilitate quarterly uploading of summaries within one month of quarter end. Where any entries appear to be wrong, nudges will be generated flagging the area of concern.

#### *Groups of companies*

The government acknowledges that groups may operate their accounting or tax function at a group level and are interested to know whether such groups would prefer to be able to fulfil the digital record keeping obligation on a similar basis, through one nominated

entity. The consultation document takes the idea of a single nominated entity further. The government asks would it be appropriate for single nominated entity to also be responsible for providing the quarterly summary updates and annual CT returns using their MTD compatible software for the group as a whole.

As part of a group's digital record keeping, the government proposes that the group will be required to provide a breakdown of their group structure, identifying all group members within the charge to corporation tax.

The consultation raises a number of questions regarding how MTD for CT will work for companies within the quarterly instalment regime and how the system will deal with claims, reliefs and elections.

The government is seeking views on how MTD for CT would interact with a number of areas of the international tax system, including the rules relating to double taxation relief, hybrid entities and transactions, corporate interest restriction and transfer pricing.

#### *Improvements when filing tax payable*

The government is looking for ways to improve the process of filing and paying tax due as well as dealing with any amendments that are needed and are asking would it be appropriate to:

- align filing dates for tax and accounting purposes under company law?
- make amendments to Company Tax Returns through MTD compatible software?

## *Exemptions*

Section 6 considers special cases and the possibility of exemptions. The government:

- states that many charities, Community Amateur Sports Clubs and not for profit organisations are within the scope of the charge to corporation tax but are exempted because of the tax reliefs available to them but sometimes are required to file a tax return. Others have non- exempt income and currently need to complete a Company Tax Return and pay tax. The government asks whether such entities should be within the scope of MTD for CT and if so, how the system should be tailored for their special needs;
- has confirmed that where HMRC has previously agreed that a person is digitally excluded for one set of MTD obligations, for example MTD for VAT obligations, it will also be exempt from MTD for CT;
- considers that where an insolvent entity retains its responsibility to file an online Company Tax Return, then MTD for CT obligations would continue to apply but where an insolvency practitioner has been appointed to act, and an existing exemption for online filing applies, it would be unreasonable to require them to comply with MTD for CT.

## *And finally*

The consultation questions what timescales and costs would be involved in acquiring, updating, replacing or adapting existing software in order to be MTD- compliant as well as making the transition to MTD for CT?

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