

Contractor guide to the digital tax accounts

Contractor tax affairs are set to be overhauled over the next few years, following the introduction of HMRC's digital tax regime.

If the plans are implemented, and there is much opposition from both the business community and tax advisers, contractors may be required to submit their tax information through a new online portal. HMRC anticipates that all business and personal tax affairs will be fully digital by 2020.

In the promotional document '[Making tax digital](#)' HMRC claims its new regime is indicative of its commitment to: "reducing burdens for taxpayers and building a transparent and accessible tax system fit for the digital age".

However, as director of contractor accountants [Intouch Duncan Strike](#) highlights, there are plenty of hurdles to be overcome before contractors are able to use the digital tax accounts comfortably and efficiently.

"The digital tax accounts are a nice idea in theory, and over time I believe contractors will benefit from them, but it is currently in its primary stages. Much more development is needed, whilst the transition over to digital accounts looks likely to be less than smooth."

What is a contractor's 'personal tax account'?

Ultimately, HMRC's plan is to provide contractors with an online hub containing all of their relevant tax information, within which they will eventually be able to complete their tax returns. Contractors will be able to manage their personal tax affairs through their personal tax account.

Details regarding salary, benefits and interest (together with details of tax paid) will be automatically imported into the personal tax accounts from government and third party financial institutional sources, and eventually from third party software providers.

However, Strike explains that there is a lot of work to be done before the digital accounts match up to HMRC's expectations: "What is currently there is very basic. You have details of your salary and benefits and the tax paid, plus some suggestion of income from previous sources. In theory it will soon provide information relating to interest and savings from various financial institutions.

"So it's going to be very limited with regards to what information the government already holds relating to an individual, and it will only really be information that is provided via the real time information (RTI) submission."

What is a limited company's 'business tax account'?

The business tax accounts will locate all necessary business tax information in one place. This means contractors will be able to manage their liabilities and payments relating to Paye As You Earn (PAYE), VAT and corporation tax. Again, a good idea in theory, but there are hurdles to overcome.

"The business tax account is all well and good for contractors who personally look after their own affairs," continues Strike. "The problems arise when it comes to granting your accountant access to your account.

"If you appoint an accountant, will they have access to that account? At the moment there's a lot of discussion going on as to whether that's going to be a fairly straightforward process or more complicated."

Digital tax accounts are still very much a work in progress

For contractors with relatively simple tax affairs – after going through the convoluted process of initially opening a personal digital account – using the account should be relatively plain sailing, as HMRC should have all of the necessary information readily available.

Contractors with more complicated tax affairs will find that its application is likely to be more limited, as Strike points out: "For instance, how would the digital tax account ever know what your capital gains are? How would it ever know the sum of the dividends declared by your personal service company until you've told it?"

HMRC is yet to lay out a detailed plan as to how contractors can process income such as dividends through their digital tax account, but Strike notes that it is actively addressing the issue:

"HMRC is talking about having contractors notify it of secondary income - and this will eventually extend to dividend income, investment income and so forth - on a quarterly basis. As a result, it is expected to become more up-to-date and comprehensive as time goes on.

"In time it may be that dividends from small companies have to be logged and submitted through an RTI-type process, and I suspect that will eventually become the case," he adds.

Digital tax accounts enforce stricter compliance

HMRC states that contractors will be required to report any receipt of secondary income (self-employed and property incomes for instance) of more than £10,000 per annum, on a quarterly basis.

Eventually this will include dividends. However, as Strike highlights, many contractors don't have the discipline to properly declare dividends, and many often make the final decision at the end of each year. The current lack of discipline in this area is likely to cause difficulties with the digital account submissions.

"This forms part of HMRC's bid to eventually match the timing of the receipt of income with the payment of taxes, in order to improve its cash flow," Strike explains. "Unfortunately, for contractors who aren't as disciplined as they should be in this regard, there's a whole new level of additional admin that they will have to start doing."

"The digital tax regime is essentially going to force contractors to be a bit more disciplined with planning their income."

Administrative burden may not be as severe as previously thought

Whilst the digital tax accounts will entail stricter compliance obligations, Strike believes that the additional administrative burden – a prominent point of contention amongst those opposing the regime – may not be as severe as previously thought, once accountants own systems and accountancy software providers adapt to the new requirements.

"There is no doubt in my mind that software providers will develop accounting systems that will deal with the online submission of dividend income information. Just how quickly that happens depends on the timing of interaction between government and developers."

Contractors will have to endure transitional phase

Strike maintains that the digital tax accounts will eventually prove beneficial to contractors, but does concede there will be some pain along the way – notably as a result of the acceleration in payments of tax.

"There is likely to be an acceleration of the payment of taxes in the first year, and you'll start paying your taxes on a more regular basis thereafter. So there will be a painful period in which you may have to find the money to pay taxes, not only for the last year, but also for the current year."

Meanwhile, the inevitable trial-and-error phase, as HMRC works to develop a comprehensive system which can account for every taxpayer, is also likely to pose problems for contractors, who may have to juggle between their digital account and traditional accountancy in the meantime.



Duncan Strike

Director

Intouch Accounting

Duncan has successfully developed accountancy businesses for many years. He is an expert in tax law and is passionate about client service and excellence.

Intouch have been championing the cause of Limited Company contractors and freelancers since they were established in 2010. [Read Full Profile...](#)

[View all our experts](#)

"It's fundamental that contractors use their accountants in the best possible way," Strike concludes. "Either to ensure that information is readily available for them, or to handle these problems on their behalf. So a lot of it comes down to the quality of the contractor's accountant."

Published: Wednesday, February 10, 2016

© 2016 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#).



ABCe verified website - last audit confirmed 134,482 monthly unique visitors

© Copyright 2016 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)