Another headache for dentists
The challenges of HMRC’s Making Tax Digital scheme

By Alan Suggett, UK

According to the current timetable set, HMRC’s new Making Tax Digital (MTD) scheme is to commence on 6 April 2018. Announced by the government two years ago, it will present a severe headache for the majority of dentists and be yet another cost that they will have to cover.

The department has been holding consultations on the initiative, and these concluded on 7 November 2016. The aims of the scheme appear to be laudable in terms of simplifying and making the tax system more efficient.

However, the dental industry will face specific challenges. Theoretically, MTD should be a positive step for all who embrace the Internet and digital commerce, and it should be a very efficient way to streamline tax calculations and submissions. However, until dental practices routinely have regular, accurate management accounts, which currently very few have, it will simply be yet another extra cost for most practice owners.

One of the key tenets of the scheme is the submission of quarterly updates to HMRC. This may not present much of an issue to most businesses, as they are used to paying VAT on a quarterly basis and preparing monthly management accounts. However, dentists are not registered for VAT, and even larger practices do not generally prepare monthly management accounts, and if they do, these are usually not a true representation of taxable profits, and various adjustments are required at the year end.

Practice owners usually do not have financially trained staff and use external accountants to prepare accounts under normal circumstances. In the case of associates, almost all will rely on external accounting support.

While there are fairly sophisticated software packages available that automate a large part of bookkeeping and can make this less tiresome, there is a potential problem with even the best accounting software. Accounting systems gather financial transactions, so would not take into account the reduction in profits due to falling behind in UDA performance (as the practice continues to be paid the full monthly contract value) in the case of an underperforming NHS practice.

The link between the accounting software and HMRC, unless manually overridden, will simply communicate the overstated profit level for three quarters and then the final year end return will adjust the profit downwards to the correct level. HMRC has not said what it will do with the quarterly information, but the danger is that such fluctuations will lead to greater scrutiny, and the only way to make the quarterly returns more accurate (for most practices) would be to obtain help from an accounting professional, at extra cost.

Another proposal of MTD is to widen the cash basis as a method for calculating profits for tax purposes. On the surface, this may appear attractive, but owing to accounting for NHS earnings and the link between these and NHS pension contributions, a move to do this could result in significant complications in relation to tax and pensions.

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