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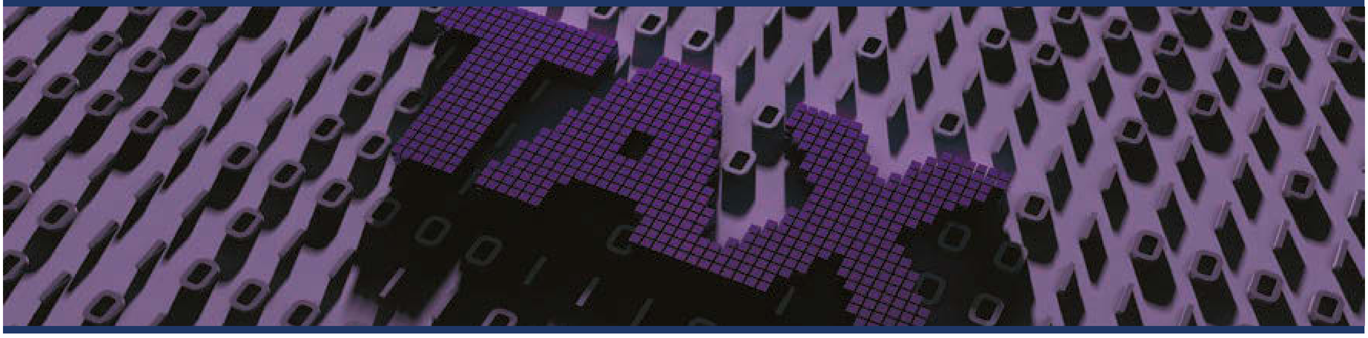
Making Tax Digital:
Reviewing the New Requirements



Making Tax Digital for VAT (MTDfV) ushers in mandatory new requirements from 2019. However, the change isn't just about VAT: MTD affects the very way that businesses keep accounting records. In this factsheet, we outline how you can plan for compliance.

Fundamental changes

MTDfV means that businesses must keep some records digitally. It thus goes beyond current record keeping rules in VAT Notice 700/21. Coupled with this, VAT returns in future must be calculated and submitted to HMRC via an Application Programming Interface (API).

Submission can be from software, bridging software or API-enabled spreadsheets. HMRC acknowledges there will be different ways to do this. However, the transfer of data to HMRC, from the mandatory digital records to the filing of the return, must be entirely digital. HMRC recently published VAT Notice 700/22: Making Tax Digital for VAT, outlining the requirements in more detail.

Who is affected?

MTDfV affects any business with turnover above the £85,000 VAT registration threshold on 1 April 2019, regardless of its legal structure – company, charity, trust, partnership, sole trade, LLP, or public body. Any business in MTDfV whose turnover subsequently falls below the threshold must stay in MTDfV, unless deregistering for VAT. Voluntarily registered businesses currently below the registration threshold can elect to join MTDfV but are not mandated to do so.

Any business exceeding the registration threshold must also comply with MTDfV – and is given only 30 days to get digital. Voluntarily registered businesses need particular vigilance. Exceeding the threshold brings them into MTD immediately.

Examples

ABC Ltd exceeds the £85,000 VAT registration threshold at the end of December 2019, based on a running total of cumulative sales in the previous 12 months. It has 30 days to notify HMRC, and will be registered for VAT from 1 February 2020.

XYZ Ltd voluntarily registered for VAT in 2017. By 30 November 2019, cumulative sales in the previous 12 months exceed the mandatory VAT threshold. MTDfV rules apply to XYZ Ltd immediately – that is, from 1 December 2019. As it's already VAT registered, there is no 30-day grace period.

Who is exempt?

Exemptions are limited to:

- businesses run by practising members of a religious society or order with beliefs incompatible with regulation requirements
- businesses subject to an insolvency procedure
- those satisfying HMRC that, for reasons of age, disability, remoteness of location or for any other reason, it is not reasonably practicable for them to use digital tools to keep business records or submit returns.

HMRC agrees exemption may apply even if someone is not currently exempt from VAT online filing. HMRC may offer 'digital assistance' where it doesn't consider exemption appropriate. If satisfied that keeping and retaining the specified information for each transaction is 'likely to be impossible, impractical or unduly onerous,' HMRC may vary the detail to be kept electronically.

Mandatory use of software

Under MTD, manual record keeping will not be acceptable. Specified records will have to be kept digitally, using 'functional compatible software'. This means a 'software program or set of compatible software programs which can connect to HMRC systems via an API', which must be capable of:

- keeping records in digital form as specified by the new rules
- preserving digital records in digital form for up to six years
- creating a VAT return from the digital records held in compatible software and submitting this data to HMRC digitally
- providing HMRC with VAT data on a voluntary basis
- receiving information from HMRC via the API platform.

Records to be kept digitally are specified in the VAT Notice. They include 'designatory data'; the VAT account linking primary records and the VAT return; and information about supplies made and received. Requirements are more extensive than at present, for example in relation to supplies made. Here it will be necessary to record the different rates of VAT applicable. For supplies received, the amount of input tax to be claimed will be needed. But MTD isn't completely paper-free, and it doesn't mean businesses are mandated to use digital invoices and receipts. Some records will still be kept in hard copy, such as the C79 import VAT certificate. It's the actual recording of supplies made and received that must be digital. Where invoices and receipts aren't held digitally, they should be kept in hard copy as usual for VAT purposes.

Timetable and submission process

The first MTD VAT submission depends on the quarterly return date.

Quarterly filing dates	Start of first return period subject to MTD	First quarter end within MTDfV	First MTD VAT return deadline (month plus 7 days)
March/June/Sept/Dec	1 April 2019	30 June 2019	7 August 2019
Jan/April/July/Oct	1 May 2019	31 July 2019	7 September 2019
Feb/May/Aug/Nov	1 June 2019	31 August 2019	7 October 2019

The VAT return is still a nine-box return. But under MTD, it's populated by pulling data from the digital records. Returns are not submitted by keying VAT return figures into the HMRC portal. The new VAT Notice explains that: 'If your digital records are up to date, software will be able to collate and prepare your return for you. It will then show the return to you and ask you to declare that it is correct and confirm that you want to submit it to HMRC. Once you have submitted the return you will then receive confirmation through your software that it has been received.'

Further detail: VAT Notice 700/22

Software considerations

The digital records required for MTD don't have to be held in one place or one program. Businesses can keep digital records in a range of different compatible digital formats. The use of spreadsheets is allowed, in combination with add-on MTD software.

The question then arises as to how information will be transferred from one place to another. If that information is prescribed as part of what HMRC calls the 'digital journey' – the mandatory submission process – it has to be transferred via 'digital links'.

Digital links

A digital link is a transfer or exchange of digital data between software programs, products or applications. Where a set of software products is used, there must be digital links between them, and once data is entered into software, any further transfer or modification must be via digital link.

Manual data transfer isn't allowed – say, noting details from invoices in one ledger, then using that handwritten information to update manually another part of the functional compatible software. Copying by hand or manual transposition of data between two or more pieces of software is not permitted, and crucially, cut and paste isn't acceptable in the long term. There are, however, transitional arrangements: see later. Section seven of the VAT Notice outlines acceptable digital links, including:

- linked cells in spreadsheets
- emailing a spreadsheet with digital records to an agent for the agent to import data into software to make a calculation, such as a partial exemption calculation
- transferring digital records onto portable devices and giving these to an agent
- XML, CSV import and export, download and upload of files
- automated data transfer
- API transfer.

Transition: the soft landing penalty period

For VAT return periods beginning between 1 April 2019 and 31 March 2020, penalties won't be charged if businesses don't have digital links between software programs. This means cut and paste is briefly acceptable while businesses update their systems. However, from 2020, HMRC will penalise non-compliance.

The transfer of VAT return data to bridging software to make submissions to HMRC must always be digital, and is excluded from the soft landing provisions.

Adjustments and special cases

At present, adjustments are often needed before VAT returns are submitted: such as capital goods scheme adjustment calculations, and fuel scale charge and partial exemption calculations. Under MTD, these can be calculated outside the digital records and the total then recorded digitally.

MTD rules recognise a variety of special cases, including retail scheme users, who will be able to record daily gross takings digitally, rather than details of each supply. Other provisions deal with:

- recording mixed rate supplies with a single price
- invoices for multiple supplies
- employee expenses
- reverse charge supplies
- intra-group supplies for a VAT group
- supplies made by third party agents.

Software providers

HMRC is not providing software. It is currently working with software providers to get products on the market by the MTD start date, and will list recognised products on the gov.uk site as they become ready. An initial list can be found at **https://bit.ly/2uurMKg**. If you already use accounting software and your supplier is not on this list, ask if and when they will upgrade products to be MTD-compatible.

Recommended action

It is important to consider now how your business currently keeps records and files returns: any business not using digital accounting records will need to go digital as soon as possible. We can help you with a systems diagnosis to see where change is needed.

HMRC is running a VAT pilot for MTD, alongside one for income tax which went live in April 2018. However, it is unlikely to be open to the majority of businesses until later in the year.

Under MTD every business will have to operate an online HMRC Business Tax Account (BTA). If you do not already have a BTA, one should be set up as soon as possible: the first step is to create a Government Gateway ID via **http://www.gateway.gov.uk**.

MTDfV represents a time of challenging transition for businesses, especially as it coincides with the projected date of Brexit. Please be assured that we are on hand to answer any questions you may have.