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Making Tax Digital: the story so far

The government is phasing in its landmark Making Tax Digital (MTD) regime, which will see taxpayers moving to a fully digital tax system over the coming years. Following revisions to the implementation timetable and the release of an overview of the legislation, this factsheet considers the latest position.

Making Tax Digital: an overview

Making Tax Digital is a new government initiative with the stated aim of ‘bringing the tax system into the 21st century’. The new regime will ultimately move taxpayers to a fully digital system, with businesses and individuals required to register, file, pay and update their information using a secure online tax account.

MTD for individuals: the Personal Tax Account

Digital tax accounts for individuals – Personal Tax Accounts (PTAs) – have already been created by HMRC. The accounts are pre-populated with information already held by HMRC. PTAs are set to be developed further and taxpayers will be able to report any additional sources of income through their digital account.

Individuals may wish to register for a personal tax account by visiting **www.gov.uk/personal-tax-account**. HMRC anticipates that, over time, many individuals with straightforward tax affairs may no longer need to complete a tax return.

MTD for businesses: the revised timescales

The new MTD initiative was originally set to be implemented between 2018 and 2020. However, in response to concerns raised by business and industry experts regarding the pace and scale of the changes, the government put forward a revised timescale for the introduction of Making Tax Digital for Business (MTDfB).

Under the revised timetable, starting from 1 April 2019 those businesses with a turnover above the VAT threshold (currently £85,000) will have to keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software. The MTD requirement will remain even if turnover subsequently falls below the VAT threshold.

The government has confirmed that keeping digital records and making quarterly updates will not be made mandatory for taxes other than VAT before April 2020. Similarly, those businesses below the VAT threshold which have voluntarily registered for VAT can opt to join MTDfB. HMRC will be piloting MTD for VAT for the rest of 2017, with wider live piloting beginning in Spring 2018.

The government plans to make the necessary VAT regulations available by no later than April 2018, allowing businesses and software developers a period of 12 months to develop the necessary software to meet the detailed requirements before they come into effect.

MTD for VAT: legislation overview

Following the publication of the Finance Bill in September 2017, which includes primary legislation allowing the introduction of MTD for VAT and income tax, HMRC published an open consultation on the draft VAT regulations. The law will retain the current rules regarding keeping and preserving records, the keeping of accounts and the making of returns, but provide new powers to allow HMRC to introduce regulations governing the digital submission of information from VAT-registered businesses. Here we consider some of the key areas outlined in the draft legislation.

Exemptions

The MTD requirements for VAT will take effect from 1 April 2019 and will apply to any VAT-registered business with a taxable turnover over the VAT registration threshold.

Exemptions will be available where HMRC is satisfied the business is run by a practising member of a religious society or order whose beliefs are incompatible with the use of electronic communications, or a business to which a qualifying insolvency procedure is applied, or for which HMRC is satisfied that it is not reasonably practicable to make a return using an electronic return system for reasons of disability, age, remoteness of location or any other reason.

There will be a right of appeal against the refusal of an exemption by HMRC.

Third party software

HMRC stipulates that businesses within the scope of MTD must use functional compatible software to meet the new requirements.

Functional compatible software means a software program or set of compatible software programs which can connect to HMRC systems via an Application Programming Interface (API). The functions of the compatible software must include:

- keeping records in a digital form
- preserving digital records in a digital form
- creating a VAT return from the digital records held in functional compatible software and providing HMRC with this information digitally
- providing HMRC with VAT data on a voluntary basis
- receiving information from HMRC via the API platform that the business has complied.

Keeping digital records

Businesses will be required to submit summary totals of their digital records to HMRC at least every three months. In addition, with their first quarterly update they must provide certain 'designatory data', and any subsequent changes to this data must be included in their next quarterly update. The regulations will specify the information a business needs to keep and preserve digitally. The digital records must include:

- 'designatory data' including the business name, principal place of business and VAT registration number together with information about which VAT accounting schemes they use;
- the VAT account, explained further below; and
- information about supplies made and received.

Businesses will also need to maintain digital records for the VAT account (the audit trail between primary accounting records and the VAT return). This should include details of the VAT payable portion and the VAT allowable portion.

The VAT payable portion is:

- total output tax due for the VAT return period
- total output tax on acquisitions from other EU member states
- total output tax on supplies received where the business is required to account for and pay on behalf of the supplier (reverse charge output tax).

The VAT allowable portion is:

- total input tax allowable for the VAT return period
- total input tax allowable on acquisitions from other EU member states.

The VAT account will also need to detail any adjustments made which will include correcting errors in calculating VAT payable in a previous period and other adjustments such as claiming bad debt relief and annual adjustments for partial exemption and retail schemes. Only the total for each type of adjustment will be required to be kept digitally and not details of the calculations underlying them.

Businesses will need to preserve digital records in functional compatible software for up to six years.

VAT returns

Businesses within the scope of MTD for VAT will be required to submit their VAT returns using their functional compatible software. Information will be pulled from the digital records to populate the VAT return. There will be a minimum of 9 boxes required to complete the return, although HMRC will permit businesses to include supplementary VAT information as part of a VAT return or voluntary update.

The government has confirmed that the submission deadlines for income tax and VAT will not be aligned, meaning there will be no changes to the statutory VAT return or payment dates.

Businesses submitting monthly or non-standard period returns will be able to continue to do so. The VAT annual accounting scheme will also be retained with the current conditions. Businesses making these types of returns will also be required to keep digital records and submit their VAT returns through functional compatible software.

Some businesses may choose to submit VAT information more frequently than their VAT return obligations require on a voluntary basis. Some businesses may choose to voluntarily provide further information by way of periodic updates and supplementary data.

Periodic updates

Businesses will be able to submit VAT information more frequently than their VAT return obligations require on a voluntary basis as a 'voluntary update'.

Supplementary data

HMRC believes that businesses and HMRC could benefit from the submission of supplementary data detailing how the figures in the return are arrived at. HMRC believes this additional data will help them target non-compliance. The software will allow for the voluntary submission of supplementary VAT data as part of a VAT return or a voluntary update. HMRC believe this will allow them to test with businesses the extent to which they and HMRC can benefit from such supplementary data.

So what's next - challenges for businesses

Despite the revised timetable and the issue of some of the proposed detailed requirements, software developers will need time to produce and test the necessary software to meet the new requirements under MTDfB.

Currently, 99% of VAT returns are filed online, yet just 12% of these returns are submitted using software. However, under MTD, VAT returns will need to be filed directly through functional compatible software rather than the information for the return being input directly via the Government Gateway with supporting spreadsheets.

How we can help

Whatever the size of your business, MTD will ultimately affect your firm and we will help you to prepare for the new system ahead of the start date of April 2019. We, as your advisers, are carefully monitoring the progress on this issue so that we can deal with the new requirements once these are finalised.

To discuss how the MTD reforms may affect you and your business, please contact us.