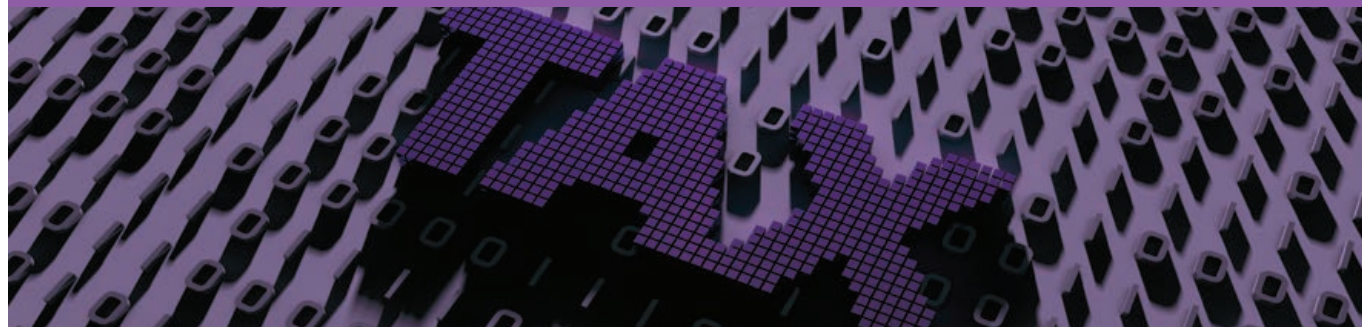


MAKING TAX DIGITAL: REVIEWING THE NEW REQUIREMENTS



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.

New rules

MTDfV means that businesses must keep some records digitally. Coupled with this, VAT returns in future must be submitted to HMRC via an Application Programming Interface (API).

Submission can be from API-enabled spreadsheets, software or bridging software – software spanning the gap between business software and HMRC systems, permitting two-way digital communication and using MTD APIs. HMRC acknowledges there will be different ways to submit VAT returns under MTD, but the transfer of data to HMRC, from the mandatory digital records to the filing of the return, must be entirely digital. VAT Notice 700/22: Making Tax Digital for VAT outlines the requirements in more detail.

Who is affected?

MTDfV affects any business with taxable turnover above the £85,000 VAT registration threshold on 1 April 2019, regardless of its legal structure. 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 after 1 April 2019 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.

Example

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 and 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, 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 specified records in digital form as required 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 potentially 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. 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

For most businesses, the new rules apply from the start of the first VAT return period beginning on or after 1 April 2019. However, MTDfV for some 'more complex' businesses is now deferred until 1 October 2019. This deferral applies to: trusts; not for profit organisations not set up as companies; VAT eligible public sector entities such as government departments; Charitable Trusts, which have to provide additional information on their VAT return; local authorities; businesses based overseas; those required to use a specific accounting scheme used by the public sector.

The first MTDfV submission

two or more pieces of software is not permitted, and crucially, cut and paste isn't acceptable in the long term. 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
- API transfer.

Transition: the soft landing penalty period

For return periods beginning between 1 April 2019 and 30 September 2019, penalties won't be charged if businesses don't use software programs. This means cut and paste is acceptable. Businesses update their systems. Penalties will be charged for non-compliance. Businesses using software to make calculations, and is excluded from the soft landing period.

Factsheets

are available in the following formats:

Printed personalised factsheet

£120 for the first 100, then £30 per 50 run on.
Black logo free. Colour logo £110. Delivery £15+VAT

Personalised PDF – £130+VAT

Intended for emailing or displaying on your website.

Non-personalised PDF – £110+VAT

Text-only Word format – £110+VAT

Ready for you to copy and paste into your literature or a letter, email to clients or display on your website.

**ORDER
NOW
CLICK ME**

Quarterly filing dates
March/June
Sept/Dec
Jan/Apr
July/Oct
Feb/May
Aug/Nov

Under the new rules, different digital data submission figures will be required.

Further information

Software compatibility

The digital rules allow for one piece of software or one piece of different compatible software, in combination.

The question then arises as to how data is transferred from one place to another. This is part of what HMRC calls the 'digital link' submission process – it has to be a digital link.

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

Some businesses will be eligible to join the pilot by 1 October 2019, by HMRC, which gives the opportunity for a soft landing period. However, the pilot is not yet open to every type of business, and the timetable is still evolving.

MTDfV may prove to be a challenging transition for businesses, and we are always on hand to answer any questions you may have.