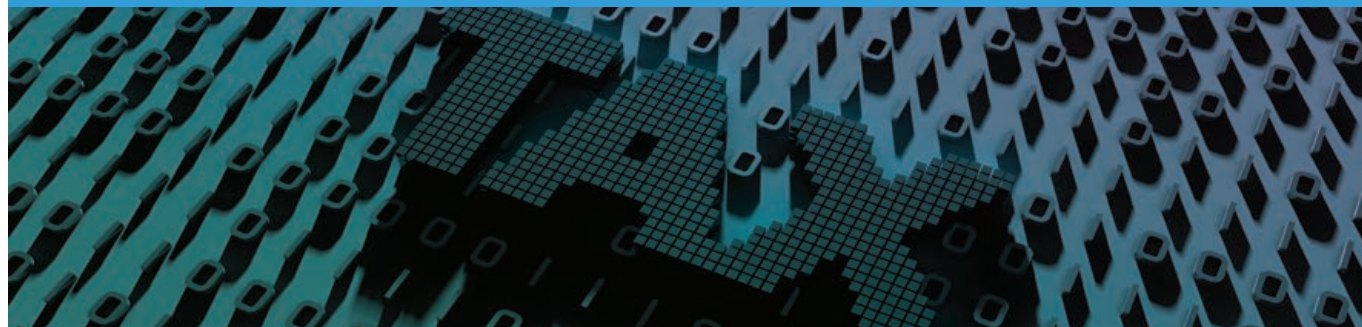


MAKING TAX DIGITAL: REVIEWING THE REQUIREMENTS



From 1 April 2019, most businesses which have a taxable turnover above the VAT registration threshold are required to comply with Making Tax Digital for VAT (MTDfV). 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 ensure you are compliant.

Taking a look at the rules

MTDfV means that businesses must keep some records digitally. Coupled with this, VAT returns 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 are 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 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 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 MTDfV 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 information; the VAT return; and information about the supplies made. Here it will be specified which rates of VAT applicable. For each supply, the tax to be claimed is needed. It's the actual recording that has to be digital. Where invoices are kept in hard copy,

Timetable and

For most businesses, the return period is for some time in 2019. The return period is not set for all entities. Some businesses have to get an authorisation. Some require a special scheme. The first return is due

Quantity filing

March/June	
Sept/Dec	
Jan/April/July/Oct	
Feb/May/Aug/Nov	1

Under MTD, the VAT return period is the same. The difference is that it will be populated with digital records. Returns will not be submitted as figures into the HMRC portal.

Further detail: VAT Notice 700/2019

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. The VAT Notice outlines acceptable digital links, including:

- linked cells in spreadsheets

• copying data from a spreadsheet with digital records to an agent for the return; or copying data into software to make a calculation, such as a VAT return; or copying data from a spreadsheet to a mobile device and giving it to HMRC; or copying data to a cloud storage service and uploading of files

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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.

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HMRC is not providing software. It is available on the gov.uk site – this can be found at <https://www.gov.uk/guidance/mandatory-digital-filing>.

Ensuring you are compliant with MTDfV is vital. We are always on hand to answer any questions you may have.

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