

## Making Tax Digital for VAT

Over the coming years, the government will phase in its landmark Making Tax Digital (MTD) initiative, which will see taxpayers move to a fully digital tax system.

This factsheet outlines some of the key issues for businesses.

### Making Tax Digital for Business

Making Tax Digital for Business (MTDfB) was introduced by the then Chancellor, George Osborne, in the 2015 Spring Budget. The government's 'Making Tax Easier' document was published shortly after, and outlined plans for the 'end of the tax return'. It also set out the government's vision to modernise the UK's tax system, with digital tax accounts set to replace tax returns for ten million individuals and five million small businesses.

### Revised timescales

However, industry experts and those within the accountancy sector expressed concerns over the proposed pace and the scale of the introduction of MTDfB, and, as a result, the government amended the timetable for the initiative's implementation, to allow businesses and individuals 'plenty of time to adapt to the changes'.

MTDfB, starting with VAT will now be implemented from 1 April 2019, as summarised below. For further detail visit the HMRC website and search for Tax Notice 700/22.

### Making Tax Digital for VAT

From 1 April 2019, businesses will be mandated to use the MTDfB system to meet their VAT obligations - termed Making Tax Digital for VAT (MTDfV). Only businesses with a turnover above the VAT threshold (currently £85,000) will be required to use MTDfV.

### VAT returns

- Those businesses that fall within the scope of MTDfV will be required to submit their VAT returns using software compatible with the MTDfV regulations. Information will be extracted from the digital records in order to populate the VAT return.
- There will be no changes to the format of the VAT return or payment dates. In addition, businesses who choose to submit VAT returns monthly will be able to continue to do so.

It is important to appreciate that **each VAT registered business with turnover in excess of the VAT registration threshold, currently £85,000, must comply with MTD**. For example, a sole trader who is also the sole shareholder of a limited company would have to comply with MTD for both the sole trade and the limited company, provided both have turnover subject to VAT in excess of £85,000.

### Using third party software and keeping digital records

Under MTDfV, businesses must make use of functional compatible software, including spreadsheets, to meet the new requirements. VAT returns will be calculated and submitted to HMRC via an Application Programme Interface (API). Clients will be able to submit their returns using software, bridging software or API-enabled sheets. Software providers are currently developing bridging software and API-enabled sheets.

The functions of MTD-compatible software must include:

- keeping records in a digital form;
- preserving digital records in a digital form;
- allowing a client to create a return from the digital records held in the compatible software, and provide this information to HMRC digitally;
- providing HMRC with VAT data on a voluntary basis; and
- being able to receive information from HMRC via the API platform to confirm that the business has compiled.

HMRC will allow adjustments, for example for partial exemption, to be calculated separately. However, any transfer of data between software and spreadsheets must be undertaken digitally. Ultimately, the final transfer of information to HMRC will have to be done digitally, in all cases.

Records kept digitally must include such information as:

- designatory data - the name of the business, its address, VAT registration number and a record of any VAT accounting schemes used;
- the VAT account (as outlined below);
- information in regard to supplies made and received;
- the totals of any adjustments; and
- a record of Daily Gross Takings if the business is using a retail scheme.

Businesses will be required to keep digital records in functional compatible software for up to six years.

### **The VAT account**

Digital records must be maintained for the VAT account which is the audit trail between primary accounting records and the VAT return. This should include details of both the VAT payable portion (total output VAT for the period including VAT on EU acquisitions and reverse charges) and the VAT allowable portion (total input VAT for the period including input VAT on EU acquisitions). It will also need to include any correction of errors in previous returns, adjustments for bad debt relief and annual adjustments for partial exemption and retail schemes.

### **Penalties**

In April 2019, when MTD for VAT comes into effect, HMRC anticipates that there will be a one-year 'soft landing' period. A new penalty regime is to be introduced for MTD with the current intention being for a points based penalty system to be introduced in 2020.

### **Exemptions**

Under MTDfV, only a small handful of businesses will be exempt, for example due to it not being reasonably practicable to make a return using an electronic system due to disability, age or remoteness of location. Please contact us for more details if you believe you may qualify for an exemption. Businesses will be able to make a right of appeal against a HMRC refusal of exemption.

### **How we can help**

No matter if your business is big or small, MTD will undoubtedly affect you. If you have any queries please get in touch with your contact at HM. We are happy to discuss how the MTD reforms may affect you and your business.