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Contents

Making Tax Digital: reviewing the new requirements

Making Tax Digital for VAT (MTD) ushers in mandatory new requirements from 2019 and represents one of the biggest changes to the UK tax system in decades, with digital advances launching it into the 21st century.

The change isn't just about VAT: MTD affects the very way that businesses maintain accounting records. In this factsheet, we outline how we can help you plan for compliance.

What's changed?

MTD means that businesses must keep certain records digitally. It goes beyond the current record keeping rules (VAT Notice 700/21). In the future, VAT returns must be calculated and submitted to HMRC via an Application Programming Interface (API).

The transfer of data to HMRC, from the mandatory digital records to the filing of the return, **must be entirely digital**. Submission can be from software, bridging software or API-enabled spreadsheets.

HMRC recently published VAT Notice 700/22: Making Tax Digital for VAT, outlining the requirements in more detail.

Who is affected?

MTD 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 trader, LLP, or public body. Any business in MTD whose turnover subsequently falls below the threshold must stay in MTD, unless deregistering for VAT. Voluntarily registered businesses currently below the registration threshold can elect to join MTD but are not mandated to do so.

Any business subsequently exceeding the registration threshold must also comply with MTD and is given only 30 days from that point to get digital. Similarly, voluntarily registered businesses also need to be aware that exceeding the threshold brings them into MTD.

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. MTD 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 the 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.

At present there is no confirmed date for when companies currently falling outside of the scope of MTD may need to comply. However, we recognise that there may still be advantages to early adoption and can consider these with you where appropriate.

Mandatory use of software

Under MTD, manual record keeping will not be acceptable. According to VAT Notice 700/21, specified records (see VAT notice) 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 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.

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 MTD	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

If your digital records are up to date, software will be able to collate and prepare your return for you.

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. You will still need to review and declare that it is correct and confirm that you wish to submit it to HMRC. Once you have submitted the return you will then receive confirmation, through your software, that it has been received.

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.

Information is then transferred as part of what HMRC calls the 'digital journey' – the mandatory submissions process of information via 'digital links'.

What are 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, they must be connected by digital links between them, and once data is inputted into software, any further transfer or modification must be via this digital link.

Manual data transfer is no longer 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. However, there are transitional arrangements: see later.

Section 7 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; and
- 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; and
- 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 website once they are approved. 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, you should contact them directly to establish if and when the products will be upgraded to ensure MTD-compatibility.

Recommended action

To ease the impending compliance burden, it is important that you now consider 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.

Help is at hand

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**.

Nyman Libson Paul has a dedicated team of experts who can offer advice and support on all MTD-related matters. We will work with you to complete an assessment of your existing systems and identify and evaluate what practical steps will need to be taken to ensure compliance. We can also assist with the implementation of any system or process improvements.

For further help, please get in touch with your contact partner or email us at cloudaccounting@nlpca.co.uk