

Making Tax Digital for VAT (MTD) FAQs

What is Making Tax Digital for VAT?

It is part of a government initiative to modernise the UK tax system to make it more efficient and easier for taxpayers to get their tax right. It ushers in mandatory new requirements from 1 April 2019 and represents one of the biggest changes to the UK tax system in decades. As a result, businesses will have to keep records digitally and submit their VAT returns using functional compatible software.

What's changed?

MTD means that businesses must keep certain records digitally. It goes beyond the current record keeping rules in that 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?

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 it deregisters for VAT.

Voluntarily registered businesses currently below the registration threshold can elect to join 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 to get digital.

Similarly, voluntarily registered businesses also need to be aware that exceeding the threshold brings them into MTD.

Are there any exemptions to MTD?

Yes. Businesses will not have to be compliant with MTD rules if:

- the business is run entirely by practicing members of a religious society whose beliefs are incompatible with the requirements of the regulations; or

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- it is not reasonably practicable for the business to use digital tools to keep business records or submit returns, for reasons of age, disability, remoteness of location or for any other reason; or
- the business is subject to an insolvency procedure.

What is functional compatible software?

Functional compatible software can be a single program or a set of applications or programs connected by digital links. The system needs to be able to record and preserve digital records and engage in two-way communication with HMRC. The system exchanges taxpayer information and files VAT returns electronically.

What software can be used for MTD?

Not all software will be compatible with the new MTD rules. Please check www.gov.uk/guidance/software-for-sending-income-tax-updates#VAT to see if your software package will be MTD-compatible. The cloud accounting team at Nyman Libson Paul is also available to answer any queries and can be reached at cloudaccounting@nlpca.co.uk

Will HMRC provide free software for businesses?

No. HMRC has stated that it will not be providing

any MTD-compatible software and is encouraging businesses to choose a third-party software provider that is both MTD compliant and fits with the needs of the business.

What is a digital tax account?

The intention behind the new digital tax is to create a centralised online account where taxpayers can view their tax affairs in real time in addition to tracking tax calculations, tax payments and options to register for new services with HMRC.

What is a digital link?

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 – e.g. 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.

What are the key dates for MTD and who is affected?

1 April 2019	1 October 2019	1 April 2020
MTD for VAT is compulsory for VAT registered businesses with a taxable turnover above £85,000. However, a small minority of businesses have been deferred until 1 October 2019.	MTD for VAT is compulsory for deferred groups, which includes trusts, 'not for profit' organisations that are not set up as a company, VAT divisions, VAT groups, public sector entities required to provide additional information on their VAT return, local authorities, public corporations, traders based overseas, those required to make payment on account and annual accounting scheme users.	MTD for VAT is compulsory for all VAT registered businesses regardless of threshold. MTD for Income Tax may also be introduced which mandates businesses to keep digital records and submit quarterly summaries of their income and expenses to HMRC using functional compatible software.

Will there be penalties for non-compliance?

Yes. HMRC have devised a new points-based penalty system (similar to the driving penalty points system) for failure to keep records digitally and for late or non-submissions. Businesses will incur a financial penalty after a certain threshold of points have been accumulated.

What if I am already currently exempt from submitting electronic VAT returns?

Any exemptions currently in place for submitting an electronic VAT return are still valid and do not require getting reaffirmation from HMRC.

What if a business falls below the VAT threshold after opting into MTD?

Any business that is above the VAT threshold after 1 April 2019 and subsequently fall below the threshold will need to continue to follow MTD rules.

Can businesses below the threshold opt into MTD?

Yes. Businesses that would like to voluntarily opt into MTD can do so by writing to HMRC with the date of their next VAT period.

How do I deal with VAT 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.

How is the VAT return submitted?

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.

What should I do next?

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.

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 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