



Making Tax Digital FAQs

February 2019



What is “Making Tax Digital”?

Making Tax Digital (MTD) is a government initiative to modernise HMRC’s tax system, with the aim of making the whole process of administering tax simpler and more efficient. All of your tax information will be in one place (your digital account) and you will have to report your business activity during the year, uploading and updating data to your tax account in real time.

VAT is the first tax that will be affected, and these new obligations start from 1 April 2019. VAT return submission via API software, processing the information to produce VAT returns in a secure digital manner and keeping records digitally will all become new obligations.

Will it affect me?

Unless you are exempt, if at 1 April 2019 (or 1 October 2019 for a restricted minority of taxpayers) your VAT taxable turnover exceeds £85,000 in a 12-month period, then you will be affected this year, for VAT compliance.

In future, if you own a business, or are self-employed and you pay income tax, national insurance, VAT or corporation tax then it is quite likely you will be affected. This means you could be required to keep track of your affairs digitally using MTD compatible software, and to update HMRC at least quarterly via your digital tax account. It will be a legal requirement and there will be penalties for non-compliance.

Exemption applies if:

- a) Your business is run entirely by practicing members of a religious society whose beliefs are incompatible with the requirements of the regulations (for example, those religious beliefs prevent them from using computers);
- b) It is not reasonably practicable for you to use digital tools to keep your business records or submit your returns, for reasons of age, disability, remoteness of location or for any other reason; or
- c) You are subject to an insolvency procedure

What do businesses need to do to be ready to sign up for MTD?

This year businesses need to:

- a) Determine if they are caught by MTD obligations;
- b) Understand their obligations;
- c) Source API-enabled Functional Compatible Software; and
- d) Review and update procedures to submit VAT returns, process VAT returns and keep records digitally.

If you already use software to keep your business records, check with your software provider for the necessary upgrades. If you do not use software or your software will not be MTD-compatible then you will need to consider what software, or bridging software, is most suitable for you.

We work with three software providers who are MTD compatible – QuickBooks, Xero and Sage, and have other API enabled options. We can assist you with API compliant VAT return submission as agent if you are struggling to locate and implement the correct software in time.

What do I have to do?

- a) Submit VAT returns via API software;
- b) Process the information to produce VAT returns in a secure digital manner using digital links*; and
- c) Keep relevant records digitally.

For this you will need Functional Compatible Software able to submit data to, and receive information from, HMRC.

* NB There is a one-year grace or “soft landing” period for internal digital links.

When does MTD come into effect?

The obligations will start to apply from the first VAT return period starting on or after 1 April 2019.

For a restricted few, MTD obligations will apply to the VAT period starting on or after 1 October 2019. This applies to taxpayers who fall into one of the following categories:

- a) Trusts;
- b) ‘Not for profit’ organisations that are not set up as a company;
- c) VAT divisions;
- d) VAT groups;
- e) Those public sector entities required to provide additional information on their VAT return (Government departments, NHS Trusts);
- f) Local authorities;
- g) Public corporations;
- h) Traders based overseas; and
- i) Those required to make payments *on account and annual accounting scheme users*.

What records do I need to keep digitally for MTD?

You must have a digital record of:

- a) Your business name;
- b) The address of your principal place of business;
- c) Your VAT registration number; and
- d) Any VAT accounting schemes that you use.

For each supply you make you must record the:

- a) Time of supply (tax point);
- b) Value of the supply (net value excluding VAT); and
- c) Rate of VAT charged.

For each supply you receive you must record the:

- a) Time of supply (tax point);
- b) Value of the supply; and
- c) Amount of input tax that you will claim.

To support each VAT Return you make, your functional compatible software must contain:

- a) The total output tax you owe on sales;
- b) The total tax you owe on acquisitions from other EU member states;
- c) The total tax you are required to pay on behalf of your supplier under a reverse charge procedure;
- d) The total input tax you are entitled to claim on business purchases;
- e) The total input tax allowable on acquisitions from other EU member states;
- f) The total tax that needs to be paid or you are entitled to reclaim following a correction or error adjustment, and
- g) Any other adjustment allowed or required by VAT rules.

A total of each type of adjustment must be recorded as a separate line.

Additional records may be required depending on the complexity of commercial and VAT arrangements in place.

If you use spreadsheets to keep business records you will need MTD-compatible bridging software so that you can send HMRC your quarterly VAT returns and receive information back from HMRC.

Digital records must also be able to demonstrate the digital links and digital information flows between internal software systems, for the data that is used to create VAT returns.

Can I still use spreadsheets for my business records?

Yes.

Spreadsheets may be used to record and store business transactions digitally. However, those spreadsheets must be able to submit the required data to HMRC digitally, for example, using bridging software or an API enabled spreadsheet that can integrate directly with HMRC systems.

The bridging software must be capable of extracting or receiving the information from the spreadsheet digitally and then sending it to HMRC systems.

The summary information must not be physically re-typed or cut/copied and pasted into another software package.

There are challenges in using spreadsheets as a form of secure record and this needs to be addressed.

Can I still use spreadsheets for my tax calculations?

Yes.

A spreadsheet can be used to calculate or summarise detailed VAT transactions to arrive at the summary information you are obliged to send HMRC.

However, those spreadsheets must be able to submit the required data to HMRC digitally, for example, using bridging software.

The bridging software must be capable of extracting or receiving the information from the spreadsheet digitally and then sending it to HMRC systems.

The summary information must not be physically re-typed or cut/copied and pasted into another software package.

When will MTD for VAT be mandatory for my business?

Unless exempt, all VAT-registered businesses with a taxable turnover above the VAT threshold will have to join MTD for VAT from 1 April 2019. This is mandatory for VAT return periods that start on or after 1 April 2019.

If the taxable turnover threshold is breached at a later date, MTD will be mandatory at that later date.

How many VAT returns will I have to send under MTD for VAT?

For VAT, MTD does not change how often businesses have to send returns/information to HMRC, but rather how they do it. It may be that over time HMRC require more information to be submitted more regularly with the VAT returns, but this is not yet certain.

What if my taxable VAT turnover is below the threshold?

Non VAT registered businesses already have to check their turnover for the last 12 months at the end of each month to see if it exceeds the VAT threshold. The difference now is that voluntary VAT registered businesses operating below £85,000 need to continue to do this even after being VAT registered. They may want to voluntarily adopt MTD in advance as a business with a turnover below the VAT threshold can voluntarily join MTD for VAT. If it does then MTD applies from the first day of the following month.

If VAT taxable turnover subsequently falls below the VAT registration threshold businesses **must continue** to follow the MTD rules, unless they qualify for exemption due to de-registration or if other exemption criteria are met.

How can Mercer & Hole help?

We have provided a helpful webinar which you can watch via the following link (there have been some minor updates since this was recorded):

<https://register.gotowebinar.com/recording/5433043588926204929>

Please call or come and meet with your usual Mercer & Hole contact who can assist you with understanding your obligations and implementing the required changes, as well as reviewing software options eg transferring over to one of our partnered software packages (QuickBooks, Xero or Sage).