

Making Tax Digital

# A guide to MTD and what it means for businesses

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# Making Tax Digital for VAT

## What you need to know

Making Tax Digital (MTD), the new regime for record keeping and filing of VAT returns comes into force from 1 April 2019. This short guide explains the upcoming changes and provides some pointers as to how you can prepare.

### What is the purpose of the changes?

HMRC are keen for businesses to understand the potential benefits of MTD. Their view is that it will:

- Make it easier for businesses to get their tax right the first time
- Reduce the costs, risk of errors and worry that businesses face when HMRC intervenes to put things right.


### When do things need to change?

From 1 April 2019 most businesses that are registered for VAT, or are in the process of registering, must start using MTD. This means that you may already be operating within an accounts year that includes a VAT period that falls within the new requirements to maintain digital records. You may wish to update your system prior to your next VAT submission so that you do not have to change part way through an accounts year.

HMRC have reacted to concerns of certain businesses and, as a result, decided to delay the implementation of MTD for some entities until 1 October 2019.

These entities are:

- 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 (eg: government departments and NHS Trusts)
- Local authorities



**Upcoming changes**

Making it easier for businesses to get tax right and reduce costs.

- Public corporations
- Businesses based overseas
- Businesses making payments on account
- Annual accounting scheme users.

### Filing with HMRC

It will become mandatory for businesses that fall within MTD to keep digital records. VAT information must go to HMRC via an Application Programme Interface (API). This means that you will need MTD compatible software, bridging software or API enabled spreadsheets. **There will no longer be an option to submit your return through the Government Gateway.**

# How can businesses prepare?

HMRC have confirmed that they are not developing MTD compatible VAT software. However, there is a [hub on their website](#) for software developers who offer MTD compliant software.

- **If you currently use accounting software**, you may need to upgrade. You should be able to obtain advice and support from your existing provider but if you prefer then please do call us. We may even get you a better deal.
- **If you currently use only spreadsheets and then submit the return through the Government Gateway**, please get in touch to discuss the options available to you and the services we can provide as your agent.
- **If you currently maintain records on paper**, your process must change. You will need to either acquire and use appropriate software or engage us or another agent to do your record keeping and reporting for you.
- **If you have authorised us to submit your VAT return for you as agent**, we can still do this. We will need to have access to the functional compatible software that holds your mandatory records.

## Will there be penalties if a business is not ready on 1 April 2019?

HMRC are aware that these changes are challenging to businesses and they are proposing a soft-landing period of at least 12 months, with no record keeping penalties. This should allow businesses time to update their systems. During that soft landing period, it will be acceptable for data to be transferred between software and spreadsheets manually, although the final submission will have to be made to HMRC using API enabled software.

## What will not change?

Businesses will not need to adjust their VAT reporting dates or be required to provide any more VAT information than they do already. Any current exemptions for electronic submissions will also apply to MTD.

## What records must be kept digitally?

Under MTD for VAT, these records must now be kept digitally within functional compatible software:

- Your business name
- The address of your principal place of business
- Your VAT registration number
- A record of any VAT accounting schemes that you use
- The amount of input tax which will be claimed

For each supply you make you must record:

- The date
- The value
- The rate if VAT is charged. Where no VAT is charged, you must record whether the supply is zero rated, exempt or outside the scope of VAT.

If you account for VAT using a retail scheme you are not required to keep a separate record of the supplies that make up your Gross Daily Takings (GDT) within functional compatible software.

**To show the link between the output tax in your records and the output tax on the return, you must have a record of:**

- The output tax you owe on sales
- The output tax you owe on acquisitions from other EU member states
- The tax you are required to pay on behalf of your supplier under a reverse charge procedure
- The tax that needs to be paid following a correction or error adjustment
- Any other adjustment required by VAT rules.

For each supply you receive you must record:

- The date
- The value
- The amount of input tax that you will claim.

**To show the link between the input tax in your records and the input tax on your return, you must have a record of:**

- The input tax you are entitled to claim from business purchases
- The input tax allowable on acquisitions from other EU member states
- The tax that you are entitled to reclaim following a correction or error adjustment
- Any other necessary adjustment.

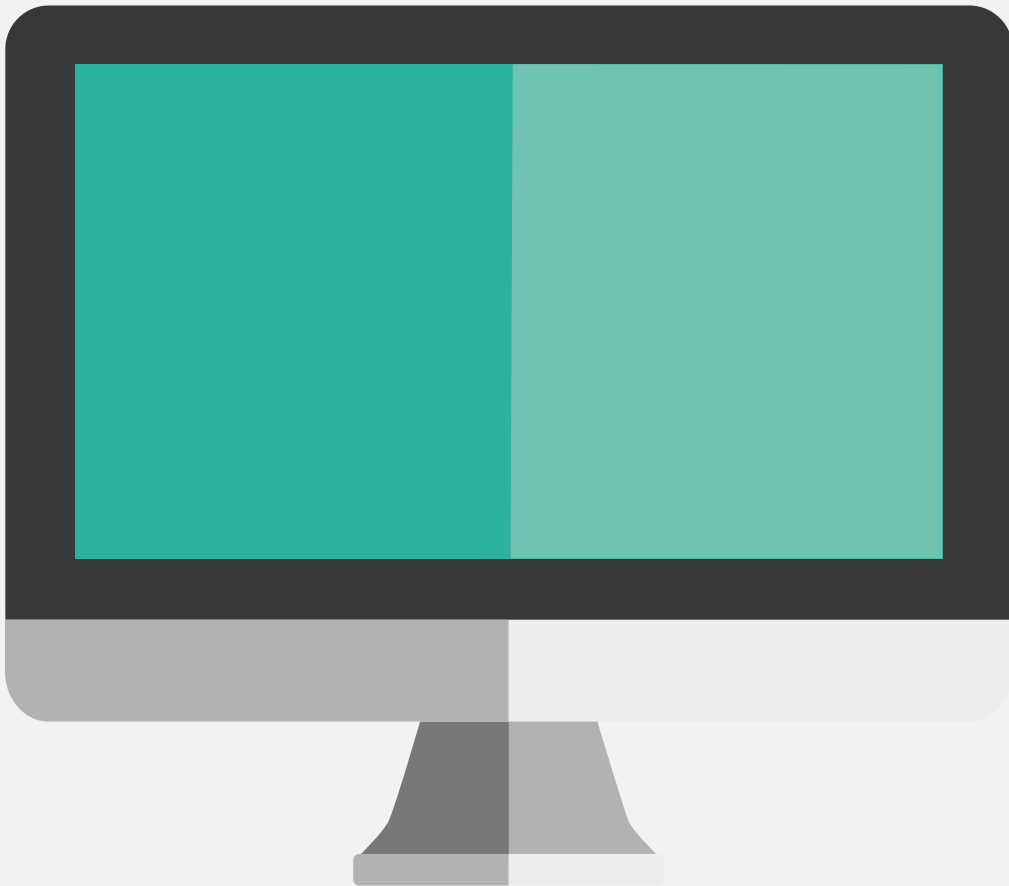
The complete set of digital records to meet MTD requirements do not all have to be in one piece of software. If there is a digital link between the pieces of software, records can be kept in a range of compatible digital formats.

If you make multiple supplies at the same time these do not have to be recorded separately. You can record the total value of supplies on each invoice or receipt that have the same time of supply and rate of VAT charged.



Making Tax Digital

Other steps to consider  
on your MTD journey.



# Additional information

## Are any manual adjustments allowed?

Only the total for each type of adjustment will be required to be kept digitally, not details of the calculations underlying them. If the adjustment requires a calculation it does not have to be made in the software. For example partial exemption calculations can be carried out on a spreadsheet and the information can be transferred in manually – this step is not part of the MTD journey.

Where the input tax claimed or output tax due on a supply has been changed as the result of an adjustment, you do not need to amend the digital record of the supply.

## How will VAT returns be submitted?

Your software will calculate your return for you from your digital records. It will then show the return to you and ask you to declare that it is correct and confirm that you want to submit it to HMRC. Once you have submitted your return you will receive confirmation through your software that it has been received.

## What are voluntary updates and supplementary data?

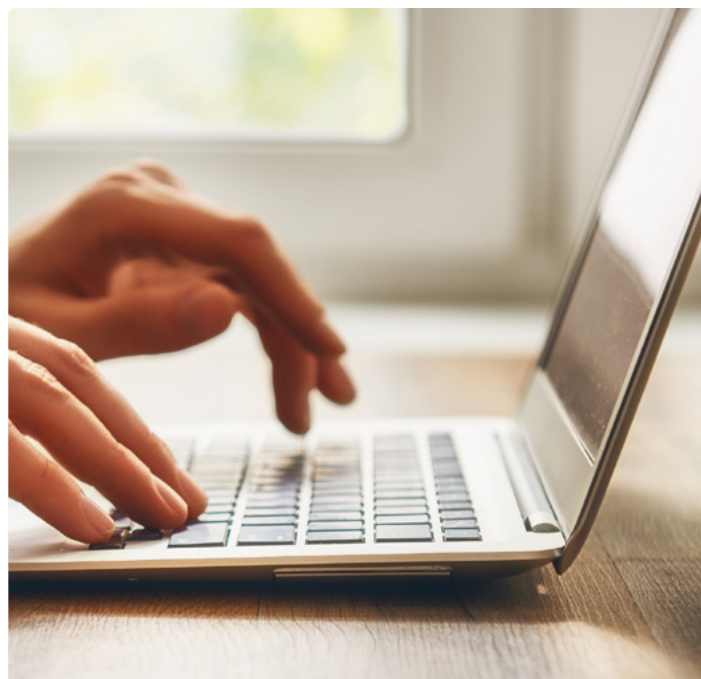
VAT updates are a voluntary option that you can use to provide supplementary information ahead of your VAT return.

Data for VAT updates is drawn from your digital records and submitted to HMRC through your functional compatible software, just as would be done for a VAT return. However, a VAT update will not discharge the VAT return obligation and does not create a legal liability. There are no restrictions on the number of times this can be done during an accounting period.

Submitting a voluntary update will not change your payment position. You will not receive a repayment from HMRC or be asked to make a payment because of an update that has been submitted.

Your software will also allow you to submit supplementary data to HMRC. You can only do this when you send a VAT return or a voluntary update. If you decide to send supplementary data your software will send additional information to HMRC.

Submission of this supplementary data is entirely voluntary. You can send this each time you submit VAT information to HMRC or you can do this on an occasional basis. If your business is selected for a tax compliance check, HMRC will look at this information before contacting you. If this information is enough



to give HMRC assurance that your return is correct they may not contact you.

At the moment supplementary data is limited to information within your digital records. You are not currently able to upload invoices as evidence of repayment returns. Our understanding is that in time the supplementary data option will become more sophisticated and the hope is that eventually error notifications and evidence of input tax incurred will be able to be sent via the software.

As the supplementary data does not change your payment position you cannot receive a penalty for an error in supplementary data.

# MTD timeline

October  
2018

Open to sole traders and companies (except those which are part of a VAT group or VAT Division, those who trade with the EU, are based overseas, submit annually, make payments on account, use the VAT Flat Rate Scheme, and those newly registered for VAT that have not previously submitted a VAT return) provided they are up to date with their VAT.

Late  
2018

Private testing begins with partnerships, businesses that trade with the EU, and users of the Flat Rate Scheme and those businesses which have incurred a Default Surcharge within the last 24 months.

Late  
2018/early  
2019

Open to other sole traders and companies who are not up to date with their VAT and businesses newly registered for VAT that have not previously submitted a VAT return.

Early  
2019

Open to partnerships and those customers that trade with the EU.

Spring  
2019

Pilot open for MTD customers that have been deferred.

April  
2019

Mandated for all customers (except those that have been deferred).

October  
2019

MTD mandated for businesses that have been deferred. This deferral will apply to around 3.5% of mandated businesses.

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