



Making Tax Digital (MTD): How the changes in 2019 will impact your business

Making Tax Digital for Business

HMRC is phasing in its landmark Making Tax Digital (MTD) regime, which will ultimately require taxpayers to move to a fully digital tax system.

MTD for VAT will be implemented in April 2019. The MTD for VAT regulations were laid before parliament on 28 February 2018.

Under the regulations, businesses with taxable turnover above the VAT threshold (currently £85,000) must keep digital records for VAT purposes and provide their VAT return information to HMRC using 'functional compatible software'.

Compliance with the regulations is mandated for VAT return periods beginning on or after 1 April 2019. This booklet is intended to reflect our understanding of the position as at November 2018.

In a hurry?

Here are the main points:

- Businesses will have to use 'functional compatible software' to submit their VAT returns from 1st April 2019.
- Digital records will have to be preserved in this software for up to six years.
- A list of software providers has been published by HMRC.
- Spreadsheets will only be allowed if they use add-ons published by one of these software providers.
- The VAT return will 'be generated by pulling information from the digital records' – a hands-free process. No manual copying of data will be acceptable.
- There are three exemptions, in line with those currently exempt from online filing.

If you're unsure about any of the above items, get in touch with Robinsons for a friendly, informal chat with one of our Directors. Having already responded to the potential challenges of MTD, we're confident we can help you with all aspects of the transition.

MTD for VAT guidance

HMRC have published VAT Notice 700/22: Making Tax Digital for VAT. The notice defines ‘functional compatible software’ and details the transaction-level data that needs to be recorded and retained within the software. Parts of the notice have force of law, and some businesses may find that a concession from keeping certain digital records may apply to them.

Since April 2018, HMRC has been running a pilot scheme for MTD for VAT, which hopefully will iron out some of the issues that will arise in the implementation of the digital system.



Software

Under the new MTD rules, businesses will have to use ‘functional compatible software’. This means a ‘software program or set of compatible software programs which can connect to HMRC systems via an Application Programming Interface (API)’. This must be capable of:

- keeping records in digital form as specified by the new rules
- preserving digital records in digital form
- 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, via the API platform, information from HMRC to ascertain compliance. It is as yet unclear what this means, but it may relate to HMRC’s ability to send compliance prompts and nudges.

How are the records to be kept?

Keeping digital records will not mean businesses are mandated to use digital invoices and receipts, but the actual recording of supplies made and received must be digital. Software will not be available from HMRC, but a list of software providers who have tested their software as part of the pilot has been published. The use of spreadsheets will be allowed, but they will have to be combined with add-on software to meet HMRC’s requirements.

Example

A business may use one piece of accounting software to record sales and purchases, transferring the totals into a spreadsheet to calculate the VAT return. The information is then sent to a piece of bridging software to submit the VAT return to HMRC. Here three pieces of software are involved. To qualify as functional compatible software, the links between them will have to be digital. The MTD for VAT notice explains that a digital link is one that involves no manual copying of data.

Income tax

Whilst digital record keeping for income tax purposes will not be mandated until 2020 at the earliest, it is now possible to take part in the MTD for income tax pilot. Participation is available for sole traders and unincorporated property businesses, and will involve digital record keeping and making quarterly returns to HMRC.

Helping with the challenges

Whatever the size of your business, there is a time of great change ahead, and we are on hand to help with the challenges. Even though the income tax requirements of the Making Tax Digital for business programme have been delayed, the government is still fully committed to its implementation.

The introduction of MTD for VAT is coming very soon, so we advise you to be prepared. One key area to address is whether business transactions are currently recorded digitally. If they are not, consideration should be given to recording some/all transactions on a digital basis.

We would be happy to help you with any issues arising from MTD for VAT. We would also be able to undertake bookkeeping services for you to enable you to comply with the requirements.

Exemptions

Just as there are exemptions from electronic filing at present, there are some exemptions from the MTD for VAT regime, and these follow the same lines. They are for businesses:

- which satisfy HMRC that they are practising members of a religious society or order whose beliefs are incompatible with the use of electronic communications
- to whom an insolvency procedure applies
- which satisfy HMRC that for reasons of disability, age, remoteness of location or any other reason, it is not reasonably practicable for them to make a return using an electronic return system.

If HMRC are not satisfied that the person is exempt for any of the above reasons, they will provide digital assistance.

Preservation of records

As well as keeping digital records, businesses will have to preserve them in digital form. They will have to preserve digital records in 'functional compatible software' for up to six years. Where a business deregisters for VAT, it will have to preserve records for up to six years.

Businesses to which MTD no longer applies will not have to maintain ongoing records in digital format.

Content of records

The information to be kept and preserved digitally includes:

- ‘designatory data’: this is business name, principal place of business, VAT registration number, information about any VAT accounting schemes used
- VAT account linking primary records and VAT return
- information about supplies made and received.

The VAT account

The following data will be kept digitally.

VAT payable portion:

- total output tax due for VAT return period
- total output tax on acquisitions from other EU member states
- total output tax on supplies received where the business is required to account for and pay on behalf of the supplier (reverse charge output tax).

VAT allowable portion:

- total input tax allowable for VAT return period
- total input tax allowable on acquisitions from other EU member states.

Exceptions

Where HMRC are satisfied that keeping and retaining the specified information for each transaction is ‘likely to be impossible, impractical or unduly onerous,’ they can vary the detail required to be kept electronically.

The notice also includes some relaxations for recording sales and purchases made by third parties; it will be possible to enter the totals on the third party’s sales summary as one single transaction.

Adjustments:

Adjustments made, corrections of errors in calculating VAT payable in previous periods, and any other adjustments made as required by VAT rules (such as retail scheme annual adjustments or partial exemption annual adjustments).

Here however, it is only the total of each adjustment that needs to be kept digitally – not the underlying calculations.

VAT Schemes

Retail scheme users will be allowed to record electronically sales transaction data based on daily gross takings, rather than recording details per sale.

Flat rate scheme users will need to record the relevant information in a digital form but the extent of the records will mirror current record keeping requirements.

VAT returns

Nine boxes

There will be a minimum of nine boxes to complete the return. The information on the return will 'be generated by pulling information from the digital records' – a hands-free process.

Other updates

There is also provision for businesses to make voluntary 'periodic updates' – in other words, for them to supply information outside the VAT return cycle.

The exact position is not yet completely clear, but HMRC say 'We expect a voluntary update outside of the VAT Return cycle to be used mainly when a business is also providing an Income Tax update.' This presumably looks forward to a next stage in MTD for Business, when the regime also encompasses income tax. HMRC then goes on to say, 'But it could also be used for example to update HMRC about a change of circumstances (changes to 'designatory data').'

Supplementary data

If a business chooses to do so, they can submit supplementary data when submitting their VAT return. The supplementary data will contain a breakdown of the box 6 outputs figure, showing the period totals of standard rate, reduced rate, zero rate, exempt and outside the scope transactions.

HMRC have also stated that, should they select a business for an enquiry, they may look at any supplementary data submitted by the business. This data may satisfy HMRC that they do not need to contact the business after all.

Error corrections

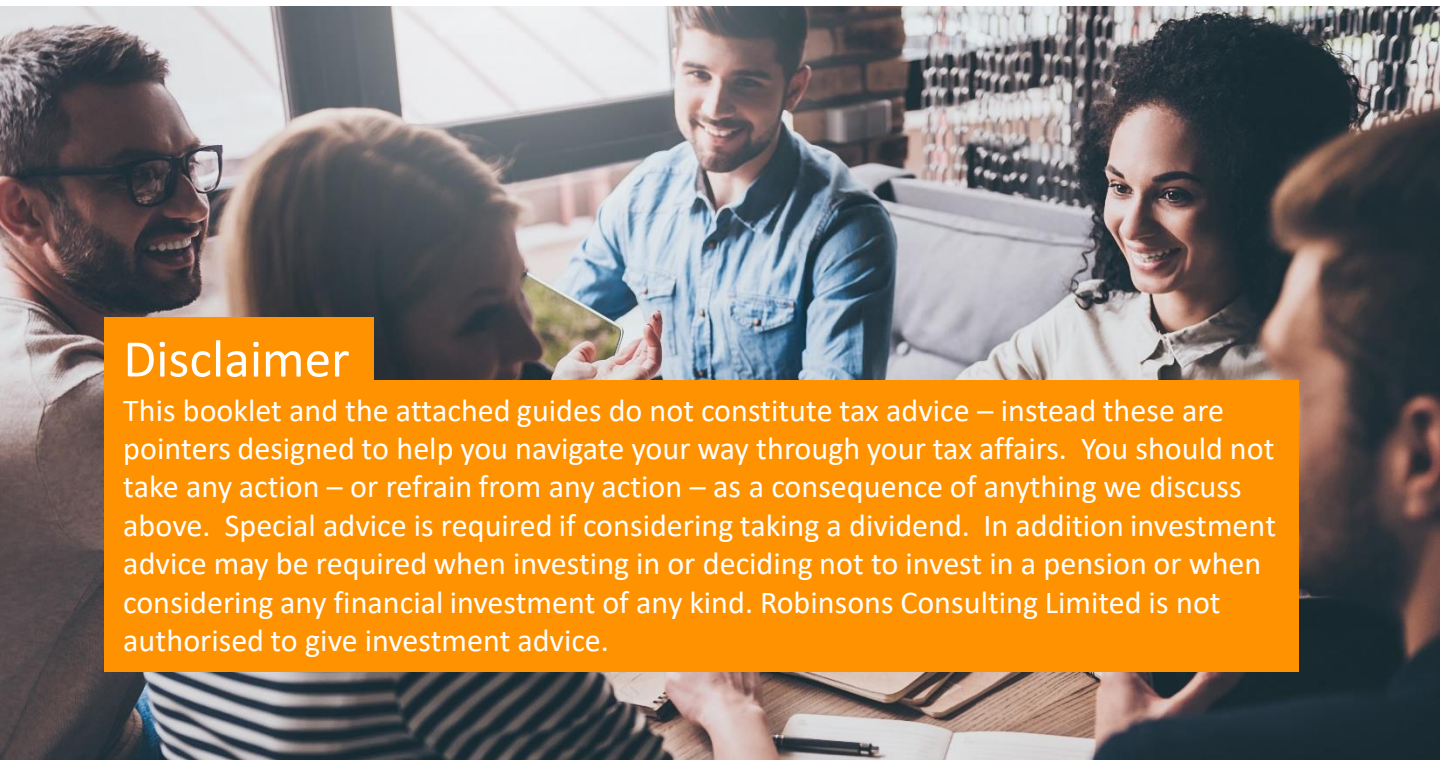
The procedure here will broadly be the same as at present with regard to amending VAT accounting records. Corrections to VAT returns already submitted will be made as at present, with non-deliberate errors below the reporting threshold adjusted on the next VAT return, (if within the four year time limit) and other errors reported through VAT652.

MTD checklist

Use this checklist to make sure your business is ready for MTD:

- Review your current practices.
- Determine your software requirements.
- Select the person or persons who will be responsible for quarterly submissions.
- Ensure they have the required software training.
- Identify all required processes and streamline these wherever possible to minimise friction.
- Double check everything with your accountant – even if the above were done collaboratively.

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Disclaimer

This booklet and the attached guides do not constitute tax advice – instead these are pointers designed to help you navigate your way through your tax affairs. You should not take any action – or refrain from any action – as a consequence of anything we discuss above. Special advice is required if considering taking a dividend. In addition investment advice may be required when investing in or deciding not to invest in a pension or when considering any financial investment of any kind. Robinsons Consulting Limited is not authorised to give investment advice.

Thank you for taking the time to read our guide to MTD



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