

Making Tax Digital (MTD) – VAT Registered Businesses

The first stage of HMRC's Making Tax Digital (MTD) programme focuses on VAT and imposes new requirements on some VAT registered businesses and organisations from April 2019.

From April 2019 VAT registered businesses and organisations with taxable turnover above the VAT threshold of £85,000 will be required to:

- ❑ Maintain their accounting records digitally in a software product or spreadsheet. Maintaining paper records will cease to meet the legal requirements in tax legislation.
- ❑ Submit their VAT returns to HMRC using a functional compatible software product that can access HMRC's API (Application Program Interfaces) platform.

The requirements do not apply to VAT registered businesses with taxable turnover below the VAT threshold (e.g. those that have registered voluntarily).

HMRC has announced a deferral to the start date of 6 months for some more complex businesses – details below.

Businesses within scope will need to acquire a suitable commercial software product or appoint an agent to submit returns to HMRC on their behalf.

HMRC's online VAT return will remain available only to businesses that are not within the scope of MTD for VAT (e.g. businesses that complete a VAT return but have taxable turnover below the VAT threshold).

No changes are being made to:

- ❑ VAT rules other than those that relate to record keeping and filing.
- ❑ The amount of information submitted to HMRC; the VAT return will contain the same nine boxes that it does currently though the regulations do allow for additional information to be submitted on a voluntary basis.
- ❑ The current filing and payment deadlines for VAT.

Which businesses are affected?

The MTD for VAT requirements will apply to VAT registered businesses and organisations with turnover above the VAT threshold of £85,000. This includes unincorporated businesses, partnerships, companies, LLPs, trusts, non-UK businesses registered for UK VAT and charities.

VAT registered businesses with turnover below the VAT threshold can opt in to MTD and file their VAT returns using MTD compatible software but there is no obligation to do so.

A six-month deferral will apply to around 40,000 of businesses who fall into one of the following categories:

- ❑ trusts
- ❑ 'not for profit' organisations that are not companies (this includes some charities)

- ❑ VAT divisions
- ❑ VAT groups (the deferral applies to the group registration only and not to any group companies that are not covered by the group registration)
- ❑ public sector entities that are required to provide additional information alongside their VAT return (such as Government departments and NHS Trusts)
- ❑ local authorities and public corporations
- ❑ traders based overseas
- ❑ those required to make payments on account
- ❑ annual accounting scheme users

These businesses will be mandated to use MTD from October 2019. HMRC has sent an individual letter to each deferred business to advise them that their start date is the beginning of the first VAT accounting period starting on or after 1 October 2019 rather than 1 April 2019. These letters include formal legal notification of the deferral of the start date and any business that wishes the deferral to apply must ensure that they receive the letter and should retain it carefully. A deferred business that does not receive a letter should contact the VAT helpline.

Calculating taxable turnover

When working out taxable turnover you should:

- ❑ Include standard rated, reduced rated and zero-rated supplies; and
- ❑ Exclude outside the scope and exempt supplies.

The £85,000 threshold for complying with the MTD for VAT requirements also applies to non-established taxable persons (NETPs) even though they are required to register once they have taxable turnover of £1.

The period to be considered when determining whether taxable income exceeds the £85,000 for MTD for VAT purposes is the year to the end of any month (ie, a rolling 12 months). When the threshold is exceeded for the first time the business must comply with MTD for VAT from the beginning of its next VAT accounting period.

When MTD for VAT begins the relevant periods to consider for businesses that file quarterly are:

VAT Stagger Group	First MTD VAT Return	Check Taxable Turnover For
Mar/Jun/Sep/Dec	Quarter ended 30 June 2019	12 months ended 31 March 2019
Apr/Jul/Oct/Jan	Quarter ended 31 July 2019	12 months ended 31 March 2019 and 12 months ended 30 April 2019
May/Aug/Nov/Feb	Quarter ended 31 August 2019	12 months ended 31 March 2019 and 12 months ended 30 April 2019 and 12 months ended 31 May 2019

Voluntarily registered businesses that have not opted into MTD for VAT will need to continue to monitor their turnover to establish when they need to start complying with the MTD for VAT requirements.

Businesses that newly register for VAT (compulsorily) will need to consider how they will comply with the MTD for VAT requirements and will have very limited time in which to comply.

Once a business is required to comply with the MTD for VAT requirements, the obligations continue, even if the taxable turnover of the business subsequently drops below the VAT threshold.

Eventually, MTD for VAT may be extended to all VAT registered businesses, but this will not happen before April 2020 at the earliest.

When does it start?

Businesses and organisations within scope will have to keep digital records and submit VAT returns using functional compatible software from the start of their first VAT return period beginning on or after 1 April 2019, or 1 October 2019 if they are covered by the 6-month deferral mentioned above. Annual accounting and special VAT accounting periods will continue to be available.

The relevant dates for businesses with an April 2019 start date that file quarterly are:

First Mandatory MTD For Vat Return Period	Digital Accounting Records Must Be Kept From	Deadline For Filing First Mandatory MTD For Vat Return 1
1 April 2019 – 30 June 2019	1 April 2019	7 August 2019
1 May 2019 – 31 July 2019	1 May 2019	7 September 2019
1 June 2019 – 31 August 2019	1 June 2019	7 October 2019

Exemptions

Businesses do not have to comply with MTD if:

- ❑ it's not reasonably practicable for them to use digital tools to keep business records or submit VAT Returns because of age, disability, remoteness of location or for any other reason
- ❑ the business is subject to an insolvency procedure
- ❑ the business is run entirely by practising members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records

These exemptions mirror the current exemptions from online filing for VAT. Existing exemptions from online filing for VAT will be carried over automatically to MTD for VAT and it is not necessary to reapply. Any business with taxable turnover below the VAT threshold is automatically exempt and does not need to apply to HMRC.

Applications can be made by phoning the VAT helpline 0300 200 3700 or in writing to HM Revenue and Customs - VAT Written Enquiries Team, Portcullis House, 21 India Street, Glasgow, G2 4PZ.

HMRC will notify taxpayers in writing of its decision and where the application is refused will include information on the right to appeal.

HMRC has confirmed that while a business is waiting for HMRC to respond to a request for exemption or for an appeal to be heard, it can continue to file VAT returns as it does currently.

HMRC has declined to specify a particular age for exemption; each case will be considered on its merits.

Exemption on the grounds of disability will apply where an individual cannot use a computer, tablet or smartphone with the frequency or for the amount of time it takes to keep digital records for the business.

Exemption on the grounds of location will apply if a taxpayer cannot get internet access at their home or business premises and it is not reasonable to get internet access at another location. It does not apply to those who could obtain internet access but have chosen not to do so. HMRC accepts that it is not appropriate to use public computers (such as in a library) to comply with MTD.

HMRC will not agree an exemption purely on the grounds that time effort and cost is involved in complying with MTD, so long as the time, effort and cost is reasonable. Difficult cases will arise, particularly where an individual has some basic digital skills such as being able to send emails, but would not be able to cope with accounting software or a spreadsheet.

The insolvency exemption covers the following situations:

- ❑ when a bankruptcy order or winding-up order or award of sequestration is made or an administrator is appointed in relation to that person;
- ❑ when that person is put into administrative receivership;
- ❑ when that person, being a corporation, passes a resolution for voluntary winding up;
- ❑ when any voluntary arrangement approved in accordance with Part I or VIII of the Insolvency Act 1986, or Part II or Chapter II of Part VIII of the Insolvency (Northern Ireland) Order 1989, comes into force in relation to that person;
- ❑ when a deed of arrangement registered in accordance with . . . Chapter I of Part VIII of that Order of 1989 takes effect in relation to that person; or
- ❑ when that person's estate becomes vested in any other person as that person's trustee under a trust deed.

The current paper-based processes are expected to continue, for both pre and post appointment returns.

Software and Digital Links

Digital records can be maintained in more than one program or software product. The use of spreadsheets, either to record individual transactions or as part of a suite of software and spreadsheets is permitted. An existing spreadsheet alone is not a free way to comply with the MTD for VAT requirements as it will not have the functionality to file the return. Spreadsheets will need to be either API enabled or, more likely, used in combination with commercial MTD compatible software product or spreadsheet bridging software so that the contents of the spreadsheet can be sent to and received from HMRC systems.

Where records are maintained in more than one program or product there must be digital links between each of the software products/spreadsheets. Information cannot be transferred manually between products. Digital links have been defined and the following actions are included:

- ❑ emailing a spreadsheet containing digital records to a tax agent so that the agent can import the data into their software to carry out a calculation (for instance, a Partial Exemption calculation);
- ❑ transferring a set of digital records onto a portable device (for example, a pen drive, memory stick, flash drive) and physically giving this to an agent to import that data into their software;
- ❑ XML, CSV import and export, and download and upload of files;
- ❑ automated data transfer;
- ❑ API transfer; or
- ❑ linked cells within or between spreadsheets. The transfer of information by the use of copy and paste or cut and paste does not meet the requirement for a digital link

Section 7 of the MTD for VAT notice (<http://bit.ly/VATNotice>) includes a number of examples that illustrate the extent to which digital links are required.

For the first year, HMRC will not enforce the requirement to have digital links in place. This is to allow some more time for links between legacy systems to be made digital. During this period manual transfer of data between different systems is permitted but the final transfer of data into the MTD compliant software product from which the return is filed must be digital.

MTD for VAT functional compatible software must be able to:

- ❑ Keep records in a digital form.
- ❑ Preserve records in a digital form.
- ❑ Create a VAT return from the digital records.
- ❑ Provide HMRC with VAT returns and voluntary information by using the API (application program interface) platform.
- ❑ Receive information from HMRC using the API platform. This will include messages about a requirement to file and confirmation of successful filing and will allow HMRC to send 'nudge' messages to the business/agent.

HMRC has provided a list of software from commercial software suppliers which are compatible with MTD for VAT. This can be found at <http://bit.ly/2MTDSoftware>.

Digital record keeping requirements

The requirement to keep digital records does not mean that businesses will have to scan and store invoices and receipts digitally. Businesses can continue to keep documents in paper form if they prefer but each individual transaction (not summaries) will need to be recorded and stored digitally. HMRC would like to encourage records to be kept in as near to real time as possible, but it will still be possible to create the digital records at quarterly intervals, using a bookkeeper or other agent if required, provided the information is entered into a digital record keeping system at that stage.

The regulations require the following records to be kept digitally:

Designatory data

- ❑ The name of the business or organisation.
- ❑ The address of the principle place of business.
- ❑ The VAT registration number.
- ❑ Details of any VAT accounting schemes used.

For supplies made

- ❑ The time of supply.
- ❑ The value of the supply.
- ❑ The rate of VAT charged.

If multiple supplies subject to the same rate of VAT are made at the same time these do not have to be recorded separately. You can record the total value of supplies on each invoice that has the same time of supply and rate of VAT charged.

The corollary applies: if an invoice has supplies at different rates of VAT (e.g. adult's and children's shoes) there must be a separate digital record for each rate of VAT charged. You must split the total value of supplies on the invoice and make a separate entry in the digital records for each rate of VAT charged. This is needed to meet the requirement to have a record of outputs value for the period split between standard rate, reduced rate, zero rate, exempt and outside the scope outputs. There is a relaxation for mixed rate supplies at a single inclusive price (e.g. meal deals).

For supplies received

- ❑ The time of supply.
- ❑ The value of the supply including any VAT that is not claimable by the business.
- ❑ The amount of input tax to be claimed.

If there is more than one supply on an invoice the business can record the totals from the invoice.

VAT account

The VAT account is the link - the audit trail - between the business records and the VAT return. The information required to be held in the VAT account must be kept digitally (the regulations refer to this as the "electronic account"), and the information in that electronic account will be used by functional compatible software to calculate and fill in the VAT return.

To show the link between the output tax in the records and the output tax on the return, the business must have a digital record of:

- ❑ The output tax it owes on sales.
- ❑ The output tax it owes on acquisitions from other EU member states.
- ❑ The tax it is required to pay on behalf of its suppliers under the reverse charge procedure.
- ❑ The tax that needs to be paid following a correction or error adjustment.
- ❑ Any other adjustment required by VAT rules.

To show the link between the input tax in the accounting records and the input tax on the VAT return the business must have a record of:

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

Certain records, such as fuel scale charge calculations, partial exemption calculations and capital goods scheme adjustments, are not included in the list of records that must be kept digitally. Such adjustments can be calculated outside the digital records with a journal entry being made for each type of adjustment.

The cash accounting scheme which allows businesses to account for VAT on the basis of payments made and received rather than on invoices continues. Such businesses are, however, required to record individual supplies made and received and creating digital records from bank statements alone will not satisfy the requirements.

Some software records reverse charge transactions and it is not necessary to have separate entries for the self supply and purchase. If the software does not record reverse charge transactions it will be necessary to record reverse charge transactions twice, once as a supply made and a second time as a supply received.

Records must be kept for six years (or 10 years if the business uses VATMOSS). Digital records will need to be maintained for six years following deregistration, but may be kept in alternative formats rather than in functional compatible software.

Digital record keeping requirements in particular situations

As explained in the previous section, the MTD regulations generally require a digital record of each and every transaction. There are exceptions for:

Retail schemes

Retailers will be able to record gross daily takings (not weekly, monthly or quarterly) rather than each individual transaction. This means that there does not need to be a digital link between tills and the accounting records; recording the daily totals in the digital accounting records meets the requirements. Many businesses are using a retail scheme without understanding that they are doing so.

Flat rate schemes

The flat rate scheme will continue and digital records of supplies received will not be required (unless they relate to capital items which cost more than £2,000 including VAT).

Margin schemes

The additional records required for margin schemes and the calculation of the marginal VAT charged do not need to be kept in digital form. These records must still be maintained in some form.

Records maintained by third parties

The regulations allow HMRC to issue notices to relax the digital record keeping requirements where it would be impossible, impractical or unduly onerous to comply.

The MTD for VAT notice allow supplies made by third party agents to fall outside the digital record keeping requirements until the point at which the agent supplies the information to the business. This allows a summary of supplies made by an agent to be treated as a single invoice to create the digital record. The example given is that of a letting agent and HMRC has confirmed that the relaxation also applies to barristers who can use summaries prepared by their clerk. This relaxation does not apply to records maintained by customers, employees or others such as charity volunteers who are not third party agents. HMRC is expected to issue further guidance to relax the requirements for supplies made in connection with one-off activities run by charity volunteers.

There is a similar relaxation for supplies received by third-party agents and for employee expenses. This relaxation does not apply to records maintained by suppliers so creating digital records from supplier statements is not permitted. There is currently no relaxation for petty cash.

Getting ready

The countdown has begun and VAT-registered businesses need to start getting ready.

It's important to understand what's required and what records must be held digitally.

It's also important to decide what software will suit the business, and whether a single piece of software or a set of software will be best for you.

Once you have decided, you should make checks to ensure everything is up and running by the relevant date.

HMRC has promised a soft landing – but, as always, it pays to be prepared.

Where can I get further information about these changes?

Speak to our Making Tax Digital expert Andrew Kershaw on 023 8046 1201 or email andrew.kershaw@hwb-accountants.com