

Making Tax Digital for VAT

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Background

- Making Tax Digital (MTD) for VAT will come into effect for return periods commencing on or after **1 April 2019**
- From that date, businesses with a taxable turnover above the VAT registration threshold of £85,000 will have to:
 - **Keep their records digitally (for VAT purposes only), and**
 - **File their VAT return through MTD compatible software**
- MTD will be available on a voluntary basis to other businesses
- Businesses will not be asked to keep digital records, or to update HMRC quarterly, for other taxes until at least 2020
- Primary legislation in Finance Bill 2017-19 gives HMRC the power to introduce regulations which set out the detailed requirements
- **Draft regulations and a Draft VAT Notice were published for consultation on 18 December 2017 with comments invited by 9 February 2018!**

Turnover test

- MTD will apply to VAT registered businesses for VAT periods starting on or after 1 April 2019 where their VAT taxable turnover exceeds £85,000
- Businesses below the registration threshold will be exempt from these provisions
 -although you can elect not to be exempt!
- Once a business is required to keep digital records, this requirement will remain in place even if the turnover falls below £85,000 and that person remains registered for VAT
 -MTD requirement stops when you deregister
- **New registrations** will have extra considerations going forward
 -getting registered for VAT, and
 -complying with MTD

Other exemptions

- For those with taxable turnover above the VAT registration threshold the current exemptions from digital filing will be extended to MTD where the Commissioners are satisfied...
 - Your business is run entirely by practicing members of a religious society or order whose beliefs are incompatible with the use of electronic communications, or
 - 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
 - You are subject to an insolvency procedure
- There is a right of appeal where HMRC refuse exemption

Digital record-keeping

- **Functional compatible software** will be used to maintain the mandatory digital records, calculate the return and submit it to HMRC via an API
- Around 12% of business currently submit their VAT returns direct from software
 - ...from April 2019 this should be close to 100%
- HMRC will provide a list of compatible software in due course
- You can use more than one piece of software to comply with your MTD requirements
 -software should be **digitally linked!**

HMRC VAT Notice - Example 1

- A business uses one piece of accounting software (A) to record all sales and purchases and electronically transfers the totals into a spreadsheet (B) that it uses to calculate the return
- The information is then sent to a piece of bridging software (C) which submits the return to HMRC.
- Altogether the three pieces of software maintain the mandatory digital records, calculate the return and submit it to HMRC
- The **links** between the three pieces of software **must be digital** for the set of software to be functional compatible software
- One year soft landing for penalties where manual links between software (A) and software (B)

HMRC VAT Notice - Example 2

- A business uses one piece of accounting software to record all sales and purchases, this software then calculates the return and submits it to HMRC
- As well as the records in the accounting software the business uses a spreadsheet to keep track of fleet of cars and work out its road fuel scale charges.
- As the records in the spreadsheet are not required to be kept in digital format the business can type the adjustment into its accounting software

HMRC VAT Notice - Example 3

- A VAT group uses three different software packages to record the mandatory records for different parts of the group
- Each piece of software calculates the amounts needed for the return from each part of the group
- A spreadsheet is used to compile the totals and create the return for the whole of the group
 -digital link with a one year soft landing
- The information is then sent to a piece of bridging software, which submits the return to HMRC
- Altogether the five pieces of software maintain the mandatory digital records, calculate the return and submit it to HMRC
- The links between the five pieces of software must be digital for the set of software to be functional compatible software

HMRC Agents Example

- Example 7 in the Addendum to the VAT Notice provides useful information concerning agents
- Client keeps their records on non-API enabled spreadsheet
- Client then e-mails their spreadsheet to their accountant
- Accountant **imports the data** into their API enabled software
 - ...any adjustments must filter back to spreadsheet
- VAT return is submitted from the accountant's software

What records need to be kept digitally?

- Designatory data
 - Business name, address, VAT #, record of VAT schemes
 - For each supply you make you must record;
 - Time of supply, value of the supply, VAT rate charged
 - You must also have a record of outputs value for the period split between the various rates
 - For each supply you receive you must record;
 - Time of supply, value of the supply, input tax claimed
 - **No real time requirement** for MTD so data can be entered digitally just before submitting VAT return
 - Business is also required to keep a digital VAT account which reconciles the digital records to the entries on the VAT return
-no real change other than it must be kept digitally

VAT schemes

- If you account for VAT using a retail scheme you must also keep a digital record of your gross daily takings
 - No separate analysis required
- If you use the flat rate scheme you do not need to keep a record of purchases other than capital goods costing £2,000 or more
- And no need to keep records of qualifying goods for limited cost trader test

VAT returns

- The software should be able to produce a VAT return from the digital records
- The software shows the user the return which they can then submit to HMRC direct from the software
- Authorised agents can submit returns on your behalf
 -direct from their software or the client's software
- The key is automated preparation and submission
- These functions are available today on programs such as Xero and QuickBooks

VAT returns...

- Businesses will report their VAT information by the same deadlines and for the same VAT quarters as now
- There will be no requirement to change VAT quarters to align with the accounting period or tax year
- The data provided to HMRC will be the **same nine box return** as now
- No additional information to back-up those totals will be required
- Businesses will have the option to voluntarily submit supplementary data
...unlikely to be a large uptake for voluntary data!

HMRC - Example 1

- A business uses one piece of cloud based accounting software to record all sales and purchases
- The business provides access to their agent
- The agent calculates the business partial exemption adjustment and enters this into the software
- The software then calculates the return and submits it to HMRC.
- As the records in the partial exemption spreadsheet are not digitally required, the agent can type the adjustment into the accounting software

HMRC - Example 2

- A business uses one piece of accounting software to record all sales and purchases and transfers the totals into a spreadsheet
- The business sends this spreadsheet to their agent, who uses it to calculate the return
 - ...importing data into their software?
- The information is then sent to a piece of bridging software which submits the return to HMRC
- Altogether the three pieces of software maintain the mandatory digital records, calculate the return and submit it to HMRC
- The links between the three pieces of software must be digital for the set of software to be functional compatible software

Conclusion

- MTD for VAT has two key requirements
 - Keep records digitally, and
 - File their VAT return through MTD compatible software
- For those with taxable turnover exceeding £85,000, MTD for VAT should commence for return periods commencing on or after 1 April 2019
- MTD gets complicated when client wants to use spreadsheets
...digital links, bridging software etc
- Clients could continue with their manual records but firms will have to enter the data into MTD compatible software prior to submitting the VAT return
- VAT registered clients under £85,000 can voluntarily comply with MTD
...or continue as they are now

Conclusion

- MTD for VAT should be straightforward when the client uses MTD compatible software and grants us advisor access
...Xero, QuickBooks, Sage, FreeAgent etc
- Firms should continue to migrate VAT registered clients to their preferred software
- If the client has a year end of 31 March with calendar quarter VAT returns they could wait until 1 April 2019 to migrate
- If the client has a year end of 30 June with calendar quarter VAT returns it would be prudent to migrate from 1 July 2018
....so the whole year is on same system
- Whilst April 2019 sounds a long way off it is best to plan ahead