

# Making Tax Digital

MTD is part of the Government's plans to have one of the most digitally advanced tax administrations in the world. HMRC hope that by making fundamental changes the system will become more effective and efficient and will make it easier for taxpayers to get their tax right. In the long term this is likely to be advantageous for all, but for now whilst it is still relatively early days, the consequences of these changes can be overwhelming and there are many questions to be answered. This help sheet provides clarification on the new rules for filing under Making Tax Digital for VAT and will hopefully be able to answer some of these questions.

## Who?

If you're currently registered for VAT and your annual UK taxable turnover (i.e. income that is subject to UK zero, reduced or standard-rated VAT) is above the VAT threshold (currently £85,000) then you are required to file your VAT returns under MTD.

If you are currently VAT registered but your turnover is below the threshold you will be exempt from MTD, until such time that the threshold is exceeded. If, after 1<sup>st</sup> April 2019 your 12 month rolling UK taxable turnover exceeds the £85,000 threshold, your VAT return following that in which you exceeded the threshold will need to be prepared and submitted under MTD.

If you are required to start filing returns under MTD and your turnover subsequently drops below the VAT registration threshold, you are still required to file returns under MTD, so if MTD starts to apply to your business it will do so for the foreseeable future (unless and until such time as you deregister for VAT).

Please be aware that you may also be exempt from MTD if HMRC are satisfied that; your business is run entirely by practicing members of a religious society whose beliefs are incompatible with the requirements of the regulation, 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 or location or for any other reason. This is similar to the online filing exemptions. If you think you may be exempt from MTD please see VAT Notice 700/22 paragraph 3.4 on how to claim for exemption, but do so in good time of filing your first MTD applicable return, as HMRC may reject your claim will therefore expect you to comply with MTD rules.

## When...

### ....do I have to start filing my returns under MTD?

MTD was introduced on 1<sup>st</sup> of April 2019 and for some businesses, e.g. VAT groups and annual accounting scheme users, it wasn't applicable until 1<sup>st</sup> of October 2019. This means that VAT returns for VAT return periods **starting on or after** 1<sup>st</sup> April 2019 must be submitted in accordance with the MTD rules.

### ...do I need to register for MTD?

You can register for MTD at any time but you must make sure you are ready and able to meet the record keeping requirements.

It is important to note that if you sign up for MTD before you have submitted your last non-MTD VAT return, HMRC will expect to receive that last return via MTD. For example a voluntarily VAT registered business who is trading under the VAT registration threshold and who files returns for periods ending March, June, September and December, exceeds the registration threshold in March 2020; their June VAT return is the first one compulsorily caught by MTD.

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They sign up for MTD on 6<sup>th</sup> of April but don't submit the March 2020 return until 7<sup>th</sup> of May. Because they signed up before submitting the March 2020 return HMRC will expect that March 2020 return to comply with MTD requirements. So ONLY sign up once you've submitted this last non-MTD return AND made sure you're happy that you have everything in place. When ready, the link to sign up is at: <https://www.gov.uk/guidance/use-software-to-send-income-tax-updates#sign-up>.

## How?

### MTD basics

There are three aspects to MTD, digital record keeping, digital links and digital submission.

**Digital record keeping** means that the business's data (designatory data) and data from sales and purchase invoices must be kept digitally in functional compatible software, be that in a Microsoft Excel spreadsheet or in an accounting software package.

Where numerous items have been sold at the same rate of VAT these can be recorded as a single entry however where items of differing rates of VAT have been sold and are on 1 invoice the totals of each liability of supply must be recorded separately.

In terms of purchases there is no requirement to record inputs split by the VAT rate. Additionally, if you receive a supplier statement for a large number of purchase invoices from the same source you will be able to record the totals, rather than the individual invoices, where the supplies related to the same VAT period and the total VAT charged at each rate is shown.

The **digital links** requirement states that once data is captured in functional compatible software any transfer, recapture or modification of the data after the initial capture must be digital, therefore creating a "digital flow". Copy and paste will not be accepted as a digital link after the soft landing period. HMRC have given businesses a soft landing period in order to get digital links in place, this period will run until business's first VAT period starting on or after 1st April 2021 although an extension can be applied for by businesses with particularly complex systems.

**Digital submission** means that your VAT return should no longer be submitted using the government gateway, it should be submitted via API enabled software. There are no changes to the information that is required i.e. the figures in the 9 boxes HMRC will not be able to see any more than that. API enabled software is accessible via either MTD ready accounting software packages or through bridging software.

### Definitions

**Functional compatible software:** A software program or set of software programs, products or applications that must be able to; record and preserve digital records, provide to HMRC information and returns from data held by those digital records using the API platform, and receive information from HMRC via the API platform. This does not mean that HMRC will be able to delve down into your business records. The new portal is configured in such a way that there will only be a one-way flow of data. HMRC will send through information such as confirmation receipts when the return has been submitted.

**API:** The interface used by HMRC to receive a business' records and communicate confirmations of receipt of information or reminders to businesses.

**Digital link:** A link where a transfer or exchange of data is/can be made electronically between software programs, products or applications.

Digital links must be used to link functional compatible software where any data that will feed through to the VAT return is prepared in this software.

**Bridging software:** Software that is used to connect non-API enabled software to software that is API enabled. For example, if you keep manual records currently, you could enter the transactional details into an excel spreadsheet and use it to prepare your VAT return figures. This spreadsheet may not be API enabled meaning it can't communicate with

HMRC's interface to receive your 9 box figures digitally. In this scenario you will need to acquire bridging software which will then allow the figures to be submitted digitally via HMRC's interface.

A further example would be if you use non-MTD compatible software currently, you may be able to digitally download data from this into excel to generate the VAT return figures. As above bridging software could then be used to take these figures from excel and submit via the API if these spreadsheets are not API enabled.

Each business will have different software and accounting needs, so it is not possible to advise on which software solutions will be best for which business. HMRC has compiled a list of MTD compatible suppliers, so if you currently have no software, or your current providers are unable to help you, you should use this list as a starting point: <https://www.gov.uk/guidance/software-for-sending-income-tax-updates>. The feature which identifies bridging software in this list is "submit VAT return". You may not need software that has all features listed but again your specific software requirements should be discussed with your provider.

**Designatory data:** Information such as business name, principal place of business, VAT registration number and any accounting schemes in use must be kept digitally.

**Sales data:** you must record the time of supply, the VAT exclusive value and the rate of VAT charged in functional compatible software.

Supplies made by third parties on your behalf do not fall within the digital record keeping requirements until information is received from the agent. Where the information is received as a summary document you can treat this document as one invoice issued by you for the purpose of creating your digital record. This only applies to the digital record keeping requirements under making tax digital and does not apply to other record keeping requirements set out in VAT legislation.

**Purchases data:** you must keep a digital record of the time of supply, value of the supply and the amount of input tax that you will claim.

### **What if I need to make adjustments to my return before submission?**

HMRC accepts that some calculations, for example partial exemption and capital goods scheme, need to be made outside of functional compatible software and then re-input manually into this software. Only the totals for each adjustment, not the calculations behind them, need to be kept in functional compatible software for the MTD requirements to be met.

Similarly if you find that adjustments need to be made to your return before it has been submitted, for example invoices have not been recorded, then you can enter the figures into the compatible software as an adjustment.

If you find an error after submitting your return to HMRC then normal error correction rules will apply as per VAT Notice 700/45.

### **Consequences of getting it wrong**

For 2019 and 2020 the VAT default surcharge regime will apply as normal and, in the future, there will be penalties for failing to comply with MTD requirements. In the first year, HMRC plans to take a light touch approach and will not pursue filing or record keeping penalties where businesses are seen to be doing their best to comply; however, HMRC will still continue to take action to safeguard VAT revenue where it sees a need to.

If you have any questions relating to the requirements you need to fulfil under MTD or you are not sure if applies to you, please do not hesitate to contact the VAT helpline. Again please note the helpline is unable to comment on the suitability of MTD compatible software for businesses.

This fact sheet was prepared by **Markel Tax** on behalf of **Markel Law**. It is intended only as a guide and is not to be regarded as a substitute for a consultation with a tax advisor, since every case will ultimately turn on its own particular facts and circumstances. For more information on tax services available through FSB, please call them on **0345 0727 727**.