

MAKING TAX DIGITAL - VAT AT THE FOREFRONT OF IMPLEMENTATION

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The Making Tax Digital ("MTD") reforms represent a fundamental and unprecedented change to the UK tax system, which will ultimately impact all UK taxpayers. VAT is now at the forefront of the Government's plans, although the MTD changes are expected, in time, to apply to all the main taxes.

For most VAT-registered entities subject to MTD, the way in which VAT accounting data will be required to be recorded and submitted to HMRC will change significantly. It is apparent, however, that many taxpayers do not yet fully understand what MTD will mean for them. In order to provide some clarity and help you understand how these changes will affect your business, we address a number of the common misconceptions concerning MTD.

1. HAS MTD BEEN DELAYED UNTIL 2020?

No. While MTD has been delayed for other taxes until at least 2020, it is a requirement for **all VAT-registered businesses with a turnover above £85,000 per annum** to submit their VAT returns digitally, using MTD-compatible software, from **April 2019**. This requirement applies to charities, schools, public bodies, sole traders and partnerships, and not just corporate bodies.

2. DON'T I ALREADY SUBMIT MY VAT RETURN ONLINE?

Yes, you do, but from April 2019 the current HMRC online portal will close for businesses with a turnover above £85,000 and they will need to submit their VAT return figures directly from their accounting system or via 'bridging' software.

3. ISN'T THAT JUST THE SAME?

In principle, yes, but HMRC has identified that approximately £4bn per year is lost in simple VAT mistakes alone and has stated that it expects MTD to assist in reducing the errors made and thereby reduce the VAT lost as a result of businesses failing to take reasonable care.

4. SO I JUST NEED A NEW LINK TO THE HMRC GATEWAY THEN?

Yes and no. MTD means that VAT registered businesses with turnover over the £85,000 threshold will need to submit their VAT returns digitally using MTD-compatible software. However, MTD also means businesses will need to keep their

records in a digital format which enables information to be provided to HMRC directly from their accounting system or via bridging software, through application programme interfaces (APIs) which can also receive information from HMRC.

5. I KEEP MY RECORDS MANUALLY. WILL THIS NEED TO CHANGE?

Yes. If you are a VAT-registered business with turnover over the £85,000 threshold you will need to keep digital records.

6. I KEEP MY RECORDS ON A SPREADSHEET. IS THAT OK?

Yes, but you will need to have digital links, through MTD-compatible software, from the spreadsheet to HMRC.

If you use an accounting package but prepare your VAT return using a spreadsheet, from April 2019 the accounting package and the spreadsheet will need to be linked digitally.

7. MY SOFTWARE PROVIDER OR THIRD PARTIES WILL PROVIDE THE API LINK TO HMRC, SO IS THAT ALL I NEED TO DO?

Many accounting software package providers will provide the API links and there will also be third-party bridging software solutions. However, you will still need to keep digital records of the underlying transactions.

8. WHAT OTHER DETAILS WILL I NEED?

Under MTD you will need to keep digital records of your sales, broken down by VAT liability (ie the value of standard-rated, zero-rated, exempt and outside-the-scope supplies). As of now, only a total of all sales is required for your VAT return.

You will also need to retain other information, such as all adjustments for business entertainment, car leasing and reverse charges on imported services, and summarise purchases broken down by VAT liability.

Where a business suffers input tax restrictions, such as partial exemption, the regulations as drafted suggest any adjustment to input tax recoverable will probably have to be made on an invoice-by-invoice basis.

9. DO I HAVE TO PROVIDE HMRC WITH ANY MORE INFORMATION THAN I DO AT PRESENT?

For VAT returns submitted on or after 1 April 2019, you will be required to submit the information which completes the existing nine boxes on the VAT return digitally using MTD-compatible software. However, you can also choose to voluntarily submit supplementary data on a periodic basis, such as in relation to the total adjustments made or the total supplies made at different VAT liabilities.

10. SHOULD I SUBMIT MORE INFORMATION THAN REQUIRED?

HMRC has stated that when deciding whether to carry out a VAT inspection on a business, it will take into account whether the business has provided supplementary data. If, on review of the supplementary data, there are no queries, HMRC is less likely to carry out a VAT inspection.

11. I THINK I CAPTURE THIS INFORMATION BUT AM NOT SURE I GET IT RIGHT ALL THE TIME. WHAT CAN I DO?

Confirming how you determine tax on transactions is key to being MTD-compliant. If you use a degree of automation, such as tax codes set at customer location level or product level these should be verified and confirmed as being accurate.

If the VAT coding is set by a bookkeeper, accounts ledger clerk or similar, they should receive periodic training and we would advise sample checks as part of the VAT return procedures.

Over time we expect HMRC will start to look for inconsistencies in supplementary data and raise queries with the aim of collecting more tax.

12. MY ACCOUNTANT SUBMITS MY VAT RETURN. WILL THAT STILL BE OK?

Provided that your accountant uses their own MTD-compatible software to submit your VAT returns to HMRC and is registered as your tax agent, then yes they can.

However, you will need to provide them with access to your accounting data through digital links.

13. CAN I BECOME MTD-COMPLIANT BEFORE 1 APRIL 2019, SO I CAN MAKE SURE I AM FULLY COMPLIANT AND CAN TEST THE SOFTWARE?

Yes, you can – HMRC is running an MTD pilot programme, from 1 April 2018, and you can ask to submit your VAT return details digitally. The pilot programme is initially restricted to a limited number of businesses with straightforward VAT profiles. It will, however, be expanded in the run-up to 1 April 2019 to allow greater numbers and more complex businesses to apply.

14. WHAT IF I EXPERIENCE PROBLEMS AND I DO NOT MEET THE NEW MTD REQUIREMENTS BY 1 APRIL 2019?

HMRC has confirmed that there will be a 'soft landing' period between April 2019 and March 2020, in which there will be no financial penalties for record-keeping failures.

There must, however, be a digital link between your accounting records and HMRC from the outset at 1 April 2019.