



## Making Tax Digital – for VAT

Making Tax Digital (MTD) for VAT will be implemented for VAT returns beginning on or after 1 April 2019. Under this regime, all business with a **taxable turnover** above the VAT threshold (currently £85,000) must keep digital records for VAT purposes and provide information to HMRC using **functional compatible software**.

**Taxable turnover** is turnover that has a VAT liability of the standard rate, reduced rate or zero rate. It excludes supplies that are exempt from VAT, and also overseas supplies that are outside the scope of UK VAT. Businesses will need to know what their taxable turnover is and, if currently below the threshold, monitor this level so that they know when compliance with the scheme is required. Once you are in the regime, you have to stay in even if your taxable turnover drops back below the threshold.

**Functional compatible software** is software that is capable of connecting digitally to HMRC's systems using an Application Programming Interface (API). The software must be capable of keeping digital records in the form specified by the new rules, submitting VAT return data digitally to HMRC, and receiving information from HMRC.

## How the system works

The principles of MTD are threefold:

1. Digital retention of records using functional compatible software;
2. Digital links between all parts of the accounting system from which the VAT return is generated; and
3. Digital submission of the VAT return to HMRC's systems.

As part of HMRC's "soft landing", item 2 will only be mandatory for return periods commencing on or after 1 April 2020. This gives business with more complex affairs, e.g. group VAT returns or partial exemption calculations, more time to prepare.



HMRC have not defined “digital link”, but they have confirmed that in their view, linked cells in a spreadsheet are digital links but figures copied and pasted from one cell to another are not.

## Software

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. Manual records such as written ledgers will no longer be allowed as a matter of law. 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. This includes many commonly used software providers such as Sage, QuickBooks and Xero, although for desktop products only the latest versions are likely to be supported.

The use of spreadsheets will be allowed, but they will have to be combined with add-on software to meet HMRC’s requirements. We will be acquiring software that is capable of submitting VAT returns from spreadsheet records so this will remain an option for clients using spreadsheets for whom we prepare and submit the VAT returns.

### 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 i.e. no manual copying or retyping of data is allowed.

Digital records must be preserved in functional compatible software for six years. The information to be kept and preserved digitally includes:

#### Designatory data

- The business name, address and VAT number; details of any special VAT schemes used

#### For each supply made (sales)

- The time, value and VAT rate of the supply

#### For each VAT period

- The total outputs (supplies) split between standard-rated, reduced-rated, zero-rated, exempt and outside the scope (this is a breakdown of the “Box 6” figure on the VAT return)

#### For each supply received (purchases)

- The time and value of the supply and the amount of input VAT you can recover

Retailers do not need to record each individual supply but can continue to record Daily Gross Takings.



Partial exemption calculations do not have to be digitally maintained, but the adjustment will need to be processed in the functional compatible software so that the return can be sent directly to HMRC via a digital link.

## VAT returns

The information to be submitted to HMRC is still the familiar nine boxes of the current VAT return. No additional information has to be submitted. However, business can submit voluntary updates whenever they wish, and supplementary data can be submitted. In some instances, this may be useful - for example providing a breakdown to HMRC to explain a variance in the return figures may mean that HMRC do not need to enquire into the return.

## 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 form VAT 652.

## 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.



## Helping with the challenges ahead

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 it is time to start preparing. One key area to address is whether the current method of record-keeping complies with MTD for VAT – if not, changes need to be considered and implemented in good time.

We can help you in the following ways:

- Reviewing your business' current record-keeping and VAT return preparation processes and advising on any changes needed to ensure compliance;
- Advice and assistance with choosing suitable accounting software and implementing the transition;
- Quarterly review of your records, preparation and submission of the VAT return in compliance with the digital requirements;
- Provision of a fully outsourced bookkeeping and VAT compliance service.

HMRC have published VAT Notice 700/22 which provides their detailed guidance on the operation of the new regime.

## Contact us

For more information, or to discuss your requirements in more detail, please speak to your usual LFF contact, or get in touch with us at:

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