



NEWSLETTER

Making Tax Digital for VAT

What is Making Tax Digital for VAT (MTDfV)?

MTDfV introduces new digital filing and record keeping requirements for VAT and will be compulsory for all entities that are VAT registered in the UK and have an annual taxable turnover exceeding £85,000. This includes charities and businesses based overseas, even those without a UK establishment.

MTDfV will require almost all UK VAT registered businesses to keep 'digital records' and file their VAT returns via 'functional compatible software'. It is anticipated that this is the first step in a long-term goal of requiring 'real time filing' of individual transactions with HMRC.

MTDfV introduces new the requirement that all applicable VAT return data is kept in a digital format and is 'digitally linked' so that transactions can be traced from source data (ie purchase/sales ledger) through to VAT return completion and upload to HMRC.

Please note that while MTDfV will change the manner in which VAT returns are submitted, it will not alter the deadlines or the frequency of VAT return filings.

Digital links and digital records

HMRC says a 'digital link' is one where a transfer or exchange of data is made electronically between software programs, without the involvement or need for manual intervention (such as the copying over of information by hand or the manual transposition of data between two or more pieces of software). For example, a business may record sales and purchase transactions in its accounting system, transfer the totals to a spreadsheet in which it calculates the UK VAT return figures then send the information to bridging software, which submits the return to HMRC via an online portal. The new law requires these three pieces of software to be 'digitally linked'.

Requirements for keeping digital records include recording for each transaction the time of supply, VAT exclusive value, the rate of VAT charges, or input tax to be claimed.

See [HMRC Notice 700/22](#) for more information on digital links (paragraph 3.2.1) and record keeping (paragraph 3.3).

When does MTDfV come into force?

Initially, VAT registered businesses must create a digital link between the software containing data for the VAT return boxes to the bridging software and HMRC's MTDfV system. This requirement comes into force for VAT periods commencing on or after 1 April 2019.

However, HMRC wants to spend more time preparing its systems for organisations with more complex VAT affairs and has stated that mandatory filing under MTDfV will be deferred until 1 October 2019 for the following VAT registered entities:

- Trusts and unincorporated charities
- Local authorities and some public sector entities, including Government departments and NHS Trusts
- Public corporations
- Overseas businesses which are UK VAT registered but do not have an establishment in the UK
- Businesses with one or more of the following VAT profiles:
 - VAT group registration
 - Divisional VAT registration
 - those required to make payments on account
 - those who use the annual accounting scheme.

HMRC has recently written to businesses to notify them of their obligation to use MTDfV and confirm whether they fall into the April or October phases of the rollout. HMRC says that businesses who believe they fall into the October deferral list but have not yet received such a letter should contact HMRC's VAT helpline immediately. This is because the letter contains a specific legal direction from HMRC authorising them to keep using the existing VAT portal after 1 April 2019.

The requirement for a digital connection into underlying records, such as purchase and sales ledgers, comes into force on 1 April 2020. HMRC has now confirmed that this deadline will be extended to 1 October 2020 for the more complex businesses listed above, so all MTDfV users have a 12 month 'soft landing period'.

MTDfV software and HMRC's pilot

The software needed for the digital upload of UK VAT return figures to HMRC will not be provided free of charge by HMRC – it is currently being developed by third party software providers under a pilot run by HMRC. HMRC has published a list of software products that are commercially available or in the testing process.



The software pilot was recently widened to allow more businesses to join and begin filing VAT returns under MTDfV before the official implementation date of 1 April 2019. However, organisations who fall into the more complex categories identified by HMRC (see list above) are not required to file under MTDfV until 1 October 2019, and HMRC is taking a phased approach to letting them join the pilot.

How should businesses prepare for MTDfV?

MTDfV is a significant challenge for businesses as it introduces completely new technology for completing VAT returns over a relatively short period of time, during which many will also be making major system changes to prepare for Brexit. It will also be particularly difficult for larger businesses with sizeable and complex accounting systems to adapt them to comply with the requirement for full digital linkage by 2020.

This checklist will help businesses plan for compliance with MTDfV:

- Confirm the date on which MTDfV becomes mandatory for your organisation. Are you required to implement MTDfV on 1 April 2019 or are you on HMRC's list of complex businesses for whom MTDfV is deferred until 1 October 2019? Has HMRC sent you a letter to confirm your start date?
- Review the software products on the market to consider which will best meet your needs to comply with the requirements to use bridging software to submit VAT returns under MTDfV from 2019. If you use commercial software to complete your VAT returns, ask your software provider how their product will be updated for MTDfV.
- Consider when and whether you should join HMRC's pilot before MTDfV becomes mandatory, bearing in mind that once you have signed up to take part in the pilot, you must continue to use MTDfV to submit your VAT returns.
- Review your current accounting systems to map the VAT audit trail and identify areas where digital links will be required. While some digital links, such as transfers from non-Application Programming Interface (API) enabled systems to one or more spreadsheets may not be compulsory until 2020, businesses should start preparing their systems for full MTDfV compliance now.
- Consider precisely what data you will have to share with HMRC as a consequence of MTDfV, and review the quality of that data.

How can MMA Partnership LLP help?

If you already use software, you should speak to your software provider to find out when it will be MTD-compatible and what you have to do. A list of software developers that have already produced MTD VAT-compatible software is available on GOV.UK and HMRC will continue to add to this in the coming months as the pilot progresses and more products become available.

You do not need to keep any additional business records because of MTD. However, business records must be kept digitally to be compliant.



Your digital records should include, for each supply, the time of supply (tax point), the value of the supply (net excluding VAT) and the rate of VAT charged.

They should also include information about the business, including business name and principle business address as well as your VAT Registration Number and details of any VAT accounting schemes you use.

Customers who currently record daily totals can continue to do so, but they have to be captured digitally.

If you use spreadsheets to keep business records you'll need MTD-compatible software so that you can send HMRC your quarterly/monthly VAT returns and receive information back from HMRC. Bridging software may be required to make spreadsheets MTD-compatible.

Bridging software allows relevant data to be digitally exchanged from the spreadsheet or other source where the digital records are kept, directly to HMRC. The summary information must not be physically re-typed into another software package. A full list of software providers who are working with HMRC can be found here <https://www.gov.uk/guidance/software-for-sending-income-tax-updates#Dev>.

As an alternative MMA Partnership LLP can assist you to ensure that you comply with the new digital filing and record keeping requirements for VAT by providing the following services:

- We can prepare your MTDfV returns on a monthly or quarterly basis. The first such return to be prepared by us will be the first VAT return commencing 1 April 2019.
- We will keep all your records to meet the digital record-keeping requirements of MTDfV. You must ensure that the data provided to us is complete and accurate.
- Based on the information that you provide to us, we will tell you how much VAT you should pay and when. If appropriate, we will initiate repayment claims where tax has been overpaid. We will advise on the interest and penalty implications if VAT is paid late.
- We are not responsible for considering or applying for any of the exemptions from MTDfV. However, if you feel that you are eligible for exemption, please let us know. We are happy to discuss this and may correspond to HMRC on your behalf if needed, or we can guide you on whom you should contact for this.
- We will advise you of any relaxations applicable in relation to the digital records for supplies made and received. Where the requirements are impossible, impractical or unduly onerous we will seek to reach agreement with HMRC on a specific relaxation, but this may be subject to an additional fee.



- We will submit your MTDfV return data online to HMRC for all VAT Returns commencing 1 April 2019 after the data to be included therein has been approved by you.
- We will agree with you any supplementary information to be submitted on a voluntary basis with the MTDfV returns prior to submission.
- We will deal with all communications relating to your MTDfV returns addressed to us by HMRC or passed to us by you
- We will review your record keeping processes and providing advice on potential improvements to enable compliance with the MTDfV requirements, including digital links for the transfer of data between different software.

If you require our assistance and/or services to ensure that you comply with the new digital filing and record keeping requirements under MTDfV please contact us.

