ACS Guide: Making Tax Digital

Making Tax Digital (MTD) is changing the way retailers submit their VAT returns. From 1st April 2019, if you are a business with a taxable turnover above the VAT threshold (currently £85,000) you must:

- keep your VAT records digitally; and
- use MTD-compatible software to submit your VAT returns.

These reforms are being introduced to reduce the tax gap (difference between tax due and tax collected) by HMRC and aims to help businesses keep on top of their tax affairs.

Retailers can still get their agent to submit their VAT return. MTD will **not** require retailers to submit any additional information or change deadlines for sending VAT returns. Retailers will still submit using the 9-box VAT return. The purpose of MTD is to change how VAT returns are made, to become digital through compatible software.

Keeping Digital Records

Retailers will need to keep business records digitally from the start of all accounting periods on or after 1st April 2019. No additional information will need to be kept as part of these records.

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 your VAT Registration Number and details of any VAT accounting schemes you use.

Retailers who currently record daily totals can continue to do so. You can record daily totals if you are on a retail accounting scheme.

If you use spreadsheets to keep records, the spreadsheets must be able to submit the required data to HMRC digitally using MTD-compatible software.

Using MTD-Compatible Software

Retailers will need to use MTD-compatible software to submit their VAT returns. Software is MTD-compatible if it supports the MTD obligations to keep digital records and can exchange data digitally with HMRC.

MTD-compatible products could include dedicated record-keeping software or a combination of software packages and spreadsheets.

If you already use accounting or record-keeping software, you should speak to your software provider to find out if it will be compatible for MTD and next steps to use the software.

If you do not currently use software or use software which will not be MTD-compatible, you will need to find software that meets your requirements.

HMRC are supplying a list of MTD-compatible software providers via GOV.UK. The software packages range from basic record keeping tools to fully integrated accounting systems. Bridging software products are also listed, which can extract the required data from records kept in

spreadsheets and submit them to HMRC. The list is available here: https://www.gov.uk/guidance/software-for-sending-income-tax-updates#VAT

Spreadsheets

Retailers can continue to use spreadsheets to keep digital records and calculate VAT transactions to produce the return information that must be submitted to HMRC as part of a VAT return. However, to be MTD-compatible, information typed into spreadsheets cannot be physically re-typed into another software package.

Bridging software may be required to make spreadsheets MTD-compatible. Bridging software can take information from spreadsheets (or other in-house record keeping systems) and send it to HMRC digitally. Bridging software would allow the spreadsheets to send HMRC VAT returns and receive information back from HMRC.

Join the Pilot

After you have organised MTD-compatible software, you may be able to join the pilot to familiarise yourself with the new service and begin keeping digital records and submitting VAT returns digitally.

The pilot is already open to sole traders and companies (except those which are part of a VAT group or VAT Division) provided they are up to date with their VAT and have not incurred a default surcharge in the last 24 months.

Those who trade with the EU, are based overseas, submit annually, make payments on account, use the VAT Flat Rate Scheme, and those newly registered for VAT that have not previously submitted a VAT return, are unable to join at this point. Further details of when other businesses can join the pilot are available at: https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital.

Once you have started using MTD for VAT you can no longer file returns using the HMRC online portal. Retailers with an agent should speak to them to find out when it may be best to join the pilot.

You can sign up to the pilot here: https://www.gov.uk/guidance/use-software-to-submit-your-vat-returns#sign-up-for-the-pilot

Help & Support

Please find below links to useful video clips on MTD for VAT:

- What does MTD for VAT mean for me?
- What is digital record keeping?
- What is compatible software?
- How do I sign up for MTD for VAT?

HMRC guidance is available here: https://www.gov.uk/government/publications/making-tax-digital-how-vat-businesses-and-other-vat-entities-can-get-ready/making-tax-digital-how-vat-businesses-and-other-vat-entities-can-get-ready

If you require further information or support, please contact makingtaxdigital.mailbox@hmrc.gsi.gov.uk

For more information, please contact Steve Dowling, ACS Public Affairs Manager, via steve.dowling@acs.org.uk.

FAQs

What is MTD for VAT?

MTD is a package of policy reforms aiming to make it easier for you to keep on top of your tax affairs and reduce the tax gap.

MTD for VAT means businesses will need to keep digital records and use compatible software to send VAT returns to HMRC and receive information.

Will I have to keep digital receipts for all business transactions?

Businesses using a retail accounting scheme will have to keep a digital record of their Daily Gross Takings (DGT).

These businesses will not have to keep digital receipts of all business transactions and are not required to keep a separate record of the transactions that make up your DGT within functional compatible software.

Will I have to submit any additional data as part of my accounts?

No. The data submitted to HMRC will not change as part of the MTD reforms.

What if I already use a bespoke in-house software product?

Larger retailers using a bespoke in-house software solution should be aware of the new MTD technical standards in case they want to link in-house solutions directly to HMRC's APIs. For more information contact SDSTeam@hmrc.gsi.gov.uk.

Can I use more than one software product?

Yes.

Retailers using more than one software product will need to ensure data flows between software products is also MTD-compatible. However, a 'soft landing period' will allow retailers until 31st March 2020 to make sure there are digital links between software products.

Before that date, cut and paste will be an acceptable way to transfer information. An exception to this is if the software is designed to submit the 9-box VAT return, for example bridging software.

If in doubt, contact your agent or software provider.

Will there be penalties for non-compliance?

HMRC will not pursue record keeping penalties during the first 12 months of a business' MTD obligations where the business is doing its best to comply with their MTD requirements.

This is to allow time for businesses to familiarise themselves with the new requirements of MTD. HMRC will continue to impose sanctions in cases of deliberate non-compliance.

What is the legislation covering MTD?

The primary legislation on MTD for VAT is contained in the Finance (No.2) Act 2017. See http://www.legislation.gov.uk/ukpga/2017/32/contents

The secondary legislation for MTD was laid in February 2018 and is now set to come into force from April 2019. See http://www.legislation.gov.uk/uksi/2018/261/contents/made

Is the VAT Notice available for MTD?

Yes, the VAT Notice is available here: https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat

The VAT Notice explains the rules on MTD for VAT and details the digital information that must be kept.

Will MTD be extended to other taxes?

The Government intends to extend MTD reporting to Income Tax and Corporation Tax. Following the ministerial announcement in 2017, MTD will not be mandated for other taxes until at least April 2020.

Self-employed businesses can sign up to the MTD for Income Tax pilot instead of filing a self-assessment tax return. To sign up, see https://www.gov.uk/guidance/use-software-to-send-income-tax-updates

Are there any exceptions to the April 2019 deadline for MTD for VAT?

You do not have to comply with MTD for VAT at all if your annual turnover is below the VAT threshold (currently £85,000). Once your annual turnover goes over the VAT threshold, you must begin complying with MTD for VAT after April 2019 regardless of future annual turnover.

Some businesses will not be required to comply with MTD for VAT until October 2019. These businesses fall into one of the following categories: trusts, 'not for profit' organisations that are not set up as a company, VAT divisions, VAT groups, those public sector entities required to provide additional information on their VAT return (Government departments, NHS Trusts), local authorities, public corporations, traders based overseas, those required to make payments on account and annual accounting scheme users. The deferral will apply to around 3.5% of mandated customers.

Do my digital records all have to be kept in the same place?

Digital records can be kept in a range of compatible digital formats. They do not all have to be held in the same place or on one piece of software. For example, a spreadsheet can be a component of digital record keeping provided the product that consolidates records, or summary records from the spreadsheet, can exchange data digitally with HMRC.

Why isn't HMRC providing its own software?

HMRC is not offering its own software products to allow commercial software developers to offer a more flexible and tailored range of products for the whole business community. This approach means products can exist aimed at specific types of business, not requiring all businesses to use one software product aimed at the general business population.

HMRC is providing the Application Programming Interfaces (APIs) that software developers need to develop software products that can integrate with HMRC systems. An API is software that that links two or more software programmes together, allowing them to exchange data.

What happens if I don't work digitally at the moment?

If it is not reasonably practical for you to use digital tools to keep business records or submit VAT returns, you could be exempted from MTD. For example, a business that is remote or which is run by practicing members of a religious society whose beliefs prevent them from using computers.

Retailers should contact the VAT Helpline if they think this may apply to them: 0300 200 3700 (Monday – Friday 8am – 6pm).

What if I am already exempt from online filing for VAT?

Exemptions from MTD for VAT are the same as those that are already in place for online filing for VAT.