



## MAKING TAX DIGITAL: THE STORY SO FAR



The government is phasing in its landmark Making Tax Digital (MTD) regime, which will see taxpayers moving to a fully digital tax system over the coming years, beginning with MTD for VAT. This factsheet highlights some key areas to consider.

### MAKING TAX DIGITAL: AN OVERVIEW

Making Tax Digital is a new government initiative with the stated aim of 'bringing the tax system into the 21st century'. The new regime will ultimately move taxpayers to a fully digital system, with businesses and individuals required to register, file, pay and update their information using a secure online tax account.

#### MTD for individuals: the Personal Tax Account

Digital tax accounts for individuals – Personal Tax Accounts (PTAs) – have already been created by HMRC. The accounts are pre-populated with information already held by HMRC. PTAs are set to be developed further and taxpayers will be able to report any additional sources of income through their digital account.

Individuals may wish to register for a personal tax account by visiting [www.gov.uk/personal-tax-account](http://www.gov.uk/personal-tax-account). HMRC anticipates that, over time, many individuals with straightforward tax affairs may no longer need to complete a tax return.

#### MTD for businesses: the revised timescales

The new MTD initiative was originally set to be implemented between 2018 and 2020. However, in response to concerns raised by business and industry experts regarding the pace and scale of the changes, the government put forward a revised timescale for the introduction of Making Tax Digital for Business (MTDfB).

Under the revised timetable, starting from 1 April 2019 those businesses with a turnover above the VAT registration threshold (currently £85,000) will have to keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software. The MTD requirement will remain even if turnover subsequently falls below the VAT registration threshold.

The government has confirmed that keeping digital records and making quarterly updates will not be made mandatory for taxes other than

VAT before April 2020. Similarly, those businesses below the VAT registration threshold which have voluntarily registered for VAT can opt to join MTDfB. HMRC is live piloting MTD for VAT from April 2018 onwards.

### MTD FOR VAT: LEGISLATION OVERVIEW

In February 2018, the government published the Value Added Tax (Amendment) Regulations 2018, setting out the requirements for MTD for VAT. Here we consider some of the key areas outlined in the legislation.

#### Exemptions

The MTD requirements for VAT will take effect from 1 April 2019 and will apply to any VAT-registered business with a taxable turnover over the VAT registration threshold.

Exemptions will be available where HMRC is satisfied the business is run by a practising member of a religious society or order whose beliefs are incompatible with the use of electronic communications, or a business to which a qualifying insolvency procedure is applied, or for which HMRC is satisfied that it is not reasonably practicable to make a return using an electronic return system for reasons of disability, age, remoteness of location or any other reason.



There will be a right of appeal against the refusal of an exemption by HMRC.

## Keeping digital records

HMRC stipulates that businesses within the scope of MTD must use functional compatible software to meet the new requirements. The VAT return will be calculated and submitted to HMRC via an Application Programming Interface (API). Submission can be from software, bridging software or API enabled spreadsheets. The transfer of data from the mandatory digital records through to receipt of information by HMRC, however, must be digital and manual transfer or transposition of data will not be permitted.

Functional compatible software is defined as a program or set of programs that can:

- record and preserve electronic records in an electronic form
- provide HMRC with information from the electronic records and returns in an electronic form, and by using the API platform
- receive information from HMRC using the API platform.

There are, however, still some areas in which HMRC need to provide further clarity. At the time of issuing draft guidance, HMRC stated that options for the digital transfer of information to HMRC will include XML import/export, macros or linked cells. Earlier guidance also suggests that adjustments such as partial exemption can be calculated separately outside the digital records, and transferred in digitally or manually, as long as the ultimate transfer of information to HMRC is digital. HMRC envisages that digital records will not have to be in one piece of software, provided that there is a digital link between the software used.

So, for 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. In this example three pieces of software are involved. To qualify as functional compatible software, the links between them will have to be digital.

However, the detail on record keeping is not legislated, and therefore remains covered only by draft guidance. HMRC has said that it is 'engaging' with stakeholders with regard to the VAT Notice, so further clarification is to come.

HMRC anticipates that there will be a 'soft landing' period of a year, when penalties for record keeping will not be applied, giving businesses 'in certain circumstances extra time to update legacy systems to be fully compliant'.

## Scope of digital records

Businesses will be required to submit summary totals of their digital records to HMRC at least every three months. In addition, with their first quarterly update they must provide certain 'designatory data', and any subsequent changes to this data must be included in their next quarterly update. The regulations will specify the information a business needs to keep and preserve digitally. The digital records must include:

- 'designatory data' including the business name, principal place of business and VAT registration number, together with information about which VAT accounting schemes they use;
- the VAT account, explained later; and
- information about supplies made and received.

Businesses will also need to maintain digital records for the VAT account (the audit trail between primary accounting records and the VAT return). This should include details of the VAT payable portion and the VAT allowable portion.

The VAT payable portion is:

- total output tax due for the VAT return period
- total output tax on acquisitions from other EU member states
- total output tax on supplies received where the business is required to account for and pay on behalf of the supplier (reverse charge output tax).

The VAT allowable portion is:

- total input tax allowable for the VAT return period
- total input tax allowable on acquisitions from other EU member states.

The VAT account will also need to detail any adjustments made which will include correcting errors in calculating VAT payable in a previous period and other adjustments such as claiming bad debt relief and annual adjustments for partial exemption and retail schemes. Only the total for each type of adjustment will be required to be kept digitally and not details of the calculations underlying them.

Businesses will need to preserve digital records in functional compatible software for up to six years.

## VAT returns

Businesses within the scope of MTD for VAT will be required to submit their VAT returns using their functional compatible software. Information will be pulled from the digital records to populate the VAT return. There will be a minimum of 9 boxes required to complete the return, although HMRC will permit businesses to include supplementary VAT information as part of a VAT return or voluntary update.

The government has confirmed that the submission deadlines for income tax and VAT will not be aligned, meaning there will be no changes to the statutory VAT return or payment dates.

Businesses submitting monthly or non-standard period returns will be able to continue to do so. The VAT annual accounting scheme will also be retained with the current conditions. Businesses making these types of returns will also be required to keep digital records and submit their VAT returns through functional compatible software.

Some businesses may choose to submit VAT information more frequently than their VAT return obligations require on a voluntary basis. Some businesses may choose to voluntarily provide further information by way of periodic updates and supplementary data.

### Periodic updates

Businesses will be able to submit VAT information more frequently than their VAT return obligations require on a voluntary basis as a 'voluntary update'.

### Supplementary data

HMRC believes that businesses and HMRC could benefit from the submission of supplementary data detailing how the figures in the return are arrived at. HMRC believes this additional data will help it target non-compliance. The software will allow for the voluntary submission of supplementary VAT data as part of a VAT return or a voluntary update. HMRC believes this will allow it to test with businesses the extent to which they and HMRC can benefit from such supplementary data.

## HOW WE CAN HELP

Whatever the size of your business, MTD will ultimately affect your firm and we can help you to prepare for the new system ahead of the start date of April 2019.

**To discuss how the MTD reforms may affect you and your business, please contact us.**