



MAITLAND

Making Tax Digital (MTD) for VAT – what you need to know

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Created by Maitland Ltd.



Making VAT Digital

HMRC is phasing in its MTD regime, which will ultimately require taxpayers to move to a fully digital tax system. With the postponement of the introduction of MTD for all other taxes until “2020 at the earliest”, VAT suddenly found itself in the forefront where MTD is concerned.

In mid-July 2018, HMRC published some detailed guidance within the following two documents:

- › “VAT Notice 700/22: Making Tax Digital for VAT”
- › “Making Tax Digital for Business – stakeholder communications pack”
(which also contains some reference to MTD for Income Tax)

Despite the quarterly nature of MTD for other taxes (when it finally comes in), MTD for VAT will continue to allow for monthly, quarterly and annual VAT returns and non-standard VAT periods.

Seven-day extension for submission and payment will also continue but is likely to be withdrawn at some future date, possibly when MTD is extended, so that there is consistency of deadlines.

MTD will also accommodate businesses using the flat rate scheme (FRS), although many smaller FRS users will not be liable to implement MTD.

The introductory date of 1 April 2019, means, for any affected taxpayer, with effect from the beginning of the first VAT period commencing on or after that day e.g. if you are VAT registered and have a VAT stagger period of Mar-Jun-Sep-Dec, then your first VAT return for submission under MTD will be for the VAT period commencing 1-April-2019 and ending 30-June-2019.

MTD for VAT

The principles of MTD are essentially threefold, namely: -

- › Digital retention of records, and
- › Maintenance of digital links between all parts of the accounting system giving rise to the final VAT return data, and
- › Direct digital submission from the accounting system of VAT returns into HMRC's systems

It is important to think of these three aspects as distinct from each other, since only two will become mandatory, namely **digital retention** of records and the **direct digital submission** of VAT return data.

The elimination of non-digital links between different accounting systems or different parts of a single accounting system does not become mandatory until 1 April 2020.





Liability to MTD

All businesses with a taxable turnover above the VAT registration threshold (frozen at £85,000 until April 2020) will be required to use MTD compatible software with effect from the introductory date.

Businesses trading below the VAT threshold will not be required to submit VAT figures to HMRC by way of MTD, and the existing portal will therefore remain open for use by businesses in such a situation. They will not be required to participate in MTD unless and until they exceed the threshold. Once the threshold has been exceeded and MTD implemented, there is no way back – if turnover drops below the threshold, the new obligations remain (unless of course the business cancels its VAT registration).

For those who do breach the threshold whilst VAT-registered, the liability to MTD commences from the beginning of their first VAT period following the month in which the level was exceeded e.g. if a business with a VAT stagger period of Mar-Jun-Sep-Dec exceeds on a rolling twelve-month basis £85,000 taxable turnover (or any revised figure by then relevant) in July 2020, their liability to MTD commences on 1 October 2020 (the first day of the following VAT period).

Businesses not liable to use MTD may opt to do so, and such businesses, if they remain below the VAT threshold, may opt back out again later.

We are recommending that all VAT registered clients of Maitland Ltd participate in MTD for VAT.



Since the test for compulsory participation in MTD for VAT is based on *taxable* turnover, it will be important for businesses with exempt turnover, or turnover outside the scope of UK VAT, to take this into account when determining their requirement to implement MTD. A consultancy business with an annual turnover of £175,000, for example, where £105,000 is derived from supplies to overseas businesses, will have a taxable turnover in UK terms of only £70,000 and therefore will not be liable for MTD.

For any VAT-registered business, taxable turnover is measured net of VAT, meaning that FRS businesses may deduct the VAT charged to customers from the gross turnover figure used in the flat rate calculation when determining their liability to MTD for VAT.

Since the threshold is based on a rolling historical turnover basis, intending traders (those who have registered in advance of making taxable supplies) will not be required to comply with the provisions of MTD for VAT until they have begun to make sales. It follows that many property development businesses, for example, even where the value of any given project runs into many millions and where there is a very long lead time to sales, will not be required to implement MTD until after they commence making sales when the development is complete or close to completion, on account of having zero taxable turnover for many months or even some years.

Exemptions from MTD

Subject to HMRC's acceptance, there are exemptions for those with a religious objection to the use of computers, for those for whom it is not reasonably practicable to use digital tools for reasons of age, disability, remoteness of location or any other reason, and for those subject to an insolvency procedure.

Digital Retention of Records

Records which must be maintained digitally for MTD, according to HMRC, are as follows:

Designatory data:

- › Your business name
- › The address of your principal place of business
- › Your VAT registration number
- › A record of any VAT accounting schemes that you use`

For each supply you make you must record;

- › The time of supply
- › The value of the supply
- › The rate of VAT charged

If you make multiple supplies at the same time these do not have to be recorded separately. You can record the total value of supplies on each invoice or receipt that have the same time of supply and rate of VAT charged.

You must also have a record of;

- › Outputs value for the period split between standard rate, reduced rate, zero rate,
- › Exempt and outside the scope outputs.



For each supply you receive you must record;

- › The time of supply
- › The value of the supply including any VAT that is not claimable by you
- › The amount of input tax that you will claim.

If more than one supply is on an invoice you can record the totals from the invoice.

Retailers are required to maintain a digital record of Daily Gross Takings (as defined for VAT already), but not of each individual transaction adding up to the total. Amongst other things, this means that an EPOS till system does not have to link digitally with the main accounting system; daily figures may be manually input into the latter.

Any records not mentioned in HMRC's list above do not need to be digitally maintained. This includes detailed computations, such as partial exemption calculations and other data (HMRC give the example of a register of company cars maintained for fuel scale charge purposes). However, any journal entry required to give effect to an adjustment of this kind will now need to be made before the return is submitted, rather than being input after the event.

MTD requires that all businesses liable to participate maintain electronic records. Manual only record-keeping will no longer be permissible, as a matter of law. Spreadsheets are regarded as digital records for the regulations but will still require some form of bridge to HMRC's systems.

There is no requirement to issue invoices electronically, nor to process them electronically. Each invoice can be an item of prime (manual) entry into the digital accounting system.



Digital Links

From the point of prime entry, at the latest from 1 April 2020, all links between any parts of the accounting system must be digital right up to the point where the figures are digitally and automatically input into HMRC's systems.

The deferral of the deadline for this element of MTD for VAT is a welcome relaxation for businesses which have multiple accounting systems, since they will be able to take more time to consider how to link them all digitally. Manual extraction of figures into a summary document (e.g. a spreadsheet) will remain permissible for a year after the rest of MTD for VAT becomes obligatory.

This relaxation does not extend to the way the return figures are submitted to HMRC from the summary document – this link must be digital, as described below.

Every link between any parts of the accounting system, or between different accounting packages, or between pages in an electronic spreadsheet, will have to be “digital”. From the point of prime entry (invoice, journal, etc) to the submission of the return figures to HMRC, there must be no manual intervention of any kind. Noting a figure from one digital source and recording it manually in another digital record is not permissible.

Given the centrality of this concept of “digital link”, it is ironic, that there is nowhere in the legislation guidance of any definition of the term. HMRC regard the use of the “copy and paste” function as not being a digital link.

It is this aspect of MTD for VAT that will be most problematic for larger businesses which use multiple accounting systems, for VAT groups and for other enterprises which have a need to collate information from several sources to arrive at the relevant totals for inclusion on the VAT return. Often a spreadsheet is used for this summary exercise, meaning also that software to link the spreadsheet to HMRC's systems will be required.

Digital Submission of Returns

The final link in this digital chain must be the submission of the data to HMRC. The old interface for submission of VAT returns will not be available for those liable to MTD.

This piece of software (the bridge between a taxpayer's records and HMRC's systems, or Application Program Interface [API]) must be capable of both transferring data to HMRC and receiving certain data back, such as details of the next VAT return period. Only packages approved by HMRC will be permitted.

The link requires only the same data already submitted through the existing arrangements, that is to say, the figures for the same nine boxes on the VAT return. Depending on any Brexit transitional arrangements, the number of boxes may even reduce by the time MTD is introduced.

It may be that HMRC's longer term intention is to increase the level of detail required to be submitted digitally, so that ultimately, they can carry out analytical checks of VAT records without the need to visit or request accounting records to be sent to them, although there has been nothing published to this effect and it is likely to be some years away if it happens at all.

There will however be from the outset an option to submit more information than is mandatory, and even to correct information previously supplied which turns out to require amendment in the light of events, but it would seem unlikely that anyone would wish to take advantage of this facility!

Until July 2018 there was no indication of what software might be available to transfer figures from spreadsheets into HMRC's systems. HMRC is working with a number of software suppliers who have committed to provide MTD compliant software in time for April 2019 and these can be found on [HMRC's website](#) and include:

- > Clear Books plc
- > Xero
- > FreeAgent
- > Sage (UK) Limited
- > Wolters Kluwer
- > Absolute Accounting Software Ltd
- > Intuit - QuickBooks



MTD for VAT and Agents

You may authorise HMRC to receive data from (and send data to) an agent on your behalf in relation to MTD.

Once authorised the agent can sign up your business to that service, and use software to create, view, edit and send your data to HMRC. Your agent may also keep and maintain digital records on your behalf. If you have previously authorised HMRC to receive your VAT Return from an agent, they can still do this. Agents will not need to be re-authorised by their clients to act for them in the MTD VAT service where they already have existing authorisation to act for VAT purposes.

Agents will need to sign up to a new Agent Services Account to use MTD Services on behalf of their clients. The agent must have software of their own or have access to the software that holds your digital records.

Agents will not necessarily have access to all your source data so, for example, they may not always be able to make corrections to your digital records. In these circumstances your agent will need to advise you of any corrections required to those digital records.

HMRC will provide access to taxpayer information they hold, and the necessary services, only to those agents who have been properly authorised.



MTD Penalties

HMRC initially indicated that they would go easy on penalties (a “soft landing”) for the first year or so of the new arrangements. However, it is now clear this really refers to the deferral by a year of the mandatory aspect (i.e. the requirement to maintain digital links at every stage in the chain) of MTD. Thus, there is no published intention to have any form of concession as regards penalties at all.

It has always been the case that the default surcharge will still apply for late payment of VAT return liabilities, and HMRC will be able to call on existing penalties for failure to keep records, which presumably could be used in cases where businesses fail altogether to maintain digital records, as the law will in due course require.

The eventual aim, as regards adherence with the submission to HMRC of data, appears to be to have a penalty regime which applies across all taxes for MTD.

Rather like motoring offences, it seems that points will be attributed to late submissions and a penalty levied when a certain threshold is exceeded, whilst points will be extinguished after a given period of full compliance. This is some time away, however.

Andy Maitland

Director, Maitland Limited Chartered Accountants

This information sheet is intended as general guidance only and you are advised to seek professional advice for your own specific circumstances.

HMRC are also in the process of communicating these changes. To join the new service , either:

- talk to your accountant about MTD and joining
- go to www.gov.uk and search for “MTD prepare”
- check that your current software provider is ready for MTD before joining



Need help?

Please contact our friendly team with any queries or questions

T- 01825 748308

E- info@maitlandca.co.uk

W- www.maitlandca.co.uk