

## Tax Insights

# Making Tax Digital

The Making Tax Digital initiative is part of HMRC's plan to become 'a world leading digital tax authority'. But what does it mean for you and your business?

HMRC wants to transform the UK tax system to make it more effective, efficient and easier for taxpayers to get their tax right. Making Tax Digital (MTD) is a key part of achieving that objective requiring taxpayers to make greater use of current digital technology.

**HMRC's vision involves replacing paper tax returns with digital records that will enable taxpayers to send their tax information quarterly to HMRC. This means that HMRC will have a 'real-time' idea of the tax liabilities of individuals and businesses.**

MTD is being introduced in phases for each tax, starting with MTD for VAT and then followed by corporation tax and income tax. HMRC ultimately wants to abolish annual tax returns. It's longer term plan is that, unless you are exempt, you will need to update HMRC digitally every quarter (or more frequently if you choose) with details of your income and expenditure.

## MTD for VAT

From 1 April 2019, all VAT registered businesses with a taxable turnover above the current VAT threshold (£85,000) will be required to:

- Keep their VAT records digitally, and
- Transmit their VAT return information to HMRC using MTD-compatible software.

If you are VAT registered and your total value of sales and all other outputs (excluding any VAT) is above the VAT threshold, you will automatically be enrolled onto MTD for VAT. However, MTD for VAT is not compulsory if your taxable turnover is below the threshold; you can opt out by contacting HMRC.

## Deferral for some businesses

HMRC has announced that the MTD for VAT commencement date for a number of businesses will be deferred for 6 months, from 1 April 2019 to 1 October 2019. This will apply to businesses that fall into any of the

following categories: VAT groups, traders based overseas, 'not for profit' organisations that are not set up as a company, local authorities, public sector entities required to provide additional information on their VAT return (such as Government departments, NHS Trusts), public corporations, VAT divisions, trusts, those who make payments on account, and those who use the annual accounting scheme.

## Keeping digital records

HMRC has released guidance outlining the information that you should already be keeping but now must be recorded electronically to comply with MTD for VAT. This includes:

Designatory data of:

- Business name
- Address of principal place of business
- VAT registration number
- Any VAT accounting schemes you use

For each supply you make or receive:

- Tax point/time of supply
- Value of supply (net of VAT)
- Rate of VAT charged
- Value of any supply made and received on your behalf by third party agents
- Amount of input tax claimed
- Reverse charge transactions

It's also necessary to keep specified summary data and a record of any adjustments and/or errors.

There are specific considerations for businesses using special VAT accounting schemes, such as a retail, flat rate and margin schemes.

## MTD-compatible software

The software package used to keep records should be able to transfer information to HMRC's system digitally. HMRC has released a list of MTD-compatible software providers on its website ([www.gov.uk/guidance/software-for-sending-income-tax-updates](http://www.gov.uk/guidance/software-for-sending-income-tax-updates)), which is regularly updated. However you should review your software's functionality and if necessary contact the provider/s of your product/s to confirm whether they are compliant.

If your software is not compatible, you can use 'bridging software'. This allows the required VAT information to be reported digitally to HMRC. Your accounting software will need to have an Application Programming Interface (API) to connect with HMRC's digital system. Many businesses use spreadsheets to record the information used to prepare VAT returns. Provided your spreadsheets incorporate the relevant API, they should be MTD-compliant.

If you have more than one accounting system or a complex VAT reporting structure (e.g. partial exemption calculations), digital links should be in place between your individual programs, products or applications to ensure your VAT returns are calculated accurately.

HMRC is now piloting the use of MTD-compatible software for businesses whose affairs are up to date and straightforward. This allows businesses to use the service before it is mandatory to do so. Many organisations are using the introduction of MTD for VAT as an opportunity to review and upgrade to a new accounting system.

## Exemptions

Exemptions apply to some businesses. If you satisfy one of the following criteria, you are exempt from MTD for VAT:

- Your business is run by practicing members of a religious society or order whose beliefs are incompatible with the use of electronic communications; or
- It is not reasonably practicable for you to use digital tools to keep your business records or submit your returns, for reasons of age, disability, remoteness of location or for any other reason; or
- You are subject to an insolvency procedure.

## Penalties

Penalties will apply for MTD for VAT from 1 April 2019 for non-compliance, although HMRC has said it will be lenient if businesses can demonstrate they have made reasonable efforts to comply.

For businesses that need a digital link between systems, you will have 12 months to put the links in place before penalties are issued.

## How we can help

From supporting your business with upgrading your accounting system, to advising you on your VAT liability, PKF Littlejohn can help you prepare for MTD for VAT. Get in touch to find out more. Our services include:

### System review and software consultancy

Our outsourcing team can undertake a review of your current accounting software so it works better for your needs, or can advise you on an alternative solution.

### Outsourcing

You may want to use this opportunity to review how your finance function is working, and consider an alternative approach. By outsourcing the activities of your finance function you can focus on your business, knowing that you will receive timely management information and that your business meets its compliance requirements (such as MTD for VAT).

### VAT and customs

Our VAT team have extensive experience of VAT and VAT for MTD and can help deal with investigations and queries from HMRC.

For further information and to find out how we can help you, please contact us



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December 2018 ©