



# MAKING TAX DIGITAL FOR BUSINESS (VAT)

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# What is Making Tax Digital?

Making Tax Digital (MTD) is a government initiative aiming to make the tax system more efficient and easier for taxpayers to manage. Under MTD, the majority of taxpayers, including businesses, the self-employed and landlords will eventually transition to a fully digital tax system.

The first phase of MTD applies only for VAT.

## Does it affect me?

Businesses with taxable turnover above the VAT threshold (currently £85,000) must keep “digital” records for VAT purposes and provide their VAT return information to HMRC using ‘functional compatible software’.

“Taxable turnover” means the total value of supplies, other than supplies which are exempt from VAT. Businesses with taxable turnover below the VAT threshold but which are voluntarily registered are not required to comply with MTD for VAT regulations, although those businesses can choose to join if they wish to. Once taxable turnover exceeds the VAT threshold, compliance with MTD for VAT becomes compulsory.

More information on “taxable turnover” and when to register for VAT can be found on [www.gov.uk](http://www.gov.uk).

# What is the timeline?

For businesses with a taxable turnover above the VAT threshold on 1 April 2019, MTD for VAT applies for VAT return periods beginning on or after 1 April 2019. There are some exemptions and these are set out below.

If taxable turnover is below £85,000, there is no obligation for the business to comply with MTD for VAT although it may do so voluntarily.

The wider roll out of MTD, for example to income tax and corporation tax, has been delayed until 2020 at the earliest

## How are records to be kept?

MTD for VAT requires businesses to keep and preserve “digital” records in “functional compatible software”. Digital records mean records that are captured and held in electronic or digital format on a PC, laptop, mobile phone or tablet.

Keeping digital records will not mean businesses have to use digital invoices and receipts, but the actual recording of supplies made and received must be digital. Certain “designatory data” must also be kept digitally.

Examples of digital records include:

- Digital photos of paper records, provided the photo is legible and shows all the necessary details;

- Entries into computer software, such as a spreadsheet;
- Entries into accounting software or other record-keeping software or apps;

As a minimum, records must contain the date, amount and category of the transaction. More information on the content of records can be found [here](#).

## Software

‘Functional compatible software’ is defined as a software program or set of compatible software programs which can connect to HMRC systems via an Application Programming Interface (API)’. This must be capable of:

- Keeping and preserving records in digital form as specified by the new rules
- Creating a VAT return from the digital records held in compatible software and submitting this data to HMRC digitally
- Providing HMRC with VAT data on a voluntary basis
- Receiving, via the API platform, information from HMRC to ascertain compliance. It is as yet unclear what this means, but it may relate to HMRC’s ability to send compliance prompts and nudges.

A single piece of software does not have to perform all of these functions, and in many cases businesses will use a range of different software applications for different functions within the business. Taken together, these software programmes for the business’s digital records. Links transferring data between the software applications must be “digital links”.

Software will not be available from HMRC, but a list of software providers has been published.

## Digital links

MTD for VAT requires links transferring or exchanging data between software applications to be digital where the information forms part of the digital records. There can be no manual transfer of data, or copying and pasting data from one piece of software to another.

### 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. Here three pieces of software are involved. To qualify as functional compatible software, the links between them will have to be digital. The MTD for VAT notice explains that a digital link is one that involves no manual copying of data, or using a “cut and paste” function.

### More examples of digital links

HMRC will also accept digital links as:

- emailing a spreadsheet containing digital records to a tax agent so that the agent can import the data into their software to carry out a calculation (for instance, a Partial Exemption calculation)
- transferring a set of digital records onto a portable device (for example, a pen drive, memory stick, flash drive) and physically giving this to an agent to import that data into their software
- XML, CSV import and export, and download and upload of files
- automated data transfer
- API transfer

# How we can help

Making Tax Digital is one of the biggest changes to the UK tax system in recent times. Whether you would like some assistance choosing software, staff training on your current software system, or help with transition to a new system, we are here to help you prepare for the challenges MTD for VAT may present for your business.

If you have any questions or would like to know more about how we can help you, please get in touch.

## More detail on Making Tax Digital for VAT

1. Exemptions
2. Preservation of records
3. Content of records
4. The VAT account
5. VAT schemes
6. VAT returns
7. Error corrections

### 1. Exemptions

Just as there are exemptions from electronic filing at present, there are some exemptions from the MTD for VAT regime, and these follow the same lines. They are for businesses:

- Which satisfy HMRC that they are practising members of a religious society or order whose beliefs are incompatible with the use

of electronic communications

- To whom an insolvency procedure applies
- Which satisfy HMRC that for reasons of disability, age, remoteness of location or any other reason, it is not reasonably practicable for them to make a return using an electronic return system.

If HMRC are not satisfied that the person is exempt for any of the above reasons, they will provide digital assistance.

### 2. Preservation of records

As well as keeping digital records, businesses will have to preserve them in digital form. They will have to preserve digital records in 'functional compatible software' for up to six years. Where a business deregisters for VAT, it will have to preserve records for up to six years.

Businesses to which MTD no longer applies will not have to maintain ongoing records in digital format.

### 3. Content of records

The information to be kept and preserved digitally includes:

- 'Designatory data': this is business name, principal place of business, VAT registration number, information about any VAT accounting schemes used
- VAT account linking primary records and VAT return
- Information about supplies made and received

## 4. The VAT account

The following data will be kept digitally.

VAT payable portion:

- Total output tax due for 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).

VAT allowable portion:

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

Adjustments:

Adjustments made, corrections of errors in calculating VAT payable in previous periods, and any other adjustments made as required by VAT rules (such as retail scheme annual adjustments or partial exemption annual adjustments).

Here however, it is only the total of each adjustment that needs to be kept digitally – not the underlying calculations.

Exceptions

Where HMRC are satisfied that keeping and retaining the specified information for each transaction is 'likely to be impossible, impractical or unduly onerous,' they can vary the detail required to be kept electronically.

The notice also includes some relaxations for

recording sales and purchases made by third parties; it will be possible to enter the totals on the third party's sales summary as one single transaction.

## 5. VAT Schemes

Retail scheme users will be allowed to record electronically sales transaction data based on daily gross takings, rather than recording details per sale.

Flat rate scheme users will need to record the relevant information in a digital form but the extent of the records will mirror current record keeping requirements.

## 6. VAT returns

Nine boxes

There will be a minimum of nine boxes to complete the return. The information on the return will 'be generated by pulling information from the digital records' – a hands-free process.

Other updates

There is also provision for businesses to make voluntary 'periodic updates' – in other words, for them to supply information outside the VAT return cycle.

The exact position is not yet completely clear, but HMRC say 'We expect a voluntary update outside of the VAT Return cycle to be used mainly when a business is also providing an Income Tax update.' This presumably looks forward to a next stage in MTD for Business,

when the regime also encompasses income tax. HMRC then goes on to say, 'But it could also be used for example to update HMRC about a change of circumstances (changes to 'designatory data').'

### Supplementary data

If a business chooses to do so, they can submit supplementary data when submitting their VAT return. The supplementary data will contain a breakdown of the box 6 outputs figure, showing the period totals of standard rate, reduced rate, zero rate, exempt and outside the scope transactions.

HMRC have also stated that, should they select a business for an enquiry, they may look at any supplementary data submitted by the business. This data may satisfy HMRC that they do not need to contact the business after all.

## 7. Error corrections

The procedure here will broadly be the same as at present with regard to amending VAT accounting records. Corrections to VAT returns already submitted will be made as at present, with non-deliberate errors below the reporting threshold adjusted on the next VAT return, (if within the four year time limit) and other errors reported through VAT652.

HM Revenue & Customs have created a communications pack with information to support businesses that need to make the transition to digital VAT business record keeping.

