

Making Tax Digital MTD-VAT Update

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MTD-VAT Update

Lead Up to MTD

- 2015 HMRC announce Making Tax Digital in a Policy Paper
- Digitalisation of tax returns and payments seen as a part of HMRC's business transformation and services provision
- The uncounted cost of transformation is inevitably borne by business
- 2017 Ministerial Statement announced the commencement of MTD-VAT as 1 April 2019



MTD-VAT Update

Outline

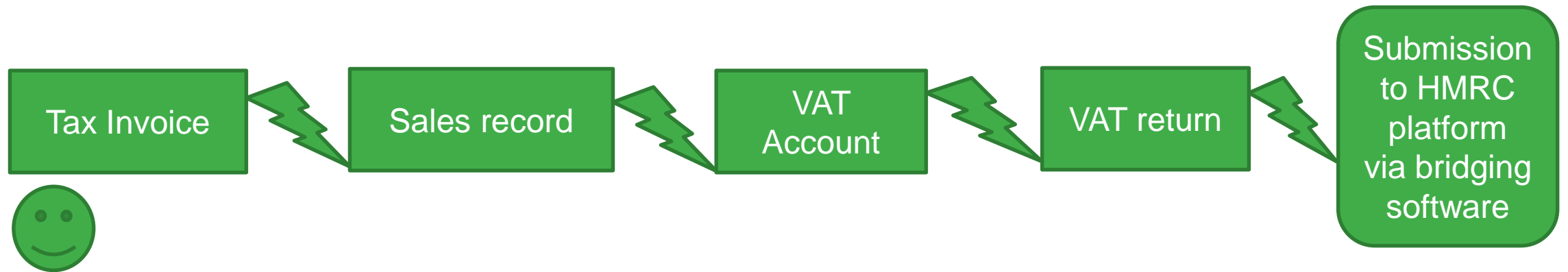
- Mandatory for businesses with taxable turnover above VAT registration limit (£85,000 pa)
- Few exemptions. Main exemption = annual taxable turnover
- VAT records to be kept digitally
- Submit VAT return digitally using MTD compatible software
- Pilot launched October 2018
- Extension of commencement to 1 October 2019 for “complex businesses” including group registrations and businesses making payments on account



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Outline

- Objective of MTD to keep VAT records in digital format and submit VAT returns digitally via MTD compatible bridging software
- Source data in VAT records must be digitally linked to the VAT return to be submitted



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Commencement

- 1 April 2019 and 1 October 2019 commencement dates refers to return submissions for periods that start on or after those dates
- Don't select the MTD option until you are ready for MTD!
- If you select the MTD option before all pre-1 April (or 1 October) 2019 returns have been submitted you will not be able to make a manual online submission for the outstanding returns
- Pilot launched October 2018
- Extension of commencement to 1 October 2019 for “complex businesses” including group registrations and businesses making payments on account



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What You Have to Do

- Register for digital submissions via link on HMRC's website
- Once registered returns cannot be submitted on the current website
- Use functional compatible software to record VAT data and submit returns
- Bridging software to submit returns to HMRC and receive information
- Software suppliers list at: <https://www.tax.service.gov.uk/making-tax-digital-software>



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Digital records – VAT Notice 700/22 MTD for VAT

- The records required to be kept digitally are specified in VAT Notice 700/22 and required to complete the VAT return
- Functional compatible software = software or set of software/products/programs/applications combined able to:
 - Record and preserve digital records and provide HMRC with information and returns from data held in digital format via HMRC's API (Application Programming Interface) platform
 - Receive information from API platform



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Digital records – VAT Notice 700/22 MTD for VAT

- Once data has been entered into Functional compatible software any further journey of that data in the VAT record (i.e. transfer between different “bits” of FCS must be by digital link)
- Manual transfer of data is not acceptable in the “digital journey”
- A “digital link” = transfer of data by “electronic” means



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Digital records – VAT Notice 700/22 MTD for VAT

- Digital linking is electronic transfer of data between accounting software

- Acceptable:
 - linked cells in spreadsheets;
 - data transfer by email for inclusion in other applications;
 - downloaded files for incorporation in other applications.

- Not digital linking:
 - copying
 - cutting and pasting data between spreadsheets.



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Digital records – VAT Notice 700/22 MTD for VAT

- **Designatory data**

- You must have a digital record of:

- Business name

- Principal business address

- VAT registration number

- Any VAT accounting schemes in use



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Digital records – VAT Notice 700/22 MTD for VAT

- Supplies made. You must record digitally:
 - The time of supply (tax point)
 - The value of the supply (excluding VAT)
 - The rate of VAT charged
 - The amount of VAT charged

- Supplies received. You must record digitally:
 - The time of supply (tax point)
 - The value of the supply (excluding VAT)
 - The amount of VAT being claimed



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Digital records – VAT Notice 700/22 MTD for VAT

- If an adjustment is made either to output tax or to input tax the original digital record of the supply does not need to be changed
- Errors notified to HMRC off return – the original digital record of the supply does not need to be changed
- Claims systems and VAT
 - Claims systems often don't record VAT and the insurer doesn't claim input VAT
 - If no VAT is being claimed there is no requirement to record it for MTD
 - Arguably supplies are made to the insured not the insurer
 - the insurer's obligation to pay under the contract of insurance



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Soft landing v light touch

- HMRC announced a “soft landing” for the introduction of MTD
- Return figures must be submitted digitally for periods commencing 1 April 2019 or 1 October 2019
- Accounting data must be digitally linked to return figures for returns from 1 April 2020
- For starting date 1 October 2019, an extension of digitally linking to 1 October 2020 may be applied if the business has received specific confirmation from HMRC
- Digital linking is not required for “adjustments” such as partial exemption calculations and Capital Goods Scheme Adjustments



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Soft landing v light touch

- Light touch on penalties?
- Default surcharge still applies to late returns and payments
- Penalties still apply to returns submitted with incorrect figures
- If events outside your control affect the submission of your returns/data contact HMRC asap and hope for a sympathetic ear



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MTD – what tax professionals are saying

- Thomson Reuter Survey December 2018 146 Tax professionals
- 70% Yet to make any changes for MTD
- 55% use spreadsheets for VAT returns
- 23% use accounting software
- 34% will continue to use spreadsheets



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MTD – what tax professionals are saying

- Accountancy Age/Tax Systems Survey February 2019
- Awareness
- 89% of respondents knew the pilot scheme was open
- 70% aware that the current submissions portal will be closed to all post MTD return submissions
- 78% knew about the April and October commencement dates



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MTD – what tax professionals are saying

- Accountancy Age/Tax Systems Survey February 2019
- Readiness
- 50% not ready for MTD
- 30% still planning
- 20% not started



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MTD – what tax professionals are saying

- Accountancy Age/Tax Systems Survey February 2019
- Testing
- 68% wanted to sign up to pre-testing software before MTD start date
- 32% didn't want to pre-test
- 58% didn't know how to go about pre-testing



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MTD – what tax professionals are saying

- Accountancy Age/Tax Systems Survey February 2019
- Solutions
- 84% opting for in-house solutions to MTD (as opposed to outsourcing)
- 12% will look to outsource
- 57% will buy off-the-shelf software solutions
- 27% will adapt in-house accounting software



MTD-VAT Update

MTD – what tax professionals are saying

- Accountancy Age/Tax Systems Survey February 2019
- Preparation
- 23% preparing for MTD is taking too much time out of their normal routing
- 18% felt there was not enough time to prepare for MTD



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MTD – what tax professionals are saying

- Accountancy Age/Tax Systems Survey February 2019
- Perceived benefits
- 18% more secure returns
- 45% accuracy, fewer errors
- 24% reduced reliance on advisers for compliance work
- 48% increased efficiency filing returns
- 23% reduction in HMRC queries



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MTD – what tax professionals are saying

- Accountancy Age/Tax Systems Survey February 2019
- Concerns
- How will software function in replacing manual tasks
- Cost of implementation
- Continual need to adapt to regulatory changes is a business disruptor



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MTD – Planning for MTD

- Review current procedures and processes
- Assess changes required to existing systems
- Opportunity to take advantage of new technologies – e.g. cloud based solutions
- Decide on solutions and software suppliers – bridging software
- Ensure all relevant staff understand their role in MTD
- Implement and Test before committing

