



Making Tax Digital for VAT



Mabe Allen LLP

Chartered Accountants & Business Advisers



Making Tax Digital for VAT

Over the coming years, the government will phase in its landmark Making Tax Digital (MTD) initiative, which will see taxpayers move to a fully digital tax system.

This factsheet outlines some of the key issues for businesses.

Making Tax Digital for Business

Making Tax Digital for Business (MTDfB) was introduced in the 2015 Spring Budget. The government's 'Making Tax Easier' document was published shortly after, and outlined plans for the 'end of the tax return'. It also set out the government's vision to modernise the UK's tax system, with digital tax accounts set to replace tax returns for ten million individuals and five million small businesses.

Revised timescales

However, industry experts and those within the accountancy sector expressed concerns over the proposed pace and the scale of the introduction of MTDfB, and, as a result, the government amended the timetable for the initiative's implementation, to allow businesses and individuals 'plenty of time to adapt to the changes'.

MTDfB, starting with VAT, took effect from 1 April 2019, as summarised below.

Making Tax Digital for VAT (MTDfV)

Under the rules, businesses with a turnover above the VAT threshold (currently £85,000) must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

Only a small handful of businesses are exempt from complying with MTDfV. Please contact us if you believe your business may be exempt. Businesses are able to make an appeal against a HMRC refusal of exemption.

VAT returns

Those businesses that fall within the scope of MTDfV are required to submit their VAT returns using software compatible with the MTDfV regulations. Information will be extracted from the digital records in order to populate the VAT return.

The changes introduced as part of the MTDfV project do not affect the statutory VAT return deadlines or payment dates, and businesses who choose to submit VAT returns monthly or annually can continue to do so.



Mabe Allen LLP

Chartered Accountants & Business Advisers



Using third party software and keeping digital records

HMRC do not provide MTDfV software, and manual record keeping is not acceptable. Businesses must keep specified records in 'functional compatible software', which calculates the VAT return and submits it to HMRC via an Application Programme Interface (API).

HMRC acknowledges there are different ways to do this. However, the transfer of data to HMRC, from the mandatory digital records to the filing of the return, must be entirely digital. HMRC has published [VAT Notice 700/22: Making Tax Digital for VAT](#) setting out requirements in more detail.

The VAT notice defines functional compatible software as a 'software programme or set of compatible software programmes which can connect to HMRC systems via an API' which must be capable of:

- keeping records in digital form as specified by the MTDfV rules
- preserving digital records in digital form for up to six years
- 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 information from HMRC via the API platform.

Records to be kept digitally are specified in the VAT Notice. They include 'designatory data'; the VAT account linking primary records and VAT return; and information about supplies made and received including the different rates of VAT applicable. For supplies received, the amount of input tax to be claimed is also needed.

MTD is not completely paper-free, and it does not mean businesses are mandated to use digital invoices and receipts. Some records are still be kept in hard copy, such as the C79 import VAT certificate. However the actual recording of supplies made and received must be digital. Where invoices and receipts aren't held digitally, they should be kept in hard copy as usual for VAT purposes.

Software issues

The digital records required for MTD don't have to be held in one place or one programme. Businesses can keep digital records in a range of different compatible digital formats. The use of spreadsheets is allowed, in combination with add-on MTD software.

From 1 April 2021, where digital records are kept in more than one programme, or where add-on programmes are used, all programmes should be linked digitally. The VAT Notice defines these digital links.

Digital links

A digital link is a transfer or exchange of digital data between software programmes, products or applications. Where a set of software products is used, there must be digital links between them, and once data is entered into software, any further transfer or modification must be via digital link.



Mabe Allen LLP

Chartered Accountants & Business Advisers



Manual data transfer is not allowed under MTD. An example would be noting details from invoices in one ledger, then using that handwritten information to update manually another part of the functional compatible software. Copying by hand or manual transposition of data between two or more pieces of software and 'cut and paste', or 'copy and paste' will not be acceptable in the long term. There are however some transitional arrangements (see below).

The VAT Notice outlines acceptable digital links, including:

- linked cells in spreadsheets
- emailing a spreadsheet with digital records to an agent for the agent to import data into software to make a calculation, such as a partial exemption calculation
- transferring digital records onto portable devices (pen drive, memory stick) and giving these to an agent
- XML, CSV import and export, download and upload of files
- automated data transfer
- API transfer.

How we can help

No matter if your business is big or small, MTD affects you. As your accountants, we can help you to stay compliant with the MTDfV rules.

For more information, please contact us.

For information of users: This material is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm.



Mabe Allen LLP

Chartered Accountants & Business Advisers



Mabe Allen LLP

Chartered Accountants & Business Advisers

DERBY

50 Osmaston Road, Derby DE1 2HU

Tel: 01332 345265 **Email:** derby@mabeallen.co.uk

ILKESTON

29 St Mary Street, Ilkeston, Derbyshire DE7 8AB

Tel: 0115 932 3995 **Email:** ilkeston@mabeallen.co.uk

RIPLEY

3 Derby Road, Ripley, Derbyshire DE5 3EA

Tel: 01773 743325 **Email:** ripley@mabeallen.co.uk



Trainee Development - Platinum