

Making Tax Digital for VAT

From 1 April 2019, businesses will be mandated to use the MTDfB system to meet their VAT obligations - termed Making Tax Digital for VAT (MTDfV). Only businesses with a turnover above the VAT threshold (currently £85,000) will be required to use MTDfV, however HMRC are piloting the new system from April 2018.

VAT returns

Those businesses that fall within the scope of MTDfV will be 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.

There will be no changes to the statutory VAT return or payment dates. In addition, businesses who choose to submit VAT returns monthly or in a non-standard fashion will be able to continue to do so.

Using third party software and keeping digital records

Under MTDfV, businesses must make use of functional compatible software to meet the new requirements. VAT returns will be calculated and submitted to HMRC via an Application Programme Interface (API). Clients will be able to submit their returns using software, bridging software or API-enabled sheets.

The functions of MTD-compatible software must include:

- keeping records in a digital form
- preserving digital records in a digital form
- allowing a client to create a return from the digital records held in the compatible software, and provide this information to HMRC digitally
- providing HMRC with VAT data on a voluntary basis
- being able to receive information from HMRC via the API platform that the business has compiled.

HMRC will allow adjustments for partial exemptions to be calculated separately, outside of the digital records, and for these to be transferred in either digitally or manually. Ultimately, however, the final transfer of information to HMRC will have to be done digitally, in all cases.

Penalties

In April 2019, when MTD for VAT comes into effect, HMRC anticipates that there will be a one-year 'soft landing' period, when penalties for record keeping will not apply.

Records kept digitally must include such information as:

- designatory data - the name of the business, its address, VAT registration number and a record of any VAT accounting schemes used
- the VAT account (as outlined later)
- information in regard to supplies made and received
- the totals of any adjustments
- a record of Daily Gross Takings if the business is using a retail scheme.

Digital records must be maintained for the VAT account (and the audit trail between primary accounting records and the VAT return). The records should include details of both the VAT payable portion and the VAT allowable portion.

Businesses will be required to keep digital records in functional compatible software for up to six years.

Exemptions

Under MTDfV, only a small handful of businesses will be exempt. Please contact us for more details if they believe they are exempt. Businesses will be able to make a right of appeal against a HMRC refusal of exemption.