



MAKING TAX DIGITAL FOR VAT

From 1 April 2019, businesses have been mandated to use the MTDfV system to meet their VAT obligations – termed Making Tax Digital for VAT (MTDfV).

Currently, only businesses with a turnover above the VAT threshold (currently £85,000) will be required to use MTDfV. The legislation affects all businesses regardless of its legal structure – company, charity, trust, partnership, sole trader, LLP or public body.

Therefore, businesses that have previously only kept manual records can no longer do so. Instead records must be kept using 'functional compatible software'. 'Functional compatible software' can be a spreadsheet or software (or a combination of the two) that will allow the user to connect to HMRC via an Application Programming Interface (API).

VAT returns – how will they be submitted?

Those businesses that fall within the scope of MTDfV can no longer manually enter VAT figures onto the HMRC portal. Returns must now be submitted through business functional compatible software, which will be communicating digitally through HMRC's API platform.

Figures derived from accounting software now need to be transferred digitally rather than be re-keyed into another package (e.g. a spreadsheet which currently deals with various VAT adjustments).

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

Please see overleaf
for more details. 

This factsheet has been written for the general interest of our clients. It provides only an overview of the regulations in force at the date of publication. It is therefore essential to take advice on specific issues. No responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this leaflet can be accepted by the firm.

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WHO IS EXEMPT FROM THESE CHANGES?

There are exemptions for groups who can't engage digitally for religious reasons or due to factors such as age, disability or location (e.g. no availability of broadband). These exemptions mirror the current exemptions for VAT online filing.

VAT registered businesses with turnover less than the VAT threshold (i.e. businesses who have registered voluntarily) will initially be exempt from MTDfV reporting.

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 the API platform. Returns will be able to be submitted 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.

WILL THERE BE PENALTIES FOR NON-COMPLIANCE?

HMRC will allow a 'soft landing' in the first twelve months, which will give more time to allow digital links to be put in place. Cut and paste of records can be used during this period.

WHAT ACTION SHOULD MY BUSINESS BE TAKING?

If your business turnover is above the VAT threshold, then you need to make sure your systems are compliant.

If you currently use accounting software for your VAT Returns, it may already be fully or partially compliant. However, we recommend that this is assessed.

And if you are considering acquiring new software you will need to choose something that is approved by HMRC.

If your records are currently kept on spreadsheets you will need to acquire software which will allow returns and updates to be made directly or alternatively you will need to look to outsource this function to someone who can do it for you.

HOW CAN WE HELP?

MTDfV may sound daunting, but as your accountants and advisers we are here to help your business be ready and fully compliant with these fundamental changes to VAT submissions. We can:

- Help you assess your current VAT returns process to establish what you need to do to be compliant.
- If you need to buy approved accounting software, help you understand which package is right for you, as well as helping you with the installation and training.
- Provide you with outsourced bookkeeping service so that we can keep your records and file VAT returns on your behalf.
- If applicable, help you assess if you need to apply to HMRC for an exemption.

We strongly recommend to clients, especially those still using paper based reporting systems and spreadsheets, that they speak to us as soon as possible to assess their current VAT processes and ensure they are compliant.

MTDfV represents a time of challenging transition for businesses.

Contact us on 01392 258553 or 01395 279521 to find out more or arrange an appointment.



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