

MAKING TAX DIGITAL (MTD)

Making Tax Digital, also known as MTD, is part of the plan by the UK Government to advance their tax administration into the digital realm, making it more efficient and effective for HMRC *and* taxpayers.

However, this is a relatively new system and with that can come confusion. As such, we have put together this guide to help you understand MTD and its rules further.

First of all, who is required to use Making Tax Digital systems?

You are required to file your VAT returns under the Making Tax Digital rules if:

- You are VAT registered
- Your yearly turnover is above the VAT threshold

If you are VAT registered but your turnover is below the threshold (£85,000 at the time of writing) then you will be exempt from having to use the MTD filing systems.

Please note, that if you are required to file under the MTD but your turnover subsequently falls below the threshold, you will need to continue submitting your returns under MTD.

There are also exemptions for:

- businesses run by practicing members of a religious society whose beliefs are incompatible with the regulation's requirements
- Those unable to reasonably use the required digital tools to submit your returns

However, the above **must** be agreed to by HMRC in advance.

If you believe that you could be exempt from Making Tax Digital then contact HMRC as soon as possible to discuss this.

For those that do have to comply with MTD, these rules came into effect between April - October 2019 and are now fully applicable to those who meet the Making Tax Digital requirements.

Businesses are able to register for MTD at any point in the year but are required to ensure that they are able to meet the record keeping requirements.

Please note that if a business registers for MTD in advance of submitting their last non-MTD return for VAT then HMRC will expect said last return with Making Tax Digital.

In order to sign up, visit <https://www.gov.uk/guidance/use-software-to-send-income-tax-updates#sign-up>

There are three aspects to Making Tax Digital:

1. Digital Record Keeping
2. Digital Links
3. Digital Submission

DIGITAL RECORD KEEPING

This requires businesses to digitally hold their data from invoices for sales and purchases within compatible software, for example; Microsoft Excel spreadsheets or within accounting software packages.

When multiple items are sold at the same rate of VAT then these can be recorded within your digital records as a single entry. If, however, you have items of varying VAT rates (on one invoice) then the totals of each must be recorded separately.

With regards to purchases, there is no requirement to split your recordings of them by their VAT rate. Similarly, if a supplier statement is given for a large amount of purchase invoices from the same source as opposed to individual invoices then you will be able to simply record the totals so long as the supplies related to the same VAT period and the total VAT charged at each rate is shown.

DIGITAL LINKS

The Digital Links requirements ensure that once data has been input into the relevant digital software all transfers or modifications made to the data must be digital - creating what is known as a 'digital flow'. Copy and paste will not be accepted

DIGITAL SUBMISSION

Digital Submission requires businesses to submit the VAT returns via API-enabled software and no longer through the government gateway.

GLOSSARY

Functional Compatible Software (FCS)

FCS are a software program(s), product(s) or application(s) that are able to record and preserve digital records, which can then be provided to HMRC as well as receive information and data from HMRC through an API platform.

API

API platforms are the interface used by HMRC to receive records and communicate with businesses.

Digital Link

Digital Links allow a transfer or exchange of data which can be made electronically between a software program(s), product(s) or application(s). Digital Links are compulsory when linking FCS with data that applies to the VAT return(s) prepared within the software.

Bridging Software

Bridging Software connects API-enabled software with non-API enabled software.

For example; connecting an excel spreadsheet of your existing data through software that would allow the data and information to be submitted digitally to HMRC.

Designatory Data

Designatory Data is data that HMRC states must be kept digitally as part of MTD:

- business name
- principle place of business
- VAT registration number
- VAT accounting scheme use indicators

Sales Data

Sales Data is the data that must be recorded digitally as part of MTD, for example; the time of supply, the VAT exclusive value and the rate of VAT charged in FCS.

Purchases Data

Purchases Data is the data that must be recorded digitally as part of MTD, for example; the time of supply, value of the supply and the amount of input tax that you will claim.

It is possible to make adjustments in some cases, and when doing so the calculations for this need to be made outside of the FCS and then manually re-input into the software. ie: only the totals are required, not the calculations.

If an error is made, then normal error correction rules apply as per VAT Notice 700/45.

There are penalties that will apply if you do not comply with the MTD rules and requirements. IF you are ever unsure of which aspects of MTD do or do not apply to you and your business, contact HMRC directly as soon as possible to discuss.

As each business will have differing software requirements, the HMRC have compiled a list of MTD compatible suppliers to be used as a guide to help you make the right choice for your business:

<https://www.gov.uk/guidance/software-for-sending-income-tax-updates>

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