

MAKING TAX DIGITAL FOR VAT - HMRC WIDENS SOFTWARE PILOT



January 2019

HMRC has now extended its Making Tax Digital for VAT (MTDfV) software pilot to include all businesses that are required to file their VAT returns under MTDfV with effect from 1 April 2019. This means that partnerships, businesses that trade with the EU and flat rate scheme users can now, if they wish, test their MTDfV solutions in HMRC's pilot. VAT groups are also now eligible to join the pilot but other organisations with more complex VAT requirements, for whom MTDfV has been deferred to 1 October 2019, are still excluded.

What is Making Tax Digital for VAT?

MTDfV introduces new digital filing and record keeping requirements for VAT and will be compulsory for all entities that are VAT registered in the UK and have an annual taxable turnover exceeding £85,000. This includes charities and businesses based overseas, even those without a UK establishment.

MTDfV will require almost all UK VAT registered businesses to keep 'digital records' and file their VAT returns via 'functional compatible software'. Other European countries have already created or are planning similar systems for VAT, and it is anticipated that this is the first step in a long-term goal of requiring 'real time filing' of individual transactions with HMRC.

MTDfV introduces new the requirement that all applicable VAT return data is kept in a digital format and is 'digitally linked' so that transactions can be traced from source data (ie purchase/sales ledger) through to VAT return completion and upload to HMRC.

While MTDfV will change the manner in which VAT returns are submitted, it will not alter the deadlines or the frequency of VAT return filings.

Digital links and digital records

HMRC says a 'digital link' is one where a transfer or exchange of data is made electronically between software programs, without the involvement or need for manual intervention (such as the copying over of information by hand or the manual transposition of data between two or more pieces of software).

For example, a business may record sales and purchase transactions in its accounting system, transfer the totals to a spreadsheet in which it calculates the UK VAT return figures then send the information to bridging software, which submits the return to HMRC via an online portal. The new law requires these three pieces of software to be 'digitally linked'.

Requirements for keeping digital records include recording for each transaction the time of supply, VAT exclusive value, the rate of VAT charges, or input tax to be claimed.

See [HMRC Notice 700/22](#) for more information on digital links (paragraph 3.2.1) and record keeping (paragraph 3.3).

When does MTDfV come into force?

Initially, VAT registered businesses must create a digital link between the software containing data for the VAT return boxes to the bridging software and HMRC's MTDfV system. This requirement comes into force for VAT periods commencing on or after 1 April 2019.

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However, HMRC wants to spend more time preparing its systems for organisations with more complex VAT affairs and has stated that mandatory filing under MTDfV will be deferred until 1 October 2019 for the following VAT registered entities:

Trusts and unincorporated charities

Local authorities and some public sector entities, including Government departments and NHS Trusts

Public corporations

Overseas businesses which are UK VAT registered but do not have an establishment in the UK

Businesses with one or more of the following VAT profiles:

- VAT group registration
- Divisional VAT registration
- those required to make payments on account
- those who use the annual accounting scheme.

HMRC has recently written to businesses to notify them of their obligation to use MTDfV and confirm whether they fall into the April or October phases of the rollout.

The requirement for a digital connection into underlying records, such as purchase and sales ledgers, will not come into force until 1 April 2020. HMRC has yet to confirm whether this deadline will be extended to October 2020 for the more complex businesses listed above.

How should businesses prepare for MTDfV?

MTDfV is a significant challenge for businesses as it introduces completely new technology for completing VAT returns over a relatively short period of time, during which many will also be making major system changes to prepare for Brexit. It will also be particularly difficult for larger businesses with sizeable and complex accounting systems to adapt them to comply with the requirement for full digital linkage by 2020.

This checklist will help businesses plan for compliance with MTDfV:

Determine the date on which MTDfV becomes mandatory for your organisation. Are you required to implement MTDfV on 1 April 2019 or are you on HMRC's list of complex businesses for whom MTDfV is deferred until 1 October 2019?

Review the software products on the market to consider which will best meet your needs to comply with the requirements to use bridging software to submit VAT returns under MTDfV from 2019. If you use commercial software to complete your VAT returns, ask your software provider how their product will be updated for MTDfV.

Consider when and whether you should join HMRC's pilot before MTDfV becomes mandatory, bearing in mind that once you have signed up to take part in the pilot, you must continue to use MTDfV to submit your VAT returns.

Review your current accounting systems to map the VAT audit trail and identify areas where digital links will be required. While some digital links, such as transfers from non-API enabled systems to one or more spreadsheets may not be compulsory until 2020, businesses should start preparing their systems for full MTDfV compliance now.

Consider precisely what data you will have to share with HMRC as a consequence of MTDfV, and review the quality of that data.

How can BDO help?

BDO can help assess your business's readiness for MTDfV, identifying any breaks in the digital journey, and work with your IT department to help you to implement the changes necessary to your accounting software to comply with the new law. We can also help you to identify the most suitable independent software package for making the digital upload to HMRC's system and, if any aspect of MTDfV proves impractical or unduly onerous for your organisation, help you negotiate alternatives with HMRC.

BDO is also in contact with HMRC to monitor further developments on MTDfV so can keep you up to date with the latest news.

Your next steps

For further advice and information on all MTDfV issues, please get in touch with your usual BDO contact or one of our specialists listed below.

SEAN LAVERY

Head of Tax

t: +44 (0)2890 439009

e: sean.lavery@bdoni.com

PETER WOOD

Senior Manager

t: +44 (0)2890 437267

e: peter.wood@bdoni.com

RICHARD TODD

Senior Manager

t: +44 (0)2890 437223

e: richard.todd@bdoni.com

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