

MAKING TAX DIGITAL FOR VAT: HMRC FINALISES ITS GUIDANCE

VAT Services



HMRC has now published VAT Notice 700/22, its guidance on the new Making Tax Digital for VAT regime, which comes into force on 1 April 2019.

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.

What is Making Tax Digital for VAT

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 VAT record keeping rules and the requirement that all applicable VAT return data 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.

How will it work?

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'.

HMRC has allowed a 'soft landing' approach for digital links in the first year of MTDfV to give businesses extra time to become fully compliant with the new law. In VAT periods commencing between 1 April 2019 and 31 March 2020, a digital link will only be required between the software containing data for the VAT return boxes to the bridging software.

The requirement for a digital connection into underlying records, such as purchase and sales ledgers, will not come into force until 1 April 2020.

Businesses will also be required to keep certain VAT records in a digital format. These are set out in detail in section 3.3 of HMRC's guidance, but include recording for each transaction the time of supply, VAT exclusive value and the rate of VAT charged or input tax to be claimed.

Other key points from the HMRC notice

The new VAT Notice confirms that, for adjustments to VAT return figures, only

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the total of each type of adjustment (eg for partial exemption, capital goods scheme, retail scheme, margin schemes etc.) must be recorded digitally, not the underlying calculations.

As for error correction, HMRC states that where a business makes a separate disclosure of an error to HMRC (under 'Method 2') it is not required to amend the input or output VAT recorded in its digital records.

What challenges will MTDfV bring for businesses?

MTDfV is part of a wider HMRC project to digitise tax compliance, which will make fundamental changes to the way tax administration works. MTDfV introduces completely new technology for VAT returns, and a number of concerns have been raised by businesses and their representatives over the speed and practicality of the changes:

- ▶ The Application Programming Interface (API) software needed for the digital upload of UK VAT return figures to HMRC is not yet available and will not be provided free of charge by HMRC - it is currently being developed by third party software providers and will not be specifically endorsed or approved by HMRC. HMRC has recently published a list of developers who have demonstrated a prototype to HMRC as part of its current software pilot. However, the 2019 implementation date does not give HMRC much room for error in its software trial and, even with the soft landing period, it will be difficult for larger businesses with sizeable and complex accounting systems to adapt them to comply with the new law by 2020.
- ▶ The 1 April 2019 implementation date for MTDfV also clashes with the expected date of Brexit (29 March 2019) which, depending on the outcome of negotiations between the UK and EU, could well necessitate its own major systems changes for VAT at the same time. Businesses that trade cross border could face the onerous task of dealing with the effects of MTDfV and Brexit simultaneously. Furthermore, as MTDfV software is not yet available and the changes that Brexit will bring have yet to be fully confirmed, VAT registered businesses have very little time to identify and make the necessary adjustments.

How should businesses prepare?

UK VAT registered businesses should review their 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 1 April 2020, businesses should be preparing their systems for full MTDfV compliance now.

The current focus of most businesses has been on identifying how they can share their data with HMRC in a manner that complies with the new rules. However, they should also consider precisely what data they will share with HMRC as a consequence of MTDfV, and the quality of that data.

See how prepared your business is by taking the MTDfV self-test on BDO's website.

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.

As the implementation date approaches, 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. We can also assist with the creation of MTDfV-compliant VAT return spreadsheet templates.

BDO is also participating in a number of HMRC stakeholder groups on Making Tax Digital for VAT and can keep you up to date with the latest developments.

Your next steps

For more information on Making Tax Digital for VAT, get in touch with your usual BDO NI contact or speak to one of our VAT specialists overleaf.



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