



Making Tax Digital: The digital journey



Businesses submitting their own VAT returns need to be aware of MTD. Further guidance can be found by accessing our previous MTD flyer [here](#).

The principle behind Making Tax Digital (“MTD”) is that there is a digital journey from the initial accounting entry through to the VAT return and the submission to HM Revenue & Customs (“HMRC”). There are three elements to this digital journey and the requirements of MTD for VAT:

1. Software communications with HMRC
2. Digital accounting records
3. Digital link

1. Software communications with HMRC

Once the business has signed up to MTD, any VAT returns filed after that date will need to be submitted directly to HMRC via compatible software. This can either be directly from your accounting package, if it is MTD ready, or using a combination of excel and ‘bridging’ software.

Together the accounting package, excel and bridging software (if necessary) comprise your ‘functional compatible software’.

The VAT online filing portal will be closed to businesses required to enter the MTD regime.

2. Digital accounting records

Your digital accounting records are comprised of three elements:

- **Designatory data:** This includes your business name, address of your principal place of business, VAT registration number and VAT accounting schemes in use
- **Supplies made:** For each supply made you must record the time of supply (which is the invoice date or a different date), the value net of VAT and the amount of VAT charged
- **Supplies received:** For each supply received, you must record the time of supply, the value of the supply and the amount of input tax that you will claim

If more than one supply is on an invoice you can record the total from the invoice.

Supplies made and received by third party agents

Where a third party agent makes or receives supplies on your behalf, those supplies do not fall within the digital record keeping requirements until you receive the information from the agent. If this is received in a summary document, you can treat the document as one invoice for the purpose of the digital record.



Adjustments

Where you are allowed or required to adjust the input tax claimed or output tax you owe, according to the VAT rules you must record this adjustment in functional compatible software. Only the total for each type of adjustment will be required to be kept in functional compatible software, not details of the calculations underlying them.

Where the input tax claimed or output tax due on a supply has been changed as the result of an adjustment, you do not need to amend the digital record of the supply.

Schemes

Retail schemes

If your business is in a VAT retail scheme, HMRC have issued a concession so that instead of recording every single sale, you are only required to record the daily gross takings.

Flat rate scheme

If you account for VAT using the flat rate scheme, you do not need to keep a digital record of your purchases unless they are capital expenditure goods on which input tax can be claimed. In addition, you do not need to keep a digital record of the relevant goods used to determine if you need to apply the limited cost business rate.

3. Digital link

To enable the digital journey, there should be no re-keying of data e.g. if you use an accounting package that cannot communicate directly with HMRC and you need to make the submission via an excel spreadsheet, the data should be exported to excel, rather than retyped.

Once in excel, if you need to make amendments or calculations, this should be by way of formulae.

There is currently a soft-landing period of 12 months for the compliance of the digital link. During this period, HMRC will not issue any penalties if the digital link is not in place.

Where spreadsheets may need to be used

You may need to use excel to complete and submit your VAT returns if:

- Your software is not MTD compliant
- You have a group VAT registration and need to aggregate a number of sources of data
- To prepare your partial exemption calculations

Deadlines

For VAT periods starting from April 2019, VAT registered businesses with a taxable turnover above the current VAT registration threshold of £85,000 will have to comply with the MTD rules as explained above. Taxable turnover comprises only supplies made by a business that are within the scope of UK VAT. For example, a business that only recharges costs to its parent entity overseas would not have turnover within the scope of VAT and therefore would not need to comply with the MTD rules. These rules apply to all businesses, including unincorporated businesses, partnerships, trusts, charities and non-UK businesses registered for UK VAT.

VAT registered businesses with a turnover below the VAT registration threshold can opt in to MTD and file their VAT returns using MTD compatible software, but there is no obligation to do so. This includes non-UK businesses ("NETPs") even though the registration threshold does not apply to them.

HMRC's online VAT return submission platform will remain available only to businesses that are not within the scope of MTD for VAT (e.g. businesses with a taxable turnover below the VAT registration threshold). All other businesses must file their VAT returns using MTD software.



A **six-month deferral** will apply to businesses who fall into one of the categories below. These businesses will be mandated to use MTD from October 2019.

- Trusts and not-for-profit organisations that are not companies (including some charities)
- VAT groups (this applies to those in the group registration only and not to other group companies)
- Local authorities and public organisations
- Businesses required to make payments on account
- Annual accounting scheme users
- NETPs registered for UK VAT

No changes are being made to the VAT rules other than those that relate to record keeping and return filing. The VAT return will contain the same nine boxes that it does currently. The current filing and payment deadlines for VAT will also stay the same.

Next steps

If you already maintain your records in software:

- Establish whether you need to comply with the MTD rules from April or October 2019
- Check that there is sufficient detail to meet the requirements of Digital Record keeping such as recording every transaction as opposed to weekly or monthly journals.
- Speak to your software provider to confirm that it will be MTD compliant

How we can help

If you do not currently maintain your records in a software package, we may be able to offer a cost-effective outsourcing package for you. Not only will you be MTD compliant, but you will also have access to business performance information in a more timely manner, helping you to run your business more effectively.

If your software package will not be MTD compliant, we will be able to assist you with providing a bridging software solution, to ensure that the submissions can be made.

For more information and MTD FAQs, please visit our website [here](#).



James Rimell
Partner

+44 (0)20 7544 8939
james.rimell@blickrothenberg.com



Alex Altmann
Partner

+44 (0)20 7544 8747
alexander.altmann@blickrothenberg.com



Simon Newark
Partner

+44 (0)20 7437 7666
simon.newark@blickrothenberg.com



Stephanie Levin
Partner

+44 (0)20 7323 6626
stephanie.levin@blickrothenberg.com

Blick Rothenberg
16 Great Queen Street
Covent Garden
London WC2B 5AH

+44 (0)20 7486 0111
email@blickrothenberg.com

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