

# Making Tax Digital for VAT

22 November 2018

## INTRODUCTION

This update concerns the significant changes to the timing and scope of Making Tax Digital ('MTD'). For more detailed background information, please see our MTD [March 2017](#) and [July 2017](#) updates which are available on our website.

## WHAT IS MAKING TAX DIGITAL FOR VAT?

Making Tax Digital (MTD) will fundamentally change the UK tax system. The stated aim is to make tax administration more effective and efficient to minimize taxpayer error.

VAT is the first tax for which MTD will be implemented, with effect from 1 April 2019. It will be extended to other taxes in the future, although HMRC have confirmed that this will not be until April 2020 at the earliest.

Under MTD for VAT, data must be stored and submitted digitally. Businesses will no longer be allowed to manually enter figures onto their VAT returns. The aim is to reduce simple transposition and keying errors, which in turn will lead to fewer enquiries by HMRC.

## WHO IS AFFECTED?

VAT registered businesses with a VAT taxable turnover exceeding the VAT registration threshold (currently £85,000) are required to comply with MTD for VAT from 1 April 2019. VAT taxable turnover is defined as the total of all sales which are not outside the scope or exempt from VAT. HMRC has confirmed that the VAT registration threshold will not change until 2020.

The MTD rules will apply from the first VAT return period commencing on or after 1 April 2019.

## WHAT IS THE EFFECT?

MTD for VAT requires the underlying transactions which support the entity's VAT return to be stored digitally. The entity's nine summary boxes on the VAT return must be submitted digitally to HMRC via an Application Programming Interface (API). There is no change in the quantity of information submitted to HMRC. The return can either be submitted through an API-enabled accounting software package, an API-enabled spreadsheet or with bridging software.

## ACCOUNTING SOFTWARE

Compatible software can:

- Record and preserve digital records
- Submit VAT returns to HMRC from those records using the API platform
- Receive information from HMRC via the API platform

For a list of HMRC approved software packages please follow the link [here](#).

There is no 'one size fits all' solution to achieve compliance with MTD for VAT. Most businesses will need to make very few changes, if any, to their current VAT return preparation process. For more information on which software is best suited to you please speak to your usual Dixon Wilson contact.

## DIGITAL RECORD KEEPING

As mentioned above, businesses are required to keep a digital record of all underlying transactions which are included in the VAT return.

If all the relevant information in a VAT invoice is held digitally then there is no need to keep a hard copy. The invoice information can be held digitally either by entering all relevant data manually onto accounting software or by scanning a copy of the invoice. Alternatively, if only limited data contained in the invoice is stored digitally, then the original physical invoice must be retained.

It should be noted that there are some records which by law must be kept in their original form, for example a C79 (import VAT certificate).

## DIGITAL LINKS

A digital link is defined as the electronic transfer of data from one software program to another. Once data has been entered into software used to keep and maintain digital records, any further transfer or modification of that data must be done via digital links.

HMRC will accept any of the following as being a digital link:

- Linked cells in a spreadsheet (e.g. a formula in one sheet that mirrors the source's value in another cell)
- Emailing a spreadsheet containing digital records
- Transferring a set of digital records onto a portable device
- XML, CSV import and export, and upload and download of files
- API transfer

The use of 'copy and paste' does not constitute a digital link.

## PRACTICAL STEPS

To ensure that your business is MTD compliant by 1 April 2019 you should prepare as early as possible by taking the following steps:

- Review your existing record keeping processes and make changes if necessary to ensure they are kept digitally (e.g. VAT invoices should be scanned or full details of the VAT invoices are entered into accounting software);
- Review your existing VAT return preparation and submission processes and create digital links between the underlying records and the VAT return summary boxes;
- If the business uses spreadsheets to maintain and summarize VAT records, consider using bridging software to create a digital link to VAT returns or transitioning to an approved accounting software package;
- If the business already uses accounting software check if it is on HMRC's [list of approved software](#) providers or speak to your software provider;
- Once you are satisfied your business processes are MTD compatible, [sign up HMRC's pilot scheme](#) to test your new VAT return process.

Pilot schemes are now available to businesses which are required to comply with MTD from 1 April 2019. HMRC are sending out letters to businesses with details of how to join a pilot scheme.

If you are uncertain of how to move forward, please speak to your usual Dixon Wilson contact.

## DEFERRALS AND EXEMPTIONS

The mandatory start date for MTD for VAT has been deferred for businesses with complex VAT returns until October 2019. HMRC has stated:

"The 6-month deferral applies to customers who fall into one of the following categories: trusts, 'not for profit' organizations that are not set up as a company, VAT divisions, VAT groups, those public sector entities required to provide additional information on their VAT return (Government departments, NHS Trusts), local authorities, public corporations, traders based overseas, those required to make payments on account and annual accounting scheme users."

A small minority of businesses are exempt from MTD. These include those who cannot comply due to religious reasons, age, disability, remoteness of location or are subject to an insolvency procedure.

## FAQS

### WILL MTD AFFECT EC SALES LIST SUBMISSIONS?

No, EC Sales list submissions are not impacted by MTD and this process will continue as before.

### WHAT IF MY VAT TAXABLE TURNOVER DROPS BELOW £85,000

Once you have transitioned to MTD you cannot go back to manual filing once you drop below the threshold, provided you continue to be VAT registered.

### ARE BUSINESSES AUTOMATICALLY ENROLLED TO MTD?

No, it is up to the taxpayer to decide whether they meet the requirements for MTD. You or your VAT agent will need to have MTD compliant processes if you meet the criteria.

If your VAT taxable turnover is below £85,000 then the MTD for VAT rules do not apply to you.

### WILL IT BE MANDATORY FOR THE UNDERLYING DATA TO BE SUBMITTED?

No, only the entries in the existing nine summary boxes in VAT returns will be submitted to HMRC.

### ARE SPREADSHEETS AN ACCEPTABLE FORM OF DIGITAL RECORD KEEPING?

Yes, spreadsheets are an acceptable form of digital record keeping. VAT records can be maintained digitally and the VAT return prepared in a spreadsheet. Bridging software will then be needed to submit the VAT return to HMRC. Spreadsheets can also be used to prepare partial exemption, capital goods scheme and similar adjustments.

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