

## Update

VAT

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## Making Tax Digital FAQs

We've put together some frequently asked questions to help you understand and prepare for Making Tax Digital for VAT.

### What is Making Tax Digital?

Making Tax Digital (MTD) is the Government's vision for a 'transformed tax system'. The aim is to create a more modern, digital service which will help businesses get their tax right, with technology making it easier for them to do so. HMRC estimates that over £9 billion is lost annually in tax due to errors and mistakes, and it hopes that digital record keeping will help 'to prevent errors associated with manual processes.'

### Who will be affected and when do the changes come into force?

From April 2019, VAT registered businesses (including the self-employed, landlords, unincorporated businesses, companies, LLPs and charities) with turnover above the VAT registration threshold (currently £85,000) will have to:

- Keep their records digitally (for VAT purposes only)
- Provide their VAT return information to HMRC through Making Tax Digital compatible software

Businesses can take the opportunity to provide quarterly updates for other taxes too, but there will be no mandatory requirement to do so until at least 2020.

Businesses registered for VAT but with turnover below the VAT threshold can opt in and file their VAT information via MTD if they wish.

### What are the benefits to businesses of Making Tax Digital?

HMRC says "Software will help businesses to stay on top of their record keeping, allowing them to better understand how their business is performing".

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A digital system means:

- Always knowing where you stand when it comes to tax
- Having access to tax information online in a single place
- Being able to work online collaboratively with your accountant
- Being able to plan and budget more effectively

### Can I still keep my records manually and simply file the VAT return through the HMRC VAT portal?

No. The new regulations mandate that businesses must keep digital records in compatible software, which can connect to HMRC via an Application Programming Interface (API).

### Do I have to purchase a software package?

The regulations state that a business in scope for MTD must use functional compatible software to meet the new requirements. So, if you are not currently using a compatible software package you will need to purchase software.

An alternative option is to get your accountant to maintain your records and file your VAT return on your behalf. Contact Moore Stephens to get a bespoke quote.

### What is 'functional compatible software'?

Functional compatible software means a piece of digital software that records business transactions electronically and

which can directly communicate with HMRC digitally via their API (application programming interface) to report the required figures under MTD for VAT.

An example is an accounting software package that connects directly to HMRC's VAT portal. There are lots of packages available on the market for small and medium sized businesses, the most well-known are Sage, Xero and QuickBooks but there are many more.

### **Do Excel spreadsheets count as 'functional compatible software'?**

Not in themselves, no. HMRC has stated that records can be maintained on spreadsheets, but there has to be some linking/bridging software that can communicate with HMRC's API in order to comply with MTD for VAT.

### **When is the best time to move to an accounting software package?**

You can move to a digital accounting package at any time, but to minimise disruption to your business and keep things as straightforward as possible we recommend that you make the change at your business year end.

### **What information will I need to keep digitally for VAT purposes?**

You will need to keep a record of all sales and purchases so that the totals for applicable VAT outputs and inputs can be calculated for each return period. Additionally, the underlying records need to include the transaction date, the rate of VAT that applies and the invoice total.

There are some exceptions for users of different VAT schemes. For example:

#### **Retail schemes**

Retail scheme users will, by HMRC notice or direction, be permitted to record electronically sales transaction data based on daily gross takings, rather than recording details of each sale.

#### **Flat Rate Scheme**

Businesses eligible to use the Flat Rate Scheme account for output VAT as a specified percentage of turnover, and don't claim input VAT on most expenses.

Scheme users keep records of sales but the only records of purchases they must keep are those relating to capital goods with a VAT inclusive value of £2,000 or more. Digital record keeping requirements for flat rate scheme users will mirror current record keeping requirements.



### **How long to I need to keep digital records for?**

Businesses will need to keep digital records for up to 6 years.

### **Do I have to keep records digitally for other taxes?**

At the moment, businesses will only need to keep records digitally for VAT purposes. However, HMRC have stated their ambition to 'become one of the most digitally advanced tax administrations in the world' so it is likely that the scope of the programme will expand in future to include Income Tax and Corporation Tax. This could come into place from as early as April 2020 but we will keep you updated as soon as we have more information.

### **I am currently exempt from submitting my VAT returns online – will this change?**

No. If a business cannot go digital, it will not be required to do so and will not have to meet the obligations of Making Tax Digital. The exemptions under Making Tax Digital mirror the existing VAT online filing exemptions.

### **I don't have internet access. Can I be exempted from the scheme?**

If you can't use a digital system because of your age, a disability or because of where you live (e.g. you don't have internet access), or if you object to using computers on religious grounds you will be able to apply to HMRC for an exemption from the scheme. Anyone wanting to apply for an exemption will need to contact the HMRC VAT helpline on 0300 200 3700 to discuss alternative arrangements.

### **I currently submit my VAT return monthly or annually. Will I have to move to quarterly reporting?**

No. Where businesses have alternative reporting arrangements, these will be maintained. Businesses submitting monthly or non-standard returns will continue to do so as long as they keep digital records and submit their annual or monthly VAT return through functional compatible software.

**What happens if I don't / can't comply?**

HMRC has suggested it will take a soft approach to non-compliance between April 2019 and April 2020. They plan to use a points-based system where failure to submit records on time accumulates penalty points for each transgression. At a certain threshold, penalties will then be charged for late or non-submission. They have suggested that penalty points incurred will expire after a further period of 'good compliance'.

**Will the Making Tax Digital regime be extended in future to cover other taxes?**

Yes. Although the government has committed that it will not widen the scope of Making Tax Digital for Business beyond VAT before the system has been shown to work well, (and not before April 2020 at the earliest), they are keen to move towards a fully digitised tax system so it is likely that the MTD regime will be expanded to include Income Tax and Corporation Tax in future.

**Need more help or advice?**

Contact your usual Moore Stephens adviser for further information about how Making Tax Digital will affect you, and what you need to do to be compliant with the new regulations.

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