

Making Tax Digital for VAT

What you should be doing now

With less than six months to go until Making Tax Digital (MTD) for VAT applies, businesses should be preparing now for dealing with the new requirements, which represent the biggest change to the VAT compliance rules in decades.

What's the issue?

From 1 April 2019, MTD will become compulsory for most VAT registered businesses with a taxable turnover above the VAT registration threshold (currently £85,000). Affected businesses will be required to:

- submit their VAT return data digitally using software compatible with HMRC's Application Programming Interface (API) platform; and
- maintain digital records and a digital VAT account.

For these businesses, the changes apply to VAT periods commencing on or after 1 April 2019. Affected businesses will no longer be able to submit their VAT return by entering the details into HMRC's online portal.

For a small minority of VAT registered businesses with more complex requirements, MTD will not become compulsory until 1 October 2019.

With effect from 1 April 2020, businesses will also be required to maintain a clear digital 'journey' or 'digital links' between their accounting systems and the software used to prepare and submit their VAT returns.

All affected businesses should review their VAT accounting processes to establish whether their existing systems and any relevant software meet the stringent MTD requirements. For many organisations, upgrades, add-ons and, in some cases, completely new reporting systems or software will be required.

Businesses should also review the quality of their accounting data and ensure that all necessary VAT information is captured by the reporting systems. Where manual adjustments are made outside those systems, these should be reviewed to make sure they are correct.

Digital records

Under MTD, businesses are required to keep certain records (including details of all supplies made and received) in digital form. Digital records may be kept in a range of compatible digital formats, including in Excel spreadsheets.

Digital submission

Under MTD, the nine boxes of the UK VAT return must be submitted to HMRC digitally using software compatible with HMRC's API platform. Businesses will need to invest in new MTD compatible software that can perform this function.

This does not prevent businesses from continuing to prepare their VAT return calculations in a spreadsheet program such as Excel, as software is available which acts as a digital 'bridge' between the spreadsheet and HMRC's API.

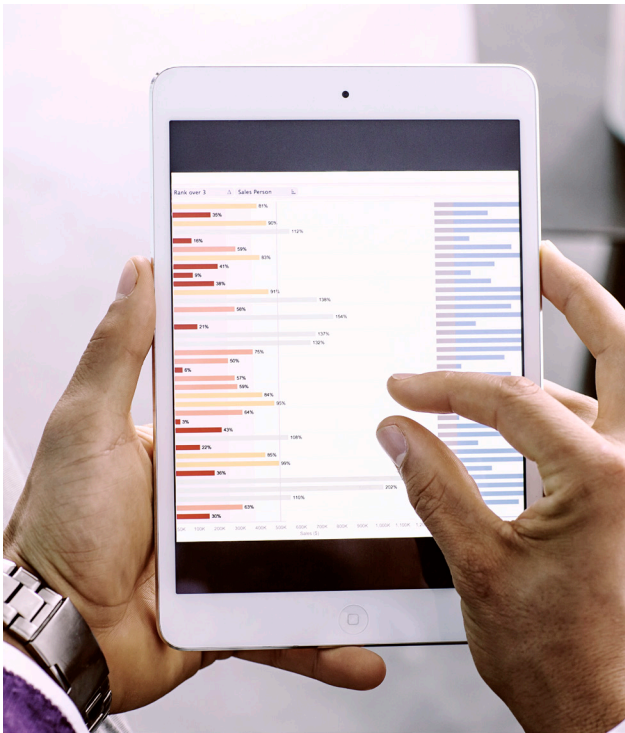
Digital links and the 'soft landing period'

HMRC are allowing time for businesses to comply with some aspects of MTD, known as the 'soft landing period'. This means that businesses are not required to put in place digital links between all parts of their systems until 1 April 2020.

However, from 1 April 2020, once data is entered into the digital records, any transfer of data between software programs must be done using 'digital links'. Each piece of software must be digitally linked to other pieces of software to create an integrated digital journey.

A 'digital link' is one where the transfer or exchange of data is made electronically without manual intervention. This means transferring data manually within or between different software products (including by manual 'cut and paste') is not permitted.

However, HMRC recognise that some adjustments (eg capital goods scheme or partial exemption calculations) may need to be performed separately outside of the software that keeps the digital records, these may be added manually.



Using agents to prepare and submit VAT returns

Where businesses use agents to submit their VAT returns, they can continue to do so under MTD. Agents may also retain digital records on their clients' behalf. Where the business continues to maintain the digital records, HMRC confirm that emailing a spreadsheet to a tax agent or transferring records onto a portable device to physically hand over to them, are acceptable and will qualify as 'digital links'.

Businesses with complex requirements

The six month deferral until 1 October 2019 for more complex businesses applies to trusts, 'not for profit' organisations that are not set up as a company, VAT divisions, VAT groups, certain public sector entities, local authorities, public corporations, traders based overseas, those required to make payments on account and annual accounting scheme users.

These businesses will only need to comply with MTD with effect from their first VAT period commencing on or after 1 October 2019.

What do you need to think about now?

- businesses should look now at the steps they need to take to become MTD compliant;
- they should evaluate the different software offerings available and make considered choices. Businesses with complex transactions, large organisations or groups, and those who currently take advantage of VAT simplifications/schemes or make adjustments are more likely to require software adapted to their requirements;
- organisations that use agents for VAT return submission should work closely with them to ensure they are both aware of their respective responsibilities and obligations;
- taxpayers that are VAT registered but below the registration threshold will not have to file returns under MTD, but can do so if they wish;
- charities, public bodies and overseas businesses will also be subject to MTD (unless their taxable activities are below the registration threshold), although the six month deferral may apply; and
- for some businesses, it is possible to join a pilot of MTD from late 2018/early 2019 before it becomes compulsory.

How we can help

Grant Thornton offers a complete MTD readiness service.

1. Advice on MTD requirements

We can provide you with a clear understanding of the requirements and assist with agreeing a step plan to ensure that any software changes and systems used are optimised to best suit your needs.

This includes advice on which records must be kept digitally, and how more complex transactions should be dealt with (including supplies involving agents, multiple and composite supplies, input VAT recovery for partially exempt businesses and special schemes).

2. Submit your VAT return using our API filing solution

Our MTD compliant VAT return filing solution integrates neatly into an existing Excel spreadsheet used for VAT return workings. It is easy to install and use, and is accessed via a toolbar button at the top of the spreadsheet.

Following the submission of your data to HMRC via an API connection, an automatic email will be sent to you with the summary data confirming that the submission has been successful.

Our VAT filing solution has been successfully tested and demonstrated to HMRC and we are listed as an approved software supplier. The solution is scalable and suitable for businesses that submit multiple UK VAT returns.

3. Test the integrity of your data

MTD should be seen as a 'first step' towards real-time tax reporting and increasingly detailed HMRC audits.

HMRC have indicated that, in the future, businesses will be able to submit supplementary data to HMRC via MTD that supports the summary in the nine-box VAT return.

We can help you to look at the **accuracy** of VAT records produced by your accounting software, identify and **analyse** unusual transactions, and **benchmark** VAT activity against historical business trends.



A VAT data analytics review may also assist your business to improve cash flows, optimise VAT reporting processes and develop more robust tax risk management systems. We can:

- review the underlying data used to produce a sample of VAT returns;
- produce a report evaluating the quality of information reported to HMRC, identifying potential VAT refunds and liabilities and highlighting VAT-related risks affecting the business; and
- identify opportunities for streamlining and improving VAT related processes within your business.

4. Take a deep dive into your VAT adjustments

We can review adjustments made in relation to VAT returns, covering:

- What adjustments do you make?
- Are the adjustments correct?
- What can you do to get ready to produce an electronic 'VAT account'?

Key contacts

Please feel free to contact a member of our VAT and indirect tax team for further information, including a demonstration of our VAT return filing solution.



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