



Are you ready for Making Tax Digital (MTD)?

The UK government is going ahead with its Making Tax Digital (MTD) programme, starting with VAT-registered taxpayers. From 1 April 2019, businesses with a turnover above the VAT registration threshold will be required to keep specified minimum records in their VAT account and to submit the current nine-box VAT return to Her Majesty's Revenue and Customs (HMRC) via Application Program Interface (API) software to link either the accounting system or Excel spreadsheets to HMRC's system.

What's the issue?

The UK government has confirmed that MTD will eventually cover all taxes but VAT was chosen by HMRC as the first tax to go live on 1 April 2019. For a significant number of businesses the changes will mean that they will need to review or upgrade their existing accounting systems. They will also need to ensure that an API connection is possible.

Businesses that manually calculate adjustments, such as under partial exemption and the capital goods scheme, will now be required to reconcile those adjustments within their accounting system and VAT account.

Businesses that rely solely on spreadsheets to generate their VAT returns will need to ensure that the additional VAT records are captured within the spreadsheets. Alternatively, such businesses may need to invest in API software to submit the nine-box VAT return from the spreadsheets or may need to consider upgrading to compatible accounting software.

While it will not be mandatory to file the underlying data within the VAT account via API, HMRC can request this separately in order to validate the VAT returns. Businesses may also choose to submit their VAT account to HMRC, in order to reduce potential HMRC enquiries and to keep a low risk rating profile with HMRC.

Timetable for change

Businesses will need to be able to file their VAT returns digitally by 1 April 2019. Prior to this HMRC will be making its new digital platform available for testing and use. The current expectation is that the platform will be ready from 1 April 2018.

What do you need to think about now?

- the existing nine-box VAT return will need to be submitted via API, either directly from the accounting software or through links from spreadsheets;
- additional information will be required to be kept in the VAT account, although the VAT account will not need to be submitted to HMRC, at least initially;
- new penalties for late filing and late payment of VAT;
- the filing date for returns may revert to the end of the month following the end of the VAT return period. For many businesses this will mean the eventual loss of an additional seven days to file the return;
- certain taxpayers will be exempt from MTD. In addition, taxpayers that are VAT-registered but below the threshold will not have to file returns under MTD, but can opt to do so if they wish; and
- charities, local authorities, government departments and overseas businesses will not be exempt from MTD for VAT, unless their taxable activities are below the VAT threshold.

Roadmap for API

Broadly speaking, API is a computer program which allows information stored in one application or website to be shared with another application or website.

In December 2017, HMRC issued an updated delivery roadmap for MTD to software developers, setting out the APIs currently available in both its “live” and “test” (HMRC API Sandbox) environments, as well as its anticipated schedule for future API releases. Additional functionality is tested on limited taxpayer data before becoming publicly available via “controlled go live” and Grant Thornton is currently working with HMRC as part of this process.

Grant Thornton’s tax team are also working towards developing software solutions that will enable our clients to submit their nine-box VAT return to HMRC via API.

Dates to remember

The first key changes will come into effect in early-mid 2018:

- April 2018 – software developers should have developed APIs for taxpayers to file digitally, pilot to be widened to all potential agents (public beta);
- 1 April 2019 – start of first VAT period where MTD is mandatory;
- 7 June 2019 – last submission date for first monthly VAT returns under MTD; and
- 7 August 2019 – last submission date for first quarterly returns under MTD.

The second tranche of changes are dependent upon the success of MTD for VAT but are currently expected to come into effect on 1 April 2020. These changes could include:

- earliest Self Assessment (SA) taxpayers will need to file quarterly updates under MTD;
- earliest Corporation Tax Self Assessment (CTSA) taxpayers will need to file quarterly updates; and
- SA and CTSA taxpayers will also need to file annual returns.

MTD readiness service

While 2019 may seem a long way off, now is the time to think about what you need to do in order to be ready for MTD.

Test the integrity of your data

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

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 (including through automation) and develop more robust tax risk management systems. What we can do:

- 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 automation and other improvements to VAT-related processes within your business.

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 a “VAT account”?

Based on guidance released by HMRC so far, minimum records required to be kept in the VAT account will include – for each VAT return period, total:

- corrections of an error in calculating VAT payable in previous periods;
- adjustments to VAT payable because of an increase or decrease in consideration of a supply made in a previous period; and
- of any other adjustments required by the VAT rules, eg. change of rate credit notes, retail scheme annual adjustments, change of use input tax adjustments and bad debt relief claims.

System risk review

While spreadsheets may be submitted directly to HMRC with the use of APIs, there is some concern about erroneous information being sent to HMRC, as well as the security of transmitting information in this way.

For many businesses there is likely to be some disruption while the software developer upgrades the transmission method to API and the cost of developing this may well be passed on to businesses.

While only the figures for the nine boxes will need to be submitted digitally, it is important that businesses check exactly what data is being transmitted to HMRC. Checks may need to be done to ensure that no extra data is pulled through during the filing process.



Our tax technology team can help you to review your systems and liaise with your software providers to ensure that the nine boxes can be submitted to HMRC via API and that your VAT account is MTD-ready.

Submit your VAT return via our online portal

Grant Thornton's tax team are currently working towards developing software solutions to enable our clients to submit their nine-box VAT return online via API. In the interim, we can assist your VAT compliance function by tailoring your existing API-enabled accounting software to meet the requirements of MTD, as well as exploring other technology solutions to meet your business needs.

Contact

At Grant Thornton, we have a national team of VAT specialists who can help to unravel the complexities. Please feel free to contact a member of our team for further information.



Peter Legge
Partner, Tax
T +(0)44 28 9587 1081
E peter.legge@ie.gt.com



Michelle Armstrong
Assistant Manager, Indirect Tax
T +44 (0)28 9587 2318
E michelle.armstrong@ie.gt.com



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[Grant Thornton \(NI\) LLP](#)

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