Briefing paper

New Making Tax Digital guidance from HMRC – July 2018

HMRC's Making Tax Digital (MTD) programme is now two months into a 'private' pilot phase. Based on the feedback from the participants and on representations from industry, business advisors and IT solutions developers, HMRC has now issued revised guidance to enable organisations to prepare for the launch date of 1 April 2019.

What's the issue?

When Making Tax Digital (MTD) becomes mandatory on 1 April 2019, all VAT registered organisations with a taxable turnover above the VAT registration threshold (currently £85,000) will be required to submit their VAT return data electronically via an appropriate Application Program Interface (API). They will also be required to maintain digital records and a digital VAT account. In addition, with effect from 1 April 2020 businesses will be further required to maintain a clear digital 'journey' or 'digital links' to support their VAT accounting transactions.

All affected businesses need to review their VAT accounting processes to establish to what extent their existing systems and any relevant software meet the stringent MTD requirements. For a significant proportion of organisations upgrades, add-ons and, in some cases, completely new reporting systems or software will be required.

It will also be necessary to review the quality of the accounting data and ensure that all necessary VAT information is captured by the reporting systems.

Finally, organisations that make manual adjustments outside the reporting systems will also need to review their adjustments, make sure they are correct and consider what the new digital VAT account should look like.

Which organisations will be affected?

- Everyone currently registered for VAT with taxable turnover above the VAT registration threshold and, in particular:

  - complex group structures and VAT groups

  - organisations that make manual adjustments to VAT return workings, including: partial exemption calculations, capital goods scheme adjustments, margin and similar special accounting schemes.

  - organisations that rely extensively on spreadsheets to prepare accounts and generate VAT returns

HMRC's MTD pilot

In April 2018 a number of business were invited by HMRC to participate in a pilot scheme to trial MTD.

Information captured during this process is to be used by HMRC to identify issues, assist software developers in understanding the new requirements and to give the selected businesses an opportunity to implement their own systems and processes for this new regime.

We understand that HMRC is to extend the pilot to more complex business later this year. This will extend the opportunity to adopt MTD and will facilitate the testing of systems ahead of the 'go-live' date to all organisations who wish to do so.

VAT Notice 700/22 (MTD for VAT) – July 2018

HMRC has also recently published updated guidance, containing useful clarification on some of the key concepts and addressing some of the issues raised during the consultation.

Whilst it is likely that further clarifications will be required in relation to certain practical aspects, the additional information should help organisations to start evaluating the robustness of their existing VAT reporting systems and get ready to cope with the new MTD requirements.

Specific issues

HMRC's updated guidance has provided further clarification in relation to some complex issues, including:

- How businesses should account for VAT when third party agents make supplies on their behalf and issue a single tax invoice

- How VAT is to be accounted for on multiple and composite supplies (meal deals and similar promotions for example)

- Dealing with input tax incurred by partially exempt organisations where the amount reclaimed cannot be determined at the time the input tax becomes eligible for recovery

- Acceptable methods for making the necessary adjustments to the VAT account for businesses operating specific schemes (e.g. retail schemes, margin schemes, flat rate schemes)

Digital records

Under MTD, organisations are required to keep digital records within 'functional compatible software'.

Functional compatible software must be able to:

- Record and preserve digital records
- Provide information to HMRC using an API platform
- Receive information from HMRC via an API platform

Digital records can be kept in a range of compatible digital formats. Excel spreadsheets or other software products can be used as a component of functional compatible software and used in conjunction with other programs to perform all of the required functions (e.g. API bridging software).

Digital links

HMRC has provided further clarification and has advised that the software used in preparing the VAT returns must be linked to create a 'digital journey'. Transferring data manually within or between different parts of software programs, products or applications would not be acceptable.

HMRC has also confirmed that emailed spreadsheets and data transferred onto a portable device (such as a memory stick) can be treated as a digital link.

Using agents to prepare and submit VAT returns

There is further guidance on how organisations can authorise agents to submit the VAT returns and the bridging software, which can include API enabled spreadsheets.

A list of software developers who have submitted test data to HMRC has also been published.

Soft landing period (1 April 2019 – 31 March 2020)

HMRC will allow a period of time for organisations to put in place digital links between all parts of their functional compatible software. Please note that the 'soft landing' is in relation to digital links requirements only.

During that period, HMRC will also accept the use of 'cut and paste' as being a digital link between the software programs.

What do you need to think about now?

Whilst HMRC intends to apply a 'light touch' in the first 12 months to allow any changes to bed into the systems, organisations need to look now at the steps that need to be taken to become MTD compliant.

Systems changes, staff training, data testing and rollout all take time and valuable resources. HMRC is not offering software so businesses will need to begin discussions with software developers (in-house and/or third party) to evaluate the different offerings available and make considered rather than last-minute choices.

Businesses with more complex transactions, large organisations or groups, those who currently take advantage of VAT simplifications/schemes or make adjustments are more likely to require software adapted to their requirements or would need to research which software is best suited for their needs.

Organisations that use agents for VAT return submission should also be working closely with their agents to ensure that both parties are aware of their respective responsibilities and obligations.

How can we help?

In the first instance, assurance that your organisation will be able to comply with the new rules will be paramount.

Our VAT Data Analytics review is a valuable tool that will enable you to evaluate the robustness of your existing data, VAT accounting and pinpoint any areas of risk as well as highlighting opportunities for streamlining and improving processes.

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

Our in-house API software is currently in development and we can assist you in meeting the new submission requirements in a cost-effective way with minimal impact on your resources and the confidence of working with our closely-integrated, cross-discipline team comprising specialists in both technology and VAT.

Please feel free to get in touch if you would like further information.

Contacts

Karen Robb
VAT Partner
T 020 7728 2556
E karen.robb@uk.gt.com

Olga Bondar
VAT Senior Manager
T 020 7728 2556
E olga.bondar@uk.gt.com

Vinny McCullagh
VAT Partner
T 020 7728 3150
E vinny.mccullagh@uk.gt.com

Andrew Burman
Tax Technology Partner
T 020 7728 3313
E andrew.m.burman@uk.gt.com