



Carston

chartered accountants

MTD for VAT-registered businesses

Obligations from 1 April 2019 onwards.



Although the Making Tax Digital (MTD) regime has suffered several setbacks and delays, MTD for VAT remains on course to take effect from its planned implementation date of 1 April 2019.

Under the scheme, VAT-registered businesses are required to maintain digital records, complete the VAT return from the digital records and send it electronically to HMRC.

Which businesses are affected?

MTD for VAT is compulsory for VAT-registered businesses with turnover above the current VAT-registration threshold of £85,000, which has been frozen until 1 April 2020.

From the start of their first VAT return period or after 1 April 2019, VAT-registered businesses with turnover above the VAT registration threshold will need to comply with the digital record-keeping and reporting requirements of MTD for VAT.

VAT-registered businesses whose turnover is below the VAT registration threshold will be able to choose whether to join MTD for VAT.

Once within the scheme, a business must remain in it while they are VAT-registered, even if their turnover falls below the VAT-registration threshold.

Where turnover is above the VAT-registration threshold on 1 April 2019, the start date will depend on how the VAT quarters fall. This is illustrated in the following table:

VAT return quarters	MTD start date
Ending 31 March, 30 June, 30 September, 31 December	1 April 2019
Ending 30 April, 31 July, 31 October, 31 January	1 May 2019
Ending 31 May, 31 August, 30 November, 28 February	1 June 2019

Where turnover is below the VAT-registration threshold (and the business has not opted in to MTD for VAT), the business should check its turnover at the end of each month.

If in the previous 12 months it's more than the VAT-registration threshold applying on the first day of the following month, it should start to apply the MTD for VAT rules from the start of its next VAT accounting period.

Exemptions

There are very few exemptions for MTD for VAT. If any of the following exemptions apply to your business, HMRC advise you to contact the VAT Helpline on 0300 200 3700.

Religious societies

The business is run entirely by practicing members of a religious society whose beliefs are incompatible with the requirements of MTD for VAT. This could be where their beliefs prevent them from using computers.

Not practical

An exemption may apply where it's not reasonably practical to use digital tools to keep business records or to submit returns for reasons of age, disability, remoteness of location or for any other reason.

Insolvency

If an insolvency procedure is in place, an exemption from MTD for VAT may be granted.



MTD for VAT-registered businesses

Digital records

Certain records must be kept digitally within functional compatible software under MTD, and be preserved for up to six years. These include:

Designatory data

It's compulsory for you to keep a digital record of your business' name and an address, which is the principal place of business.

Your business' VAT-registration number and a record of any accounting schemes used must also be recorded digitally.

Supplies made

For each supply made by your business, you must record the time it was supplied, how much it was worth at the time and the rate of VAT charged.

Multiple supplies made at the same time don't need to be recorded separately.

The total value of supplies on each invoice or receipt that have the same time of supply and rate of VAT can be recorded.

A record must also be kept of output values for the period split between standard rate, reduced rate, zero rate, exempt and outside the scope outputs.

Supplies received

For each supply your business receives, you need to record the time of supply, the value of supply (including any VAT that cannot be reclaimed), and the amount of input tax to be claimed.

If there is more than one supply on an invoice, the totals from the invoice can be recorded.

The VAT account

The VAT account provides the link between the digital VAT records and the VAT return submitted to the Revenue.

Under MTD for VAT, the information which must be held in the VAT account must be maintained digitally and this is referred to as the 'electronic account'.

To demonstrate a link between the output tax in the business records and the output tax on the VAT return, the electronic account must contain a record of:

- output tax owed on sales
- output tax owed on acquisitions from other EU member states
- any tax to be paid on a supplier's behalf under a reverse charge procedure
- any tax owed following a correction or error adjustment
- any other adjustment required by the VAT rules.

Similarly, to demonstrate the link between the input tax in the business records and the input tax on the VAT return, the electronic account must contain a record of:

- input tax which can be claimed on business purchases
- input tax allowable on acquisitions from other EU member states
- tax that can be reclaimed following a correction or error adjustment
- any other necessary adjustment.

Where adjustments are required, only the total value for each type of adjustment will need to be kept digitally.

However, while the underlying calculations don't have to be made digitally or using software, and can be performed manually or by using spreadsheets if preferred, using software should reduce the risk of errors.

The electronic account is vital as the information held in it will be used to calculate and complete the VAT return using functional compatible software.

What is 'functional compatible software'?

'Functional compatible software' is the cornerstone of MTD for VAT.

It will be used to maintain the compulsory digital records, calculate the return and submit it to HMRC via an application programme interface (API).

Functional compatible software is simply the name given to a software program, or set of compatible software programs, which are capable of:

- recording and preserving records in an electronic form
- providing information and returns from the records to HMRC in an electronic form using the API platform
- receiving information from HMRC.

It's possible to mix and match software – the complete set of digital records needed for MTD for VAT don't need to be held in one piece of software.

As long as there is a link between the different pieces of software, the records can be held in a range of acceptable digital formats.

The link between the software is key, and is a legal requirement where a set of compatible software programs is used.

HMRC have produced a list of software from commercial software suppliers which can be used for MTD for VAT.

Completing and submitting VAT returns

The VAT return is calculated from the digital records maintained in the functional compatible software, and a business will need to confirm the return is correct before sending it to HMRC.

Once submitted, confirmation the return has been received by HMRC will be received via the software, while VAT returns can be submitted by us on behalf of your business.