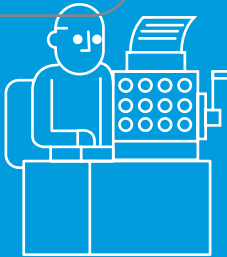


Making tax digital for VAT



The transition to Making Tax Digital for VAT (MTD) represents one of the most fundamental changes to the UK tax system in a generation.

MTD is designed to ensure a more timely and accurate recording and submission of VAT accounting data. The aim being to reduce errors associated with manual processes.

The MTD initiative is part of a wider objective originating under the Organisation for Economic Co-operation and Development (OECD) 'Co-operative Compliance' initiative designed to make it easier for multiple jurisdictions to work more closely together in exchanging information.

What are the changes?

- 1** For all VAT returns starting on or after either 1 April 2019 or 1 October 2019 (for 'complex organisations'), VAT registered businesses trading over the VAT registration threshold (£85,000) will be required to keep records in digital form and submit their VAT returns using MTD compatible software.
- 2** With regards to the 1 October 2019 deadline, HMRC have defined the following organisations as 'complex':
 - VAT Groups and VAT divisions;
 - public corporations;
 - overseas traders;
 - businesses that are required to make payments on account;
 - businesses on the annual accounting scheme;
 - trusts;
 - not for profit organisations that are not set up as a company;
 - certain government departments;
 - NHS Trusts; and
 - Local Authorities.
- 3** The required software referred to as an Application Programming Interface (API) will create a digital link between the business and HMRC's accounting software.
- 4** The API will enable the business to submit the existing nine box VAT return details to HMRC but will also enable HMRC to communicate and raise queries with the business.

- 5** VAT return information will flow from the source data directly to HMRC with limited scope for the data to be amended. It is intended that VAT return information will flow from the source data directly.

- 6** HMRC has indicated that there will be a 'soft landing' between April 2019 and April 2020 for 'non-complex' organisations (we understand that this will also be 12 months until October 2020 for 'complex' organisations). During this time there will be no financial penalties for failing to have digital links in place between the accounting and the API-enabled software. There must, however, be an API creating a digital link from the outset between the accounting records of the business and HMRC.

What is meant by MTD functional compatible software?

To be compliant with MTD for VAT regulations, a business must have 'functional compatible software'. This is defined by HMRC as 'a software program or set of software programs, products or applications' the functions of which include: 'recording and preserving digital records; providing to HMRC information and returns from data held in those digital records using the API platform; and receiving information from HMRC using the API platform'.

What if there are multiple pieces of accounting software involved?

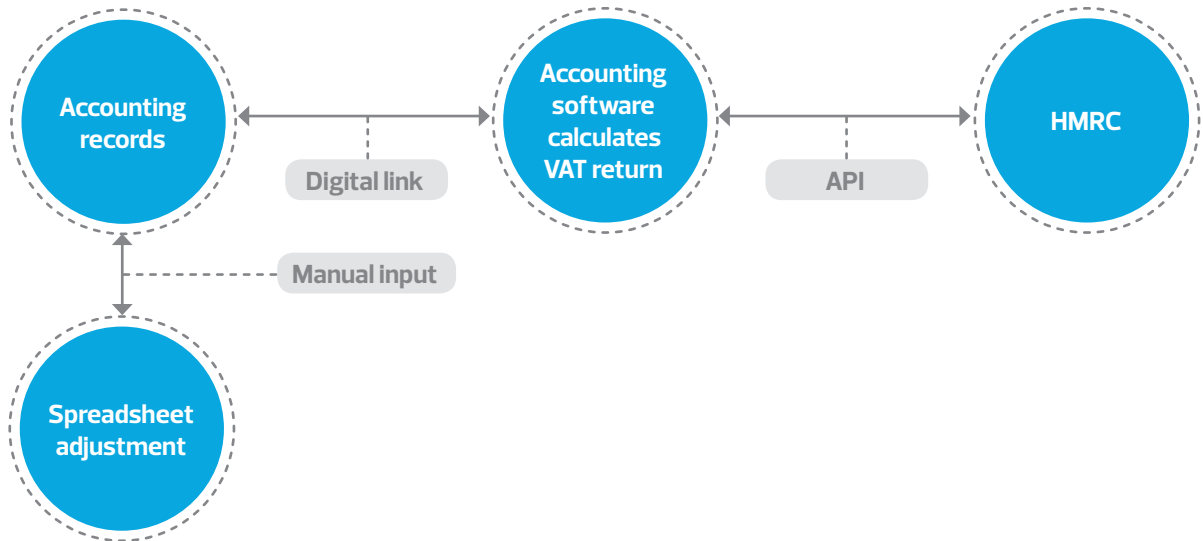
If your VAT return is compiled from more than one piece of accounting software, then the software packages must, from April 2020 (October 2020 for complex organisations), be digitally linked. A digital link is designed to ensure that information flows from one accounting package to another without any requirement to manually input or transfer data.

What about spreadsheets?

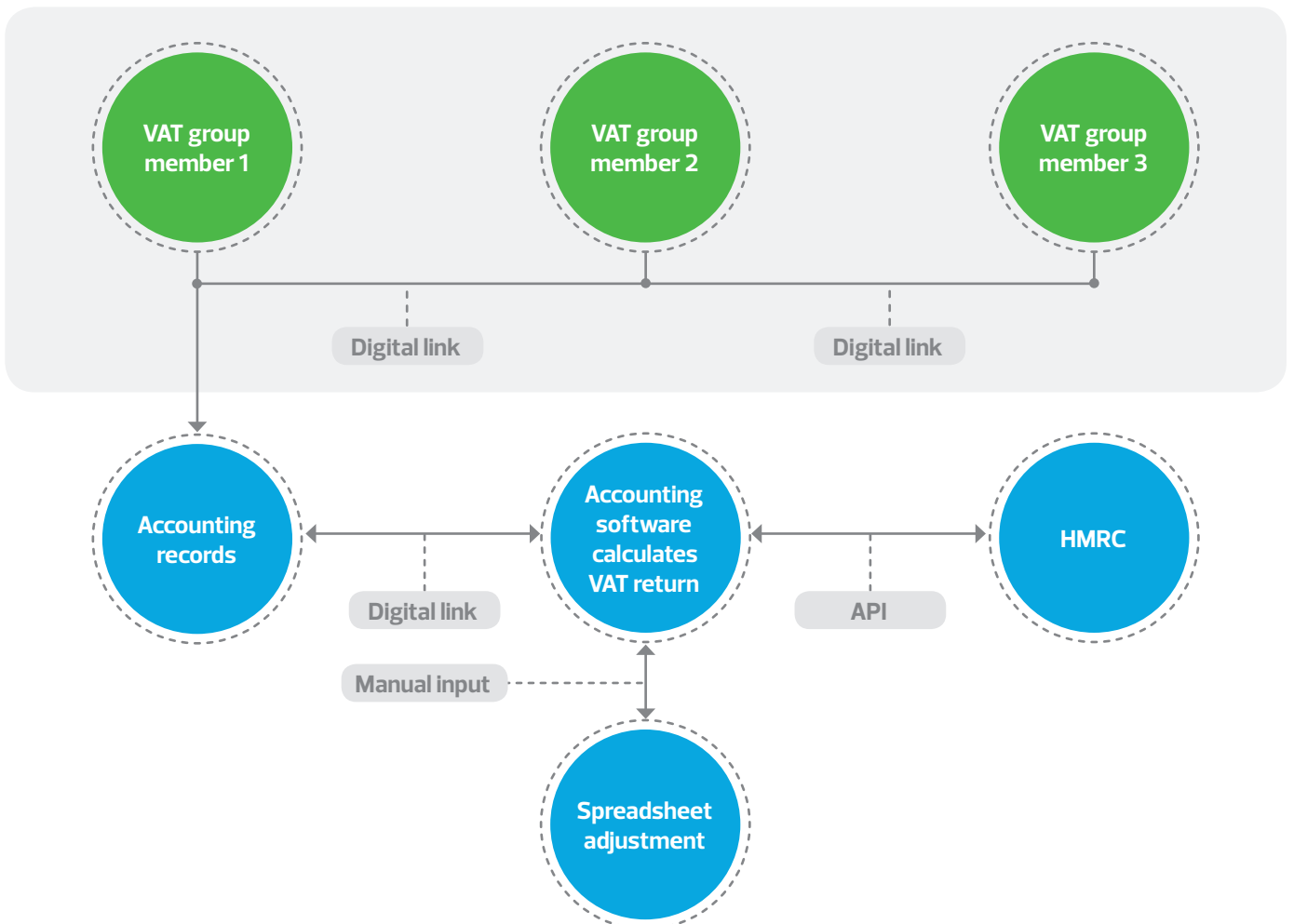
If your business uses spreadsheets for calculating adjustments eg for partial exemption, capital goods schemes or fuel scale charges etc, then the calculation does not have to be made in the functional compatible software and the output from the adjustment can be manually entered into the VAT records.

Examples of MTD compliance

Below is an example of a simple business structure with a single connection between accounting software.



Below is an example of a more complex business structure involving a VAT group with a number of VAT group members transferring data into central accounting records.



Records that must be kept digitally

As part of MTD, businesses will need to keep records in a digital form, referred to in regulations as the 'electronic account'.

For each supply made, the business must record:

- the time of supply;
- the value of the supply; and
- the rate of any VAT charged.

For each supply received, the business must record:

- the time of supply;
- value of the supply (this would include any identifiable VAT that is not reclaimable); and
- the amount of input tax that will be claimed.

To support each VAT return, a business' functional compatible software must contain:

- the total VAT due on sales;
- the acquisition VAT due on supplies from other EU member states;
- VAT due on 'reverse charge' supplies;
- the total input VAT recoverable;
- acquisition VAT recoverable on supplies from other member states;
- the total VAT due, or recoverable; following a correction or error adjustment; and
- any other adjustments allowed or required by VAT rules.

Supplementary data

At some point in the future, businesses will be able to voluntarily submit supplementary data but this is yet to be determined by HMRC. It is intended that the supplementary data will support the submitted entries in the nine box VAT return. Businesses may therefore incorporate these requirements into their plan for MTD readiness. Businesses may therefore want to consider incorporating these requirements into their plan for MTD readiness.



MTD Readiness Review

Making Tax Digital for VAT will mean significant changes to the way a business records and communicates VAT information to HMRC. These changes will inevitably mean new processes, procedures and possibly new software in order to be compliant. This may create additional costs for a business in ensuring it is MTD ready.

Having a firm understanding of your current processes and setting out a clear road map to becoming MTD compliant will be critical in ensuring you minimise the cost and disruption to the business.

What is the MTD Readiness Review?

RSM has developed a MTD Readiness Review that will assess your business's status and provide you with a clear plan to become MTD compliant.

The Review will provide recommendations to enable you to plan effectively, implement the changes in a timely fashion and achieve MTD compliance.

Whilst the Review focusses on MTD compliance, it will also help you to consider your organisation's overall VAT compliance more broadly, including addressing issues such as data quality, processes and controls, and training needs.

What is the process for the MTD Readiness Review?



1. Initial assessment

We will meet with you and undertake a MTD Readiness Review questionnaire to ensure we have a complete understanding of the processes and procedures in your business and how they could be affected.

2. Results and recommendations

We will prepare a report summarising our findings and set out the recommendations and next steps to MTD compliance.

3. Strategy and implementation

Based on our recommendations, your business will be able to devise an effective strategy and agree a budget to implement the required changes. RSM will be able to support you throughout this process and ensure you are MTD ready and ensure you are prepared for either April 2019 or October 2019.

How can we help?

If you would like to discuss Making Tax Digital for VAT or the Making Tax Digital Readiness Review, please get in touch.

You can also find all the latest information including insights and blogs about MTD, on our website:

www.rsmuk.com/MTD



rsmuk.com

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