

A GUIDE FOR
BUSINESSES

Making Tax Digital

*Your Questions
Answered*

*October 2018
update*



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1. What is Making Tax Digital?

Making Tax Digital (MTD) is a key part of the government's plans to make it easier for individuals and businesses to get their tax right and keep on top of their affairs, as well as transforming HM Revenue and Customs (HMRC) into a world-leading digital tax authority.

At present, HMRC is only implementing the MTD scheme for VAT.

MTD for VAT is mandated as of 1st April 2019. Although there have been rumours this date might change — or that MTD for VAT will be cancelled entirely — HMRC has issued a VAT Notice, making it fully official.

In summary, the current situation with MTD for businesses is as follows:

- **Businesses with a turnover above the VAT threshold** – currently £85,000 – are affected from **April 2019**, if they must pay VAT.
- Businesses will not be asked to keep digital records or update HMRC quarterly for other taxes **until at least April 2020**. At present HMRC has not shared specific details.

MTD for VAT mandates that VAT-registered businesses with a taxable turnover above the VAT threshold must, from the 1st April 2019:

- Keep records in a digital form; and
- File their VAT returns via MTD-enabled software.

HMRC says that whilst the complete set of digital records to meet MTD requirements do not all have to be held in one place or program, there must be a digital link between the pieces of software used.

Notably, MTD for VAT has the force of law and is therefore a mandatory requirement. Outside of a handful of narrow circumstances, you cannot opt out of MTD for VAT. While you might use an accountant for your VAT, you will still need to keep some financial records digitally if they pertain to your VAT accounting.



2. What does this mean for my business?

For VAT-eligible businesses with a turnover above £85,000, MTD will be here very soon. If this includes your business, you will need to purchase/update your commercial accounting software to an MTD-ready version before April 2019.

If you submit VAT manually through the post or online (using the existing Government Gateway tool), you will almost certainly have to integrate commercial a software into your business **before April 2019 as these forms of submissions will no longer be accepted by HMRC.**

If your business chooses to join the HMRC pilot and begin submitting returns via MTD **before April 2019** it will give your organisation more time to prepare before it becomes compulsory.

Businesses will not be asked to start digitally keeping records or submitting information for other taxes **until at least 2020.**

3. *How much will it cost businesses to comply with MTD for VAT?*

For businesses needing to use digital software for the first time, there are a number of providers that will offer this on a subscription basis with packages tailored to your company's size and/or structure.

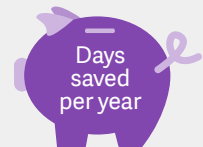
Existing customers that use updated accounting software will have to check their current provider is MTD ready, and learn how to access the features for VAT filing.

HMRC has given an estimate that the costs average at about £280¹ per business across the period of transition.

This does not, however, consider long term efficiency gains from MTD:

Saves Business Time:

On average a SME can save can save 27.6 days² a year by using digital accounting software in comparison to using manual methods. Giving precious time back to focus on growing the business.



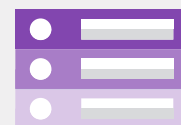
Efficiency Saving:

Our research shows that an SME that uses digital accounting software can make an estimated monetary saving of £17,000 per annum. Digital accounting software seeks to further decrease this admin time leaving you more money to reinvest in your businesses.



Prevention of late filing and errors:

By automating submission MTD will assist businesses in managing their tax affairs by alerting them before payment is due and keeping them on top of their tax liability. This will prevent payments from piling up and reduces the chance of error and incurring penalties.



¹<https://www.parliament.uk/documents/commons-committees/treasury/Correspondence/HMRC-updated-impact-assessment-MTFFB.pdf>

²Based on the result of 1398 interviews by SME's and accountants based in the UK.

<https://www.sage.com/en-gb/news/press-releases/2018/04/moving-to-digital-accounting-results-in-cost-savings/>

4. *Is there software available already?*

Yes. Software for keeping digital records is available now.

Some providers including Sage have started to enrol their customers in the MTD pilot.

5. *Are there any exemptions for businesses which have a turnover above the VAT registration threshold?*

There are a few exemptions outlined in HMRC's VAT Notice:

You will not have to follow the MTD rules if HMRC are satisfied that:

- your business is run entirely by practicing members of a religious society whose beliefs are incompatible with the requirements of the regulations (e.g. those religious beliefs prevent them from using computers) or,
- it is not reasonably practicable for you to use digital tools to keep your business records or submit your returns, for reasons of age, disability, remoteness of location or for any other reason, or
- you are subject to an insolvency procedure.

In this case businesses should contact the VAT Helpline to discuss alternative arrangements.



6. What is MTD enabled software?

MTD enabled software is a software program or set of compatible software programs that must be able to:

- record and preserve electronic records in an electronic form;
- provide to HMRC information and returns from the electronic records in an electronic form and by using the Application Programme Interface (API) platform; and
- receive information from HMRC.

7. What records do I need to keep as part of MTD for VAT?

The following records must be kept in an MTD compliant manner:

Designatory data:

- Business name
- Address of your principle place of business
- VAT registration number
- A record of any VAT accounting schemes used

For each supply you make;

- The time of supply
- The value of the supply
- The rate of VAT charged.

For each supply you receive;

- The time of supply
- The value of the supply including any VAT that is not claimable
- The amount of input tax that you will claim.

Your VAT account, including

- The output tax due on sales
- The output tax due on acquisitions from other EU member states
- The tax payable on behalf of your supplier under a reverse charge procedure
- The tax that needs to be paid following a correction or error adjustment
- The input tax claimable from business purchases
- The input tax allowable on acquisitions from other EU member states
- The tax reclaimable following a correction or error adjustment
- Any other necessary adjustment required by VAT rules

8. *My business doesn't use digital software. We use Excel and paper. How will it impact me?*

From the 1st of April 2019 it will become mandatory to keep your records digitally and submit your VAT returns to HMRC using MTD-enabled software.

Whilst a spreadsheet is a valid digital record, you will need to ensure that this is either API enabled (that is, it can submit your VAT return to HMRC via an API link) or it has a digital link to other MTD enabled software.

Copying and pasting from spreadsheets into your financial software is NOT permitted under MTD for VAT (although HMRC is temporarily allowing copying and pasting from spreadsheets for **just one year** as of April 2019—but this is only to allow businesses sufficient time to update their software.)

9. *What is a digital link?*

Broadly speaking, a digital link allows data to be imported/exported between programs without the need for manual intervention.



10. My business is not VAT registered and I don't know if I will earn £85,000 this year. What should I do?

MTD is only mandatory for businesses with a turnover above the VAT threshold – currently £85,000.

You will however need to monitor your taxable turnover. Software can help you monitor this monthly to help you comply with VAT registration requirements.

You will be required to VAT register and come within the scope of MTD if:

- at the end of any month, the value of your taxable supplies in the previous 12 months or less is over the registration threshold
- at any time, you expect the value of your taxable supplies in the next 30 day period alone, to go over the registration threshold.

Businesses below the VAT registration can also choose to waive exemption if they wish to follow the requirements of MTD voluntarily.

11. What if I go over the threshold temporarily?

Once you have reached the VAT registration you will need to comply with the requirements of MTD, even if your turnover subsequently falls below the VAT registration, unless you meet one of the other exemptions set out at #5 above.

You would have to tell HMRC's VAT Registration Service within 30 days when you have a requirement to be VAT registered.

12. Will there be penalties for not complying with MTD?

Yes, failure to comply with MTD will incur penalties.

The specific details of how the penalty regime for MTD will work is under consultation and options include a points-based penalty system where an accumulation of points will incur a monetary charge. Existing penalties for late submission or error will apply.

13. Is there a soft-landing period to give me time to get used to the new system?

MTD goes live on the 1st April 2019 and, if eligible for VAT, your business must be ready. There are no exceptions.

However, the requirement to have your VAT accounting system 'digitally linked' is not mandated until April 2020. This is all that's meant by the 'soft landing' period. In practical terms, for most businesses this means they're permitted for **just one year** to copy and paste from spreadsheets into other software.



Business checklist

A four step process



1 Determine whether you're impacted by the change.



2 Review your plan.



3 Start reviewing your VAT process.



4 Adopt now, rather than later.



1 Determine whether you're impacted by the change.

Are you currently under the £85,000 VAT threshold? Will you be eligible?

Get your business details in order before beginning.

Consider your:

- Projected turnover for next 12 months
- Year-end date

2 Review your plan.

If you're already using accountancy software, check with your provider if you will be updated to the latest MTD enabled version and when.

You may also want to establish the most practical time for your business to make the software switch - after your year-end, for example.

The best way to work to make a meaningful change is to examine the way you currently operate:

- Do you use software? Is it MTD ready?
- Do you work manually, through Excel, or do you have an alternative in place?
- If you work with an accountant, what does he/she think?

3 Start reviewing your VAT process.

Work with your partners or accountants – and don't hesitate to get support from your software provider if you will be downloading accountancy software for the first time.

Outline the processes you may need to change:

- Are you submitting through HMRC's online gateway? Are you using Excel or paper?
- Will your current methods/software allow you to submit through the gateway once MTD comes into effect?
- Do you have any adjustments to make before April?

4 Adopt now, rather than later.

The faster you get started, the more likely you are to fulfil your new MTD obligations seamlessly come April 2019. Give yourself the time to adapt and get the support you need to make the impact as minimal to your business as possible

If you are a current Sage customer
and would like to be a part of the pilot

Find out more >



For more information visit:

Sage MTD Hub: <https://www.sage.com/en-gb/making-tax-digital/>

Sage Store for MTD-ready software: <https://www.sage.com/accounting>

For further advice about MTD from Sage: <https://www.sage.com/en-gb/blog/making-tax-digital-for-vat/>

Speak to an MTD expert, call us on 0800 33 66 33



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