

Your guide to...

Making Tax Digital (MTD)



The British Chambers of Commerce 2019 Taxation Survey discovered that there are 22% of businesses that have either never heard of MTD or know the name only. The main issues were the lack of awareness and preparedness, the significant upfront cost to businesses and concerns over HMRC's capacity to deliver MTD.

1. What is Making Tax Digital

Making Tax Digital (MTD) for VAT 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 HMRC into a world-leading digital tax authority.

The government set a date of April 2019 for the rollout of MTD which is set to affect over 2.6 million businesses, but research shows that only 25% have made any preparations for the rollout. The Northamptonshire & Milton Keynes Chamber of Commerce has been behind the British Chambers of Commerce in expressing concerns about the imminent timing of the implementation of MTD.

On average, an SME can save 27 days a year by using accounting software in comparison to manual methods. SMEs that use digital software can also making a saving of £17,000 annually by decreasing the time they spend on administrative tasks. So it is vital that you are given practical and useful information to get this right.

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

- **Most businesses with a turnover above the VAT threshold** – currently £85,000 – are affected from April 2019 (although HMRC has delayed it for some businesses.)
- Businesses will not be asked to keep digital records to update HMRC quarterly for other taxes **until at least April 2020.**
- Niche and more complex businesses or organisations – **around 3.5% of the total** – have a postponed MTD for VAT start date of **October 2019.**

The requirements for MTD for VAT are fundamentally simple. HMRC says that VAT-registered businesses with a taxable turnover above the VAT threshold must:

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

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

MTD for VAT has the force of law and is therefore a mandatory requirement.

89% of companies will have to change the way they submit their VAT.



2. What does MTD mean for my business?

All VAT registered businesses with a taxable turnover over £85,000 will be affected by the roll out of MTD.

Taxable turnover includes standard, reduced and zero rated but does not include exempt supplies or incomes outside the scope of VAT. HMRC has also introduced a deferral for those with more complex VAT requirements and will not allow a further six months to prepare for the legislative change. The deferral will apply to trusts, 'not-for-profit' organisations that are not set up as a company, VAT divisions, VAT groups, local authorities, public corporations, traders based overseas, and those required to make payments on account and annual accounting scheme users.

VAT has been online since 2010 and over 98% of VAT registered businesses already file electronic returns. Businesses to which MTD for VAT applies will no longer be able to submit VAT returns using the HMRC portal.

For VAT, Making Tax Digital doesn't change how often businesses have to send information to HMRC, but rather how they do it. Making Tax Digital will require VAT registered firms to have MTD compatible software in a place that can create a VAT return and connect to HMRC systems via an Application Programming Interface (API.) The API can send and receive VAT information with HMRC, as well as generating a VAT return. For more information please visit www.bit.ly/stakeholdercomms

3. How can businesses prepare?

HMRC will not be offering its own software products but will provide the Application Programming Interfaces (APIs) that commercial software developers will use to develop a range of applications that will enable businesses to keep their records digitally and integrate with HMRC systems.

Software is readily available, HMRC provides a list of software vendors: <https://www.gov.uk/guidance/software-for-sending-income-tax-updates>

If you have an agent or tax advisor, speak to them about getting ready for MTD. If you already use a software, you should speak to your software provider to find out when it will be MTD compatible and what you have to do.



4. Can I still use spreadsheets for my business records?

Spreadsheets may be used to record and store business transactions digitally. However, those spreadsheets must be able to submit the required data digitally, for example, using bridging software or an API enabled spreadsheet that can integrate directly with HMRC systems.

The bridging software must be capable of extracting or receiving the information from this spreadsheet digitally and then sending it to HMRC systems.

5. My business isn't 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 (£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.

6. What is I go over the VAT 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.



7. 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.

Businesses that use updated accounting software will have to check their current provider is MTD ready and learn how to access the features for VAT filling

HMRC has given an estimate that the costs average at about £280* per business across the period of transition.

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

Save Time:

On average a small-or-medium-size business can save 27.6 days** a year by using digital accounting software in comparison to using manual methods, therefore giving precious time back to focus on growing the business.



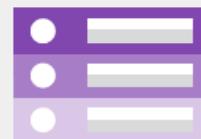
Efficiency Saving:

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



Prevention of late filing and errors:

By automating submission, MTD will help businesses manage 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.



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

** Based 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/>



8. What is an Application Programming Interface (API)?

An API is a software that links two or more software programmes together, allowing them to exchange data.

Compatible software is a program, or set of programs, products or applications that must be able to

- Record and preserve digital records
- Provide to HMRC information and returns from data held in those digital records by using the API platform. The submission of information to HMRC must always be via API. While HMRC expects most businesses to use API-enabled commercial software packages both to keep digital records and file their VAT returns, the following alternatives may be available, such as bridging software or API-enabled spreadsheets
- Receive information from HMRC via the API platform

Some software programmes will not be able to perform all of the functions listed above. The complete set of digital records to meet MTD requirements does not all have to be held in one place or in one program. Digital records can be kept in a range of compatible digital formats.

9. What is Bridging Software?

Bridging software is how HMRC describes the digital tool that can act as a digital 'bridge' between the business and HMRC's systems.

Bridging software can take information from other applications, for example, a spreadsheet or an in-house record keeping system and then lets the user send the required information digitally to HMRC in the correct format. Bridging software also allows information to be sent digitally back to the business from HMRC.

Transferring data manually between different parts of software, program products or applications is not acceptable under MTD. Digital links will replace manual links.

Please visit www.bit.ly/VATnotice70022 to see how to use a spreadsheet and bridging software.

For larger businesses using bespoke in-house software solutions, make sure your IT team is aware of the new MTD technical standards as they may want to link in-house solutions directly to HMRCs API's. For more information contact SDSTeam@hmrc.gsi.gov.uk

