Making Tax Digital FAQs

We've put together some frequently asked questions to help you understand and prepare for Making Tax Digital (MTD) for VAT.

What is Making Tax Digital?

MTD is the Government's vision for a 'transformed tax system'. The aim is to create a more modern, digital service help businesses get their tax right, using technology to make it easier. HMRC estimates that over £9 billion is lost annually in tax due to errors and mistakes and it hopes that digital record keeping will help 'to prevent errors associated with manual processes'.

Who will be affected and when do the changes come into force?

From 1 April 2019, VAT registered businesses (including the self-employed, landlords, unincorporated businesses, companies, LLPs and charities) with turnover above the VAT registration threshold (currently, at £85,000) will have to:
- keep records digitally (for VAT purposes only at present);
- provide VAT return information to HMRC through what is defined as 'functional compatible software' – broadly, software or spreadsheets (or a combination) which can connect to HMRC via an application programming interface (API) – which will capture more information than currently required.

Businesses can take the opportunity to provide quarterly updates for other taxes too, but there will be no mandatory requirement until at least 2020.

Businesses registered for VAT but with taxable turnover below the VAT threshold can opt in and file their VAT information via MTD if they wish, but it's not mandatory.

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What are the benefits to businesses of MTD?

HMRC says, "Software will help businesses to stay on top of their record keeping, allowing them to better understand how their business is performing."

A digital system means you will:
- always know where you stand when it comes to tax;
- have access to tax information online, in one single place;
- be able to work online collaboratively with your accountant;
- be able to plan and budget more effectively.

Can I still keep my records manually and simply file the VAT return through the HMRC VAT portal?

No. The new regulations mandate that businesses must keep digital records in compatible software, which can connect to HMRC via an API.

Do I have to purchase a software package?

The regulations state that a business in scope for MTD must use functional, compatible software to meet the new requirements. So, if you are not currently using a compatible software package, you will need to purchase it.

An alternative option is to get your accountant to maintain your records and file your VAT return on your behalf. Contact Moore Stephens to get a bespoke quote.

What is 'functional compatible software'?

Functional compatible software means software that records business transactions electronically and which can directly communicate with HMRC digitally via their API to report the required figures under MTD for VAT.

An example is an accounting software package that connects directly to HMRC's VAT portal. There are lots of packages available on the market for small and medium sized businesses, including our cloud accounting solution, Stream (see below).

Do Excel spreadsheets count as 'functional compatible software'?

Not in themselves, no. HMRC has stated that records can be maintained on spreadsheets, but there has to be some linking/bridging software that can communicate with HMRC's API in order to comply with MTD for VAT.

When is the best time to move to an accounting software package?

You can move to a digital accounting package at any time, but in order to minimise disruption to your business and to ensure you are ready for when the new MTD regulations come into force, it is recommended that you consider this at the earliest opportunity. Of course, we can help you with this process, so please contact us for support.

What information will I need to keep digitally for VAT purposes?

The regulations set out the required content of digital records and there is a planned HMRC VAT Notice which will provide further explanation. These requirements are more onerous than at present and will require businesses to share more information with HMRC than ever before.

You will need to keep a record of all sales and purchases, so the totals for applicable VAT outputs and inputs can be calculated for each return period. Additionally, the underlying records need to include the transaction date, the rate of VAT that applies and the invoice total.

Furthermore, if businesses are using a number of software programmes, for instance, a combination of an accounting software and a spreadsheet to prepare VAT returns, there will be a requirement for a digital link between the software, so that data is transferred from one to the other digitally (i.e. it must not be typed in manually).

There are some exceptions for users of different VAT schemes. For example:

Retail schemes

Retail scheme users, by HMRC notice or direction, will be permitted to electronically record sales transaction data based on daily gross takings, rather than recording details of each sale.

Flat Rate Scheme

Businesses eligible to use the Flat Rate Scheme account for output VAT as a specified percentage of turnover, and don't claim input VAT on most expenses.

Scheme users keep records of sales, but the only records of purchases they must keep are those relating to capital goods with a VAT inclusive value of £2,000 or more. Digital record keeping requirements for Flat Rate Scheme users will mirror current record keeping requirements.

How long do I need to keep digital records for?

Businesses will need to keep digital records for up to six years.

Do I have to keep records digitally for other taxes?

At the moment, businesses will only need to keep records digitally for VAT purposes. However, HMRC has stated their ambition to "become one of the most digitally advanced tax administrations in the world", so it is likely that the scope of the programme will expand in future to include income tax and corporation tax. This could come into place from as early as April 2020, and we will keep you updated on this.

I am currently exempt from submitting my VAT returns online – will this change?

No. The exemptions under MTD mirror the existing VAT online filing exemptions.

I don't have internet access. Can I be exempted from the scheme?

If you can't use a digital system because of your age, a disability or because of where you live (e.g. you don't have internet access), or if you object to using computers on religious grounds, you'll be able to apply to HMRC for an exemption from the scheme. Anyone wanting to apply for an exemption will need to contact the HMRC VAT helpline on 0300 200 3700 to discuss alternative arrangements.

I currently submit my VAT return monthly or annually. Will I have to move to quarterly reporting?

No. Where businesses have alternative reporting arrangements, these will be maintained. Businesses submitting monthly or non-standard returns will continue to do so, as long as they keep digital records and submit their annual or monthly VAT return through functional compatible software.

What happens if I don't / can't comply?

HMRC has suggested it will take a soft approach to non-compliance between April 2019 and April 2020. They plan to use a points-based system where failure to submit records on time accumulates penalty points for each transgression. At a certain threshold, penalties will then be charged for late or non-submission. They have suggested that penalty points incurred will expire after a further period of 'good compliance'.

Will the MTD regime be extended in future to cover other taxes?

Yes. Although the Government has committed that it will not widen the scope of MTD beyond VAT before the system has been shown to work well (and not before April 2020 at the earliest), they are keen to move towards a fully digitised tax system, so it's likely that the MTD regime will be expanded to include income tax and corporation tax in future.

Need more help or advice?

In addition to answering your questions on MTD and what you need to do to be compliant, we assist with the following:

Preparing and submitting VAT returns

Through Moore Stephens VAT Agents, we can act as your VAT agent in preparing and submitting VAT returns on your behalf.

Stream – our cloud accounting solution

Stream, our complete online finance and accounting solution, allows you to view and drill down into your financial data through one easy-to-use central hub. The portal can be tailored to your requirements and we can advise on the full solution that's right for your business. You'll not only be ready for MTD, but Stream will also increase efficiency levels to maximise productivity.

Data analytics

The MTD regulations mean that more of your VAT accounting information is shared with HMRC, therefore the integrity of the underlying data behind your VAT return numbers will be under even more scrutiny. As such, we can undertake a review of your transactional and accounting data to ensure that it is fit-for-purpose for MTD. This process will also seek to identify errors or areas for improvement, which can result in claims for overpaid VAT.

For further information on any of the above or how MTD will affect you, contact your usual Moore Stephens adviser.

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