

## Making Tax Digital for VAT: Frequently asked questions

### Who is affected by Making Tax Digital (MTD) for VAT?

From April 2019, most VAT-registered businesses with a taxable turnover above £85,000 must follow the rules for MTD for VAT. This means:

- keeping digital VAT records
- signing up for MTD for VAT
- using software compatible with MTD to submit VAT returns.

However, there are many reasons why some businesses may not be able to comply with the rules and so it is worth recapping and discussing the exemptions that are available. There is also a deferred starting date for some businesses which are deemed to be more complex. See below for more details.

### Who is exempt?

The main exemptions are contained in VAT notice 700/22 '[Making Tax Digital for VAT](#)'. The original source is the [VAT regulations amendments](#). These affect people and businesses that are known as digitally excluded. The exemptions are:

- It's not reasonably practicable for you to use digital tools to keep your business records or submit your VAT Returns because of age, disability, remoteness of location or for any other reason.
- You or your business are subject to an insolvency procedure.
- Your business is run entirely by practising members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records.

### *Examples of businesses that are exempt*

You'll be exempt if it's not practical for you to keep records digitally because of:

- your location – for example, if you cannot get internet access at your home or business premises and it's not reasonable for you to get internet access at another location

- disability – for example, if you cannot use a computer, tablet or smartphone for the amount of time it takes to keep digital records for your business

Note that HMRC believes you might not be exempt if you:

- believe you should be exempt purely because of your age – HMRC will consider how your age and circumstances impact your ability to follow the rules for MTD
- believe you should be exempt because you're unfamiliar with the relevant software – HMRC will take into account how much you use or intend to use a computer, tablet, smartphone or the internet for other purposes and whether it's reasonable for you to learn how to use MTD software
- consider yourself to be a practising member of a religious society or order whose beliefs are incompatible with the use of electronic communications – but you're currently filing online and use a computer or smart device for business or personal use.

In addition, HMRC will not give you an exemption purely on the basis that reasonable effort, time and cost may be involved in making the transition to MTD – for example, choosing and buying any new hardware or software or learning to use them.

### **What does a business have to do to confirm exemption?**

Where a business thinks that it is exempt, HMRC expects it to call or write to [VAT: general enquiries](#). The VAT notice also states that HMRC needs to be 'satisfied' that the business complies with the above to get exemption.

HMRC will make a decision in writing after you have provided all the necessary information.

The letter will tell you either:

- that you are exempt and clearly set out what your obligations are
- why you are not exempt.

You should continue filing VAT returns the way you usually do if:

- you're waiting for HMRC to make a decision on an exemption request or an appeal after being rejected for exemption
- HMRC has told you that you're exempt.

## Can I appeal against HMRC's decision?

Yes – the letter regarding the decision will also contain details of how to [appeal](#).

## Which businesses have a deferred starting date?

Certain businesses and organisations will have a deferred start date of 1 October 2019. These are where the organisation:

- is part of a VAT group or VAT division
- is based overseas
- is a trust
- is a not-for-profit organisation that is not set up as a company
- submits annual returns
- is a local authority
- is a public corporation
- uses the VAT GIANT service.

## How do I find out what compliant software is available?

HMRC maintains a [regularly updated list](#). Note that this list shows each product analysed into its functions so that you can clearly see which software is a 'full' package and which is merely bridging software. For instance, note the contrast in this example:

Software provider or product	Who can use this?	Features
<a href="#">@gosimpletax</a>	Agents and businesses	Digital record keeping Submit VAT return View VAT return View VAT liabilities View VAT payments
<a href="#">@Version 1 MTD</a>	Agents and businesses	Submit VAT return (bridging software) View VAT return

## Will the existing VAT return system (agents/clients online service) still exist after 1 April 2019?

For most VAT businesses over the VAT limit it will no longer be available. See above for exemptions and more details.

## **What transactions need to be captured digitally?**

The records listed in the following paragraphs must be kept, maintained and preserved in digital form. The regulations refer to this information as your 'electronic account'. The exact way you must enter the information will depend on the software package you have:

- 1 For each supply you make you must record the
  - time of supply – the tax point
  - value of the supply – the net value excluding VAT
  - rate of VAT charged.

This only includes supplies recorded as part of your VAT return. Supplies that do not go on the VAT return do not need to be recorded in functional compatible software.

Note that where more than one supply is recorded on an invoice and those supplies are within the same VAT period and are charged at the same rate of VAT, you can record these as a single entry. See various examples on section 4.3.2 of [HMRC's guide](#).

- 2 For each supply you receive you must record the
  - time of supply (tax point)
  - value of the supply
  - amount of input tax that you will claim.

This only includes supplies recorded as part of your VAT return; supplies that do not go on the VAT return do not need to be recorded in functional compatible software. For example, wages paid to an employee would not be covered by these rules.

## **How does cash accounting affect the recording of inputs?**

The time of supply is typically the date on the VAT invoice or, if you are on cash accounting, when you pay for the supply. However, you must also hold the associated evidence to claim deduction of input tax.

### *Example*

A business uses cash accounting and has paid the amounts on the invoice over three months. Two of the months are in the same VAT period so can be recorded together. The payments relating to the other month must be recorded separately. The precise manner of recording the information in different periods will depend on the software. This could be done by splitting the amounts out, or the software may allow one line to show different periods for the VAT to be recorded.

### **How does the flat rate accounting scheme fit in?**

Using the flat rate scheme under MTD is quite straightforward. If you account for VAT using the flat rate scheme:

- you do not need to keep a digital record of your purchases unless they are capital expenditure goods on which input tax can be claimed.

In addition, the limited cost rules are also relaxed:

- you do not need to keep a digital record of the relevant goods used to determine if you need to apply the limited cost business rate.

### **Are spreadsheets still allowed?**

Yes, they are! Inputting VAT transactions into a spreadsheet is still seen as 'digital' but the issue is that they still need a digital link to enable the data to be sent to HMRC. See below.

Note that HMRC does not specify exactly what it means by spreadsheets. The most commonly used form is Excel but there are other types. Whichever brand is used it must be able to be linked as above.

### **What is bridging software and why is it needed?**

Bridging software is a digital tool used to send data within a spreadsheet to HMRC's Government Gateway. Thus it adds a digital link to the spreadsheet.

Look at our practical bridging software guidance. The two practical videos provide:

- a guide to bridging software and the type of clients who will benefit
- a step-by-step demonstration, from setting up a client to submitting to HMRC.

Access the software on the [ACCA website](#).

## **How does bridging software work?**

Here is a good summary courtesy of *Taxation* magazine:

*In most cases, the software will consist of an add-in 'front sheet' and this will be incorporated into any Excel multi-sheet spreadsheet that a business uses to maintain its digital records. The add-in sheet will take the appearance of a VAT return with a submission button. It will need to be linked to the VAT return calculation sheet, which will already exist under MTD. The integration, therefore, will simply consist of linking boxes 1 to 9 on the add-in front sheet to the calculations sheet. In most instances, four add-in sheets will be required for the four quarterly VAT returns that take place in a 12-month period.*

*On pressing the submission button, the bridging software add-in will send the details of the return to a secure webpage for filing. The contents of the VAT return will be pre-populated to mirror the spreadsheet version, and the user can file securely using their Government Gateway credentials.*

*Finally, a submission receipt and copy of the filed VAT return will be downloaded and stored for business record purposes.*

## **What is the 'soft landing' period?**

For the first year of mandation businesses will not be required to have digital links between software programs. The [VAT notice](#) confirms that the 'soft landing' regime for the first 12 months will also apply to the deferred period.

So for organisations with a VAT period starting on or after 1 October 2019, they will have until the first VAT return period starting on or after 1 October 2020 to put digital links in place.

## **I am confused about exactly what digital links are**

A digital link is an electronic or digital transfer, or exchange of data, between software programs, products or applications. During the soft landing period only, where a digital link has not been established between software programs, HMRC will accept the use of cut and paste as being a digital link for these VAT periods.

## **Can 'cut and paste' be used permanently?**

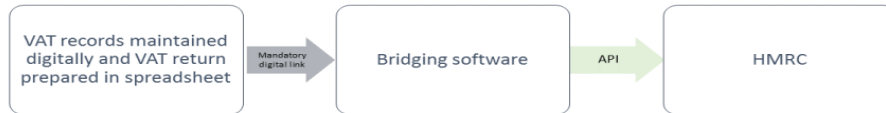
No! After the 'soft landing' period this will not constitute a digital link.

## **How can the spreadsheet handle necessary adjustments before filing?**

The spreadsheets will normally be set up in two ways:

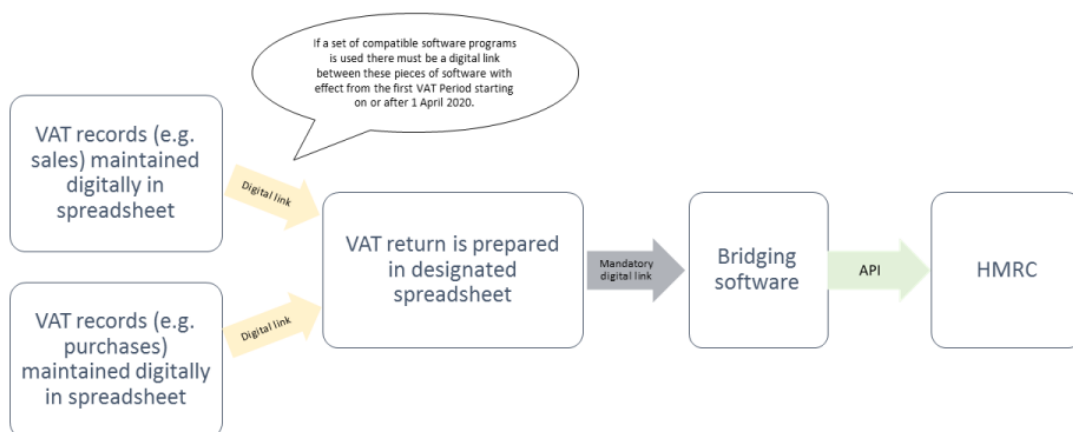
1 necessary adjustments are handled via formulae already written into the spreadsheet. Thus the entries are made digitally. Then the bridging software will be used for filing the return. For example:

**Using a spreadsheet and bridging software**



2 Two spreadsheets are used for the VAT return. One is used to capture the transactions and then another is designed to receive those transactions, adjust if necessary and then calculate the VAT return. The bridging software is used for filing the return. But remember that the links between the spreadsheets don't have to be digital under the soft landing period but from 1 April 2020 this will be mandatory. An example is set out below:

**Using multiple spreadsheets and bridging software**



## How do I choose software?

This is a very important question. The needs of the client have to be ascertained and planned for. The list of available software (see above) should be used but the main focus will be on exactly what type of software is required and its limitations. For instance, cheap bridging software might be okay until the soft landing period has finished but then the client needs to look at the digital links to ensure that everything is compliant after that. In particular, where multiple spreadsheets have been used in the past, establishing digital links between them may be very hard to achieve and this will be mandatory from 1 April 2020.

In the majority of cases – unless the client is very small – the need to record transactions digitally and the need for digital links to the VAT return will mean that proper compliant bookkeeping software will be needed.

## Can bridging software be used permanently after the ‘soft landing’ period ?

Yes, as long as the digital links are implemented; HMRC has not banned spreadsheets as long as the relevant links are used. [VAT notice 700/22](#) confirms this.

## Functional compatible software

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

record and preserve digital records ([see paragraphs 4,2 and 4,3](#)).

- provide to HMRC information and returns from data held in those digital records by using the API platform
- receive information from HMRC via the API platform.

HMRC expects that there will be software products available that will perform all of the functions listed above. Some software programs will not be able to perform all of these functions by themselves. For example, a spreadsheet or other software product that is capable of recording and preserving digital records may not be able to perform the other two functions listed above, but can still be a component of functional compatible software **if it is used in conjunction with one or more programs** that do perform those functions.

The complete set of digital records to meet the 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. **Taken together, these form the digital records for the VAT-registered entity.**



## **Further guidance**

ACCA has partnered with Bloomsbury Professional Publishing to provide members with free practical guidance on MTD for VAT implementation. This exclusive guidance can be requested from [advisory@accaglobal.com](mailto:advisory@accaglobal.com).

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