

# Making Tax Digital for VAT - FAQs

For some businesses, Making Tax Digital for VAT (MTDfV) will be a relatively straight forward transition. However it is recognised that businesses that do not have a standard VAT registration and have complex VAT calculations will have many questions.

MTDfV is mandated from 1 April 2019 for all entities with taxable turnover above the VAT threshold (except those that have been deferred).

From 1 October 2019 MTDfV is mandated for the entities that have been deferred. These include VAT groups, businesses required to make payments on account, traders based overseas, unincorporated not-for-profit entities, trusts, annual accounting scheme users, certain public sector organisations and public corporations.

Here are 10 FAQ's and answers designed to help with some of the complexities:

## 1. I have a VAT group registration, how will the representative member submit the VAT return to comply with MTDfV?

Members of VAT groups will normally maintain their accounting records on separate accounting packages. The VAT return figures for each entity should be consolidated each period for the preparation and submission of the VAT return by the representative member.

In order to be 'MTDfV compliant' there must be a digital link from the various digital records held by VAT group members through to the submission of the VAT return to HMRC. VAT groups therefore need to create or purchase new software or functionality to enable this digital linkage to take place, in order that the VAT return can be submitted from the digital records.

It should be noted that for the first year, there is a 'soft landing' and HMRC are relaxed on the digital links between software but not the actual submission of the return (see Q8 for further details on the soft landing period).

## 2. I am an overseas businesses trading in the UK, do the MTDfV rules apply?

Overseas businesses registered for UK VAT but whose UK taxable turnover is below the UK VAT registration threshold are not mandated, but can opt in to MTDfV if they so wish.

It may be more difficult for overseas businesses to comply with MTDfV as the record keeping may be undertaken in the business' 'home' country. It may be possible to apply for exemption on the grounds that it is 'not reasonably practical', but such applications will be considered on a case by case basis.

Where an overseas business uses an agent, the agent will be able to access MTDfV and submit returns on behalf of their customers (see Q3).

## 3. Can my agent continue to submit my VAT return?

Yes, MTDfV will be part of the new Agent Services Account (ASA). Existing agent client authorisations are expected to be mapped over to the agent's ASA where an existing online filing authorisation is in place.

## 4. My business is partially exempt, how will my calculations be recorded under MTDfV?

Most accounting packages do not cope with partial exemption calculations. However, the partial exemption calculation can be completed outside of the software, i.e. on a spreadsheet and an adjustment can then be posted into the software by journal so the final VAT return should include any irrecoverable VAT when submitted through the software. There is no requirement for businesses to go back and change



each line in the software to reflect the amount of recovery on each invoice.

Another option may be for businesses to use their previous year's partial exemption percentage and set an appropriate VAT rate in the accounting package for residual input VAT. By using this method, only one journal adjustment would be required after the annual partial exemption calculation.

## 5. I calculate VAT using a scheme, what do I need to do?

There are various VAT schemes that certain businesses can apply for or should use by law. A summary of the requirements are as follows:

### 5.1 Annual Accounting Scheme

Under MTDfV the Annual Accounting Scheme will be retained with the current conditions. However, digital records must be maintained and the annual VAT return must be filed through API enabled software.

### 5.2 Retail Schemes

Retailers that calculate VAT on a retail scheme can record sales transaction data based on daily gross takings, rather than recording details of each sale.

### 5.3 Flat Rate Scheme

Digital record keeping requirements will mirror current record keeping requirements. Digital records must be kept for sales, however digital records only need to be maintained for expenditure where input tax recovery is permitted, i.e. purchases of capital goods costing £2,000 or more including VAT.

### 5.4 Margin Schemes

There is no requirement to keep the additional records required for margin schemes in digital format. There is also no requirement to keep margin scheme calculations digitally.

Where software does not allow businesses to record VAT on the

margin, then it could be entered using either one standard rated supply or one zero rated supply. Alternatively, an adjustment can be made to show the correct VAT.

## 6. What do I need to do with my VAT adjustments?

It is common for a business to make adjustments prior to submission of the VAT return, e.g. for fuel scale charges, non-business use and partial exemption.

Under MTDfV a business can calculate the adjustment outside of software, e.g. on a spreadsheet. The adjustment can then be posted onto the software for submission to HMRC directly from the software.

Alternatively, a business could export data from the software using a digital link into an API enabled spreadsheet to calculate the necessary adjustments and final VAT return figures. The business should then use bridging software or the API enabled spreadsheet to extract the VAT return figures and submit them to HMRC.

## 7. What if I have made an error on a VAT return?

Amendments and error corrections can be amended on the next VAT return if the error is less than £10,000 or less than £50,000 and 1% of BOX 6 (value of sales) in the period. Otherwise, a disclosure must be made to HMRC. These rules will continue as now, although it is understood that HMRC is considering options for non-mandatory electronic channels for submission of the error correction form.

## 8. Please can you explain the 'soft landing' period?

For VAT return periods commencing between 1 April 2019 and 31 March 2020, HMRC will not enforce the requirement to have digital links between software programs. This easement is referred to as the 'soft landing period'.

After this time, all transfers of data between digital records must be made digitally. During the soft landing period, the use of 'cut and paste' (and 'copy and paste'), or manual transposition, is acceptable.

It should be noted that there is no soft landing period for the digital submission of the VAT return.

## 9. Am I required to submit my ECSL and Intrastat under MTDfV?

Only VAT is within the scope of MTD at present. Reporting statistical VAT information e.g. Intrastat and EC Sales Lists will continue as at present, although it may be that some elements become increasingly digitised.

## 10. How will Brexit affect MTDfV?

The position is still unclear. However, if there is a 'hard' Brexit, sales and purchases of goods to and from the EU could become exports and imports. Imports may be subject to VAT and duty. In addition, the VAT liability of some supplies might change and reporting obligations may change.

Software will need to be developed and implemented to deal with changes as a result of Brexit. It might not be until much nearer March 2019 or into the proposed transitional period ending 31 December 2020, when it is known what the actual requirements are!

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