Making Tax Digital for VAT: an update

Indirect Tax

01 January 2018

The CIOT continues to engage regularly with HMRC on the Making Tax Digital (MTD) for VAT plans. Initial primary legislation has been published and secondary legislation is expected before the end of 2017.

HMRC recently published Making Tax Digital for VAT: legislation overview; the first formal communication on the VAT element of the MTD project. The CIOT responded to this on 10 November, which can be found on the CIOT website.

Our key comments are:

1. As the revenue benefits for MTD for VAT are expected to be modest, **HMRC should only mandate what is reasonably achievable** by businesses within the relatively short timescale to April 2019. For example, it is welcome that HMRC have confirmed they will not mandate a digital link between software and spreadsheets used to calculate adjustments etc, only mandating that the VAT return be submitted digitally via software.
2. Annex 1 of the overview document sets out 'electronic record-keeping requirements' and in particular the level of data to be recorded for supplies made and received. This is significantly more than businesses are currently required to record and will result in additional costs and complexity. **We recommend that these requirements are relaxed**.
3. HMRC propose to allow businesses to provide 'supplementary data' to HMRC, which HMRC envisage will include summary totals for the data required to be kept as per Annex 1. We recommend that **HMRC consider allowing provision of more 'ad hoc' data, such as a 'white space'** (for example, to explain fluctuations in VAT return figures), together with the ability to upload or submit copy invoices (for example, in relation to capital expenditure). This will

prevent unnecessary and unproductive interventions by HMRC in relation to matters for which there is a straightforward explanation.

4. **Communications around MTD for VAT are critical**; both in terms of timeliness and clarity, and any ambiguity will lead to unnecessary concerns. For example, the list of adjustments in Annex 1 included partial exemption annual adjustments, but not partial exemption quarterly adjustments, leading many readers to believe that the full calculation (not just the total) would need to be undertaken in software. We continue to be willing to work with HMRC on its communications around MTD.

Clarity on the use of spreadsheets

CIOT representatives have had a number of meetings with HMRC recently regarding MTD seeking clarity on a number of issues; particularly in relation to the use of spreadsheets. The CIOT had received mixed messages around the extent to which data transferred into or out of a spreadsheet must be automated; for example where a spreadsheet is used to perform a partial exemption calculation, taking data from the main accounting software.

HMRC have now confirmed that it is the submission of the VAT return figures that will need to be made via API-enabled software, either from the record keeping software package, or an API-enabled spreadsheet. However, the export of figures from software into spreadsheets (to calculate adjustments etc) **will not be required to be performed electronically**. A manual transfer of data in and out of the MTD compatible software is acceptable.

HMRC explains that, ideally, automated transfer of data would take place, but that will be a ‘nice to have’ not a requirement (at this stage). HMRC and software companies are currently working on the above to identify / develop what is achievable.

For further details on MTD for VAT see our summary of issues which is regularly updated.

MTD and the Office of Tax Simplification

In the Autumn Budget 2017, the Chancellor responded to the recent OTS VAT review by saying that ‘Making Tax Digital is a priority for the government, and presents

opportunities to reduce burdens on business and improve their experience of VAT. As part of the introduction of Making Tax Digital for VAT, I will ask my officials to consider the scope to implement your recommendation on the online handling of options to tax’. We welcome this commitment and will continue to work closely with HMRC on it.

Please do let us know of any comments or questions you have.