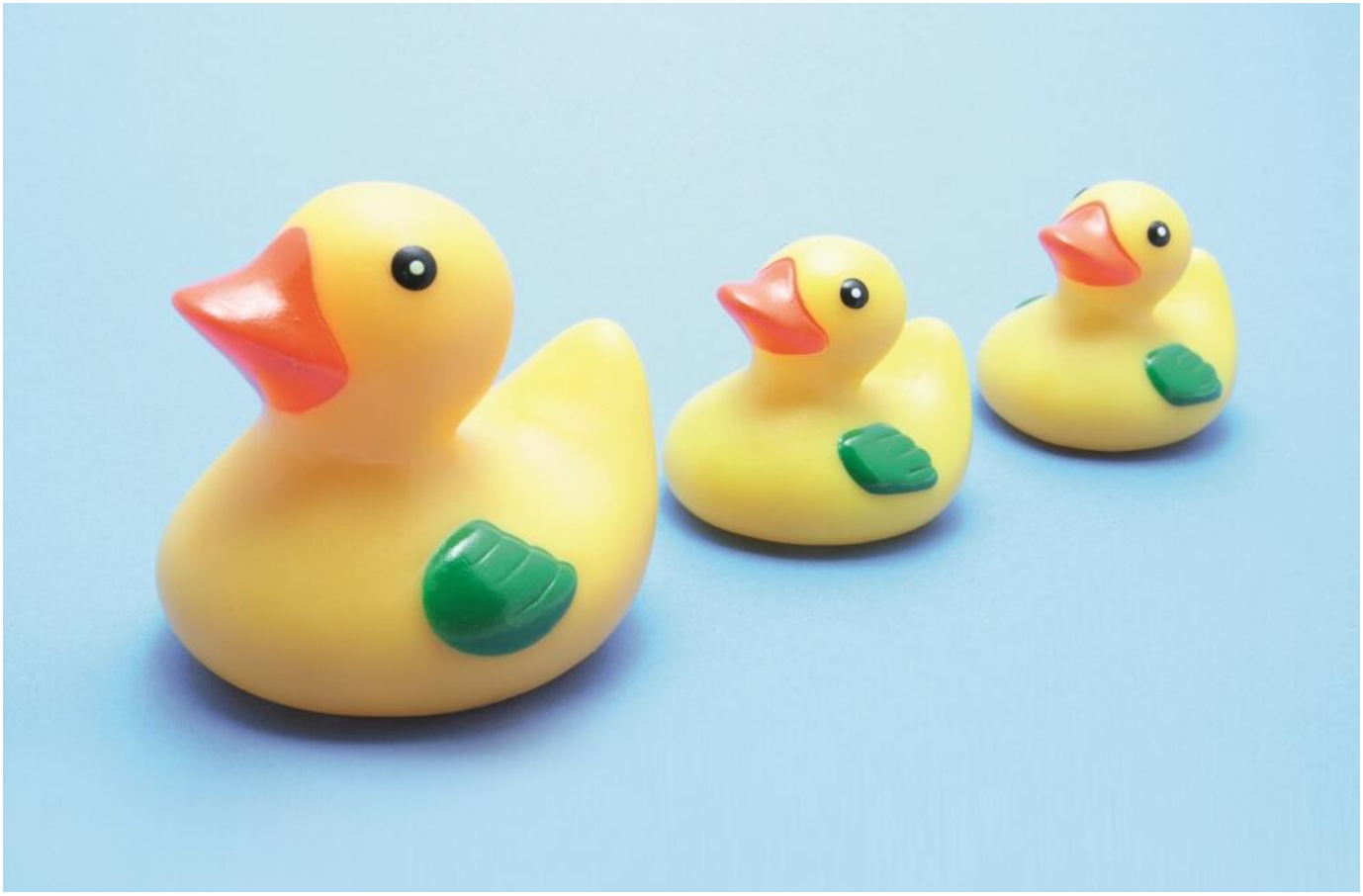
Getting your ducks in a row

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Mark Purdue provides an update on HMRC's pilot on MTD for VAT, and considers the importance of ensuring you have the correct solutions and processes in place for your clients

Key Points

What is the issue?

With the revised timeline for Making Tax Digital or MTD announced last year, the main priority for HMRC has shifted to the on-time delivery of MTD for VAT. The main

challenge for businesses impacted by MTD for VAT is the need to acquire a suitable software solution.

What does it mean to me?

To support the new software requirements, HMRC have been running an MTD for VAT pilot since April this year.

What can I take away?

As an adviser in practice, there are a number of steps in this article that you can take to ensure that you are prepared.

With the revised timeline for Making Tax Digital (MTD) announced last year, the main priority for HMRC has shifted to the on-time delivery of MTD for VAT; but what exactly is MTD for VAT?

In simple terms, MTD for VAT relates to the way data is submitted to HMRC each quarter, and how records are kept before the data is submitted.

Currently, the VAT return is submitted via the Government Gateway, either using appropriate software, or by typing the nine box values directly into the Gateway.

Businesses who already use software for submitting VAT should notice little change in their day to day submission process – the onus is on the software provider to make sure the software remains compliant. However, most businesses (approx. 85%) don't submit their VAT return today via software, instead opting to type the values directly into the Gateway. The major change under MTD for VAT is that this Government Gateway is being disabled for VAT periods starting on or after 1 April 2019 for businesses turning over more than the registration threshold. Unless otherwise excluded, those 85% of businesses that submit their VAT data directly, whose turnover exceeds the threshold, will need an alternative submission method for April, i.e. MTD enabled software. This is the main challenge for businesses impacted by MTD for VAT – the need to acquire a suitable software solution.

It's worth keeping an eye on the HMRC list of software providers supporting MTD for VAT. At the time of writing the list totals 18 taking part in the pilot, and HMRC state that more than 130 providers have expressed an interest in providing MTD for VAT

software, with 35 planning to have software available for the pilot.

To support these new software requirements, HMRC have been running an MTD for VAT pilot since April this year, and, at the time of writing, HMRC are still in a period referred to as ‘controlled go live’ which means they are holding the pilot reins tightly and controlling which businesses (and agents) can participate. This initial phase of the pilot ensures the software can submit the data and HMRC receive the data as expected. Once this is a success, the period of controlled go live comes to an end and the scope of the pilot increases, with businesses and agents free to sign up to the pilot to make their first submission, supported by their software provider.

It’s worth mentioning however that not all types of VAT business will be supported for the duration of the pilot – the initial focus is on straightforward VAT businesses with the scope increased over the duration of the pilot to support more complexity. As an example, businesses with EC Sales or purchases cannot take part in the pilot until early next year.

Alongside software becoming available, legislation and VAT notices are now published and in place. The main MTD legislation was introduced earlier in the year, and the more recently published VAT notice 700/22 provides further details on the practicalities of the new process.

One area of concern for the profession has been ‘digital recordkeeping’ – what qualifies as digital records and which clients are impacted. In summary, and this has not changed for a while, any VAT registered business with a turnover above the VAT registration threshold will be required to submit under MTD, and thus will be required to keep digital records, unless the business is specifically excluded. The main exclusion reasons being due to age, disability, remoteness of location, religious beliefs or, ambiguously, ‘any other reason’.

The digital records themselves can be maintained in spreadsheets, provided the spreadsheet is capable of submitting data to HMRC, or has ‘digital links’ to software with that capability. The definition of ‘digital links’ has caused concern in the profession and 700/22 adds some clarity.

Provided the submission software can import spreadsheet data without using copy and paste, i.e. via a file import process or something more automated, this will be considered a digital link. An example of an acceptable digital link in 700/22 is a client who keeps records in a spreadsheet, e-mails the spreadsheet to their tax

agent at the end of each quarter, and the tax agent imports the data into their VAT software ready for submission.

Notice 700/22 permits a ‘soft landing’ so that full digital links will not be required for VAT periods commencing before 31 March 2020.

Practical steps you can take to prepare

If you are an adviser in practice, here are some key actions to take before April 2019:

- Check your current VAT software provider is on the HMRC list of MTD providers, or contact them to establish their plans.
- As the new requirements apply for periods from 1 April 2019, list those clients whose VAT quarter will start on 1 April 2019, 1 May 2019, and 1 June 2019 – you need to know when each client will be impacted.
- Consider your clients – do you have any who will be digitally excluded, or importantly those who won’t be excluded but may struggle with the digital recordkeeping requirement?
- Consider signing up for the pilot. If you are interested in being a part of the HMRC pilot, to get a better understanding of what it is you will need to prepare for, as well as benefitting from early insight, then you can still contact HMRC and let them know at makingtaxdigital.mailbox@hmrc.gsi.gov.uk – you will need to advise them what software you use, or expect to use. If you don’t use software, or rely on spreadsheets, tell them that too. This HMRC e-mail address is exclusively for pilot recruitment – please don’t expect the pilot recruitment team to be able to deal with general MTD or other VAT queries though, this is about expressing an interest, not providing detailed guidance.

What about income tax and corporation tax?

Finally, it’s important to know the progress with Income Tax and Corporation Tax plans.

Income tax

There are two elements to MTD for income tax:

- ‘MTD for Business’ (MTDfB) – quarterly reporting of trading and rental income, and;
- ‘MTD for Individuals’ (MTDfI) – population of data from source straight to the personal tax account, rather than submitting an SA100 at the year end.

MTDfB is still on track for a potential April 2020 go live, with the initial pilot continuing. If a client only has rental and/or trading income, taking part in the pilot negates the need to submit an SA100. When quarterly reporting for Income Tax comes in, client management will be key.

Although it’s a way off yet, one potential confusion clients will face if they submit the quarterly update directly to HMRC is tax payments. Imagine a client submitting their own quarterly trading update for the quarter to 5 July – the software they use will probably tell them ‘based on that quarter, HMRC estimate a tax payment of £x’. That message may coincide with your communication reminding them of the statutory payment on account of £y due on 31 July. With two conflicting values, there’s a real possibility that the client will pay the incorrect amount and incur additional charges. If quarterly reporting for income tax does come in, there are solid reasons for changing the current statutory payments to align with the updates.

Unfortunately, MTDfI (and from a software developer’s perspective, the fun bit of MTD), has been deferred beyond 2020. This latter element of MTD, when it comes in, means the current SA process would disappear and be replaced with a more real-time approach to managing your clients’ tax affairs, with data being populated into the personal tax account directly from relevant third party sources.

Imagine, for example, doing simple year-end tax planning in March and your software being able to access up-to-date details of current year earnings, pension contributions, bank interest etc, without needing to chase the client for the information.

Corporation tax

Although there have been a couple of meetings between software developers and HMRC, it’s fair to say this has progressed very little – quite rightly, the focus is on VAT and finishing off MTDfB. Watch this space!

I think it is clear that much is going on to prepare for the VAT go live in April, and to make the process as seamless as possible for all concerned. That said, with only

seven months remaining it is more important than ever that you make sure you have the correct solutions and processes in place to support your clients.