Making Tax Digital for VAT: 31 days to go

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With a few weeks to go before the first tranche of VAT registered taxpayers are mandated to comply with the requirements of Making Tax Digital for VAT (MTD) for periods starting on 1 April, we've set out some reminders to check that you are prepared.

Are you mandated?

All taxpayers that have annual taxable income of over £85,000 (meaning income from taxable supplies that are either standard rated, reduced rated or zero rated) must keep their records digitally from 1 April 2019, unless they are subject to deferred mandation or are exempted from MTD (more on both below). Note that turnover from supplies that are exempt from VAT or outside the scope of VAT (for example, certain international services) are not included in this MTD threshold test so if you make supplies with different VAT liabilities it is worth double checking the threshold test. Also note if you are a non-established business registered for UK VAT due to the nil registration threshold or if you are voluntarily registered for VAT, you are only required to enrol for MTD if your UK taxable supplies breach the £85,000 annual threshold.

HMRC's VAT return filing portal in the Government Gateway will remain open to those taxpayers that are not required to join MTD.

Digital record keeping: any simplifications you've missed?

For many taxpayers already reporting sales and purchases in accounting software or spreadsheets, there may be little difference to how the day to day VAT records are kept after 1 April. There are a number of simplifications available detailed in HMRC's

public notice:

- Employee/charity volunteer expenses – can report combined values
- Daily Gross Takings – is the DGT simplification applicable in your business even though you do not consider yourself a retailer?

At the time of writing, we also expect further simplifications to have been included in the VAT notice. For instance, the use of supplier statements (if in the required format) to record amounts in the digital records, which could be particularly useful for taxpayers using cash accounting or those who receive numerous invoices, and a petty cash threshold allowing 'batch' reporting of transactions up to a certain threshold.

Signing up: be careful on timing!

VAT registered taxpayers are not automatically signed up to MTD and must take proactive steps to enrol.

If you are already in the VAT pilot, this means that you are signed up for MTD and do not need to repeat the enrolment steps after your mandated date.

Taxpayers must consider the timing of signing up, as signing up too early may result in unexpected consequences, for example, if a business on stagger 1 signs up in March thinking this is required for its 1 April mandation date, its March 2019 VAT return would have to be filed via MTD software, not via the portal.

The CIOT has published a guide to 'signing up dates' on its website.

Exemption: can this all go away?

If you are already exempted by HMRC for online filing of your VAT return, this exemption is automatically carried over to MTD. You do not need to take any action.

If you consider an exemption may be available on the grounds of age, disability, religious beliefs, remoteness of location or other reasons (see notice 700 /22), you need to contact the VAT helpline or write to HMRC Enquiries in Glasgow. HMRC will send the decision in writing so ensure you retain this letter if exempted. At the time of writing we are working with HMRC in relation to guidance on the exemption, and this should now have been published.

Deferred mandation: do you have your letter?

A minority of taxpayers with more complex VAT affairs have had mandation for MTD deferred to periods starting on or after 1 October 2019 (includes trusts, ‘not for profit’ organisations that are not set up as a company, VAT divisions and VAT groups, Government departments, NHS Trusts, local authorities, public corporations, traders based overseas, taxpayers in the payments on account scheme and annual accounting scheme users).

HMRC has written to all taxpayers they believe to be in the deferred mandation population. It is essential that a taxpayer holds a copy of the HMRC letter as it provides the legal permission for deferral. If you believe you should be included in the deferred mandation population but you haven’t received a letter, you must contact the VAT helpline otherwise you are required to comply with MTD for periods starting on or after 1 April.

Filing your first VAT return via MTD: what could go wrong?

When filing the first VAT return after enrolling into MTD, it is likely that the Government Gateway portal for filing VAT returns will not be accessible:

- So, do not enrol into MTD until you are ready to submit your returns through MTD software. Otherwise, you may be unable to submit your VAT return at all.
- Ensure that the staff member knows that there is a new process for filing the VAT return via MTD rather than the Government Gateway.
- If you have problems filing via MTD, contact the VAT helpline and log your difficulties. Keep a record of the details of the call (officer name, reference number). This may support your position if a subsequent penalty discussion arises. The helpline may assist you in filing your return by other means.
- Reasonable care – do you need to add any MTD checks to the VAT return review process to show that you are taking reasonable care?
- If you are using an agent, have you checked that they have enrolled the business for MTD and are clear that they are filing the VAT return? Has your engagement letter been updated for MTD responsibilities? The CIOT and ATT have draft templates available on our websites.

Penalties: what if things go wrong?

There is a soft landing period of a year for digital links and also HMRC have said they will be taking a light touch approach for the first year where taxpayers are making efforts to comply with the requirements of MTD but things may not be going smoothly. We recommend that taxpayers keep notes of any discussions they have with HMRC and/or advisers in respect of MTD difficulties. Note that where a mandated taxpayer makes a decision to ignore MTD, HMRC have indicated that they are likely to apply penalties.

The CIOT and ATT publish regular updates on MTD in dedicated sections of their websites, which report MTD news in real-time. If you have any questions or feedback, please contact technical@ciot.org.uk.