Making Tax Digital for VAT updates

General Features **Indirect Tax**

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A round up of recent developments in MTD for VAT, including the potential to extend the soft landing for digital links and problems for overseas businesses.

MTD for VAT is now in full swing, with the first stagger 3 returns submitted in October, and the first deferred monthly returns being filed by 7 December. However, there continue to be a number of developments and HMRC announcements which might affect you and your clients. We have highlighted a few of these below. We recommend that you check the dedicated MTD pages on the CIOT and ATT websites for the latest information.

Digital links: possibility of extending the soft landing period

Under the MTD for VAT rules, digital links must be in place for any transfer or exchange of data between software programs, products or applications used for periods starting on or after 1 April 2020 (or 1 October 2020 for deferred businesses).

However, on 17 October HMRC announced that businesses with complex or legacy IT systems can apply for additional time to put the required digital links in place, subject to meeting certain qualifying criteria. This can include updating or replacing an IT system where the planned implementation date is later than the end of the soft landing period.

It is important to note that there is no blanket extension of the soft landing period. Businesses have to apply for an extension, and will only get one if they can convince HMRC it is necessary. If a business qualifies, then the additional time will be granted as a specific direction.

HMRC are setting relatively strict criteria as to who may qualify. In particular, they are very clear that cost alone will not be sufficient grounds for an extension, and that businesses are expected to make every effort to comply with the digital links

requirements. Instead, an extension will only be issued in ‘exceptional circumstances’.

Further detail on the criteria to qualify for an extension, and how to apply, are set out in new paragraph 4.2.1.3 in VAT Notice 700/22. A copy of the application form to be used can also be found on the MTD pages of the CIOT and ATT websites.

Applications must be submitted before the current soft landing on digital links expires. Businesses which are already aware that they will have difficulty in meeting the soft landing period expiration should apply sooner rather than later, especially if they are in stagger 1.

If you do apply for an extension on behalf of your own business or a client, we would be very interested to hear how it goes.

Overseas businesses and overseas agents

Overseas businesses are in the small group of taxpayers that HMRC granted a six month deferral period, meaning that if they are mandated for MTD for VAT their first period starts on or after 1 October 2019. However, if an overseas company has a UK address (for example, that of their agent) but no fixed establishment in the UK, then HMRC may have incorrectly treated them as UK companies. This means that they have been unable to sign up to MTD as they don’t have a UK company number.

HMRC had indicated that a fix for affected overseas companies would be in place by 1 October, but this did not transpire. Instead, on 21 October the ‘Making Tax Digital for VAT: service availability and issues’ page on GOV.UK was updated to say that affected businesses should continue to submit their VAT return as normal through the portal.

At the time of writing, HMRC have still not released a fix for updated businesses. However, once one is available details will be included on the MTD pages of the CIOT and ATT websites.

Overseas agents that are creating an Agent Services Account in a country which does not provide Anti Money Laundering Supervision (AMLS) details can now complete the application process without them.

Deferred group: dates available for signing up for MTD

HMRC has published guidance in their October edition of MTD Update for Agents (issue 11) on the date ranges available to taxpayers in the deferred group to sign up for MTD. This can be found on the CIOT and ATT websites.