Welcome to the April Technical Newsdesk

Welcomes

31 March 2020

1 April 2020 isn't just April Fools' Day. It is also the first day of what many are calling 'Phase 2' of Making Tax Digital for VAT (MTDV). Readers will be aware that, where a business became obliged to follow the MTDV rules, the requirement to digitally link software or spreadsheets along the VAT return 'journey' was deferred until the anniversary of its mandation date
(VAT Notice 700/ 22, para 4.2.1.1). There are over half a million compulsorily VAT registered businesses which are on 'stagger one', and will therefore need to have digital links in place from 1 April 2020 (even if those businesses did not sign up to MTDV on time). Space here does not permit a full explanation of what comprises a digital link, or where in the VAT return journey the links must start. The VAT Notice provides more information, and we have been working with HMRC on further guidance to help improve understanding, so keep an eye out for this.

If your clients, or your own business, cannot meet the digital links requirement by the relevant date, all is not lost – but action must be taken. On expiry of the soft landing period, if digital links are not in place, then the business
will not be meeting the record keeping requirements as set out in the regulations (SI 2018/261) and the VAT Notice. To remedy this, businesses (or their agent) can apply for an extension of time to put digital links in place. This will take the form of a specific direction from HMRC, which will relax the requirements for that business, in a similar way that some businesses received a specific direction deferring their entry into MTDV to their first VAT return period commencing on or after 1 October 2019.

The process for applying for an extension of time is set out in Notice 700/22, para 4.2.1.3 and this is worthy of close inspection, as is the form which should be used to apply for an extension (which can be found on the CIOT website at www.tax.org.uk/policy-and-technical/making-tax-digital#digital_links).

For existing businesses with complex or legacy IT systems, HMRC request applications be submitted by the end of the business's soft landing period (although we do not expect HMRC to reject applications solely for being made outside this deadline). Businesses that need more time due to acquisitions or reorganisations should apply as soon as is reasonably possible. Unlike applications for exemption from MTDV, businesses should continue to try and put digital links in place whilst awaiting a response.

The primary focus of most parties during 2019 has been to help get mandated businesses signed up to MTDV, and submitting their returns through compatible software, so some questions remain to be answered around digital links, such as:

- What if HMRC refuse an application for more time to put digital links in place? Can this be appealed?
- Must businesses which are compulsorily registered for VAT on or after 1 April 2020 have digital links in place from the outset?
- Can I apply for exemption from MTDV on the basis that the time and cost of putting digital links in place means that it is 'not reasonably practicable' to comply?

We are discussing the above issues with HMRC and will share more information as it becomes available. We would be particularly interested to hear your experiences of applying for more time to put digital links in place. Please send these to technical@ciot.org.uk or atttechnical@att.org.uk.

Of course, the key question for many is: where will MTD go next? However, as I am writing this the day before the Budget, I won't make any predictions, for fear of becoming an April fool myself!