Making Tax Digital for VAT

Indirect Tax

08 June 2021

Representatives from the CIOT and ATT attended a recent Joint VAT Consultative Committee Making Tax Digital sub-group meeting to discuss the ongoing actions being performed by HMRC for Making Tax Digital for VAT.

‘Nudges and prompts’

HMRC discussed the ‘nudges and prompts’ development work they are undertaking within Making Tax Digital (MTD) with the aim of encouraging compliance. There are currently several types of prompts:

- Static message: A basic message prompt appears on-screen when the page is launched.
- Pop-up message: A pop-up is prompted where inconsistent data is entered for a tax; for example, when the data is compared to earlier returns, whether that be an earlier quarter or the same quarter a year earlier and there are unexpected differences.
- Intelligent message: This is where the system compares the data to a previous submission or a submission for another tax; for example, it may compare the VAT and self-assessment turnovers for a sole proprietor. These are very new so there are not many currently.
- Specific to sector: These are specific prompts; for example, a prompt for the landlord sector could ask about numbers of properties held at the time of each submission. If more properties are held than at the last return, this could lead to a prompt about expenses on purchases; if fewer are held, this could lead to a prompt about accounting for VAT and capital gains tax on a disposal.

Over 50 nudges and prompts have been deployed so far within HMRC’s own systems and HMRC are monitoring their effectiveness before adding new ones. Whilst there is

no obligation for third party software developers to add nudges and prompts within their own MTD products, HMRC are carrying out development work in the sector with a sample of volunteer developers, though this is a long-term project.

Bulk migration and impact on direct debits

There are still some categories of VAT registered taxpayer whose data needs to be transferred from the legacy system to HMRC's new mainframe (ETMP). This population mainly consists of VAT registered taxpayers not yet mandated to join MTD but does include a small number of taxpayers who have already signed up. This migration work will not take place before July 2021 and will be carried out in phases over a period of months. Certain taxpayers' direct debits will be impacted when their data is migrated, unless a valid email address is held on HMRC's system (PTA/BTA); if not, the direct debit will be cancelled at the time of migration and the taxpayer must set up a new one if that happens. Agents should also receive a prompt to contact their client before the client data is migrated.

MTD non-compliance programme

HMRC are still carrying out work to pro-actively encourage those taxpayers that are mandated to use MTD but have still not signed up, and firmer reminder letters are currently being sent out. Starting in the summer, and only in certain notified cases, HMRC may close access to the VAT return filing function in the online portal so that the return must be filed via the MTD system. If these affected taxpayers still do not comply, a penalty may follow.

Updates to digital links guidance

Following feedback (including from CIOT and ATT) that some taxpayers were still confused about the digital links requirements, HMRC recently updated Section 8 of VAT Notice 700/ 22 (tinyurl.com/5ywb3xkk) with new detailed examples of digital record keeping and reporting options, illustrating where the information transfer must be digital (digital link) and where it need not be, and new narratives explaining how in each example the customer is compliant with the rules.