Making Tax Digital: VAT is leading the way

Indirect Tax **Management of taxes**

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The delay in the introduction of Making Tax Digital is welcome, but there is still much to do to ensure Making Tax Digital works for VAT from the proposed date of April 2019.

On 13 July 2017 the government announced there would be a delay in the introduction of Making Tax Digital (MTD). In response to concerns raised by MPs, businesses and professional bodies such as the CIOT and ATT, MTD will not now be mandatory until April 2019 and only then for VAT.

What is the new timetable?

- April 2019: Digital records will only be required initially for VAT purposes.
- April 2020 onwards: Business will not have to keep digital records or report quarterly for other taxes (e.g. income tax and corporation tax) until April 2020 at the earliest.
- MTD will be available on a voluntary basis for businesses below the VAT threshold, and for other taxes.

HMRC will begin to pilot MTD for VAT by the end of 2017, starting with small-scale, private testing, followed by a wider, live pilot in spring 2018. The government has stated that the scope of MTD will not go beyond VAT before the system has been shown to work.

Legislation for MTD will be included in the next Finance Bill, which is expected to be introduced as soon as possible after Parliament returns from its summer recess on 5 September 2017.

A welcome development

Although the CIOT is supportive of the government's long-term ambitions for digitalising the tax system, we have always called for this to be achieved in a measured and manageable way. We welcome this deferral as it will allow businesses, supported by their advisers, more time to identify the benefits and challenges of digital record keeping. Whilst MTD has been deferred for Income Tax, the timetable for VAT has not changed and VAT registered businesses with a turnover in excess of £85,000 per annum will be obliged to maintain digital records and provide quarterly updates (VAT returns) to HMRC.

There is still much to do to ensure MTD for VAT works effectively from April 2019, especially as VAT is now the new pioneer for MTD.

What does this mean for VAT reporting?

The CIOT are keen to emphasise that it is an oversimplification to say that businesses currently quarterly report for VAT, and therefore will be able to do so easily for MTD.

In common with the original MTD proposals, the headline challenges for many businesses will involve the transition to digital record keeping; and quarterly reporting flowing directly from digital records. This could be significantly different from current VAT record keeping and quarterly VAT return requirements.

Although 99% of VAT returns are filed online, only around 12% of VAT returns are filed via software. For the remaining 87%, the VAT return figures are (presumably) manually entered into the HMRC government gateway page and submitted to HMRC; thus requiring manual input and intervention. Under MTD the proposal is for VAT returns to be filed directly via software.

Critically, businesses will no longer be able to keep manual records. The use of spreadsheets in VAT accounting is commonplace; not only to maintain the underlying records, but also to convert the output from accounting software into figures for the VAT return (for example partial exemption calculations). In the future those spreadsheets will need to be able to interact with software in order to meet the requirements of MTD. Overcoming these issues should not be underestimated.

The timing challenge

Another challenge revolves around timing. MTD for VAT will apply to VAT return periods commencing on or after 1 April 2019; the same time as the UK is to leave the European Union. VAT and Customs duty are likely to be significantly impacted by Brexit; particularly in relation to the VAT treatment of transactions between the UK and EU. Businesses will need to both understand the tax-technical changes to the rules and ensure that their accounting systems and processes deal with changes to such transactions correctly via the new reporting requirements of MTD. Indirect Tax practitioners and advisers are in for a busy time in 2019.

What next?

For more on this subject please read our recent blog posting: Analysis: VAT at the vanguard of Making Tax Digital. The CIOT has produced a chart for a fuller analysis of the issues facing MTD for VAT and we will aim to keep this updated as matters progress.

Our close working relationship with HMRC on this continues, in particular to quickly identify problems and work towards solutions before the system is mandated. We are represented on HMRC's Joint VAT Consultative Committee's MTD Sub-Group and will work closely with this forum to keep abreast of developments.

We have an important role in regularly highlighting these developments to our members. This is a two-way process and we warmly welcome members letting us know of concerns, issues etc that need to be addressed.

Also, look out for us as speakers at a number of branch events/conferences during 2017/18.

If you have any comments on this, please send them to technical@ciot.org.uk.