

Making Tax Digital

Flowchart, timeline
and information



The clock is ticking: the deadline for compliance is 1 April 2019.

Find out if your organisation needs to be compliant, what you need to do, and how you can get the support to make Making Tax Digital work for you.

Chiene+Tait
CHARTERED ACCOUNTANTS

Making Tax Digital (MTD) for VAT is part of a much wider programme of reform which will change the way all businesses account for and pay tax.

The intention is to minimise errors and simplify the tax process, both for taxpayers and HMRC. Self-assessment as we know it will be replaced with more frequent digital updates that will report directly into HMRC via compatible software.

VAT is the first step in this process and it is vital that all VAT registered businesses and organisations check their position to see if they need to act.

Who is affected?

If your business or organisation is VAT registered and has taxable turnover over £85,000 p.a. you will have to be MTD compliant starting on 1 April 2019.

HMRC has recently confirmed that some organisations do not need to comply until 1 October 2019. These organisations are:

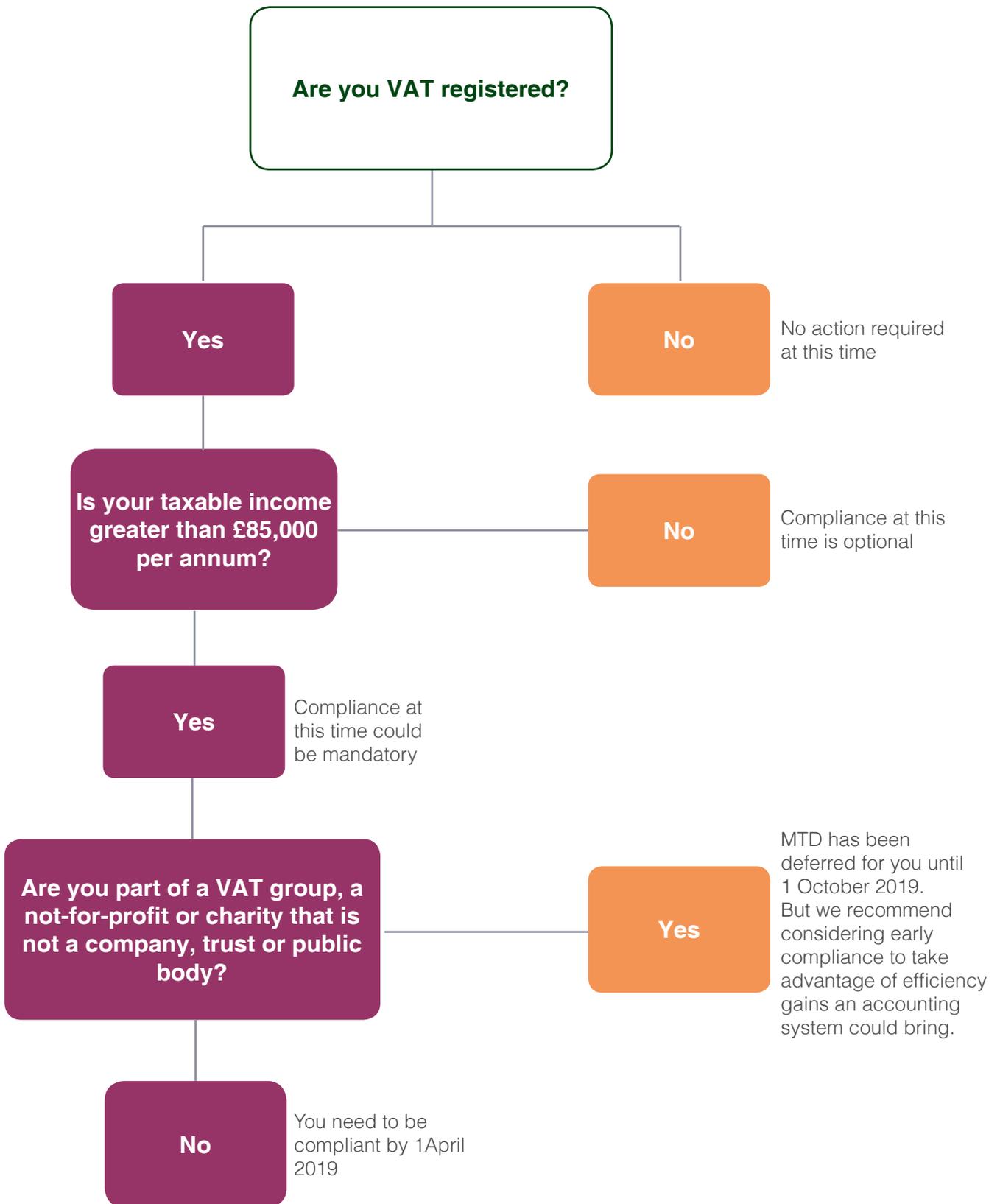
- + VAT groups;
- + Charities that are not limited companies by guarantee;
- + VAT divisions;
- + Public sector entities required to provide additional information on their VAT return (Government departments, NHS Trusts);
- + Local authorities;
- + Public corporations;
- + Traders based overseas;
- + Those required to make VAT payments on account and annual accounting scheme users.

How will MTD change the way VAT returns are submitted?

There is a common misconception that as VAT returns are already submitted electronically via HMRC's online portal that this makes a VAT registered business MTD-compliant. This is not correct. MTD VAT returns will have to be made via specific software, on a quarterly or monthly basis. VAT data will have to be inputted into software which will send a report to HMRC at the click of a button.

There are over 70 software products available now. More are being developed and the list is updated on a regular basis by HMRC. HMRC will not offer its own software so those without accounts software at present will have to look at their options and factor in the additional cost of a software package subscription.

Flowchart: what do you need to do?



Which accounting system do you use?

Sage 50	Version is paramount to ensuring you are compliant. You will be required to subscribe to a monthly plan, ensuring you are on the current version at the time of MTD. Legacy versions (24 and below) will not be compliant with MTD.
Quickbooks desktop	As with Sage 50, only the most current version will be compliant. Given the efficiencies of Quickbooks Online, we would recommend considering the platform migration. Prices for QBO start from as little as £5 per month.
Xero, Quickbooks Online, Freeagent, Sage business cloud.	<p>Sit back and make a coffee – you are compliant. This is an excellent opportunity to discuss with our C+T Digital team the efficiency gains that can be gained from these systems.</p> <p>Would you be interested in being part of the continued pilot testing of the new MTD system? Speak to C+T today.</p>
Farmplan	The latest version of the system will be compliant, however please speak to our team to ensure you are on the correct version.
Landmark	If you are in a current support contract, you will be compliant.
Bespoke	It is imperative that you ensure your system will be compliant from 1 April 2019. A useful point of reference is the approved suppliers list at HMRC: https://www.gov.uk/guidance/software-for-sending-income-tax-updates
Manual records (including Excel spreadsheets)	<p>It is imperative that you act now as you will not be compliant from 1 April 2019.</p> <p>Excel on its own is not digital as it must link to a software package via a digital link. Bridging software is required.</p> <p>Hand-written records are not MTD-compliant. As a matter of urgency you must review your bookkeeping options and move onto an accounting software package.</p>

Timeline

October 2018

The beta pilot is available to existing sole traders and companies (except those which are part of a VAT group or VAT Division, those who trade with the EU, are based overseas, submit VAT returns annually, or make VAT payments on account) provided they are up-to-date with their VAT returns and payments and have not incurred a default surcharge in the last 24 months.

Late 2018

Private testing begins with partnerships, those businesses that trade with the EU, and users of the Flat Rate Scheme.

**Late 2018 /
early 2019**

Open to other sole traders and companies who are not up-to-date with their VAT and businesses newly registered for VAT that have not previously submitted a VAT return.

Early 2019

Open to partnerships and those businesses that trade with the EU.

Spring 2019

Pilot open for MTD organisations that have been deferred.

April 2019

MTD compulsory for all businesses (except those that have been deferred).

October 2019

MTD compulsory for organisations that have been deferred. The 6-month deferral applies to organisations that fall into one of the following categories: trusts, 'not for profit' organisations that are not set up as a company, VAT divisions, VAT groups, those public sector entities required to provide additional information on their VAT return (Government departments, NHS Trusts), local authorities, public corporations, traders based overseas, those required to make VAT payments on account and annual accounting scheme users. The deferral will apply to around 3.5% of organisations.

Clarifier: common questions

What is the turnover test?

This is a test of taxable income to ascertain whether VAT registration is necessary. Any businesses that do not meet the turnover test - ie taxable turnover is below £85,000 per year - for joining the scheme on 1 April 2019 will still have to monitor their taxable turnover going forward. This is monitored on a 12-month rolling period at the end of each month. Once cumulative taxable income for the preceding 12 months exceeds £85,000 then VAT registration is required and MTD will apply. The only way out will be deregistration.

What will happen to HMRC's online portal/Government gateway?

MTD businesses will need to submit their VAT returns via approved MTD software which will link up to HMRC's systems via an API (application programming interface). VAT returns will be submitted directly from the software. Businesses and organisations who are VAT registered but below the turnover threshold will continue to submit VAT returns via HMRC's online portal.

Can I still use Excel spreadsheets?

Many VAT-registered businesses and organisations use Excel to calculate their VAT. This can range from one extreme, in which everything is done on Excel, to another, in which businesses calculate adjustments and incorporate into a VAT return which has been calculated on an accountancy package. Businesses in the former category will have to address MTD as a matter of urgency if their turnover is over the threshold. Those businesses using Excel alongside an accountancy package will need to consider bridging software.

Cells on spreadsheets that are linked to accounting software packages will qualify as a digital link until April 2020. HMRC has said that links using, say, cut and paste will be acceptable rather than the bridging software. This has been described as 'the soft-landing period'. One of the main objectives of MTD is to limit human intervention in the tax return process. HMRC consider that MTD will increase their tax take by removing human errors such as addition errors and transposition.

I post one journal every month for my sales as these are produced from my sales management system. Can I continue to do this?

The simple answer is no. One of the requirements of MTD is that certain basic information needs to be made available for every single transaction. This information is to include the time of supply (tax point), value of the supply (net value) and the rate of VAT charged. Therefore, every sale needs to be separately identified in this way and reproduced on an accounting package or on software which is digitally linked to the software which will submit the VAT return to HMRC.

Chiene + Tait can help you:

- + Check if you need to be compliant
- + Advise on your accounting software
- + Help you choose new software that benefits your business's productivity
- + Answer any question, from a quick check to an in-depth study of your needs.

Contact us at mtd@chiene.co.uk or 0131 558 5800. Ask for your usual Chiene + Tait contact or:



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