



Making Tax Digital (MTD) General Principles of MTD

Making Tax Digital (MTD) is one of the biggest shake ups since the introduction of Self-Assessment in the mid-1990s in terms of how businesses must interact with HM Revenue and Customs (HMRC). It will impact on many businesses from 1 April 2019.

In a nutshell MTD mandates that businesses and other tax registered entities will have to use some form of compatible, functional, digital tool to submit financial information to HMRC on a regular basis.

First to be impacted are VAT registered businesses that have turnover above the VAT registration threshold, currently of £85,000, and commences from VAT periods starting on or after 1 April 2019, so for most regular businesses the earliest MTD submission will be in respect of the 30 June 2019 quarter end with a filing deadline of 7 August 2019. Other taxes such as income tax and corporation tax are planned to follow but not until at least April 2020.

VAT registered businesses below the £85,000 threshold, essentially those that have voluntarily registered, do not have to comply with MTD and can continue to use the current systems in place but this is only expected to be a temporary relief with indications that the vast majority of businesses, (limited companies, LLPs, soletraders, partnerships etc.) whether VAT registered or not or, will be brought into to the fold from 2020 or 2021.

There is a 6 month deferred MTD start date, of 1 October 2019, for certain, potentially more complex businesses, that fall into one of the following categories, '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 payments on account and annual accounting scheme users.

Micro businesses, defined as those with a turnover of less than £10,000 and also digitally excluded businesses are the only categories of businesses that are exempt from complying with MTD.

MTD for VAT has two key stages:

1. The keeping of digital records

Essentially this means the maintaining of your accounting transactions in software or spreadsheets (or a combination of both) which can connect to HMRC via an Application Programme Interface (API). The key point here is that the records should be **digitally linked**. Broadly a digital link allows data to be imported/exported between programs without the need to "cut and paste". Paper records cease to be acceptable on the date you come within MTD so for those VAT registered businesses with turnover over £85k that is from 1 April 2019 and its 6 months later for those businesses that have the deferral.

2. The digital submission of VAT returns

At the moment around 87% of VAT registered businesses manually key in their nine box VAT return figures on the Government Gateway, which leaves only 13% filing returns directly from their accounting software. With the introduction of MTD the ability to key in manually via a Government Gateway will cease to exist.

- HMRC says MTD requirements can be met by a number of software packages, not just one, as long as they are digitally linked. HMRC gives the example of a business which records sales and purchase transactions in its accounting system, transfers the totals into a spreadsheet on which it calculates the VAT return figures then sends the information to bridging software which submits the return to HMRC.
- However, for businesses which hold their digital records in more than one system, the requirement to have these systems digitally linked will not be mandated until April 2020 (the 'soft landing' period – without application of penalties) to allow those businesses extra time to update legacy systems to be fully compliant. So in essence there will be no mandatory requirement of a digital link between non-API enabled software and (e.g.) a collating spreadsheet until April 2020. There will however, have to be a digital link from the outset between the spreadsheet and the bridging software that submits the VAT return digitally to HMRC.
- The guidance confirms those partial exemption adjustments and other typical manual adjustments such as fuel scale charges etc. can be carried outside the digital records and transferred in manually, if desired.



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There are three ways to submit VAT returns in an MTD compliant way:

- I. Using 'functional, compatible, software' that will connect to HMRC via an Application Programme Interface (API). Popular, established packages that we use at Beever and Struthers such as Xero, FreeAgent and KashFlow are MTD compliant. HMRC has published a list of compatible software providers which it regularly updates as more providers come on board.
- II. Using an API-enabled spreadsheet. There isn't a huge number of products available but they can be found on HMRC's list of compatible software providers.
- III. Using bridging software that will 'bridge' the gap between a piece of non-MTD compliant software or a spreadsheet and the HMRC API. There are several bridging products now available on HMRC's approved list. We have reviewed a number of them and can recommend suitable products.

If you've not considered MTD yet, as it doesn't affect you for the time being, but it will in the future, there are some steps that can be taken in preparation:

- Review current systems to map the VAT audit trail and identify areas where linkage will be required.
- As it is likely that HMRC will, over time, increase, the depth of accounting information that it requires to be provided electronically, businesses should consider a deeper review of the quality of information available in their systems to future proof them as far as possible.

If you use accounting software you should contact the software provider to see whether it is MTD compliant or what has been planned for MTD. If the software provider is not developing for MTD then other than moving to a new cloud accounting platform, the use of bridging software or an API enabled spreadsheet may be the best option.

If you maintain records on paper your processes will need to change.

A great option for you is to contact us at Beever and Struthers and we can help with pointing you in the right direction, giving you a plan of action or fully handling the implementation for MTD and supporting you with all MTD reporting requirements going forward leaving you free to focus on your business.

If you would like to discuss any of the above in further detail, please contact a member of our MTD team:



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