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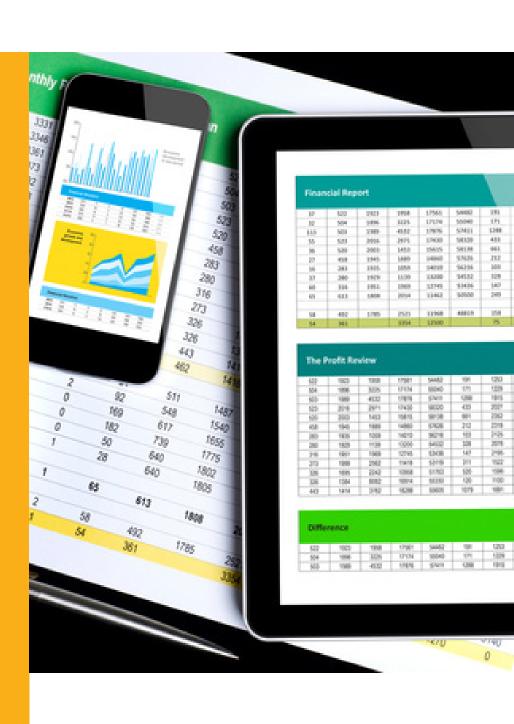
Registering for Making Tax Digital for VAT

The moment has come: if your business has a taxable turnover above the VAT-registration threshold, which is currently £85,000, you're now obliged to keep records in digital form and to file your VAT returns using HMRC-approved software.

You probably got a bit fed up of being reminded about the deadline for the first wave of the Government's Making Tax Digital (MTD) scheme in the course of the past year or so, and who could blame you?

Adverts from Revenue were appearing all over our favourite websites and social media, alongside agenda-laden reminders from software providers, banks, and anyone else with a stake in this project. MTD even started to pop up in commercial breaks during prime time TV, and on colossal posters on the London Underground. There was simply no escaping it.

All that nagging was for a good reason, though: the deadline was real, the rules are complicated, and there are serious penalties for getting it wrong.

Even if you thought you were all sorted for 1 April 2019, the Government had a way of keeping everyone on edge by sneaking out updates to the single most important document in the world of MTD – VAT Notice 700/22.

You might not be familiar with 700/22 but for us as your accountants, it's the definitive plain English record of exactly what needs to be done, by whom, by when.

Even so, for most of us to make any sense of it requires further interpretation, and the fact that it has been updated multiple times only adds to the befuddlement.

Chopping and changing
VAT Notice 700/22 was first published in July 2018 – rather late in the day, you might argue, with less than a year until the deadline.

That left accountants and experts scrambling to dissect it, and to translate its contents into even plainer English for the benefit of their clients and readers.

Many people skipped straight to the section on exemptions: if there was a way to get out of this obligation, they wanted to know about it.

The main exemption, for businesses with turnovers below £85,000, was already well known, but there was also confirmation of exemptions on the grounds of insolvency, religion, and the impracticality of using digital tools because of 'age, disability, remoteness of location or for any other reason'.

Though this first version was fairly clear and comprehensive, and certainly more so than any prior guidance, it did prompt questions.

For example, the guidance suggested that any business whose taxable turnover had ever gone above the VAT-registration threshold would be required to comply with MTD for VAT from 1 April 2019.

This was a mistake: in fact, only turnover for the 12 months ending immediately before the date of the turnover test (so, from 1 April 2018 to 31 March 2019) have to be taken into consideration.

This was corrected in an update in January 2019, with that line being completely removed by HMRC.

Another question was over how much room for manoeuvre was embedded in the clause on exemptions for age, disability and remoteness of location.

To answer that, on 28 February 2019 – with a little over a month to go – a revised version of the document was quietly released offering further clarification:

"You'll be exempt if it's not practical for you to keep records digitally because… of your location – for example, if you cannot get internet access at your home or business premises and it's not reasonable for you to get internet access at another location… [or because] of a disability – for example, if you cannot use a computer, tablet or smartphone for the frequency amount of time it takes to keep digital records for your business".

Crucially, it headed off the risk of people exempting themselves on the grounds that they simply felt they were too old to have to bother:

"You might not be exempt if you… believe you should be exempt purely because of your age – HMRC will consider how your age and circumstances impact your ability to follow the rules for Making Tax Digital."

In other words, the Government won't declare an absolute cut-off for automatic exemption, and intends to judge each case on its own merits.

It also countered a suggestion circulating in discussions around MTD that people might mischievously declare themselves part of a religion forbidden to use computers in order to dodge the obligation.

This update specified that those who make such claims, despite having used computers and smartphones at work prior to this point, or are currently using them in their personal lives, would probably not be exempt.

Software soft landing
One concession made by HMRC is around the links between individual pieces of software within your business.

It is a legal requirement under MTD that the programmes you use for recording and processing financial information connect with each other fully, and purely digitally.

In other words, you shouldn't be manually copying information across from one to another, or even cutting and pasting between programmes.

The link either needs to be automatic, or work through some sort of 'import data' function, removing (or at least reducing) the potential for human error, or fraud.

In practice, though, the Government has decided to permit a year's grace, up until 31 March 2020 for most users.

This will allow businesses to keep cutting and pasting while they work out how to integrate their various software packages, or give them time to source and roll out new ones.

What you need to do right now
If you handle your own VAT returns, there are a few things you need to straightaway, if you haven't already – and we really hope you have, because there are penalties for failing to comply.

First, make sure you have MTD-compatible software. A list of approved packages is available on the HMRC website, including some that are free.

In many cases, you will also be able to use your existing software, including spreadsheets, as long as it is capable of communicating directly with HMRC's systems, or works with 'bridging software' that can perform that function.

You then need to make sure the MTD capabilities of your software are enabled, before delegating authority to the software via your Government Gateway account.

Then, you need to register for MTD, also via the Gateway.

Be aware, though: once you've signed up to manage your VAT returns via the Making Tax Digital process, you can't go back.

The easy way
If we're already handling your accounts, that makes the registration process considerably easier.

We'll already have the appropriate access to your HMRC account and simply need to 'link existing clients'.

If you're not a client but would like advice on ensuring compliance with MTD, or help with your VAT returns, get in touch now.

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