

MTD and completing VAT returns

(Lecture B1120 – 11.52 minutes)

In previous sessions, we have considered the basic rules of MTD (when it is being introduced, who it affects etc) and also the record keeping requirements in relation to e.g. sales and purchase invoices. This session considers the final stage of the process i.e. completing and submitting VAT returns.

Journals

Many businesses need to make VAT adjustments on either a quarterly or annual basis – think of partial exemption, capital goods scheme adjustments and even some retail schemes require an annual adjustment as well. The calculations can be done outside of MTD e.g. a handwritten sheet of paper is fine, but then the amount being adjusted needs to be posted into the digital software (usually by journal) or entered on the spreadsheet kept by the business if this option is used rather than a full accounting system. The posting of journals presents a possible risk that clients using accounting software might post them the wrong way around i.e. because of debit and credit confusion. There is also a risk that they could post the wrong date and miss the VAT return completely – think of a business doing a year end partial exemption adjustment on 5 May but which relates to the period and VAT quarter ending 31 March 2019 – it needs to ensure the journal is dated 31 March and not 5 May otherwise it will miss the March VAT return.

Join the pilot scheme

The compulsory introduction date for MTD is still a few months away (VAT periods beginning on or after 1 April 2019 for most businesses trading over the £85,000 registration threshold) but it is worth encouraging clients to be ahead of the game and register for the pilot scheme as soon as possible, almost as a dress rehearsal to the main MTD show. This will also guide the client through the initial registration process i.e. so that returns will be submitted through HMRC's API enabled software rather than the current government gateway. However, it is important to recognise that not all businesses can join the pilot scheme and their MTD start date has been put back to a later date. This delay applies to those entities which:

- Are a trust or charity
- Are part of a VAT group or VAT Division
- Currently trade with, or have traded with the EU
- Are based overseas
- Are a partnership
- Submit annual returns
- Make VAT payments on account i.e. larger businesses
- Use the flat rate scheme
- Are a business that is newly registered for VAT and has not previously used its online VAT account to submit a return.

As a separate delay, those business with more complex VAT issues (3.5% of total VAT registrations so definitely a minority) will have a mandate date of 1 October 2019 i.e. the first VAT return beginning on or after this date will fall within MTD.

Deferral applies to:

- Trusts
- Not for profit organisations not set up as a company
- VAT groups or VAT divisions
- Public sector entities required to provide additional information on their VAT return (Government departments, NHS Trusts)
- Local authorities
- Public corporations
- Businesses based overseas
- Payments on account businesses
- Annual accounting scheme users

Note – the soft-landing period for these businesses, with regard to digital links being necessary between software or separate parts of the accounting system, will still end on 31 March 2020 as with other businesses, i.e. they won't get an extension beyond this date.

VAT return options

There are three ways for clients to submit returns with MTD, and the chosen route will depend on the VAT complexity of the business and the client's own level of accounting skill and tax knowledge:

- 1) Client input only – a direct submission is made using their own accounting software (or bridging software with spreadsheets) i.e. no agent involvement;
- 2) Client and agent share software – e.g. a cloud-based arrangement, and the agent checks the VAT return before the client submits it. This is the crucial opportunity to ensure that any important VAT journals or other adjustments and important transactions have been done correctly;
- 3) Clients transmits data to agent via digital link – and the agent checks the return and submits it via his own software and his agent account with HMRC (VAT Notice 700/22, section 6).

MTD strategy

It is important that advisers have a clear MTD strategy in place for each client, which takes account of the client's computer skills, ability to deal with major software changes and also their technical VAT knowledge. Many advisers will choose option (2) above because it means they will be able to check major transactions where there is a risk of error, such as the journal postings I considered above.

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