

MTD for VAT.....the final hurdle

(Lecture B1124 – 14.44 minutes)

Making Tax Digital (MTD) for VAT takes effect for VAT periods beginning on or after 1 April 2019 for most businesses that are registered for VAT on a compulsory basis i.e. with annual taxable sales exceeding £85,000.

Voluntary registrations

A business that is voluntarily registered for VAT can join MTD if it wishes and, unlike businesses that join on a mandatory basis, these businesses have the right to leave MTD at a future date if they wish.

Businesses deferred until 1 October 2019

About 3.5% of VAT registered businesses will not need to comply with MTD until VAT periods beginning on or after 1 October 2019.

These businesses should have received a letter from HMRC but to summarise, they come into the following categories:

- Trusts;
- Not for profit organisations that are not set up as a company;
- VAT divisions and groups;
- Public sector bodies required to provide additional information on their VAT return;
- Local authorities and public corporations;
- Overseas based traders;
- Businesses that are required to make payments on account; and
- Annual accounting scheme users.

Example

A business using the annual accounting scheme with an accounting year ending 31 August would not need to join MTD until 1 September 2020.

Soft landing period – extra concession

HMRC have confirmed in an updated version of Notice 700/22 that no penalties will apply in the first 12 months of MTD for businesses that do not have digital links between different parts of their accounting system i.e. cut and paste will be acceptable as a way of transferring data. HMRC's original policy was that there must be a digital link for software linked to the final VAT return (i.e. the last software link in the process).

The new interpretation means that no penalties will apply for the absence of digital links in the first 12 months of MTD.

Comment 1

HMRC's director in charge of MTD said in a magazine interview that the only penalties that would be made in the first year would relate to those businesses that wilfully ignore their legal obligation to keep electronic records and submit digital returns. It is anticipated that HMRC's initial energy will be directed towards those businesses that it knows should adopt MTD (based on perhaps the output tax figures declared in Box 1) rather than those that join the club but have shortcomings.

Comment 2

HMRC cannot make a conclusion that a business must join MTD based on Box 6 figures (outputs) because this box includes exempt and outside the scope sales made by a business. It is only taxable sales that count as far as the joining threshold is concerned.

Example

John earns £50,000 each year providing management services to UK based customers and £40,000 for business customers based in France. He is registered for VAT.

John does not need to join MTD because his annual taxable sales are only £50,000 i.e. less than £85,000. The work for French customers is outside the scope of UK VAT because the place of supply is France.

Extension of soft-landing period for October joiners

A further concession recently confirmed by HMRC is that the soft land period for businesses who must join MTD on 1 October 2019 will be 12 months rather than 6 months as far as penalties are concerned i.e. an extension from the original date of 31 March 2020 to 30 September 2020.

Joining MTD – how it is done

There has been some confusion and contradictory guidance about how a business joins MTD – or his agent on his behalf – there is a lack of detail in Notice 700/22:

The key point is that it is up to the business to recognise when it must adopt MTD and not for HMRC to alert it to its responsibility. This means that businesses whose taxable sales are below the £85,000 threshold as at 31 March 2019 must monitor their annual taxable sales on a rolling 12-monthly basis thereafter. If, at any point, the £85,000 figure is exceeded, then the business must join MTD from the beginning of its next VAT period. It cannot withdraw again if annual sales subsequently fall below £85,000.

Example

A business on calendar quarter VAT returns has a very good trading month in October 2019, so annual taxable sales exceeded the £85,000 threshold in the year to 31 October 2019. The business must join MTD from 1 January 2020.

Businesses registering for MTD without agent assistance should do so via their business tax account with HMRC. Once the registration process has been completed, HMRC will apparently submit a code by email that will allow a link to be made between the software operated by the business and the new API platform on HMRC's website that will allow VAT returns to be digitally submitted.

Agents can now set up their agents services account with HMRC, which means that all existing details held about clients will be transferred to the new API system. However, the agent must still go through each client on an individual basis and register them for MTD for VAT.

Comment

It is understood that there will be no need to complete a new direct debit mandate with the transfer from the Gateway system to API. However, there have apparently been some teething problems with this issue – some returns have been submitted to a 'black hole' and then the direct debit has not been collected. If this type of situation causes a late VAT payment, then it would almost certainly be accepted as a reasonable excuse by HMRC i.e. no default surcharge liability notice or surcharge would apply to the period in question.

Note – if an agent registers a client for MTD for VAT, he must provide an email address for the client. HMRC will contact the client and ask him to verify the email address. This email address will then be used for direct debit notifications.

Pilot scheme

HMRC has confirmed that any business mandated from April 2019 can now join the pilot scheme.

Petty cash expenses

The legislation confirms that records do not need to be kept digitally if it would be "impossible, impractical or unduly onerous" to do so. An example is that there is no need to digitally record every invoice on an employee expenses claim, only the totals of the claim (Notice 700/22, para 3.3.3). HMRC has also advised informally that petty cash records will not need to be recorded digitally and that the next published version of Notice 700/22 will reflect this policy. This makes sense because the numbers involved with petty cash are usually very small so there is minimal risk of major VAT errors.

Spreadsheets

Finally, there has been unfounded rumours that using spreadsheets to will only be acceptable in the first year of MTD i.e. until 31 March 2020. This is incorrect. The only requirement with spreadsheet accounting is that bridging software should be in place to link the spreadsheet totals to the final VAT return figures that are submitted to HMRC.

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