

Making Tax Digital – Record-keeping

(Lecture B1105 – 12.54 minutes)

Making Tax Digital is now only a matter of months away – it will be introduced for VAT periods beginning on or after 1 April 2019, and will be relevant to all VAT registered businesses trading above the VAT registration threshold i.e. £85,000. In my previous sessions, I considered the basic rules with MTD and in a separate session, some specific challenges for different types of business.

Spreadsheets

Many businesses use spreadsheets to produce their accounts and keep records, and the challenge here is to ensure that bridging software is in place to create a digital link between the spreadsheet totals and the VAT return process, which is then sent to HMRC. Linked cells on spreadsheets will qualify as a digital link. Many software providers have been very active in relation to this issue. In the first year until April 2020, HMRC have said that links using e.g. cut and paste will be acceptable rather than the bridging software. This has been described as ‘the soft-landing period’. It is important to always keep in mind the overall objective of MTD, which is to minimise human intervention in the accounting and tax return process. This is a key part of HMRC’s controversial conclusion that MTD will increase the tax yield by reducing human errors such as arithmetical mistakes and transposition errors.

Sales and purchase invoices

Each sales invoice needs to be recorded digitally and contain the following information:

- Time of supply – in the case of a cash accounting scheme user, this will be the date when the sales invoice is paid by the customer i.e. when output tax needs to be included on the VAT return.
- The net value of income for each rate of tax and the relevant rate of tax – so if an invoice consists of a zero-rated book for £10 and a standard rated pen for £20+VAT, then the entry on the spreadsheet must include both £10 and £20 i.e. recognising the different VAT liabilities within the sales invoice and it will clearly show that the amount of £10 is zero-rated and £20 is standard rated.

Note – the above requirement will cause additional work for many business owners. For example, you might have a client who only posts a total payment received from a customer as a single entry, even though the payment might comprise many different sales invoices.

The information needed on purchase invoices is different:

- Time of supply – as above – but the relevant date for cash accounting scheme users will be the date of payment rather than the invoice date.
- The total value of the invoice excluding VAT (there is no need to analyse a purchase invoice between different rates of VAT).
- Input tax being claimed.

Timing of keeping digital records – when must they be completed?

Many retailers keep a manual record of their daily gross takings figures and just post three months of figures to their accounting package at the time they complete their VAT return. This is fine and will meet the MTD requirement of having everything recorded digitally at the time the return is submitted to HMRC. In an ideal world, it would be great if we all did real time digital record keeping but the reality is that millions of people are still not totally clued up to the electronic world.

The key point highlighted by HMRC is that MTD is not changing the record keeping requirements of most businesses but the format in which they are kept. So as an example, flat rate scheme users only need to digitally record purchase invoices where they are claiming input tax i.e. in relation to capital expenditure goods costing more than £2,000 including VAT. The need for retailers to keep a record of their daily gross takings has been a legal requirement since the day that VAT was introduced in 1973. And the good news for margin scheme businesses, such as antique dealers, is that the second-hand stock book that records each item they buy and sell does not need to be kept digitally.

Voluntary registrations

A business that is voluntary registered for VAT can still choose to join MTD even though it is not compulsory. There is speculation that it will be compulsory for all registrations from 1 April 2020.

The challenge for voluntary registrations is to be aware of the fact that even if they exceed the threshold on a temporary basis (e.g. a one-off good order that will not be repeated) they must still join MTD and cannot withdraw if their turnover falls below the threshold again.

Penalties

The penalty system linked to MTD will be based on a points-based model. Under this model, a business would receive a point every time it failed to submit a return on time, a penalty would be charged above a certain points threshold, which will be dependent on the frequency of their submission obligations. After the threshold has been reached, a penalty will be charged for every subsequent submission failure. The specific detail of the new system has still to be finalised. It is intended that the points would be cleared to zero if the business has managed a period of full compliance.

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