

## MTD VAT issues

### (Lecture B1224 – 21.40 minutes)

#### *Digitally excluded - Grounds for an exemption*

Businesses are exempt from MTD if they are above the threshold but the exemptions apply and the business has applied for and been granted exemption. The grounds for exemption are:

- It is not reasonably practicable for you to use digital tools to keep your business records or submit your VAT Returns because of age, disability, remoteness of location or for any other reason;
- you or your business are subject to an insolvency procedure;
- your business is run entirely by practising members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records.

Note that if the religious exemption is sought for a partnership all members of the partnership must be entitled to the exemption for an exemption to be granted.

#### *Applying for an exemption*

To make a claim for exemption, call or write to VAT: general enquiries. HMRC's guidance in Section 3 of Notice 700/22 provides the following help:

You'll need:

- your VAT Registration Number;
- your business name and principal place of business;
- the reason for your exemption request;
- details about how you currently file your VAT Returns;
- the reasons why you would not be able to file returns through software or keep digital records (even if you can file using VAT online services);
- any other reason why you cannot follow the rules for Making Tax Digital.

You can ask an agent, friend or family member to ask for an exemption on your behalf, but they must:

- fully understand your circumstances in relation to getting an exemption;
- have authority to act on your business' behalf - such as written authorisation sent to HMRC or verbal authorisation on a phone call.

It's usually better to call HMRC yourself as you'll have a better understanding of your abilities and how you engage with technology in your personal life. The helpline advisers will talk to you about support that HMRC can provide to help you transition to Making Tax Digital.

Whilst HMRC intends to deal with as many telephone requests as possible, we may ask you to make a request in writing.

HMRC will make a decision after you have provided all the necessary information. If you write to us or call us to request an exemption, you'll receive our decision in writing.

#### *Benefits of using accounting software*

One of the intentions behind a digital revolution is for businesses to benefit from the advantages that using simple accounting software offers, with more up to date business information enabling better management decisions.

It is likely that the future will bring cheap digital solutions for many businesses and offer cost savings in record keeping and accuracy which will outweigh any additional costs of software or hardware upgrades.

Practices should think carefully about the future of MTD more widely, when all businesses will be required to keep digital records – and adopting a pragmatic approach tailored to clients' needs may pay dividends – but this of course will take time to roll out. Hence the need to think carefully about how MTD will be adopted across the client base.

#### *Migration of all VAT clients to new IT system*

Unless clients are registered for MTD their VAT records are held on the HMRC VAT mainframe, a very old computer system which is expensive to keep up to date largely due to its age. This system has limited capabilities and cannot communicate with any other HMRC systems, and is to be replaced. The work to start "mothballing" the old VAT mainframe will take more than a year in total, but it is intended to commence that work in 2021.

#### *Enterprise Tax Management Platform (ETMP)*

This is the new hub for taxpayers central to the MTD system and a joined up approach to dealing with all taxpayers, but it is particularly important to the affairs of businesses that might be registered for a number of taxpayers. It will act as a Master File of all taxpayers enabling better and more joined up access to the tax records of a particular individual or business. When businesses enrol for MTD for a particular tax their records are migrated from the old legacy systems to ETMP for that tax.

For example, a Self Assessment business which is VAT registered will probably only be enrolled in MTD for VAT. Their VAT records will already be on ETMP, but the SA records remain on the SA system (a separate computer system) until they join MTD for income tax.

The work to decommission the old VAT mainframe means that all VAT businesses will have to be migrated to ETMP, whether they are enrolled for MTD or not.

### *Impact on MTD clients*

There is no impact associated with the changes in 2021 on businesses already enrolled in MTD. There will be no changes to the way that they or their agents submit returns.

### *Impact on non-MTD VAT businesses*

These businesses will be migrated over approximately April to October 2021. Once migrated there may be an impact on the way returns are filed by a business, depending on the software they are using to file returns. HMRC has notified software providers of the changes and asked them to update their customers if any changes are needed. It is anticipated that the number of businesses affected by the issue will be very small.

However, there is a major impact for agents filing VAT returns on behalf of non-MTD clients.

The existing filing route by logging into your agent portal and selecting VAT from your list of services and then filing a return for a particular client will end as clients are migrated to ETMP.

Clients who have been migrated will need to be moved (by the agent) to their new Agent Services Account and returns filed from there (it will still be a non-MTD filing).

You will not know which clients have been mandated until you attempt to file a return under the old method, and if it fails then you will have to move the client across to your Agent Services Account and file from there.

### *My suggested solution*

For those clients with digital records, or for whom digital records could be implemented fairly easily, this problem can be avoided by enrolling as many clients as possible into MTD during the period from now until March 2021. This will remove the uncertainty explained in the previous paragraph and provide a smooth transition, given that MTD will be mandated for these clients in April 2022 in any event.

### *Email addresses for direct debit clients*

From April 2021, HMRC will require an email address for all clients who have registered for direct debit payment. This is because HMRC is required under banking law to notify the customer before the direct debit is taken of the date and amount of the direct debit.

Given that HMRC will only know the amount when the return has been filed, there is only one practical way to notify businesses and that is electronically. Hence the requirement for email addresses. Your clients will need to log onto their business tax account to check that they have entered an email address in order to continue to pay by direct debit. Once the change has been made next year, HMRC will not action direct debits unless they have been able to notify the customer in advance, which could lead to non-payment of liabilities and eventually penalties.

*Contributed by Rebecca Benneyworth*