

MTD software – what do you need?

Introduction

Making Tax Digital (MTD) for VAT went live on 1 April 2019. VAT registered businesses with VATable turnover above the VAT registration threshold of £85,000 are required to comply with the requirements of MTD for VAT from the start of their first VAT accounting period beginning on or after 1 April 2019. For certain businesses, including those in VAT groups, the start date is delayed until 1 October 2019. Where the business is VAT registered but VATable turnover is below £85,000, MTD for VAT is optional.

MTD for VAT imposes two digital requirements – digital record-keeping and digital VAT returns.



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Digital record-keeping

Under MTD for VAT, records must be kept digitally within MTD-compatible software. Some software will record all VAT records and accounts. The type of package used may affect whether it is necessary to retain the original document.

Where a business receives an invoice and enters the information into the MTD-compatible software, the original invoice must be retained as the software is not a copy of the invoice. However, if the invoice is scanned into the software, there is no need to retain it, unless it is required for another purpose. However, it should be noted that VAT law requires the originals of some documents to be retained.

Records that must be kept digitally include:

- designatory data – business name, address of the principal place of business, VAT registration number and any VAT schemes used;
- supplies made – time of supply (tax point), value of supply and rate of VAT;
- supplies received – time of supply (tax point), value of supply, amount of input tax claimed;
- reverse charge transactions.

To support the VAT returns, summary data must also be maintained in the MTD-compatible software as follows:

- total output tax owed
- total tax owed on acquisitions from other EU member states
- total tax that is required to be paid on behalf of a supplies under a reverse charge procedure
- total input tax entitled to claim on business purchases
- input tax on allowable acquisitions from other EU member states
- total tax that need to be paid or reclaimed following the correction of an error or adjustment
- any other adjustment allowed or required by the VAT rules

Where the flat rate scheme is used, there is no need to keep a digital record of purchases unless they are capital expenditure goods on which input tax is claimed. Nor is it necessary to keep a digital record of the goods used in the limited cost business calculation.

VAT returns

The second part of MTD for VAT is the requirement to file VAT returns digitally using MTD-compatible software. HMRC's VAT Online service cannot be used for MTD for VAT.

Compatible software

MTD-compatible software (also known as ‘functional compatible software’) is a software program or set of software programs or applications that are capable of:

- recording and preserving digital records;
- providing information and returns to HMRC from data held in the digital records using the API platform; and
- receive information via the API platform.

Some software packages will perform all of the above, some will perform some but not all, so more than one product may be needed. Spreadsheets can be used to record data, but another piece of software will be needed to file the return.



The links between the different software packages used should be digital. However, while transferring data manually between programs is not acceptable under MTD for VAT – such as keying numbers from a spreadsheet

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into a package to send a return or ‘cutting and pasting’ HMRC are operating a ‘soft landing’ and will permit this for the first year.

Software suppliers

HMRC produce a list of software suppliers who produce software compatible with MTD for VAT. The list can be found on the Gov.uk website at www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-vat.

Recommendation

When reviewing the most appropriate format of records to be keeping, it is important it will be able to meet the future requirements of HMRC. Therefore, review your options carefully and seek help from your accountant who can advise you in this area.

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