

# Start with VAT when it is MTD

The biggest change to tax filing since self-assessment comes into play in April next year. But are businesses ready for Making Tax Digital, asks Caroline Biebuyck



**T**he first part of HMRC's flagship programme for improving tax reporting, Making Tax Digital (MTD), should go live next spring (the final decision is due this month). The starting point for the roll-out is VAT, with businesses reporting through the new system for VAT return periods starting from April 2019.

## SPREADING THE WORD

But there are still concerns about how the new system will work. High on the list is how prepared businesses are for the change in their VAT filing. Results of a survey conducted by the British Chambers of Commerce and Avalara released in late June are not encouraging: two-thirds of businesses only knew some details or the name of the MTD programme, while one-quarter of those who did know about it had done nothing to prepare.

Accountancy practices often have to work with clients who leave making changes needed until the last minute, says Kevin Salter, partner at Glover Stanbury. "We're used to dealing with this on other tax returns," he says. "But the challenge with VAT will come when our clients, most of whom file their own VAT returns, hit the submit button in the current system only to find it no longer works."

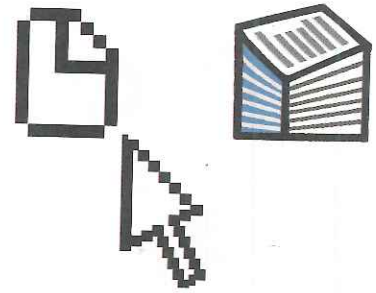
HMRC has been getting word out about the change, most recently with the publication of its VAT Notice in July. But accounting firms are still having trouble getting MTD on their clients' radar. Part of the problem is that this is not seen as a high-impact issue, in contrast with many other items claiming the news agenda including Brexit - ironically the cause of the delay in the full rollout of MTD.

Another problem is regulatory overload. Over the past few years, large and small businesses have had to deal with a number of time-consuming new regulations such as the introduction of auto-enrolment and GDPR. Business needs to get used to the fact that regulation will continue to grow, says Tom Kivlehan, BDO tax partner. "I'm afraid it's part of the cost of being in business. In this particular case, HMRC wants to move to automation to catch out errors."

## DIGITAL CONNECTIONS

Businesses currently file their VAT returns online through the Government Gateway website. Up until now they have been able to keep paper or digital VAT records, transferring totals into the boxes on the online return. However, paper records will no

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of your return you are effectively breaking the controls."

### CASTING THE MTD NET

Not everyone who files a VAT return will need to use MTD. The new system will only apply to VAT-registered businesses with taxable turnover above the VAT threshold, currently £85,000.

The rules for calculating taxable turnover have not changed, and will still need to be applied over a rolling 12-month period. But businesses that have voluntarily registered for VAT will now need to keep a constant eye on their turnover, says ICAEW's Miskin. "They will need to monitor regularly in case their sales exceed the threshold as this will change the way they report to HMRC," she says.

And it's not just companies that need to keep MTD in mind. HMRC has made it clear that anyone who is self-employed or who has a rental business falls under the MTD-for-business banner and will need to be MTD-compliant by next spring, but only if they are VAT registered and have taxable turnover above the VAT threshold.

Currently about 4,000 businesses are exempt from having to file VAT returns online and these businesses will automatically be exempt from having to comply with MTD. But Miskin points out there might be other businesses that for various reasons feel they will not be able to comply with the need to keep digital records or be able to comply with MTD.

"Anyone who feels they are in that category should contact HMRC and seek their agreement," she says. "We are waiting for further guidance on this but know it will be dealt with on a case-by-case basis."

### TIMEFRAMES AND BREXIT

HMRC has started a small pilot of invited business and agents to test some of the packages on offer. A bigger milestone will come later in the year when the project moves from private to public beta, so that anyone can join.

"HMRC had to select businesses for the private pilot that fit certain strict criteria, as not all the functionality is in place yet," says Miskin. "Once the numbers and functionality have been expanded anyone who wants to join can do so."

Salter's concern is that the pilot will be running too close to the launch date. "Lots of software out there might not cope with special schemes to calculate VAT, such as for retailers. VAT has many peculiar rules and adjustments."

The MTD project, with its tight timeframes, relies on the VAT rules being broadly the same in April 2019 as they are now. The problem is, because of Brexit, no one knows how the rules might change. There may be businesses that need to contend with MTD for VAT while also getting used to EU trade suddenly being classified as imports and exports to and from third countries, says Miskin. "Or there could be a different bespoke treatment or even some kind of in-between. HMRC is aware of this but unable to do much until the political decisions are taken."

Adrian Rudd, PwC tax partner, hopes there will be what he calls a "sensible" amount of notice on changes. "HMRC might have more power to change the law than it did in the past but it will need to consider the lead time for the software: there has to be time for software providers to build the change in. After Brexit there will be more scope for change than there has been in the past."

Regardless of what happens with Brexit, the government has signalled that MTD for VAT is likely to go ahead next April. And that date is getting close, says Rudd. "Advisers need to make their clients aware of MTD, and to get up to speed with it and what it means. Clients will be asking them for advice on software so they will need to establish which software is compliant and which isn't. Businesses will have to buy the software and start getting used to it - and there's not long to go." ●

longer work with MTD. The new rules require a separate electronic record for each VAT supply made or received; the totals can only be transferred from a digital format onto the online filing.

This requires a digital link between the figures in a business's accounting software and its VAT return. This application programming interface, or API, sits at the heart of the MTD process, as it will enable a business's software to communicate directly with HMRC's system.

What does this mean in practice? Businesses and agents that are already using commercial accounting software will need to speak to their software providers to find out whether and when they will have an API in place. About 150 software firms are currently working with HMRC and have said they will have their software ready for implementation by the start date, but the onus will be on the business to check the situation with their supplier.

The position may be more complex for companies using old software packages that they bought outright. In this case, says Caroline Miskin, tax practitioner support manager at ICAEW, they might need to upgrade to a subscription package that they pay a regular licence fee for in order to get an MTD update.

Spreadsheets will present another challenge. Many businesses use these as consolidation tools, combining data from different accounting systems or records to come up with the totals for their VAT returns. Some smaller firms use them for their primary records. Originally HMRC said businesses would not be able to use spreadsheets to make their returns: more recently it reversed this position and has said that they can. However, businesses will still need to obtain a bridging product from a commercial software supplier to provide the API link between the company's records and HMRC's system.

Kivlehan is concerned with the use of spreadsheets as they can be manipulated. "People have been so used to taking the data out to do some work around, for example, reverse charges from overseas, or fuel scale charges, rather than setting up dedicated software. Because of the adaptability of a spreadsheet, there's a natural inclination to use these for things that need to be done quickly, as for VAT with its 30- or 90-day cycles. However compliant a system, if you need to manipulate it to make sense