

MTD FOR VAT - NEW GUIDANCE ON PENALTIES FOR NON-COMPLIANCE

HMRC have also issued new guidance on the penalties that they impose for non-compliance with the Making Tax Digital (MTD) for VAT rules. In particular, there is a penalty of **up to £400 for every VAT return** a business files without using 'functional compatible software'.

Functional compatible software means a software program, or set of software programs, products or applications that can:

- / record and store digital records
- / provide HMRC with information and VAT returns from the data held in those digital records
- / receive information from HMRC

There are additional penalties if the business does not keep their records digitally.

HMRC may charge the business a penalty of between **£5 to £15 for every day** on which the digital record keeping requirement is not met.

To meet the digital record keeping requirement, the business' functional compatible software must contain:

- / the business name, address and VAT registration number
- / any adjustments from calculations made outside the functional compatible software for any VAT accounting schemes used
- / the VAT on goods and services supplied, meaning everything the business sold, leased, rented or hired (supplies made)
- / the VAT on goods and services received, meaning everything the business bought, leased, rented or hired (supplies received)
- / any adjustments made to a return
- / the 'time of supply' and 'value of supply' (value excluding VAT) for everything bought and sold
- / the rate of VAT charged on goods and services

- / details of any 'reverse charge transactions', where the business needs to record the VAT on the sale price and the purchase price of the goods and services bought
- / copies of documents that cover multiple transactions made on behalf of the business like those made by volunteers for charity fundraising, a third-party business or employees for expenses in petty cash

All transactions must be contained in the functional compatible software there is not a requirement to scan or upload supporting documents like invoices and receipts.