



Guide from

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Our guide to Making Tax Digital in the UK

The team of business accountants here at Clear House Accountants includes some of the most forward-thinking professionals and VAT specialists in the London area, making us highly specialized Accountants in London. We are committed to offering our clients superb services and the sort of advice that can only be sourced from business-focused accountants. Our team has put together this useful guide to Making Tax Digital, so that you're fully in the loop with this government initiative.

What is Making Tax Digital?

The government is hoping to create one of the most digitally advanced taxation systems in the world, which is the reason behind the Making Tax Digital initiative. Once the system is up and running, it will be far easier for organizations and individuals to stay on top of tax affairs and submit error-free returns.

The complete roll out of Making Tax Digital (MTD) is being staggered, in order to simplify the process and iron out any problems that may occur. Eventually, MTD will be rolled out to all personal and business taxes, including income tax, corporation tax and VAT.

From a business perspective, the introduction of MTD for VAT is likely to be the first time that any organizations will be required to comply with the new requirements. At present, HMRC are piloting a number of MTD schemes with businesses, landlords and self-employed individuals, but if you haven't been involved in any of these you're likely to need reliable information about the April 2019 requirement for digital VAT returns.

VAT goes digital from 1 April 2019

If you operate a business with a taxable turnover above the current threshold of £85,000, you should already be making regular VAT returns to HMRC. This means you'll need to start utilizing the new MTD service from that date. You will be required to maintain digital VAT records and use approved software to submit your VAT returns in order to comply with the new regulations.

A very small minority of businesses will be able to delay compliance with this requirement due to the fact they have more complex needs. These organizations include local authorities and non-profits, however, all VAT-registered organizations will need to be up and running with digital returns by October 2019. You can find out more about MTD for VAT direct from the government website (<https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>) or speak to one of our VAT specialists for company-specific advice.

What do I need to do to comply with the new VAT return requirements?

If you've identified that the MTD VAT initiative will impact your business returns, you need to put the correct software or accountancy services in place to handle the new digital requirements. At this moment, many organizations handle VAT separately from their normal business accounting methodologies. This may mean that VAT records are maintained on spreadsheets, or even manually recorded. The new requirements make it compulsory for all VAT recording to be handled within the accounting software packages utilized by organizations. If you currently rely on manual accounting and don't use accounting software, you will need to upgrade your systems.

Organizations currently operating accounting software packages will either need to upgrade their current software, if it's been approved by HMRC, or switch over to an MTD-approved software. This software needs to have the ability to communicate with HMRC via their new application programming interface (API) and a number of products that meet these requirements have already been tested and approved by HMRC.

One of the principal requirements of MTD for VAT is that manual adjustments to accounts will no longer be acceptable. Any changes must be made digitally, and all appropriate links need to be updated to reflect any alterations or account modifications. Business organizations don't need to maintain their entire accounting records in one place, or on one software package. However, the functional compatible software needed for digital recording and transfers to and from HMRC does need to be in place from 1 April 2019.

Can I still keep VAT records on spreadsheets?

Effectively this means that if you currently maintain records on spreadsheets you will be able to introduce API-enabled spreadsheets and bridging software to enable compliance with the new regulations. Use of "cut and paste" techniques to move data between software packages is not considered to be an approved digital link, however.

I won't be able to meet the MTD requirement in April 2019

HMRC are offering businesses a "soft landing" period to get up and running with the new MTD VAT requirements. Basically, if you are required to start MTD-compatible returns in April 2019 you will have exactly one year to make the right digital links between all your compatible software. In essence, this means you can continue to use "cut and paste" techniques for the first year only. This will enable organizations that maintain VAT records on separate spreadsheets to continue with current practice, however, it's not a good idea to leave the introduction of operational digital links until April 2020.

Organizations that start making MTD returns in October 2019 will also have one year to put the appropriate digital links in place.

There is a good deal more information about the MTD initiative in the government's VAT Notice 700/22 issued in January 2019, or alternatively get in touch with our experts to find out more ways your business can comply with the new VAT requirements.

More about Making Tax Digital

Smaller business organizations, sole traders and the self-employed may well feel that these MTD requirements are daunting, however, the UK is already well on the way towards digital tax legislation. At this moment, around 99% of all VAT returns, 98% of all corporation tax returns and 86% of all self-assessment returns are submitted online. This means UK businesses are well on their way towards a digital tax system and the new requirements will prove invaluable at reducing errors associated with personal and business taxation.

Our VAT specialists and expert accountants in London are available to offer you tailored advice on VAT or any other accounting issues you wish to discuss. Get in touch with us today for more details.