



Making Tax Digital for VAT

Making Tax Digital is coming. Make sure you are ready for it.

The tax system is under reform. The Government's stated intention is to modernise the method of administering UK taxes by making it "more effective, more efficient and easier for customers to comply".

From April 2019, all VAT registered businesses will be required to start using the new digital service, known as Making Tax Digital for Business (MTDfB). From April 2020, at the earliest, all businesses, self-employed individuals and landlords will be required to use MTDfB to provide details of profits, income and expenditure to HMRC on a quarterly basis.

A new penalty for failure to keep adequate digital records will apply, so businesses need to be prepared for these changes in order to ensure compliance.

MTD for VAT - the first step

HMRC have recently published formal guidance on what MTD for VAT means. It will be mandatory for businesses trading over the VAT registration threshold to keep VAT records using 'functional compatible software'.

The software must be able to:

- Create a VAT return from digital records
- Record transactions and information in a digital form and preserve these records for up to six years
- Provide HMRC with information via a digital link.

The digital records that need to be kept include:

- The VAT account - detailing inputs, outputs and adjustments
- Transaction level details for supplies made and expenses incurred
- Business details including name, VAT registration number, accounting schemes used and place of business.

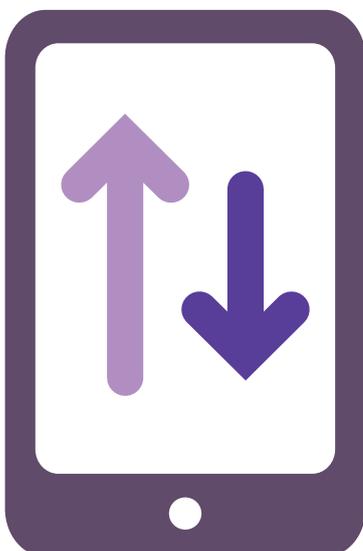
A handful of 'compatible software' options have already been authorised by HMRC and many more are in development. Due to the variety of ways businesses and individuals keep their accounting records (paper, spreadsheets or accounting software), there is no single compliance solution for all taxpayers.

You will need to identify which technological solution is the best fit for your business. Our dedicated team at UHY will be happy to help and advise with this transition, either by reconfiguring existing software or identifying and implementing new technology.

Broadly, there are three options:

1. Continue to use existing accounting software that meets, or can be updated to meet, the new requirements.
2. Where the VAT account has previously been prepared outside of accounting software, for example in Excel, move this onto a suitable accounting package that is MTD ready. There are a number of options available on the market and understanding the nuances of your business will allow us to recommend which is the most suitable.
3. Where it is not desirable to migrate onto an accounting package, or if it is not possible to finalise a VAT return with your existing software, for example VAT group returns, we would be able to provide the necessary assistance to meet the MTD requirements. There are a number of different approaches available and we would determine the best solution based on your specific circumstances and requirements.

Whichever solution is adopted, UHY are well placed to help you meet the requirements for accounting, record-keeping and VAT reporting, and to ensure the digital connections with HMRC are in place before MTD for VAT goes live.



Whichever solution is adopted, UHY are well placed to help you meet the requirements for accounting, record-keeping and VAT reporting.

Corporation tax, personal tax and beyond

It is clear that MTD for VAT is only the first step. The transition must include future reporting requirements for corporation and personal tax regimes. Where we are advising clients on the adoption or adaptation of systems, we will also be looking forward and considering whether or not it is appropriate for the anticipated changes for other taxes.

For instance, tax legislation contains a vast array of rules on allowable and non-allowable expenses. Transactions will need to be categorised in the software into income and expense types, for example advertising or professional expenses. Should you deal with your own record-keeping, we can provide guidance in this area as necessary.

The sea change for direct taxes is that summary information will be sent to HMRC on a quarterly basis. It is envisaged that the

analysis of the data will be similar to the existing categories in the Self-Assessment tax return. While we are awaiting further information on what will have to be submitted to HMRC, it is envisaged that smaller businesses will be able to prepare an update that contains only three lines of data – income, expenses and profit.

This will provide HMRC with an estimated net income for the year. However, many businesses will need to make adjustments to that information, for example, reconsidering which expenses are not allowable for tax and make claims to reliefs or allowances, such as capital allowances. Businesses will then make a declaration that everything is complete and correct as regards their business - an 'End of Year' declaration. The business will have ten months from the end of their period of account (or 31 January following the tax year if sooner) to complete their End of Year declaration.



The next step

If you would like more advice about Making Tax Digital for VAT, please contact your regular Client Partner at UHY or one of our specialists:



David Rawcliffe
VAT department
t: +44 (0)20 7216 4874
e: d.rawcliffe@uhy-uk.com



Matthew Granger
Business Advisory
t: +44 (0)20 7216 4672
e: m.granger@uhy-uk.com

Alternatively, read more about us on our website at www.uhy-uk.com.

UHY Hacker Young Associates is a UK company which is the organising body of the UHY Hacker Young Group, a group of independent UK accounting and consultancy firms. Any services described herein are provided by the member firms and not by UHY Hacker Young Associates Limited. Each of the member firms is a separate and independent firm, a list of which is available on our website. Neither UHY Hacker Young Associates Limited nor any of its member firms has any liability for services provided by other members.

A member of UHY International, a network of independent accounting and consulting firms.



This publication is intended for general guidance only. No responsibility is accepted for loss occasioned to any person acting or refraining from actions as a result of any material in this publication.

© UHY Hacker Young 2018

www.uhy-uk.com

Helping you prosper