

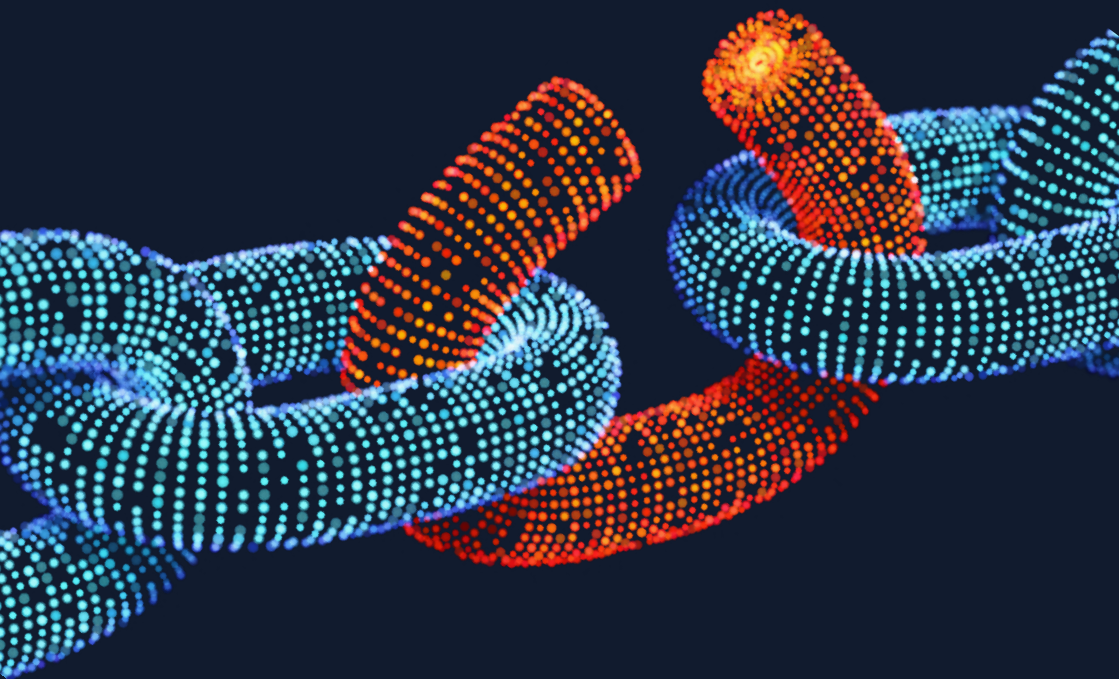


LEWISBROWNLEE

CHARTERED ACCOUNTANTS & TAX ADVISERS

MAKING TAX DIGITAL

DIGITAL LINKS



01243 782 423 | www.LewisBrownlee.co.uk | info@LewisBrownlee.co.uk

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BACKGROUND

Making Tax Digital (MTD) was brought in back in April 2019 for VAT registered businesses with a turnover above the VAT registration threshold (currently £85,000). All VAT registered businesses trading at or above the VAT registration threshold have been required to keep digital records and submit their VAT returns via software that can directly link to HMRC.

The next phase of MTD was due to be brought in from April 2020 but owing to the pandemic this was pushed back to 1 April 2021.

WHAT IS THE NEXT PHASE?

For periods starting on or after 1 April 2021 businesses trading at or above the VAT registration threshold will now also be required to have 'digital links' in all their record keeping. This means there can no longer be any cutting, copying or pasting of data from one application to another, all data must be digitally linked.

WHAT IS A DIGITAL LINK?

HMRC have defined a digital link as the ' data transfer or exchange within and between software programs, applications or products that make up functional compatible software (and these) must be digital where the information continues to form part of the digital records'.

See: <https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat-for-HMRCs-full-guidance>

HMRC states that every piece of software must be digitally linked to all other pieces of software used in record keeping to create a 'digital journey'. There needs to be a clear audit trail from all the data recorded in an accounting system all the way through to the submission of a VAT return to HMRC , this audit trail needs to be digitally linked together.

HMRC are bringing this in as it should remove the need for manual intervention and therefore should result in fewer errors being made.

DATA HELD IN A SINGLE SOFTWARE SYSTEM

A simple way of meeting these requirements will be to hold all of your records in a single software package that enables the submission of MTD returns directly to HMRC, such as Xero or QuickBooks Online.

All sales and purchase transactions will be recorded in the software and as long as the information input has the correct VAT codes the system will be able to compile a VAT return with no or very little manual adjustments (some manual adjustments will be allowed by HMRC, more about this further down in this blog).

THE END OF SPREADSHEETS?

There is a common misconception that this means the end of being able to keep records in an excel spreadsheet but this is not the case. Spreadsheets can still be kept as long as the spreadsheet contains formulas or macros to add up and link cells. For example you could keep one spreadsheet for sales and another for purchases, you could then set up these spreadsheet with formulas to feed into VAT return boxes. You will need to be able to connect the spreadsheet to an API (application programming software, often know as bridging software) to submit the VAT return to HMRC.

DATA HELD IN MULTIPLE SOFTWARE SYSTEMS

Some businesses may have more than one piece of software they use for record keeping, or you could be part of a VAT group where all the members of the group keep their own records. If you can export the VAT information from one piece of software and import into another to produce the full records this is acceptable. If you cannot do this then you may possibly need to consolidate the information into a spreadsheet using links to separate spreadsheets and then submit the return via an API.

RECORDING SALES

Usually sales will be recorded on an invoice to invoice basis but this may not always be practical. For example, a shop may have a till that can't be digitally linked to a piece of accounting software and/or the volume of transactions may make it impractical to keep record of every individual sale. If this is the case then you must keep a record of the daily takings. You could keep this record in spreadsheets that are then imported into accounting software or these could be used to feed into an API. If you then need to provide this information to an agent (for example Lewis Brownlee) to complete your VAT return HMRC has stated that emailing or transferring the data on a portable device are allowed as a digital link.

MANUAL ADJUSTMENTS

HMRC recognises that there may be times when manual adjustments to a VAT return will need to be made. For example your software may not be able to calculate adjustments for partial exemption, if this is the case you can make the calculations in a separate spreadsheet and input the final figures manually into your VAT return, there doesn't need to be a digital link.

RECORDS THAT MUST BE KEPT DIGITALLY

You must have a digital record of:

- your business name
- the address of your principal place of business
- your VAT registration number
- any VAT accounting schemes that you use

When recording sales the digital record must include:

- time of supply - the tax point
- value of the supply - the net value excluding VAT
- rate of VAT charged

When recording purchases the digital record must include:

- time of supply (tax point)
- value of the supply
- amount of input tax that you will claim

EXEMPTIONS

HMRC expect most businesses will be able to meet the requirements of MTD but do accept that it may not be possible for all.

You can apply to HMRC for an exemption if:

- it's not reasonably practicable for you to use digital tools to keep your business records or submit your VAT Returns because of age, disability, remoteness of location or for any other reason
- you or your business are subject to an insolvency procedure
- your business is run entirely by practising members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records

WHAT'S NEXT FOR MTD?

From 1 April 2022 all VAT registered businesses with a taxable turnover below the VAT registration will need required to follow MTD rules.

From April 2023 self-employed businesses and landlords with annual business or property income above £10,000 will need to follow the rules.

From April 2024 companies will start using MTD for Corporation Tax under a pilot scheme with all companies expected to join MTD for Corporation Tax from April 2026.

While MTD may appear daunting at first there is lots of software available that can make it relatively painless, you may also find that updated software can help save time and costs for your record keeping overall. We can help with implementation of accounting software and systems, if you would like any assistance with this please get in touch.

Our Contact details:

01243 782 423

www.LewisBrownlee.co.uk

info@LewisBrownlee.co.uk

Services we offer include:

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