

Global VAT Newsletter

Making Tax Digital (“MTD”) for UK

In April 2019 Her Majesty’s Revenue and Customs (HMRC) introduced MTD for most UK VAT registered businesses.

This required businesses to record, maintain and submit VAT information digitally. Its aim to reduce human intervention and thus error in submitting VAT information.

The 2019 launch was a “soft landing” with the second phase (delayed until April 2021) bringing in more requirements and also potential penalties for businesses failing to make MTD submissions in time.

Currently only businesses with a taxable turnover of over £85,000 are compelled to use MTD, but businesses below this threshold can voluntarily register. However, once you’ve volunteered to use MTD you cannot go back unless under exceptional circumstances.

With phase 2, the main point is that, after the initial data has been entered, if the process requires human intervention (including copy and paste) then it is likely to be incompatible with MTD. However, there are VAT processes that do not align with MTD such as partial exemption. Partial exemption calculations requires data to be exported from an accounting system, have the necessary calculations made (usually using a formula populated spreadsheet) and then “re-imported” back into the accounting software. HMRC have confirmed that such a process does not break MTD rules.

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It has been announced that all VAT registered businesses will need to use MTD (with some very limited exceptions) by April 2022. This announcement was made in 2019 to give businesses plenty of time to make the necessary adjustments.

HMRC have also announced that due to banking regulations they need to confirm that they hold a valid email address for the business who pay VAT via Direct Debit. This is to enable HMRC to email the business about how much and when a Direct Debit will be made.

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Please note that certainly for repayment purposes HMRC will require a UK bank account. Otherwise they will issue a payable order (i.e. a cheque) made out the VAT registered entity. If this is a UK company then it's an obstacle trying to pay it into a non-UK account for the non-UK entity.

In addition, the "old" portal for non-MTD submissions will close in April 2021. For agents this will mean that they will need to set up an agent services account ("ASA") and ensure that they have linked the authorisations for all their VAT clients to the old agent portal. Agents may then have to use their ASA to submit VAT returns for clients who are yet to enrol for MTD.

If you are registering for UK VAT as a non-established person please ensure that you talk to the UK tax agent to ensure that the MTD protocols are followed where required.

Digital record keeping requirements

Businesses can continue to keep documents in paper form but each individual transaction (not summaries) will need to be recorded and stored digitally. The information required for sales and purchases includes:

- The time of supply (date)
- The value of the supply
- The rate of VAT charged
- The amount of VAT charged

You can record the total value of supplies on each invoice that has the same time of supply and rate of VAT charged.

Equally, if an invoice has supplies at different rates of VAT (e.g. adult's and children's shoes) there must be a separate entry for each rate of VAT charged.

VAT account

The VAT account links the business records and the VAT return. Again the information held in the VAT account must be kept digitally.



Save the Date

Brexit: Where are we now?

14 April 2021 3pm BST

Taking a look at the steep learning curve businesses had had during the first 100 days of Brexit and what is on the horizon.

To show the link between the output tax in the records and on the return, there must be a record of:

- The output tax owed on sales
- The tax it is required to pay on behalf of its suppliers under the reverse charge procedure
- The tax that needs to be paid following a correction or error adjustment
- Any other adjustment required by VAT rules

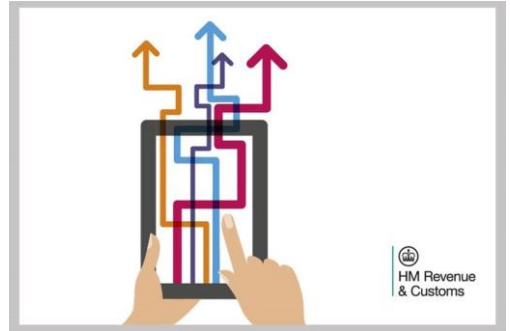
To show the link between the input tax in the records and on the VAT return there must be a record of:

- The input tax recoverable from business purchases
- The tax that it is entitled to reclaim following a correction or error adjustment
- Any other necessary adjustment

There are also digital record keeping requirements in particular situations for retail schemes, the flat rate scheme and margin schemes.

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Whilst the regulations allow HMRC to relax the digital record keeping requirements where it would be impossible, impractical or unduly onerous to comply, this requires the business to make a written submission to HMRC requesting this.

For more information, please contact a member of the Global VAT Services Operational Group:

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