

A GUIDE FOR  
BUSINESSES

# Making Tax Digital

*Your Questions  
Answered.*

*February 2019 update including  
MTD advice from Peter Jones*



# Contents

1. **What is Making Tax Digital?**
2. **When does MTD for VAT become a legal requirement?**
3. **What does this mean for my business?**
4. **How much will it cost businesses to comply with MTD for VAT?**
5. **Is there software available already?**
6. **Are there any exemptions for businesses that have a turnover above the VAT registration threshold?**
7. **What is MTD enabled software?**
8. **What records do I need to keep as part of MTD for VAT?**
9. **My business doesn't use digital software, we use spreadsheets and paper. How will it impact me?**
10. **What is a digital link?**
11. **My business isn't VAT registered and I don't know if I will earn £85,000 this year. What should I do?**
12. **What if I go over the VAT threshold temporarily?**
13. **Will there be penalties for not complying with MTD?**
14. **Is there a soft-landing period to give me time to get used to the new system?**
15. **Business checklist: A 4-step process to ensure you're compliant with MTD**
16. **Making Tax Digital: Top tips from Peter Jones**

# 1. What is Making Tax Digital?

Making Tax Digital (MTD) is a key part of the government's plans to make it easier for individuals and businesses to get their tax right and keep on top of their affairs, as well as transforming HM Revenue and Customs (HMRC) into a world-leading digital tax authority.

At present, the only legal requirement relating to MTD is the scheme for VAT, which applies to VAT-registered businesses as of 1 April 2019. Although there have been rumours this date might change—or that MTD will be cancelled entirely—HMRC has issued a [VAT Notice](#), making it fully official. Businesses need to prepare and to have a solution ready in time.

## **In summary, the current situation with MTD for businesses is:**

- **Most businesses with a turnover above the VAT threshold** – currently £85,000 – are affected from **April 2019**, if they pay VAT.
- Businesses will not be asked to keep digital records or update HMRC quarterly for other taxes **until at least April 2020**. At present HMRC hasn't shared any further details.
- Niche and more complex businesses or organisations – **around 3.5% of the total** – have a postponed MTD for VAT start date of **October 2019**.

## **The requirements for MTD for VAT are fundamentally simple. HMRC says that VAT-registered businesses with a taxable turnover above the VAT threshold must:**

- Keep records in a digital form; and
- File their VAT returns via MTD-enabled software.

HMRC says that while the complete set of digital records to meet MTD requirements don't all have to be held in one place or program, there must be a digital link between the pieces of software used.

MTD for VAT has the force of law and is therefore a mandatory requirement. Outside of a handful of narrow and very unusual circumstances, you can't opt out of MTD for VAT. While you might use an accountant to file your VAT on your behalf, you will still need to keep financial records digitally if they pertain to your VAT accounting.

**Eighty-nine percent of companies will have to change the way they submit VAT.**

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## 2. When does MTD for VAT become a legal requirement?

Most VAT-registered businesses must start following the MTD rules from the first day of your first VAT period that starts on or after 1 April 2019.

**However, some types of more complex businesses, entities and organisations have a deferred MTD for VAT start date of October 2019, as follows:**

- Businesses required to make payments on account.
- Annual accounting scheme users.
- Trusts.
- Not-for-profit organisations that are not set up as a company.
- VAT divisions.
- VAT groups.
- Public sector entities that are required to provide additional information on their VAT return.
- Local authorities.
- Public corporations.
- Traders based overseas.

If you think your business or organisation falls within the above list, speak to an accountant or tax adviser in order to confirm it. **Missing the MTD for VAT deadline in April might incur penalties from HMRC.**

HMRC says the above types of businesses and organisations comprise around **3.5% of the total that file VAT returns**. Notably, in addition to starting a little later, deferred businesses can't join the MTD for VAT pilot programme until **spring 2019**.

Throughout this guide, we assume your business is not a deferred business or organisation, so must start complying with MTD for VAT as of **April 2019**.



### 3. What does this mean for my business?

For VAT-eligible businesses with a turnover above £85,000, MTD will be here very soon. If this includes your business, you will need to update your accounting software to an MTD-ready version before April 2019. If your existing software isn't compatible and can't be updated, you might need to purchase new compatible software.

If you submit VAT manually through the post or via the existing Government Gateway website, you will almost certainly have to integrate commercial software into your business **before April 2019 as these forms of submissions will no longer be accepted by HMRC.**

HMRC is already running an MTD for VAT pilot programme. Your business can optionally join this before April 2019 and it will give more time to prepare before MTD for VAT becomes compulsory.

Businesses will not be asked to start digitally keeping records or submitting information for other taxes until at least 2020, although HMRC is presently running a voluntary pilot programme for sole traders and non-holiday-let landlords. See <https://www.gov.uk/guidance/use-software-to-send-income-tax-updates> for more information.

# 4. How much will it cost businesses to comply with MTD for VAT?

For businesses needing to use digital software for the first time, there are a number of providers that will offer this on a subscription basis with packages tailored to your company's size and/or structure.

Sage offers businesses more than a one-size-fits-all solution – and can help you get ready for MTD for VAT, as well as any other regulations in the future.

Businesses that use updated accounting software will have to check their current provider is MTD ready, and learn how to access the features for VAT filing.

HMRC has given an estimate that the costs average at about £280\* per business across the period of transition.

**This does not, however, consider long term efficiency gains from MTD:**

## Save Time:

On average a small-or-medium-size business can save 27.6 days\*\* a year by using digital accounting software in comparison to using manual methods, therefore giving precious time back to focus on growing the business.



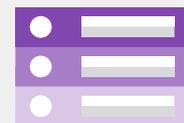
## Efficiency Saving:

Our research shows that an SME that uses digital accounting software can make an estimated saving of £17,000 per annum. Digital accounting software seeks to further decrease your admin time, leaving you with more money to reinvest in your businesses.



## Prevention of late filing and errors:

By automating submission, MTD will help businesses manage their tax affairs by alerting them before payment is due and keeping them on top of their tax liability. This will prevent payments from piling up and reduces the chance of error and incurring penalties.



\* <https://www.parliament.uk/documents/commons-committees/treasury/Correspondence/HMRC-updated-impact-assessment-MTFFB.pdf>

\*\* Based on the result of 1398 interviews by SME's and accountants based in the UK.

<https://www.sage.com/en-gb/news/press-releases/2018/04/moving-to-digital-accounting-results-in-cost-savings/>



## 5. *Is there software available already?*

**Yes.** Software for keeping digital records is available now. HMRC provides a list of software vendors: <https://www.gov.uk/guidance/software-for-sending-income-tax-updates>

Some providers including Sage have started to enrol their customers in the MTD for VAT pilot, and we welcome you to join too.

Sage believes all businesses are different. Therefore, different solutions are required dependent on where you are in your business journey to enable businesses to fully maximise their opportunities.

This is why Sage Business Cloud offers different solutions and a choice of support services to suit individual businesses, keeping them up to date and always ahead of the deadline in the face of market and regulatory changes.

With the new requirements for Making Tax Digital, Sage Business Cloud ensures your business is fully compliant, effortlessly, and fully connected with your accountancy and tax advisers.

And when you're ready to move on to the next stage, Sage will be there ready with the next solution, providing the business insight and unrivalled support to help you maintain efficiency and land opportunity.

## 6. Are there any exemptions for businesses that have a turnover above the VAT registration threshold?

There are a few exemptions outlined by HMRC. They apply only in very narrow and specific circumstances.

**You will not have to follow the MTD rules if HMRC are satisfied that:**

- Your business is run entirely by practicing members of a religious society whose beliefs are incompatible with the requirements of the regulations (e.g. those religious beliefs prevent them from using computers).
- It is not reasonably practicable for you to use digital tools to keep your business records or submit your returns, for reasons of age, disability, remoteness of location or for any other reason.
- You are subject to an insolvency procedure.

If the above applies, businesses should contact HMRC to discuss alternative arrangements.



## 7. What is MTD enabled software?

MTD enabled software is a software program or set of compatible software programs that must be able to:

- Record and preserve electronic records in an electronic form.
- Provide to HMRC information and returns from the electronic records in an electronic form and by using the Application Programme Interface (API) platform.
- Receive information from HMRC.

## 8. What records do I need to keep as part of MTD for VAT?

The following records must be kept in an MTD compliant manner:

### **Designatory data:**

- Business name.
- Address of your principle place of business.
- VAT registration number.
- A record of any VAT accounting schemes used.

### **For each supply you make:**

- The time of supply (the tax point).
- The value of the supply (Net excluding VAT).
- The rate of VAT charged.

### **For each supply you receive:**

- The time of supply.
- The value of the supply.
- The amount of input tax that you will claim.

### **Your summary data, including:**

- The output tax due on sales.
- The output tax due on acquisitions from other EU member states.
- The tax payable on behalf of your supplier under a reverse charge procedure.
- The tax that needs to be paid following a correction or error adjustment.
- The input tax claimable from business purchases.
- The input tax allowable on acquisitions from other EU member states.
- The tax reclaimable following a correction or error adjustment.
- Any other necessary adjustment required by VAT rules.

# 9. *My business doesn't use digital software, we use spreadsheets and paper. How will it impact me?*

From 1 April 2019 it will become mandatory to keep your records digitally and submit your VAT returns to HMRC using MTD-enabled software.

While a spreadsheet is considered a valid digital record, you will need to ensure that this is either API enabled (that is, it can submit your VAT return to HMRC via an API link using what HMRC calls "bridging software") or it has a valid digital link to other MTD-enabled software.

Copying and pasting from spreadsheets into your financial software is NOT permitted under MTD for VAT – although HMRC is temporarily allowing copying and pasting from spreadsheets for just one year as of April 2019. This is only a concession to allow businesses sufficient time to update their processes and should not be relied upon as one of your accounting processes.

MTD for VAT does not stop you creating paper-based notes or invoices, but the invoice level data must be transferred into your MTD-compatible software at some point. For example, it will no longer be legal to simply enter the monthly total of all invoices into your digital software.

While there's no requirement for the MTD-compatible software to issue the invoice, it is surely more efficient to simply issue the invoice directly from accounting software.

**Theresa Middleton, director of MTD for Business at HMRC, said the following:**

**“The strong advice I’m giving to people is: if you’re an accountant and you’ve got new clients joining, or you’re newly setting yourself up in business, you should probably go digital first rather than use a spreadsheet.”**

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# 10. What is a digital link?

Broadly speaking, a digital link allows data to be imported/exported between programs without the need for manual intervention.

**Manually cutting or copying data from one piece of data and pasting it into another piece of software isn't accepted as a digital link.** Doing so is not allowed and might incur a penalty from HMRC.



# 11. My business isn't VAT registered and I don't know if I will earn £85,000 this year. What should I do?

MTD is only mandatory for businesses with a turnover above the VAT threshold – currently £85,000.

You will however need to monitor your taxable turnover. Software can help you monitor this monthly to help you comply with VAT registration requirements.

**You will be required to VAT register and come within the scope of MTD if:**

- At the end of any month, the value of your taxable supplies in the previous 12 months or less is over the registration threshold.
- At any time, you expect the value of your taxable supplies in the next 30 day period alone, to go over the registration threshold.

**Businesses below the VAT registration can also choose to waive exemption if they wish to follow the requirements of MTD voluntarily.**

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## *12. What if I go over the VAT threshold temporarily?*

Once you have reached the VAT registration you will need to comply with the requirements of MTD, even if your turnover subsequently falls below the VAT registration, unless you meet one of the other exemptions set out in point six.

You would have to tell HMRC's VAT Registration Service within 30 days when you have a requirement to be VAT registered.

## *13. Will there be penalties for not complying with MTD?*

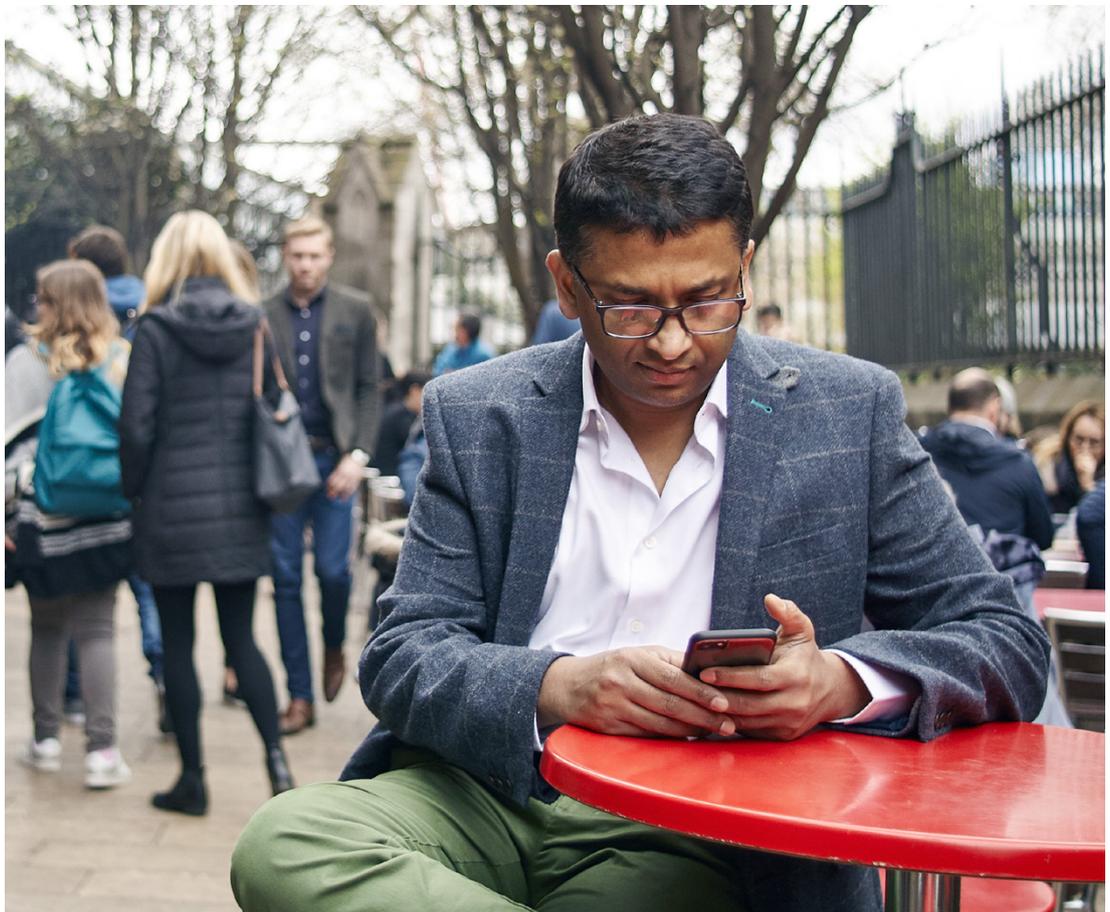
**Yes,** failure to comply with MTD will incur penalties.

The specific details of how the penalty regime for MTD will work is under consultation and options include a points-based penalty system where an accumulation of points will incur a monetary charge. Existing penalties for late submission or error will apply.

# 14. *Is there a soft-landing period to give me time to get used to the new system?*

Making Tax Digital goes live on 1 April 2019 for the majority of businesses and, if eligible for VAT, your business must be ready.

However, the requirement to have your VAT accounting system fully “digitally linked” is not mandated until April 2020. This is all that’s meant by the “soft landing” period. In practical terms, for most businesses this means they’re permitted for just one year to copy and paste from spreadsheets into other software. But, as mentioned, this is only to allow businesses time to adapt to MTD for VAT and copying/pasting should not be a part of your ongoing accounting workflow.



# 15. Business checklist

Here's our four-step process to follow, to ensure you're ready for MTD for VAT:



**1** Determine whether you're impacted by the change.



**2** Review your plan.



**3** Review your VAT process.



**4** Adapt now!



## 1 Determine whether you're impacted by the change.

Are you currently under the £85,000 VAT threshold? Will you be eligible?

Get your business details in order before beginning.  
Consider your:

- Projected turnover for next 12 months.
- Year-end date.

## 2 Review your plan.

If you're already using accounting software, check with your provider if you will be updated to the latest MTD enabled version, and when.

If a change of software is required you may want to establish the most practical time for your business to do so – after your year-end, for example.

The best way to work to make a meaningful change is to examine the way you currently operate:

- Do you use software? Is it MTD ready?
- Do you work manually, through Excel, or do you have an alternative in place?
- If you work with an accountant or bookkeeper, what do they think?

## 3 Review your VAT process.

Work with your partners, accountant and/or bookkeeper – and don't hesitate to get support from your software provider if you will be downloading accounting software for the first time.

Outline the processes you may need to change:

- Are you submitting through HMRC's online gateway? Are you using Excel or paper?
- Will your current methods/software allow you to submit through the gateway once MTD comes into effect?
- Do you have any adjustments to make before April?

## 4 Adapt now!

The faster you get started, the more likely you are to fulfil your new MTD obligations seamlessly come April 2019. Give yourself the time to adapt and get the support you need to make the impact as minimal to your business as possible.

**There is no time for hesitation, or to put off adapting your business to MTD for VAT.** If you are a current Sage customer and would like to be a part of the pilot visit <https://www.sage.com/en-gb/making-tax-digital/>



## 16. Making Tax Digital: Top tips from Peter Jones

Peter Jones is a British entrepreneur with business interests covering media, television, mobile phones, leisure, property and retail. He is one of the original investors on BBC TV show *Dragons' Den*. Peter is also Sage's Ambition Ambassador and a Sage Customer For Life.

Here he gives his personal advice on the importance of a well-organised business, why embracing digital is vital for your company and how Making Tax Digital can give you time back so you can keep growing your business.

"There's one thing that's really important, if you think about it: actually preventing a problem is a lot easier than fixing a problem, especially when it comes to taxes. The last thing you want to do is have a major issue with a tax bill that's going to take you down routes of investigation, so you just need to get organised.

"I've always believed with regards to tax that you can prevent an issue just by being organised and there's nothing better than actually having all of your information in one place."

## Why businesses should embrace the digital world

"This is really quite key: now that you can't actually submit your VAT return directly to HMRC [Editor's note: effective from 1 April 2019], what are you going to do?"

"You need to make life easy, there's only one way, you've just got to embrace that digital world."

"If my dad was to start a business today – my dad is 86 – even he would actually go digital, that's the most important thing. You need an accounting package to do that and obviously what better accounting package than Sage."

"And I'm not just saying that because I'm an ambassador for Sage. Genuinely. I'm saying it because I have used Sage within my businesses since I was 19 and I might look in my mid-to-late fifties but being 52 today, I'm still going strong and do you know what accounting package I use? It's Sage – so you've just got to embrace it. Embracing digital saves you so much more time."

"All of my teams across all of my businesses, if we didn't have Sage running our businesses and our accounting solutions, the amount of people that I would now need to employ would just absolutely make it not efficient and it would just cost me more money."

## How to get time back to run your business

"One of the most important things, whether you're an entrepreneur, a one-man outfit, or you're running a company with thousands of people, the thing we just don't have is enough time."

"Time is never on an entrepreneur's side. I'm always running out of time."

"Going digital – especially with the most important management information which is about your business and taking all the heartache away from producing all of those VAT returns, literally at a click and press of a button – that gives you back the very commodity that you desperately need to become successful. You need time."

"Making Tax Digital gives you that time back and that's why it's important to embrace it."

## Where to find the best advice for Making Tax Digital

"So at the moment, the big thing is Making Tax Digital and so many questions from so many people and one of the questions that I get asked quite a lot is where do I go, where's the help and advice that I need to find out how I make my tax digital within my own business so that it gives me back my time?"

"Google is always your best friend. However, there's some government resources out there but genuinely the best place to go is directly to Sage's website."

"There's so much on there, the advice section there is as good as it gets, so please go to [sage.com/mtd](https://www.sage.com/mtd) and have a look."

"You'll find everything you need to know and there's a hub in there specifically about Making Tax Digital and the information you get for free is so fantastic."



**For more information visit:**

**The Sage MTD Hub:** <https://www.sage.com/en-gb/making-tax-digital/>

**The Sage Store for MTD-ready software:** <https://www.sage.com/accounting>

**Speak to our MTD experts:** Call on **0800 33 66 33**



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