

A GUIDE FOR BUSINESSES

# The Ultimate Guide to Making Tax Digital

*A guide to getting ready for MTD and  
making VAT submissions, featuring  
advice from Peter Jones.*



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# It's time for your business to go fully digital

The world is going digital and businesses are not exempt from this revolution.

Most businesses over the past 40 years have embraced accounting using computers, but the UK Government is now requiring more when it comes to VAT accounting.

For VAT-registered businesses, the law now states that digital software must be used to record and submit the most important VAT information as part of Making Tax Digital (MTD).



# What is Making Tax Digital?

Making Tax Digital (MTD) is a key part of the government's plans to make it easy for individuals and businesses to get their tax right. The government also hopes to avoid £9.2bn in lost revenue caused by errors in taxes.

MTD for VAT is the first stage of this, and means that businesses must now do their VAT accounting using software—and file their VAT Returns using software too, via an internet connection. It became law on 1 April 2019. Businesses must comply with the new rules or risk being penalised.

## MTD for VAT means the following:

- **VAT Returns must be filed through compatible software:** VAT-registered businesses with a turnover above the VAT threshold (currently £85,000) must submit their VAT Return using software. This means it's no longer possible to submit VAT Returns via HMRC's website. Your accountant can still submit the VAT Return on your behalf.
- **Businesses must keep digital records:** Most VAT accounting records that pertain to the VAT Return must be kept using software for the mandated period of six years (10 years for mini one-stop shop (MOSS) businesses).

MTD for VAT affects the vast majority of VAT-registered businesses and it isn't possible to opt-out (although some businesses can claim exemption because of genuine limitations—see page 11).

**MTD for VAT means businesses must use accounting software, which makes it easy to submit VAT Returns in the correct way and can help with the storing of VAT accounting transactions for the required period.**

By making the necessary switch to digital accounting solutions, many businesses across the UK are using MTD for VAT as an opportunity to revolutionise their business accounting, and to significantly ease the administrative burden.

# 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, plus 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, 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 53 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.

"For 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."

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

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## 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, is this: we just don’t have 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. There are 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. 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 fantastic.”



# How to get ready for Making Tax Digital

MTD for VAT will have varying levels of impact for your business depending on the accounting technology used.

For most VAT-registered businesses with a taxable turnover above £85,000, MTD for VAT is likely to mean they will have to use accounting software, if they aren't already doing so.

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## *What accounting software to use*

Most accountants and financial experts say a cloud accounting solution is best for MTD. With cloud accounting the data is stored securely online.

### **Here are the benefits of cloud accounting:**

**Available 24/7:** The Cloud is available anywhere there's an internet connection, regardless of the time or location. You or your employees can work from home, or the office, or even locations such as a client's premises or a coffee shop.

**Mobile friendly:** Working in the Cloud means you aren't tied to just one computer, within the four walls of your office. Smart mobile devices such as phones and tablets can access cloud data too.

**Multiple users:** Because the data is in the Cloud, multiple users can access and see the same data—meaning your staff haven't got to use a single computer or software package.

**Reduced IT spend:** No need to backup. No need to worry about the security of your data. The Cloud takes care of it all for you.

### **For MTD for VAT, cloud accounting is simply unbeatable:**

**Online data:** Because your VAT accounting data is online, connecting to HMRC's systems in order to comply with MTD for VAT's requirement to file your VAT returns using software becomes a simple task.

**Retaining VAT data:** Since your data is stored in the Cloud, without you having to even think about it, you can easily comply with MTD for VAT's requirement to retain VAT accounting data digitally for at least six years.

**Ready for the future:** Cloud accounting software is automatically updated, so you will remain compliant no matter what tax legislation is announced in the future.

# MTD and spreadsheets

The use of spreadsheets for your business accounting is discouraged by most accounting and finance experts. Theresa Middleton, director of MTD for Business at HMRC, said the following on the topic of MTD for VAT:

“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.”

## What’s wrong with spreadsheets?

When it comes to your business accounting, spreadsheets are inherently problematic for a number of reasons:

- **Security:** It’s difficult to meet data protection requirements, such as the GDPR, which was introduced in 2018. It states that data protection must include “Privacy by Design”. Can your accounting spreadsheet and computer systems meet this goal?
- **Loss of data:** Accounting via a spreadsheet means your vital accounting data is contained in a single file, or handful of files. It’s very easy to accidentally corrupt, delete or otherwise lose files—as every computer user knows.
- **Data retention requirements:** MTD for VAT rules require certain VAT accounting data to be kept digitally and unmodified for at least six years. Can you be sure you won’t accidentally overwrite a cell’s contents, or modify a formula?

However, the main failing is that spreadsheets have no inherent way to submit your MTD for VAT Return, which is a key part of MTD for VAT’s legal requirements. It is possible to use a bridging solution that hooks into the spreadsheet, but this is considered by many experts as only a temporary stopgap until the business is able to transition to full digital accounting (for example, following a year end accounting period).

## What are the MTD rules for using spreadsheets?

There’s no explicit prohibition within the MTD for VAT rules around spreadsheets and, in fact, they continue to have many legitimate uses for calculations relating to your VAT accounting. The MTD for VAT rules permit them to be used for requirements such as partial exemption or adjustment calculations, or road fuel scale charges.

However, under MTD for VAT rules, you must then type the resulting figure back into your accounting software. Some accounting software packages let you add spreadsheets or other files to your ledgers as notes.

However, copying and pasting from a spreadsheet is not allowed outside of performing necessary adjustments, nor is manually typing figures from one place to another. For example, a business owner might think she can continue to create her VAT accounting as a spreadsheet, and copy and paste data from the spreadsheet into her accounting software in order to submit it. This breaks the “digital linking” rules of MTD for VAT.



# The cost of MTD for VAT

For businesses needing to use digital accounting 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.

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

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

**Saving 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, giving precious time back to focus on growing the business.

**Efficiency saving:** Our research shows SMEs that use digital accounting software can make an estimated saving of £17,000 per annum. Digital accounting software can 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 overdue payments from piling up and reduces the chance of error and incurring penalties.

\* Based on the result of 1398 interviews by SMEs 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/>

# *Using an accountant for digital VAT submissions*

Accountants can digitally file VAT Returns on behalf of businesses, removing the requirement for them to do so.

Your business will need to sign up for MTD for VAT, as described earlier, and then notify your accountant, who will configure their system to file returns on your behalf. There might also be additional steps to configure your accounting solution to connect to that of your accountant. They will be able to advise on the best route forward.

However, as a business, you will still need to ensure that the necessary VAT accounting records are kept digitally for the required period of time—typically at least six years but sometimes longer, such as the 10 years required for mini one-stop shop (MOSS) businesses.



**The easiest way to do this is to use a digital accounting solution.**

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# Exemptions and deferrals

The vast majority of VAT-registered businesses are required to comply with MTD for VAT. It is not optional. However, for a small number of businesses there are mitigating circumstances that mean they might not have to comply either immediately, or on an ongoing basis.

## 1. Turnover is below the VAT threshold

If your business is voluntarily VAT registered, but its turnover has always been below the threshold (currently £85,000), then the business can continue submitting VAT Returns using the old VAT portal website, and businesses can choose to store VAT records in non-digital forms for the mandated period (although digital accounting is still strongly advised).

However, if you've registered for VAT because your taxable turnover was above the VAT threshold, but it has since fallen after 1 April 2019, then HMRC will continue to treat you as being above the VAT threshold and you must continue to keep digital VAT records and submit a VAT Return using software. If you believe the turnover will stay below the VAT threshold you can deregister for VAT and thereby remove the need to comply with MTD for VAT.

## 2. Prohibitive beliefs, locations or disabilities

Outside of turnover being below the threshold, exemptions are allowed under the following conditions:

(a) Religious beliefs are incompatible with the requirements of MTD for VAT. This is typically that the individuals running the business are unable to use computers because of their beliefs.

(b) Reasons of age, disability, remoteness of location or, in HMRC's words, "any other reason" that means it's not "reasonably practicable" for the business owner to use digital tools to keep business records or submit returns. For example, a business without an internet connection because it's on an island that's off the grid might be considered exempt.

To apply for exemption, you will need to contact HMRC's VAT helpline to discuss the situation and arrange alternative measures. It's important to note that if HMRC believes exemption isn't appropriate, it may offer digital assistance to help your business get online support.

## 3. Insolvency

Your business doesn't have to take part in MTD for VAT if it is subject to insolvency procedures.

## 4. Certain types of more complicated VAT accounting

HMRC has announced that some businesses with more complicated types of accounting have a deferred MTD for VAT start date of October 2019.

The following businesses are deferred for MTD for VAT:

- 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

However, these businesses are able to sign up to an MTD for VAT pilot scheme<sup>(1)</sup> and thereby participate in MTD for VAT right now.

Very large organisations that use VAT GIANT (Government Information and National Health Trusts online service) are exempt until October 2019, and cannot take part in the pilot programme. These organisations should consult HMRC for guidance.

<sup>(1)</sup> <https://www.gov.uk/government/publications/making-tax-digital-how-vat-businesses-and-other-vat-entities-can-get-ready/making-tax-digital-how-vat-businesses-and-other-vat-entities-can-get-ready>

# Penalties for non-compliance

HMRC is planning to introduce a new penalty system in the coming years to better reflect MTD for VAT's impact on VAT payments and record keeping. However, until a new scheme is launched the existing VAT-related penalty systems continue to apply currently.

## What penalties might be applied?

Under the existing penalties system if you default on a VAT payment then you might be issued a Surcharge Liability Notice<sup>(2)</sup>, that could mean paying surcharges of 2%, 5%, 10% and so on, depending on how long you remain in default. You can also receive additional penalties at the discretion of HMRC for not keeping the correct records, or for filing your VAT Return incorrectly.

However, the Chancellor of the Exchequer said the following in his Spring Statement 2019:

"The government can confirm a light touch approach to penalties in the first year of implementation [of MTD]. Where businesses are doing their best to comply, no filing or record keeping penalties will be issued."

This applies for the first year of MTD for VAT following 1 April 2019, so will expire as of 31 March 2020.

This obviously cannot be used as an excuse to ignore the requirements of MTD for VAT, or to make deliberate errors. If your business finds itself being inspected by a VAT Assurance Officer, they will first and foremost be evaluating your attempts to comply with the legislation, even if it transpires you've been unsuccessful.

## What is the soft-landing period?

HMRC is allowing a "soft-landing" period. This is different from the light touch for penalties mentioned previously, and refers to relaxing the technical rules on digital links, which is a key component of how legislation says MTD for VAT must operate within a business.

The soft-landing period again applies the first year, so expires on 31 March 2020.

Users copying and pasting (or cutting and pasting) any VAT accounting data for the purposes of their VAT Return or accounting are ordinarily not allowed to do so under the rules of MTD for VAT. This is because HMRC intends the flow of accounting data to be entirely digital, and therefore automated—which it describes as digital linking.

If a user manually copies and pastes data then it is not an automated procedure, so isn't a digital link. This rule applies even if you're cutting or copying and pasting within the same software program.

However, during the first 12 months, HMRC will accept cut and paste of data (or copy and paste) as a form of digital link. According to HMRC, the soft-landing period is only to allow businesses time to update legacy systems.

It would be a mistake for businesses and accountants to spend the soft-landing period simply putting off switching to a fully digital solution for VAT. This would leave zero room for error or testing when the time comes—and could therefore lead to significant penalties should you fail to file, or file incorrect amounts.

<sup>(2)</sup> <https://www.gov.uk/guidance/vat-default-surcharge-notice-70050>

# Get started: A Making Tax Digital checklist

Here's our four-step process to follow to ensure your business is ready for MTD for VAT:

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

Are you currently under the VAT threshold (currently £85,000)? 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 working methods

If you're already using accounting software, check with your provider if you have been updated to the latest MTD enabled version.

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 utilising 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 spreadsheets or paper?
- Do you have any adjustments to make before your first MTD for VAT filing?

## 4. Adapt now!

The faster you get started, the more likely you are to fulfil your new MTD obligations come the filing date for your first full VAT period following April 2019. Give yourself the time to adapt and get the support you need to minimise the impact on your business.

**There is no time for hesitation, or to put off adapting your business to MTD for VAT.**

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# How to sign up for Making Tax Digital

Getting your business up and running with MTD for VAT could be easy if your business is already using the right kind of accounting software. However, if you have to switch to newer MTD-compatible software then there could be a significant administrative overhead in the form of a one-time set of tasks that will require time to complete.

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## *What software to use*

Put simply, the software you use for your VAT accounting will need to be MTD for VAT compatible, which is to say, it's able to connect to HMRC's computers to file your VAT Returns (and receive information from HMRC), and store the relevant VAT accounting data digitally.

If you already use accounting software you will need to check with the vendor to make sure it's MTD for VAT compatible. If it's cloud accounting software then you will probably find it's automatically updated, and ready to go once you activate the MTD for VAT feature.

Some accounting software is intended to be manually installed on a single computer or device. This might need to be manually updated, or even upgraded to a newer version if the software package is old and no longer supported.

Needless to say, upgrading your accounting software will probably present a large administrative burden, so you should prepare ahead of time.

# When to sign up

Unfortunately, you can't sign up for MTD for VAT as soon as you've filed your final "traditional" VAT Return.

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HMRC offers the following guidelines as to when you should sign up to MTD for VAT, and the earliest you can subsequently file your first VAT Return:

- If you pay by direct debit you must allow five working days after the filing deadline for your final non-MTD return before signing up for MTD for VAT, and must allow at least seven working days before the filing deadline to file your first return under MTD.
- If you pay by non-direct debit methods, you must allow 24 hours after your last non-MTD return before signing up, and 72 hours after signing up before filing your first return under MTD.
- If you've filed your VAT Return late, and you pay by direct debit, you must allow five working days after filing late before signing up. If you pay by non-direct debit methods then, as above, you must allow 24 hours before signing up if you've filed your VAT Return late.



# What's required to sign up

Filing your VAT Return is done using your accounting software under MTD for VAT, but initially you must register with HMRC via its website.

Eligible businesses are not automatically enrolled, despite the fact it's compulsory. Notably, you're not automatically enrolled even if you've previously filed your VAT Returns using the VAT portal website.

Your business must have registered with HMRC for the service <sup>(1)</sup> in time for your VAT Return deadline. The registration process involves logging in with the Government Gateway account <sup>(2)</sup> for your business. You might have used this previously when filing VAT Returns via the portal website. If you don't have a Government Gateway account, you'll be invited to create one, and will need an email address to do so.

## To sign up for MTD for VAT you'll need the following information to hand:

- Your Government Gateway ID and password
- Your company's VAT number (which you'll find on your VAT registration certificate)
- The date your business became VAT registered (again, found on your VAT registration certificate)
- The postcode of the principal place of business, which is to say the place where your company carries out most of its business activities and/or keeps its financial and business records
- The Box 5 amount from your most recent VAT Return, which is to say the amount of your last VAT Return
- The month in which your most recent VAT Return was submitted.

You will need to specify the accounting software vendor you use while signing up, so cannot sign-up for MTD for VAT until you've chosen a package.

Take note: final verification from HMRC that your business can start submitting VAT Returns via MTD for VAT might take up to 72 hours, and you should not submit your VAT Return until you receive this confirmation. Being unprepared for this delay might run the risk of you submitting a late VAT Return, so you should register sooner rather than later.

<sup>(1)</sup> <https://www.tax.service.gov.uk/vat-through-software/sign-up/have-software>

<sup>(2)</sup> <https://www.gov.uk/log-in-register-hmrc-online-services>

# How to submit VAT Returns using Making Tax Digital

Here are the steps required to submit your first MTD for VAT Return.

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## *When MTD for VAT Returns are due*

MTD doesn't change your filing period, so you will continue to file monthly or quarterly (or possibly yearly) according to your existing schedule. Nor does it change your filing dates, or the times by which you have to pay the VAT Returns.

The only difference that MTD for VAT introduces is that you must file your VAT Returns using software, which for most businesses will mean using a feature within their accounting software to do so.

However, as mentioned earlier, after signing up you will need to allow at least seven working days before your first MTD for VAT filing deadline to file your first VAT Return under MTD. This is required to allow time for HMRC to ensure the Direct Debit details are transferred from the old system to the new one.

# How to file your first MTD for VAT Return

Once you've registered with MTD for VAT, you will then need to tell your accounting software to start submitting using the MTD process, even if you've previously used the VAT gateway website via your accounting software. There is likely to be an "Enable MTD" or similar option that is located somewhere in the settings, options or feature menu area.

If you've used the accounting software to record your VAT accounting over the previous period then the report should be generated automatically—although don't forget to enter any adjustments you might need to make.

If your first MTD submission spans or is after Brexit, you may need to make some additional adjustments, especially if you have any purchases or sales to EU countries as these are now reported differently.

Following this, select the option to submit the VAT Return online to HMRC. At this point, you might need to enter your business' Government Gateway ID so your accounting software can log into HMRC's MTD for VAT systems. Alternatively, you may need to manually associate your accounting software with HMRC's systems using an option found elsewhere, such as within your user account profile.





## Filing an MTD for VAT Return using Sage Business Cloud Accounting

Below are the steps required to file an MTD for VAT Return using Sage Business Cloud Accounting. Needless to say, you should have also followed the instructions above to register with HMRC for the MTD for VAT service.

To activate MTD within Accounting, click Settings and then, in the Financial Settings section, click Accounting Dates & VAT. Scroll down until the Making Tax Digital section is visible, and click Authenticate. Then follow the instructions, which will include granting access for Accounting with HMRC. For security reasons you will need to repeat this process every 18 months, and it requires your Government Gateway user ID and password.

Now you must generate and file the VAT Return. These steps should be used each time:

1. While viewing your accounting summary, click the Reporting heading, and then click VAT Returns.
2. Click the blue Create VAT Return button.
3. The dates will be set automatically based on HMRC's reporting requirements for your business. All you need to do is click the Calculate button.
4. Once the calculations are complete and the figures are displayed, you might need to make adjustments. To do so, click the Adjust link alongside whichever amount needs to be adjusted.
5. It's also possible to click the Detailed Report button to see more info about the return, and you can create a hard copy of the return by clicking the Print button. However, neither of these are necessary to file the return.
6. Assuming you're happy with the values shown in the return, click the Submit Online to HMRC option, and then click Save.
7. A dialogue box will appear asking you if you're sure you're happy with the return. Click the Finalise and Submit button to complete the submission.
8. You'll be shown the VAT Return List, which shows the return and a brief status message about how it's progressing. You can view this list in future by repeating Step #2 above.

# Keeping digital records

Accounting software should take care of this for you automatically, but if you rely on another type of technology for your VAT accounting (such as a spreadsheet), you will need to ensure the data is kept for the required period without any risk of loss or corruption.

HMRC's VAT Notice 700/22<sup>(1)</sup> sets out what VAT records must be kept digitally, which for most businesses includes your business name, the address of your principal place of business, your VAT registration number and details of any VAT accounting schemes that you use.

Most businesses will need to record for each invoice (or "supply" in the VAT Notice terminology) the time and date of supply (tax point date), the net value (excluding any VAT) and the VAT rate used to calculate VAT.

## Some businesses will need to keep more or less information depending on their VAT scheme and circumstances.

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If you print or even handwrite invoices or receipts then you'll need to transfer the VAT accounting information to your accounting software before you submit your VAT return. This doesn't mean you should then destroy the paperwork, because it could be required for other aspects of your accounting.

<sup>(1)</sup> <https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat>

# *An accountant's advice on MTD for VAT*

If MTD for VAT applies to your business and you use an accountant or other financial professional for your company, it's likely that you will already have heard from them regarding your Making Tax Digital requirements.

While it's the responsibility of their clients to observe the MTD for VAT rules, most accountants believe they have a duty of care to help businesses implement MTD for VAT. Indeed, HMRC has relied on the UK's network of accountants to do this.

This was certainly the case for Sudipta "Sid" Moore, of Moore Accountancy, which is based in Altrincham, just outside Manchester. Her practice continues to help and advise clients on how to convert to MTD as various initial VAT deadlines come into view.

When it comes to MTD for VAT, her advice for businesses is pragmatic: "Embrace what's happening. Don't be scared by it, and remember that MTD is the way forward, so you're going to have to do it no matter what."



### How to move over to MTD

A big problem has been businesses receiving communications about MTD for VAT and not realising the magnitude of the changes required. Others didn't understand the MTD timeline.

"We had people thinking it had to be done straight away when emails were received from HMRC in January and February 2019," says Sid. "But they actually didn't need to do anything until after April 2019. And we had problems where some clients signed up without realising that their software wasn't compatible."

The moral of the story is simple: if you use an accountant, speak to them about MTD before doing anything.

She says: "We have a complete checklist where we ask, 'Have you ticked this box? Have you done this or that?' We try to communicate with clients. Speaking to your accountant ensures you're kept in the loop."

### To upgrade or not?

The often out-of-date software clients use has been a hurdle for Sid and her colleagues as well as the businesses concerned.

She says: "We talk to clients and see if they can get an upgrade for the software they're already using because if they're comfortable with it, then why change?"

"Some of our other clients have been on some really old software, and said, 'Actually, now is a chance to do things in a new and fresh way.' Our advice to them is to use the trial periods for different packages."

Sid advises the business runs its old account system concurrently with the new one while testing out the replacement.

She says: "They can get a feel for where things are and how it works differently to what they were using. It's a bit time intensive but it means that they make an informed choice."

Some accountants, including Sid, offer training.

"Software vendors offer training and online portals, and there are YouTube videos galore," she says. "People can learn themselves. But I think for a basic crash course of all you need to know, visiting your accountant for an hour is the best way to do it."

### Bridging the generation gap

It's a fallacy to believe there's a generational split when it comes to business owners and managers, says Sid. She finds both young and old are willing to embrace MTD. The exception is for businesses that might be sold or closed in the coming years.

She says: "We've tried to push MTD as much as we can. But we can't force anybody to do anything. Some people who are maybe retiring in the next couple of years, we are keeping with Excel and using bridging software. They won't be around when MTD for income and corporation tax comes around."

Similarly, there are some businesses that are perhaps smaller that just refuse to switch to fully digital accounting software.

"You can't win every battle," continues Sid, and adds that these clients also use a bridging solution, which means they can continue using spreadsheets for their accounting.

"For some of them over the next year or so, we might slowly get them on to more compatible software."

### How MTD will continue to revolutionise

"We still have clients who wait for their year end and then say, 'Oh yeah, I better do the accounts for the last year.' They're literally doing a whole year's worth of accounts in one go. MTD means they won't be able to do that going forward."

But it isn't just about changing requirements for how businesses handle their accounting.

"I think MTD means businesses will have so much more information available at their fingertips," says Sid. "Their processes will be a lot more streamlined. Their accounts will be so much simpler and they will be able to actually gain more management information out of it."

Similarly, she continues, the service people get from their accountants will change too.

"I think we'll be a lot more advisory," she says. "For example, there'll be a lot more tax planning than we do at the moment. What accountants do will be similar, but in more depth. Businesses will get more value out of it."

MTD is ultimately a good thing, says Sid, even if it has presented businesses with some challenges. She adds: "It'll make your life better in the long term because you'll be able to get so much more out of your accounts and out of your processes. There's benefits for the business overall."

# Frequently asked questions about MTD

Here are the answers to some more questions about MTD for VAT.

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## **My business isn't VAT registered and I don't know if I will earn more than the VAT threshold (currently £85,000) this year. What should I do?**

MTD for VAT is only mandatory for businesses with a taxable 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 register for VAT 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 VAT registration threshold.
- At any time, you expect the value of your taxable supplies in the next 30-day period alone, to go over the VAT registration threshold.

Businesses below the VAT registration can also choose to follow the requirements of MTD voluntarily.

## **Does MTD mean HMRC will need all my company's VAT accounting records?**

At the current time, HMRC requires just the usual "nine boxes" of data submitted via the same VAT Return businesses have used for years.

The difference introduced by Making Tax Digital in this regard is that this must now be submitted via software by most businesses, rather than through the VAT portal website (or by post).

Not unsurprisingly, many people have asked if there's a chance HMRC might use MTD for VAT as an opportunity to make businesses submit all their VAT-related accounting records, known technically as transactional data.

After all, it's right there in the software and it wouldn't be difficult to simply send that too.

HMRC says this is a possibility but that it would ask permission to receive the data – so it wouldn't just download it when you submitted your VAT Return. In all likelihood, they probably haven't yet decided.

As for why HMRC would want this data, remember that MTD for business in all its forms (VAT now; corporation tax and income tax in the future) is about correcting mistakes and inaccuracies, and clawing back some of the £9.2bn tax gap.

### **Do my VAT payment deadlines change with MTD for VAT?**

**No.** Your VAT Return dates and payment frequency remains the same. In other words, if you submit quarterly or monthly then this will not change.

### **Will I need to set up a new direct debit with HMRC for MTD for VAT?**

**No.** The existing one should be fine. However, it will be automatically moved from the old VAT portal to HMRC's new Enterprise Tax Management Portal that it created for use with MTD for VAT. It's possible your bank might notify you of this, while the entry within your bank statement might have a different reference.

### **How do I submit VAT for a group of companies, each using differing accounts software/spreadsheets?**

As you might know, groups set up under one VAT registration need to follow the same MTD for VAT rules as any single business.

It's therefore a matter of mechanics – getting all the data into one system via what HMRC refer to as digital links (see page 12), so you can submit the return and also store the data digitally for the necessary six years.

Section eight of the VAT Notice 700/22<sup>(1)</sup> has some very useful explanations and diagrams that might help you figure it out – in particular, look at example six.

Notably, you might find your software vendor offers adaptor software to help unify the data that's able to "plug in" to your various accounting solutions to consolidate the necessary data.

### **Can businesses still submit via the old VAT portal once they've signed up to MTD?**

**No.** The details will have been migrated across to the new system (known as the Enterprise Tax Management Platform). The details will no longer exist within the old VAT portal.

### **Do I have to send my invoices digitally because of MTD for VAT?**

Sending digitally has many benefits but there's nothing in the MTD for VAT rules that says you must do so.

However, if you print invoices via something like Microsoft Word, or even handwrite them, you must transfer the data to your digital VAT accounting as soon as possible. If you don't, you're breaking the law.

You need to transfer the tax point date, the value of the sale, the VAT rate applied, and the VAT element.

If you use spreadsheets, this means inputting that data and then keeping that data unchanged for a minimum of six years as per the existing VAT accounting retention requirements.

Of course, by using accounting software you not only get to issue invoices however you wish—electronically or by printing them off—but it ensures the vital data is kept digitally without you even having to think about it. This is why digital accounting software is hard to ignore in a modern business.

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

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<sup>(1)</sup> <https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat#examples-of-where-a-digital-link-is-required>



### **I keep handwritten sales records. Am I breaking the law now MTD for VAT is here?**

See the previous answer. In addition, there's nothing wrong with keeping handwritten sales records, provided you transfer that data into your digital accounting solution as soon as possible.

You must do this in order to comply with the requirement of MTD for VAT that says not only should VAT records be kept for at least six years, as per existing rules, they must now be kept digitally.

Again, while there are a handful of solutions around that help with this—such as document scanning software—the additional admin work it generates really does suggest that moving to an accounting software solution is the best option.

### **What's the future for Making Tax Digital for Business?**

The next milestone for MTD is the mandate for deferred businesses as of October 2019 (see page 11).

MTD for VAT is the first wave of HMRC's plans to ensure businesses taxes are accounted for digitally, and other business taxes will follow in the coming years, as follows.

**Income tax:** The government has already passed the legal framework that will mandate MTD for Income Tax (for sole traders and landlords) but has not published a date when this will be enforced. However, it's already possible to volunteer for this as part of HMRC's Income Tax pilot scheme<sup>(2)</sup>, although at present there is not a large choice of accounting software that provides the necessary functionality. The government has said MTD for Income Tax will not be mandated until 2021, at the earliest.

**Corporation tax:** Although corporation tax will almost certainly be part of the MTD for Business scheme in the future, at present HMRC has not implemented any plans.

<sup>(2)</sup> <https://www.gov.uk/guidance/use-software-to-send-income-tax-updates>



For more information visit:

**The Sage MTD Hub:**  
[www.sage.com/uk/mtd](http://www.sage.com/uk/mtd)

**The Sage MTD Toolkit for accountants and bookkeepers:**  
[www.sage.co.uk/mtdtoolkit](http://www.sage.co.uk/mtdtoolkit)

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