

CIOT & ATT Webinar – Making Tax Digital - 7 June 2018

Questions and Answers (we have grouped similar questions together)

These Q&As have been produced to assist members in understanding their and their clients' obligations under Making Tax Digital. No responsibility can be accepted by the CIOT or ATT for the consequences of any action taken or refrained from as a result of these Q&As.

The answers provided are based on the CIOT and ATT's understanding of MTD at the time of writing [22 June 2018]. Updates and changes to MTD will be provided on our websites as and when they are announced by HMRC.

If you are in any doubt about how or whether the obligations apply to your practice and your clients, we recommend that you watch the webinar recording and download the slides. We also recommend that you watch HMRC's Talking Points webinars about MTD for Business. Links to recent webinars can be found on gov.uk at <https://www.gov.uk/guidance/help-and-support-for-agents#online-services>.

For further background and detail please see the CIOT website:

MTD Home Page <https://www.tax.org.uk/policy-and-technical/making-tax-digital>, and

MTD for VAT- Main Issues for Consideration
<https://www.tax.org.uk/policy-technical/technical-news/making-tax-digital-vat-main-issues-consideration>

And on the ATT website:

MTD Home Page <https://www.att.org.uk/making-tax-digital>

MTD for VAT

1. Is MTD for VAT likely to be postponed due to Brexit?

A: Not that we are currently aware of. HMRC have no plans to postpone MTD for VAT, and recently confirmed that their plans / timetable for MTD for Business have not changed, despite announcing re-prioritisation of other digital projects due to resourcing demands related to EU Exit work. In an announcement on 30 April 2018, they said:

'HMRC indicate that they remain on track to mandate MTD for VAT from April 2019. They also reconfirm that they will not mandate any further MTD requirements before 2020 at the earliest'.

2. How can there be unknowns and no software 9 months before MTD for VAT is due to start? Surely the CIOT should tell HMRC that this cannot be done by next April & that their members will be unable to comply?

A: The CIOT, along with other representative bodies, regularly raised its concerns with the timeline for MTD to HMRC. There was some success in having a delay for

MTD being introduced for other taxes. We continue to express these concerns, but the Minister has made clear that there will be no further delays [see the Government's recent announcement - [here](#)], and so we are now focused on making MTD work as well as possible and in helping our members to comply.

3. Do CIOT plan to provide further webinars on MTD for VAT?

A: Yes, we will be running another webinar later this year (probably in November), and will publicise the date nearer the time on our website and in member communications.

4. When is the VAT Notice expected and will it have a title?

A: The VAT notice is expected to be published on GOV.UK shortly. Its title is likely to be something like: **VAT Notice XX: Making Tax Digital for VAT**. We will also bring this to members' attention when it is released.

Who has to comply and when?

5. It seems you will only be required to file digitally based on 'taxable' supplies and not exempt or outside the scope transactions. So, if your taxable supplies do not exceed £85,000 you are not required to file digitally. Is this correct?

A: Yes. This is correct.

6. Please confirm all VAT registered businesses including companies need to comply with MTD next April.

A: All VAT registered businesses which have VAT taxable turnover above the VAT registration threshold need to comply with MTD from the relevant start date (see below), regardless of their business form, except for those that meet an exemption from MTD.

7. Will we/client get notification from HMRC which of our clients will be included?

A: No, you and your clients won't get a notification from HMRC. You will need to identify the clients affected, or they will need to do so themselves.

8. When do you have to monitor the £85,000 threshold limit, end of each quarter or annually?

A: You use the same rules as now for monitoring whether / when a business' turnover exceeds the VAT registration threshold ie a rolling twelve month basis. There is no forward-looking test. The business will have to comply with MTD for VAT from the start of the next VAT return period once the threshold is exceeded.

9. If you have a VAT quarter ended 30 April 2019 would the month April 2019 fall in MTD or would the quarter ended 31 July 2019 be the first MTD period?

A: MTD applies to the first VAT return period commencing after 1 April 2019, so in this example, the first VAT quarter to which MTD applies will be the one ended on 31 July 2019 (07/19).

- 10. In terms of who is required to comply MTD, you mentioned that the business must be VAT registered AND over the VAT registration threshold, and you said that applied to non-established taxable persons. However, the VAT registration threshold for non-established taxable persons is 0. Please clarify then whether non established taxable persons trading below £85,000 need to comply with MTD?**

A: The MTD threshold is still £85,000 even if a non-established person is compulsorily registered for supplies below that threshold. So, if a non-established person has an annual UK turnover of £30,000, it would not be required to comply with the MTD Regulations.

- 11. Does this mean NETPs that are required to be registered in the UK from the ‘first pound’ and distance sellers that have either opted to make the UK the place of supply for their supplies or are trading only slightly above the £70k threshold will need to monitor their turnover separately for MTD purposes to establish if it exceeds £85k?**

A: NETPs and distance sellers will be required to comply with MTD for VAT only when their UK taxable turnover exceeds the £85,000 threshold, so the UK turnover would need to be monitored.

- 12. When do non VAT registered sole traders with exempt supplies who have turnover above VAT threshold need to start with MTD?**

A: If the trader’s only turnover comprises VAT-exempt supplies, the business will be unaffected by the MTD for VAT Regulations. However, businesses in this position should keep abreast of updates on MTD for other taxes, although the government has committed not to mandating other taxes before April 2020.

- 13. Do you know if this will cover the academies? Including VAT 126 claims?**

A: An academy will be affected if it has taxable supplies over £85,000 in a rolling 12 month period and so is compulsorily registered for VAT.

A VAT 126 claim is for a body that is not registered for VAT so we believe it would be unaffected by MTD for VAT.

- 14. How about financial sector where taxable turnover is above the VAT threshold?**

A: A business in the financial sector will be affected if it has taxable supplies over £85,000 in a rolling 12 month period and is compulsorily registered for VAT. Income from exempt or outside the scope supplies is not included in this threshold.

- 15. Are MOSS returns submitted via HMRC portal in scope of MTD?**

A: Not currently

Exemptions / exclusions

16. I'm still waiting to find out how to claim exemption for an elderly client who cannot keep digital records as he does not use a computer.

A: The mechanism for claiming exemption has not yet been publicised, but we understand more detail will be provided in the VAT Notice and on GOV.UK.

Digital record keeping, digital links and software

17. Do we still require maintaining paper copies going forward once MTD is live?

A: Businesses in scope of MTD for VAT will no longer be able to keep only manual records. They must maintain digital records in 'functional compatible software' which can be connected to HMRC via an Application Programming Interface (API). Otherwise, existing statutory record keeping obligations continue to apply (eg retention of invoices).

18. Is bridging software something clients will need to purchase?

A: Yes, if their software / spreadsheet does not itself connect to HMRC through APIs, although free products may become available in due course.

19. When will bridging software for spreadsheets be available?

A: We have heard that several software companies have developed bridging software, and HMRC will publish the names of these suppliers once they are satisfied that the software works correctly and MTD for VAT is opened up to public testing. Currently we are not able to provide specific details.

20. What does API stand for please?

A: Application Programming Interface.

21. Where do the APIs come from - who supplies them?

A: HMRC are supplying the APIs (Application Programming Interfaces) for MTD to third party software developers so they can build MTD compatible software that can communicate with HMRC's systems and vice versa.

22. My partner has heard that HMRC will be supplying some bridging software. Is this correct?

A: No. HMRC are not providing any MTD compliant software.

23. When are HMRC expected to publish the list of MTD compatible software?

A: A list of MTD compliant software for income tax currently available can already be found on GOV.UK - see <https://www.gov.uk/guidance/software-for-sending-income->

[tax-updates](#) We are expecting details of the VAT compliant software to be published in late summer once the VAT pilot is opened up.

24. If there's an extra year for bridging software how do firms using spreadsheets submit VAT returns in 2019?

A: The year's 'soft landing' period from 1 April 2019 to 31 March 2020 only covers the digital links between two or more forms of digital record keeping (eg an accounting package and a spreadsheet). All businesses within the scope of MTD must submit their returns via MTD compliant software for their first VAT return period starting on or after 1 April 2019. This includes spreadsheet users, who will need to submit either using bridging software, or from an API-enabled spreadsheet.

25. Will extraction of a 'csv' file which is imported to another software package amount to a digital link?

A: Yes it counts as a digital link. HMRC confirms this at paragraph 3.2.1 of Notice 700/22: Making Tax Digital for VAT.

26. In terms of the digital link required between systems, do you have any information from HMRC on whether 'cut & paste' or linked by formula spreadsheets meet the definition of a digital link?

A: 'Cut and paste' may be used during the soft landing period ie between 1 April 2019 and 31 March 2020, but not afterwards as it does not meet the requirements of a digital link because there is too much manual intervention involved. However, links provided through formula spreadsheets will meet the definition of a digital link. Paragraphs 3.2.1 and 3.2.1.1 of [Notice 700/22](#) set out HMRC's position on cut and paste including a paragraph with the force of law:

A digital link is an electronic or digital transfer or exchange of data between software programs, products or applications. The use of 'cut and paste' does not constitute a digital link.

27. Does the software need to calculate the VAT return, or can the calculated amounts and underlying transactions be sent to the software for submission of the VAT return?

A: VAT returns must be filed directly from the digital records, such as from the record keeping software, an API-enabled spreadsheet, or bridging software. Any transfer of data between digital records (including spreadsheets) must be digital with no manual transposition of figures. These digital links must be in place where the data that is being transferred represents that which is mandated to be captured in digital records. For example, the transfer of input and output VAT amounts between digital records must be done digitally as those values are required to be captured in the digital records.

28. Could the free PwC software be used by charities for their low income clients' submissions? Or is it just for their own returns?

A: The CIOT is unable to answer queries on behalf of third party software providers. Please contact PwC for further details.

29. Will VAT registered businesses caught by MTD from April 2019 need to apply for new Government Gateway (GG) accounts for the digital account?

A: Businesses subject to MTD for VAT from April 2019 will need to be using MTD compliant software (or an API enabled spreadsheet). Their VAT returns will be submitted to HMRC directly from the software (or via their agent's software) not through the GG. No new GG accounts will be required.

What information will be sent to HMRC?

30. What information will HMRC actually receive? Will it be a detailed breakdown of all the transactions, rather than the summary information as before?

Will HMRC be able to see the audit trail of the VAT return?

It seems that the information that goes to HMRC consist only of the totals and not every line of the VAT workings back up, is that correct?

A: There is currently no proposal for the nine boxes on the VAT return to change, and HMRC will only receive those nine figures.

However, businesses will be able to submit voluntarily a specific data set of supplementary information. Further details of this are to be confirmed in the VAT Notice but are anticipated to include a split of the outputs value between the various rates of VAT, and any adjustments made to input or output tax figures.

31. Apart from the current VAT return information (eg 9 boxes) what sort of other information is envisaged to be sent to and from HMRC using the Functional Compatible Software?

A: Other than the information to be specified in the VAT Notice, we do not expect it to be possible to provide other information, such as copy invoices or written explanations. See above re supplementary data.

32. If HMRC request supplementary data, does this have to be sent via API at transactional level?

A: As far as we are aware, no. The provision of supplementary data is voluntary, and any request for information by HMRC should be made, and complied with, in the normal way.

What information has to be recorded in the digital records?

33. If an invoice covers different supplies including standard rated and say zero rated items can we just record the global figures in digital records?

A: You have to record the value of the supply and the rate of VAT charged (totals for each rate of VAT can be recorded where the individual supplies fall in the same VAT period). There are exceptions to this, which will be set out in the VAT Notice. In

particular, the requirements will not apply in cases where HMRC are satisfied that keeping and maintaining information as specified in the Regulations is likely to be 'impossible, impractical or unduly onerous'.

34. Why is there a change to record the totals for different rate items on one invoice - this is going to be time consuming!

A: We pointed this out to HMRC, but the Regulations still require this breakdown, although there will be some relaxations as noted above.

35. If a barrister receives a monthly amount from their chambers can just this single amount be recorded, or do you have to have digital details of all the underlying clients?

A: The Regulations say that for each supply made you have to record the value of the supply and the rate of VAT charged, so HMRC would need to be persuaded that this is 'impossible, impractical or unduly onerous'.

36. I understood that retailers will have to apply to HMRC not to record each transaction ie will have to tell HMRC before actually using this relaxation. Is that true?

A: No, there is no need for retailers to apply to HMRC to use this relaxation.

37. Do retailers include restaurants?

A: Catering businesses will normally use the point of sale retail scheme in [Notice 727/3: Point of sale retail scheme](#), or the catering adaptation in section 7 of [Notice 727: Retail schemes](#). Where restaurants use one of these retail schemes, they can use the daily gross takings ('DGT') concession set out in [Notice 700/22: Making Tax Digital for VAT](#) at paragraph 3.5 that only requires the DGT to be recorded digitally as opposed to all of the individual transactions included in the DGT.

If a restaurateur does not believe they are using a retail scheme, they could check with their adviser or HMRC. They may be unknowingly using a retail scheme or may want to change the accounting procedures so that they are.

38. If a client keeps records in foreign currency ie Euros, how would this interact with MTD as the VAT filing would have to be in GBP?

A: The standard rules for VAT still apply, ie when invoicing a customer in foreign currency, the net, VAT and gross values must also be shown in sterling on the invoice, so these should also be recorded in the records as currently. For purchases, foreign currency invoice values do not need to be in sterling until they are included in the VAT return and therefore can be an adjustment eg a conversion calculation on a spreadsheet that forms part of the digital records. Where a foreign currency invoice also bears the net, VAT and gross values in sterling, a business should ensure that the VAT claimed matches the invoice value rather than a conversion value.

The records in foreign currency should be kept in functionally compatible software and if the currency conversion takes place in separate software, there must be

digital links at each step of transferring the data for the conversion process (other than in the soft landing period) and again if the converted data is transferred into software that will submit the VAT return figures.

Sending the VAT return to HMRC

39. Will there still be a month and 7 days to prepare and file the VAT return after the quarter end?

A: Yes, the current timescale is retained for VAT returns filed under MTD.

40. Will there be a requirement for nil returns? (particularly for VAT)

A: Yes. If a business meets the criteria for MTD for VAT, then a nil VAT return would need to be submitted in accordance with the requirements.

Adjustments

41. How could non transactional adjustments be reported, eg residual VAT recovery under partial exemption?

A: Information which is not required to be captured digitally, such as calculations for partial exemption adjustments or fuel scale charges etc, can be prepared outside of the accounting software (eg on a spreadsheet) and manually input into the digital records as an adjustment.

42. Re the requirement to record amount of allowable input tax, how will this work for partly exempt businesses or those with business/non-business issues or CGS implications when this will not be known at the time?

A: We understand the VAT Notice will provide a range of options, such as

- Record VAT as fully recoverable and adjust for any irrecoverable VAT once calculated
- Record VAT as fully irrecoverable and adjust for any recoverable VAT once calculated
- Record VAT recoverable based on an estimated percentage and adjust for any VAT once calculated.

43. Reverse charge invoices are calculated manually by us, are we able to continue doing this and just keep the adjustment in the digital records?

How are reverse charge transactions included in the software?

Where reverse charge invoices are calculated manually, is the taxpayer able to continue doing this and just keep the adjustment in the digital records?

A: The reverse charge supply must be included in the digital records just like any other supply. However, it can be recorded as two supplies: the purchase and the self-supply. It is acceptable to have a spreadsheet as a digital record for the self-

supplies as long as the spreadsheet is digitally linked as part of the functional compatible software (other than in the soft landing period). Paragraph 3.3.4 of [Notice 700/22: Making Tax Digital for VAT](#) sets out that if the software does not record reverse charge transactions the two entries for the output and input must each be recorded.

44. Would there be impact on EC Sales List?

A: EC Sales List – the ECSL will not be required to be submitted via MTD.

45. How will C79 import VAT be claimed on the MTD return?

A: Paragraph 3.1 of Notice 700/22 states that the C79 must be kept in its original form. The import VAT value should be entered into the VAT account as currently eg either entered into the accounting software or into a spreadsheet forming part of the digital records.

Multiple business / software / spreadsheet records

46. If a sole trader has two businesses and only one VAT registration, how do we combine these into one MTD submission?

A: See Example 6 of the slide pack. The VAT records for each business will need to be kept digitally and then sent by digital link to either an API-enabled spreadsheet or software package for submission of the combined figures to HMRC.

47. Is there any guidance on how group VAT returns might be recorded digitally - each would have their own accounting software and then be added together on a spreadsheet?

A: Yes, that is a possibility. See Example 6 on slide pack.

48. Can the transmission of information from say 2 separate software systems be journaled into a single software system, or would all of the information from the 2 systems need to be transmitted? The combined single software system then submits the VAT return?

A: The information from the two separate software systems would need to be digitally linked (rather than journaled) into the single software system. The single software system should submit the VAT return data to HMRC.

Penalties

49. What potential penalties will HMRC be able to apply for non-compliance?

A: For VAT return periods commencing between 1 April 2019 and 31 March 2020, HMRC will not enforce the requirement to have digital links between software programs. After this time, all transfers of data between digital records must be undertaken digitally. During this 'soft landing' period, the use of 'cut and paste', or

manual transposition, should be acceptable. HMRC will publish further examples and more information on the scope of the soft landing in the VAT Notice.

HMRC also promised a general soft-landing period on penalties in the first year of MTD. We understand that more detail on how that will be applied in practice will be confirmed later this year.

50. As long as I submit it through an API how would HMRC know some of the records are not digital?

A: Where the required VAT data is submitted through API enabled software, HMRC will not know if some of the records are not being kept digitally unless they conduct a compliance check / visit.

MTD for ITSA

51. For MTD income tax, what practically is the difference between quarterly updates and quarterly returns? It seems to be the same amount of work involved.

A: There is a difference between a quarterly update and a 'return' in that it won't be necessary to do year-end type adjustments for each quarterly update, such as depreciation, accruals, prepayments and so on. It's also not necessary to calculate capital allowances and other tax claims on the quarterly return. Provided digital records have been kept timeously, the quarterly update cannot be incorrect.

52. If the quarterly update is just raw data, surely the tax reflection will be useless and misleading to client?

A: We agree. Apart from the simplest of businesses, the tax position for the year won't be clear until the end of year update is completed. There is no obligation to make any tax payments 'in year' based on the quarterly updates, and no proposals to change the current payment dates for Income Tax.

53. Does that mean separate quarterly submissions for VAT and Income Tax ie 8 submissions per year?

A: Yes, although it is possible that this will be marginally less onerous where VAT and Income Tax quarter ends coincide.

54. Will businesses have to advise HMRC in advance if they are very seasonal?

A: Not as far as we know. It's not clear yet whether there is going to be a 'white space' type facility on the quarterly updates for disclosing 'anomalies', but it seems unlikely since the update is not a return.

55. Is the £10,000 threshold confirmed?

A: The threshold has not yet been formally confirmed, but there is no indication at present that it will be more than £10,000.

56. £10,000 threshold per business / property or in total?

A: It's in total, not per business / property.

57. Have they confirmed what they consider is a small business? Various articles I've read suggested businesses with turnover below £85,000 would be considered small and therefore would not need to be MTD ready by April 2020.

A: See above – the threshold for Income Tax is still expected to be £10,000.

58. Is the pilot open to only residential landlords or also commercial property landlords?

A: It's open to all landlords.

59. Will basis periods and overlap reliefs for new businesses work the same under MTDfB or will all businesses have to have 5 April year ends and if so will current businesses have a transitional period, like when we moved from PYB to CYB back in 1996/97 for self-assessment?

A: There are no current plans to change the basis period rules when MTD is introduced.

Companies and large partnerships

60. When will we see consultation document on companies and partnerships?

A: Formal consultation on MTD for Corporation Tax will take place later in spring / summer 2018. Large partnerships are already exempt from MTD (turnover > £10m).

MTD for Individuals

61. I have had 3 changes to my tax code recently - but can't see any notices of coding in my personal tax account (PTA)- is that because they are not there or just that I can't find them?

A: Information about your tax codes is found in the PAYE section of your PTA. It does not look like a Notice of Coding (P2), but it does tell you what the code number is and how it is made up. If you are still having difficulties, we suggest you contact HMRC directly for assistance.

62. Some clients have not been able to set up a PTA as they failed the online credit check (eg not got a mobile phone contract). What can they do?

A: The key to setting up access to the PTA is that the taxpayer has to prove their identity and the type of documentation needed depends whether they use the Government Gateway or UK Verify process – see <https://www.gov.uk/personal-tax-account/sign-in/create-account>.

We are not aware that setting up a PTA involves having to pass an online credit check.

63. Can you request to be in Simple Assessment if you are not currently registered for self-assessment?

A: No. The groups of taxpayers who will receive a Simple Assessment are determined by HMRC.

64. Is real time CGT part of MTD for individuals?

A: Not that we are aware of.

65. Do you know when bank interest information will be made available via the personal tax account for inclusion on tax returns or has this been postponed?

A: Actual 2017/18 BBSI data received by HMRC will be used to calculate 2017/18 P800s and estimate taxable interest for 2018/19 and populate 2018/19 PAYE tax codes. This will start in June 2018. Our understanding is that pre-population of tax returns with 'real time' BBSI data is not currently part of HMRC's current plans.

Agent Services Account (ASA) / Business Tax Account (BTA)

66. Do you need separate ASAs for VAT and income tax?

A: No. There is only one ASA per agent.

67. As a group of companies, we are registered as an agent to submit our VAT returns. Should we have an Agent Services Account or is this just for agents in practice?

A: HMRC has informed the CIOT that they are currently talking to large businesses to understand their needs and the best solutions to meet those needs. The position will be confirmed later this year.

68. In order to comply with GDPR we really need to be able to restrict views of client data to different staff - are HMRC going to be able to enable us to do this - will we need individual passwords to same account, for example?

A: We are expecting this to be done within the relevant software.

69. How do you 'map over' your clients?

A: Once you've set up your ASA and obtained your new Agent Reference Number (ARN), you can link the clients within your existing GG credentials to your ASA. Doing this allows agents to re-use their existing SA agent / client relationships in the new digital environment and means that an agent does not have to get a new authorisation (64-8) for a client who moves into MTD for Business (VAT and ITSA). You will be asked to provide your old government gateway credentials and then your new ARN which links the two together.

70. Does mapping them over make client inaccessible in the legacy systems?

A: No, you will still be able to access clients in HMRC legacy systems.

71. Once we migrate clients to the new ASA will be still be able to file using the old systems?

A: Yes, see above.

72. Are we correct in the understanding that all clients who will be mandated to MTD for income tax will be required to access their own Business Tax Account, our agents on-line DTA will not suffice?

A: HMRC have confirmed that there are several points in MTD where a customer will need to receive information digitally, unless they are exempt. For example, in relation to MTD for VAT these include:

- At sign up to MTD VAT, the customer will need to sign in to their government gateway ('GG') account, via 2SV, to confirm their email address for VAT purposes. An agent must not use their own address for this.
- HMRC will email the client and the agent to confirm that their sign up has been successful.
- In VAT Variations, (change of circumstances 'COC'), HMRC will send the client an email advising them to log into their BTA to view a secure message which confirms the details of the change they have requested, even if the agent has made the change. This is an important security measure which will ensure that a customer knows the details of changes made to, for example, PPOB or bank details. This also ensures that if an agent's GG login is compromised, and fraudulent activity is undertaken, the client is aware of any unauthorised changes to their VAT account. If an agent has made a VAT COC change for a client, HMRC will also confirm this to the agent by email.
- Any MTD VAT customer (represented or non-represented) who pays by Direct Debit will receive emails directing them to log into their secure messages on the BTA to see the details of the amount which will be taken. Under banking regulations this must be the bank account holder's email address and not the agent.

HMRC are currently testing different options for emailing agents so we can ensure that they also receive the notification of the outcome of a change they have made on behalf of a client.