

## **Making Tax Digital**

### **Questions raised on the CIOT / ATT Making Tax Digital webinar on 20 November 2018, along with suggested answers**

Please note that we have submitted this Q&A to HMRC and we have marked it as draft until we receive their approval.

#### **Scope of Making Tax Digital for VAT**

- 1. Will submissions using the existing portal recognise when the previous 12 months turnover exceeds the VAT limit and either reject the return, or send a letter notifying of the requirement to submit under MTD? / I thought HMRC reviewed the VAT returns to see if a client should be within MTD at 01/04/2019 but a point appeared to suggest the client has to contact HMRC. Could you clarify please?*

It is not possible to accurately calculate taxable turnover based solely on VAT return information, and so HMRC cannot determine precisely who must comply with MTD. Therefore, the obligation is on the business (or their agent) to enrol into MTD as and when they are required to do so, rather than being 'swept' into MTD by HMRC.

- 2. Just to confirm did you say if turnover was over £85k in the past and now below there is no need to become MTD?*

That is correct. The current version of the VAT Notice is misleading. Businesses only need to look back from 1 April 2019 at their previous 12 months' taxable turnover.

- 3. Will all newly registered businesses after 1 April 2019 be in MTD immediately, even if voluntarily registered?*

Only new VAT registrations that have a taxable turnover exceeding £85k in the previous 12 months will be required to comply with MTD immediately. Voluntary registrations will not need to comply unless, in the future, their taxable turnover exceeds £85k; although they can opt in voluntarily if they so wish.

- 4. Are there indications of whether this will ever apply to s33 bodies that have no VAT registration or a requirement to register?*

If an organisation is not registered for VAT then it has no VAT obligations and so no requirement to comply with MTD for VAT.

- 5. Is there any news on claiming the age exemption? What the process is?*

HMRC have not set an age at which exemption would apply. The process is (currently) to contact the VAT Helpline to discuss whether exemption is available. We understand that more information around the exemption will be published by HMRC in the New Year and we are in discussions with HMRC around this issue.

- 6. How does this work for the flat rate scheme? Only taxable turnover figures are used?*

Businesses who use the flat rate scheme are mandated into MTD if their taxable turnover exceeds the VAT registration threshold. The flat rate percentage is not a calculation of the level of taxable turnover; rather it is a calculation of how much VAT is due to HMRC. Taxable turnover would be calculated in the normal way. We are liaising with HMRC to produce more guidance / clarity over the calculation of taxable turnover, especially for B2C businesses around the VAT registration threshold.

### **Timescales**

7. *If we create a VAT group prior to April 1st, would that allow for deferral?*

Yes we believe that it would.

8. *Is the deferral optional? e.g. VAT groups - we have bridging software in place so could go in from 1 April 2019.*

No. We understand that the main reason for the deferral is that HMRC are not yet ready to receive all business types into MTD. So, until the pilot is open for those deferred businesses (spring 2019), they must continue to file as they do now.

9. *Do non-resident landlords count as traders based overseas for the purposes of the deferral to Oct 2019? / The deferral appears to apply to overseas traders. Does this deferral also apply to overseas property holding companies?*

We believe so, yes.

10. *Is there a technical definition for 'overseas companies' that benefit from the deferral?*

We don't think there is a technical definition; rather it will be based on the business's principal place of business and whether it has a fixed establishment in the UK. We have raised additional questions on establishment with HMRC as part of our ongoing consultation with them.

11. *When will the Agent Services Account be available for overseas agents? The indication is that this will be in Spring 19 which only gives a short window before MTD for VAT goes live.*

Our understanding is that it will be in spring 2019. If the overseas agent is filing returns for overseas businesses, the date of mandate for their clients is 1 October 2019.

12. *Is there a date for spring 2019, or do should assume March?*

There is no firm date for 'spring 2019'.

### **Digital records**

13. *If some of our clients are not able to keep digital records for various reasons, can we keep their records on their behalf like what we do now and file their VAT returns digitally accordingly?*

Yes. Agents / bookkeepers can maintain the digital records on behalf of their clients.

14. *If a client records daily takings on a spreadsheet and then manually input monthly total onto their software, is that okay?*

For the time being, that is acceptable. However, from April 2020 either the spreadsheet would need digitally linking to the software, or the daily takings would need entering directly into the software.

15. *When looking into the margin scheme MTD requirements, please could the Margin Scheme Global Accounting Scheme be explicitly covered? Thank you. / For margin schemes if you have thousands of transactions a month and can't record these individually, is there a way of doing a bulk calculation and journal entry at the end of each month or VAT return period?*

We will raise this with HMRC to ask for further guidance.

16. *Do agents / clients have to upload all receipts digitally? / Is it obligatory for clients to upload their expense invoices and receipts digitally? / Good Morning, do we have to keep copies of actual customer and supplier invoices digitally?*

No. Invoices / receipts can still be kept in hard copy form. The relevant amounts from those invoices / receipts need to be entered into the digital records.

17. *With regards to partial exemption adjustment, do we have to go back and amend every purchase invoice affected by the adjustment or can we do it as one adjustment to box 4 and box 7?*

It is not necessary to adjust every purchase invoice. It can be done as one entry in the digital records (this is the type of adjustment envisaged on slide 19).

18. *But what are they doing with this additional information? I have a number of clients who keep adequate paper records and the changes will be very onerous and costly. There is no value to the client of the change and what is the real benefit to HMRC?*

HMRC will not be receiving any additional information, just the nine box information from the VAT return. HMRC believe that digital records are more reliable / accurate than manual records, and that MTD will help reduce the tax gap, whilst also making the tax system more efficient.

19. *Why all this digital links when it sounds like they only see 9 boxes? / If HMRC only need 9 boxes and cannot drill down, why is it necessary to keep digital records at all?*

See the answer to question 18 above.

20. *We are a conference business which uses third party ticket agent. We get a monthly statement payment - at the moment we record the monthly total and not the individual ticket sales. Will we need to get a digital download from ticket business in future and record each ticket?*

This scenario appears to be covered by paragraph 3.3.2.1 "Supplies made by third party agents" in [Notice 700/22](#). In these circumstances, only the totals received from the ticket agent would need entering into the digital records, not the individual transactions.

21. *Can I download bank transactions into a spreadsheet and prepare the vat return from this for cash accounting? / What about businesses on cash accounting who pay numbers of invoices on a statement - one entry for the cash payment does not separately recognise each supply?*

The Regulations require details of each supply to be captured, with relaxations in particular circumstances, such as where more than one supply is on the same invoice (see section 3 of [Notice](#)

[700/22](#)). We do not believe that the relaxation extends to capturing multiple invoices / receipts into one entry where a business is using cash accounting, but we are currently querying this with HMRC. In particular, this is something which could qualify as being *impossible, impractical or unduly onerous*.

22. *How do you deal with a payment made on account of several invoices?*

This is partially covered in paragraph 3.3.2 of [Notice 700/22](#). In general, if the payment on account is in a different (ie earlier) VAT period than the invoices, then the payment on account will need to be entered into the digital records. If the payment on account is in the same VAT period as the invoices, then it would appear that just the invoices can be entered into the digital records.

23. *Can a property income / expenses schedule from a property manager enter one consolidated figure in the client's digital records? If so, how can they do this - is it a case of sending a summary spreadsheet to the client/ agent to include in the accounting records/ API enabled software?*

This is covered in paragraph 3.3.2 of [Notice 700/22](#). Only the total amounts of the income and expense amounts need to be entered into the digital records.

24. *How will HMRC in practice determine what is impractical impossible or unduly onerous?*

HMRC will take feedback / comments from various sources, including businesses themselves, agents, professional bodies etc. We are not aware of any set criteria, but we are currently discussing a number of scenarios with HMRC (eg petty cash, cash accounting, statement v invoices etc).

#### **Digital links / submissions**

25. *If a client is using an old software version which is not MTD compliant and wishes to use a bridging software to export the VAT return data from the existing software to the bridging product, can we expect that HMRC in the future will want to drill down into the background data and therefore the bridging product may not achieve this. Will this result in bridging software becoming redundant in the future?*

At the moment there is no indication that HMRC require anything other than the nine box information on the VAT return. There will be an option in the future to submit supplementary data to HMRC, which will be entirely voluntary, but there are no current proposals to drill down to transaction level data.

26. *Under option 3 / option 6, is the use of spreadsheet with bridging software allowed in the long term, or beyond April 2020 are HMRC looking for direct link from source accounts package?*

There is no indication that the use of spreadsheets / bridging software is in any way time limited and we believe in practice that, due to the complexities of VAT, it will be required for the foreseeable future.

27. *Will HMRC accept submissions from overseas? I am thinking of UK subs of o/s companies whose accounting records are held on servers in the parent country (UK access through remote desktop). This seems fairly common so would seem sensible assuming they software is compliant.*

Yes. Overseas businesses are mandated, and functionality is being developed for overseas agents, and so we expect submissions to be accepted from overseas.

*28. Do you file the MTD VAT returns through the ASA?*

No. The VAT return is filed through the API-enabled software / bridging software, although for agents that software must first have been linked to the ASA.

*29. Is it correct that a csv file detailing Boxes 1-9 (without any corresponding background information) submitted via a linking tool is MTD compliant?*

That depends on how the boxes 1-9 are populated. It is not adequate to simply type nine boxes into a spreadsheet, and then link the spreadsheet to HMRC. The underlying records also need to be digital, and linked to the spreadsheet (subject to the soft landing on digital links which runs to April 2020).

*30. From 2020 how do we deal with 2 partnerships run as separate businesses on separate systems, where the partners are the same and there is only 1 VAT return?*

The digital records would need to be combined prior to submission of the VAT return. Example 6 “VAT groups or different parts of the same business” in [Notice 700/22](#) helps illustrate how that might work.

*31. So a single registration partly exempt VAT group using multiple excel spreadsheet calc's - bring numbers together on summary via linked cells and then upload to hmrc via bridging software?*

Yes, that would seem compliant.

*32. In many cases filing through software is not great e.g. Sage thinks all journal credits are outputs. Presumably it is OK to run a VAT report from the software and then use bridging software to file it? Is it OK to manually move entries to the correct boxes as part of this process?*

In principle this sounds fine, although “manually move entries” would need to mean that a journal or equivalent is carried out within the software to correct the figures, rather than simply manually extracting a figure from the software and changing it before inputting it into bridging software.

### **Agent Services Account**

*33. Can we pull clients into our new ASA and still see and manage them in the legacy GG account?*

Yes – the process of copying over authorisations into your ASA does not move them out of the legacy GG accounts. Note however that the ASA will not have a list of clients in the same way as the GG has.

*34. ASA-my understanding was that as one adds client to the current SA list will automatically flow into the ASA?*

We do not think that is correct. Clients have to be copied across from the legacy GG account into the ASA. This is a one-off process, but it is unclear what then happens with new clients ie whether they can be subsequently copied across, or whether they need to be reauthorised through the ASA.

35. *How do we link existing clients to the new 'Agent Services Account'?*

Guidance on how to link existing clients is on [GOV.UK](https://www.gov.uk) and in the other guidance material on slide 40 headed "Agent Services Account".

36. *If I set up all Clients on Agent Services Account can I then still use the portal for vat registered Clients below the threshold?*

Yes. And indeed also for clients who might be required to file online, but are exempt from the requirements of MTD.

37. *On the current gateway you can do various admin like changing addresses, stagger periods and deregistering for VAT. Will we continue to do this on the existing agent portal?*

We understand that additional functionality is being built into the ASA to do various administrative-type tasks. For agents with clients taking part of the VAT pilot further guidance can be found [here](#).

38. *Are we able to use different software with one Agent Services account?*

Yes. We understand that different software packages can be linked to the ASA, though they are all likely to do this in a slightly different way.

39. *Will we need to link clients who are not vat registered to the ASA? Would this be too soon?*

For the purposes of MTD for VAT, there is no need to copy across clients who are not VAT registered (nor indeed those who are voluntarily VAT registered or otherwise exempt from MTD). If you have clients that are interested in joining the Income Tax pilot then those clients would need to be copied over.

40. *If the ASA account does not show clients details, how can we see if the submitted amount has been paid, any problems etc? Will this come through the software somehow?*

It is expected that the software (or bridging software) will maintain a client list and show details of submissions etc. The software chooser page on [GOV.UK](https://www.gov.uk) shows what functionality the software has ie digital record keeping, submit VAT return, view VAT return, retrieve VAT liabilities, and retrieve VAT payments.

41. *So if we submit VAT return via our's client compatible VAT software, will we link that software to our ASA account?*

Yes. We understand that is correct.

42. *I set up my firms agent services account as this was needed for the Trust Registration Service. Is it possible to separate the two so they have different login details?*

No. A firm can only have one ASA. It is possible to set up different access rights within the ASA and so that should be explored if you wish to keep different tax matters separate.

43. *How long do we have to register with ASA?*

If you haven't set up an ASA already (eg because of the Trust Register) then you should consider doing so very soon. Without an ASA you will not be able to enrol clients into the MTD for VAT pilot, nor assist them when it becomes mandatory.

*44. If you have set up assistants to deal with each of the different HMRC services (e.g. VAT, CT, SA, PAYE), do you need to link each to the agent services account? And when you add new clients do they automatically link across?*

Each government gateway account will ultimately need to be linked with the ASA, although for the time being only VAT services need to be transferred as VAT is the only tax being mandated into MTD and hence requires use of the ASA. We do not understand that existing delegate / assistant access levels will be copied across, but these can be separately established in the ASA. We do not believe that new clients added after the initial copying across of clients will automatically be populated into the ASA, but they will need to be copied across separately.

*45. If we submit a client's VAT return through compliant accounting software, do we still need to link that client's VRN to the agent service account?*

If the return is submitted directly from the client's software to HMRC, then it doesn't need linking to the ASA. However, if the agent is to submit the return on behalf of the client then the client will need to be authorised by the agent within the agent's ASA.

*46. How does the ASA interact with the MTD software?*

Simply put the software will hold the client's details, the live authorities with HMRC, and will be linked to the agent's ASA, enabling the agent to submit the client's VAT returns directly to HMRC through the software.

*47. When should we register for an Agent Services Account when we don't submit VAT returns for clients, only SATRs?*

At the moment there would be no need to set up an ASA, although keep an eye on developments as additional functionality (such as in relation to iforms) is being built into the ASA.

### **Enrolling into MTD**

*48. After 1/4/2019 will newly VAT registered businesses have to set up a VAT online Services account as they do now, for things like setting up Direct Debits, changing registration details etc? How will agents be able to do this for new clients? / How do we enrol a client into MTD? Is it automatic when submitting via a new software? / How does a business enrol for MTD? / You mentioned that VAT registered entities have to sign up for MTD - it is not automatic - will that be the same kind of process as signing up for the pilot?*

Guidance on enrolling into the MTD pilots can be found on GOV.UK both for [agents](#) and for [businesses themselves](#). A more detailed (but subject to change) step by step guide can be found [here](#). At the moment we do not know if the process will be the same at mandation. We will request that HMRC produce guidance around this.

49. *What happens if client has no e-mail address? Many of our clients do not have (and will not have) a computer.*

We do not know and so will explore with HMRC. At the moment they seem unable to join the pilot.

50. *For in-house VAT returns - I understand we do not need an ASA; but how do we enrol for MTD and is there a time limit by which we need to do this?*

A business can enrol itself into MTD. Currently, it can enrol into the pilot through [this link](#). The process for enrolling at mandate may be the same but we are seeking clarification from HMRC.

### **Communications**

51. *Why is the profession being expected to be HMRC's unpaid mouth piece with regards to advising clients about MTD for VAT (or MTD in the round) given your comments about letters being issued to clients between now and January 2019? Such a huge change for taxpayers should be advertised to taxpayers by HMRC much earlier.*

HMRC have significantly increased their communications around MTD, including material on GOV.UK, messages on the VAT portal, and their Talking Points sessions. But HMRC recognise that Professional Bodies and their members might be best placed to help their clients comply with MTD and this is one of the reasons why direct communications have, until recently, been limited.

52. *One of my clients received an email on MTD supposedly from HMRC is this the normal way of communicating or a scam as you mention a letter?*

It is possible that this was a genuine email as HMRC are now ramping up communications, as explained below. However, businesses should remember that HMRC will not send out links for businesses to click etc. Further information can be found [here](#).

53. *Neither my business nor any of my clients have received any letter from HMRC telling them about MTD. Do you know when HMRC will be sending this out to everyone?*

The process for issuing letters is understood to be approximately as follows:

- 20,000 letters were issued by HMRC on 6 November
- A further 20,000 a day are being issued 13 and 23 November ie 180,000 in total
- Another 200,000 to 300,000 will be issued in the first two weeks in December
- Another 100,000 will be issued in the first week in January

This is intended to broadly cover all the businesses who are entitled to join the first phase of the pilot which opened mid-October. HMRC have committed to writing to all businesses they believe are in scope of MTD.

54. *Have you got an example letter?*

We were asked by HMRC not to publish the text of the letters, as they are monitoring the impact of each type of letter, but the gist is set out on the [CIOT](#) and [ATT](#) websites.

### **Other aspects**



*55. Is it right that the way in which VAT payments are made is going to change? That clients will have to update their DD instructions?*

We understand that existing DD instructions will be carried forward into MTD (this is why businesses who pay by DD are advised not to enrol within 15 days of their submission date and the 5 working days immediately after it, to ensure that their DD carries over. There are no other changes being made to VAT payments.

*56. Will EC sales lists remain submitting in its existing format?*

Yes, for the foreseeable future at least.

*57. Do we put the agent login or the client's login into the software?*

That will vary from software to software, although we understand the process is straight-forward.

*58. What does soft landing period for penalties mean - when will it apply?*

There are two 'soft landing' periods. The first is around the digital links between software, which do not need to be in place until April 2020 (see slides). The second is around penalties for late submission / payment of VAT returns, or problems with keeping digital records. HMRC have said that they will apply a 'light touch' in the first year of mandation for MTD for VAT, meaning that businesses who make a genuine attempt to comply with the requirements, but experience problems / failures, will not be penalised. We are working with HMRC about how this can be made clear and how it will operate in practice.

*59. When MTD was first mooted, HMRC said there would be free software. Do you have details of this please?*

HMRC only promised free software in relation to Income Tax, and for the smallest of businesses. No promises were made in relation to VAT. However, we do understand that some suppliers are providing free bridging software, and there are a number of relatively low-cost software packages available, too.