MAKING TAX DIGITAL

MTD Update for Agents #3: 14th February 2019

Dear Agent

Welcome to the 3rd edition of our Making Tax Digital Update for Agents!

We've had positive feedback on this initiative, and we hope that you find it useful. If there's any subject you'd like us to cover in future updates please let us know via the MTD mailbox:

makingtaxdigital.mailbox@hmrc.gsi.gov.uk

In this edition:

Firstly, we are pleased to report that Agents are signing up clients to the new MTD VAT system in large numbers without any problems. To remind Agents, the sign up process initially asks for the business VAT reference number, and then later in the journey, where appropriate, the Company Reference Number. This latter request is not for validation purposes. It is a genuine request for information as HMRC's VAT system does not necessarily hold this data. It allows MTD VAT to associate the two references and will help make it much easier in future to pull together all the specific businesses tax information.

Unfortunately a very small number of Agents are, when signing up the company, inputting the wrong Company Reference Number. This can result in the wrong information being pulled across to the new MTD VAT account. Agents are being asked to be careful when capturing this information during sign up. The error tends to happen when an Agent is attempting to sign up a list of multiple businesses and simply reads from the wrong line in their list.

Useful links

Existing guides:

Create an agent services account

Help and support for Making Tax Digital

Update your client's details for Making Tax Digital for VAT

Find software suppliers for sending VAT Returns and Income Tax updates

New guides:

[Making Tax Digital for VAT as an agent: step by step](#)

[Sign in to your agent services account](#)

[Link clients to your agent services account](#)

[Sign up for Making Tax Digital for VAT](#)

[Check when a business must follow the rules for Making Tax Digital for VAT](#)

MTD letters to businesses

- **April mandated**

HMRC continues to contact businesses who are mandated from April and every business affected by MTD for VAT should have received a letter by the end of February 2019.

- **October mandated - Deferred**

All customers who are deferred until October have now been sent a letter informing them.

If a customer is expecting a deferral letter but hasn't received one they are advised to contact the VAT Helpline on 0300 200 3700 or, in the case of large businesses, contact their Customer Compliance Manager.

We are on track to write to all businesses affected by MTD by end of February 2019.

Key Updates

- **Getting help with sign up to ASA and MTD**

If you have any issues creating a new ASA, linking clients or signing clients up to MTD you should select the link 'Get help with this page' on the GOV.UK page you are on. This will raise a query with our IT Service Desk who will investigate and respond accordingly.

Alternatively contact the VAT Helpline on 0300 200 3700 and make sure you make it clear that it relates to Making Tax Digital.

- **Signing up to the pilot**

Please remember do not sign your clients up to the pilot until you and they are ready. If you intend to file any returns using the portal or non-MTD enabled software **do not sign up to use MTD until you have submitted the final return via the legacy route**.

During the sign up process you will be asked for the business VRN, we have seen a number of agents enter a CRN instead – this is not correct. Please check that you have the right information before you start.

- **New Agent Services Account**

Agents will need to set up a **_new_** Agent Services Account (ASA) in order to submit VAT returns under Making Tax Digital for Business.   There is guidance on GOV.UK at
https://www.gov.uk/guidance/get-an-hmrc-agent-services-account

With the passing of the Self-Assessment filing deadline it is hoped that more Agents will now be able to invest the time and start to set up their new ASAs. The four step guide was published in Agent Update 69
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/763042/Agent_Update_-_issue_69.pdf

Creating the ASA, and linking existing clients to it, does not commit to using MTD, but is an important preparatory stage.

After you have created an agent services account you have to sign your clients up to MTD one at a time so plan this carefully.

Income Tax Pilot

February is a good time to remind agents of sole traders and landlords that there is an alternative to the Self Assessment tax return: https://www.gov.uk/guidance/agents-use-software-to-send-income-tax-updates

There is a list of software on gov.uk, but your existing software provider may be testing their product behind the scenes.

Once you have compatible software and a new Agent Services Account, it's easy to join the MTD pilot for Income Tax with 1 or 2 clients that already keep digital records. If you, or your client, decide that the pilot is not for you, you can submit a Self-Assessment return as normal.

Spotlight On…….. Digital Links

Last time we covered digital records, which is a key component of MTD. Another component is digital links.

VAT Notice 700/22 section 3.2.1 explains the requirements of Digital Links
https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat

3.2.1 Digital Links
Data transfer or exchange within and between software programs, applications or products that make up functional compatible software must be digital where the

information continues to form part of the digital records. Once data has been entered into software used to keep and maintain digital records, any further transfer, recapture or modification of that data must be done using digital links. Each piece of software must be digitally linked to other pieces of software to create the digital journey.

So, what is a digital link?

A 'digital link' is one where a transfer or exchange of data is made, or can be made, electronically between software programs, products or applications. That is without the involvement or need for manual intervention such as the copying over of information by hand or the manual transposition of data between 2 or more pieces of software.

When do I need to have digital links in place?

It is recommended to have these in place as early as possible. However, HMRC will allow period of time ('the soft landing period') for businesses to have in place digital links between all parts of their functional compatible software.

For the first year of mandation businesses will not be required to have digital links between   software programs.

This means that if Making Tax Digital rules first apply to you from either a:

- VAT period starting on or after 1 April 2019, you will have until your first VAT return period starting on or after 1 April 2020 to put digital links in place
- VAT period starting on or after 1 October 2019, you will have until your first VAT return period starting on or after 1 October 2020 to put digital links in place

Top Questions about Digital Links

1) Are spreadsheets considered digital links?
Yes, they can be. A digital link includes linked cells in spreadsheets, for example, if you have a formula in one sheet that mirrors the source's value in another cell, then the cells are linked.

2) Is copy and paste a digital link?
No. HMRC does not consider the use of 'cut, or copy, and paste' to select and move information, either within a software program or between software programs, to be a digital link.

3) Is email a digital link?
Yes, it can be. For example, emailing a spreadsheet containing digital records to a tax agent so that the agent can import the data into their software to carry out a calculation (for instance, a Partial Exemption calculation) would be acceptable.

Equally, transferring a set of digital records onto a portable device (for example, a pen drive, memory stick, flash drive) and physically giving this to an agent to import that data into their software, would also be acceptable.

In addition, XML, CSV import and export, download and upload of files, automated data transfer and API transfer would also be acceptable.

Please note that this list is not exhaustive.

4. At what point in the process do digital links have to be in place?

Digital records must be kept under MTD rules. These records are used to compile, collate and create the nine boxes for the VAT return.

Each piece of software must be digitally linked to other pieces of software to create the digital journey. Transferring data manually within or between different parts of a set of software programs, products or applications that make up functional compatible software is not acceptable under Making Tax Digital. For example, noting down details from an invoice in one ledger and then using that handwritten information to manually update another part of the business functional compatible software system.

Myth Busters

❖ *"HMRC will come down hard and penalise customers who are trying their best to comply with MTD"*

This is not true.
HMRC recognises that businesses will require time to become familiar with the new requirements of MTD. HMRC has been clear that during the first year of mandation, HMRC will not pursue record keeping penalties where businesses are doing their best to comply with the law.

However, VAT Default Surcharge (DS) regime will continue to apply to safeguard VAT revenue, and other sanctions remain possible for deliberate non-compliance. Under the DS regime, penalties are only payable where a business doesn't pay their VAT, or pays late while in DS, so MTD should not increase the risk of penalties. Customers who receive a DS, can contact HMRC if they have a reasonable excuse for this, HMRC will take account of all the relevant circumstances into consideration.

If a customer does get into a situation where, for example, they think their software has produced wrong figures, HMRC strongly encourages them to get in contact with their software provider or HMRC, as soon they can. HMRC wants to ensure that MTD lands well and customers feel supported, where needed.

❖ *"The "soft-landing" period covers all of the penalties, so there is no need to comply with MTD for the first year."*

This is not true.
The "soft-landing" period only covers the digital links requirements as set out under 3.2 .1 Digital links in the VAT Notice 700/22.

Businesses will have a soft-landing period to put in place digital links between software products where they use more than one product to meet their digital record keeping requirement.

Businesses mandated to join Making Tax Digital for VAT from:
- 1 April 2019 will have will have until their first VAT return period starting on or after 1 April 2020 to put digital links in place between software products.

- 1 October 2019 will have until their first VAT return period starting on or after 1 October 2020 to put digital links in place between software products.

   While HMRC does not intend to come down hard on businesses that are doing their best to comply with MTD, sanctions remain possible in instances of deliberate non-compliance with MTD.

❖ *"The "soft landing" period also covers digital records so I don't need these until 2020"*

   This is not correct
   Digital records are a cornerstone of MTD and businesses following MTD rules for their VAT returns must have digital records in place for the entire VAT period they are making the return for. The vast majority of businesses are mandated from April 2019 and so require digital records from 1 April 2019 to be able to submit an MTD VAT return for the period 1 April – 30 June 2019.

   For a small number of businesses, deferred until 1 October 2019, they would have to have digital records in place from then.

   In either case, of course, businesses may keep digital records from an earlier date; most businesses already have digital records.

   HMRC will allow a period of time ('the soft landing period') for businesses to have in place digital _links_ between all parts of their functional compatible software.

   For the first year of mandation businesses will not be required to have digital links between software programs.