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# **Making Tax Digital for VAT**

FAQs

**August 2018**

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## Introduction

Making Tax Digital (MTD) is shifting focus to VAT reporting from April 2019 and introduces significant new rules for how most corporations will submit their returns. MTD for VAT focuses on three key requirements;

- Digital record keeping – storing all transactions in electronic form
- Digital links – having a digital link between final numbers and source data
- Digital submissions - all submissions must be made using appropriate software via HMRC's new gateway

Thomson Reuters ONESOURCE Indirect Tax Compliance fully supports the requirements of MTD. We are working closely with HMRC through their pilot period in the lead up to the new rules coming into effect in April 2019.

This document is a summary of questions received from attendees during our recent Thomson Reuters MTD webinars Q&A session with HMRC.

To find out more about the impacts of Making Tax Digital for VAT and how Thomson Reuters can help, please contact us or view more information at our [MTD website](#).

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## Timeline

### **What is the timeline for MTD for VAT?**

From April 2019 all VAT registered businesses over £85K turnover must comply with MTD requirements.

### **April-June 2019 VAT return will be required to file MTD compliant by 7th August 2019.**

Feb-April 2019 VAT return will not be subject to MTD compliant VAT return. May-July 2019 return will be the first MTD compliant return in this example.

### **Will MTD affect the monthly quarterly return deadlines?**

No, your filing deadlines will remain the same. If a business is filing returns monthly now, it will remain monthly.

### **What's the "soft landing period"?**

The initial VAT MTD requirements have two main elements:

(i) Submission of VAT returns using API; and

(ii) Keeping and preserving digital records and for businesses whose internal processes mean these elements are dealt with using different software must ensure they are digitally linked - i.e.

- Digitally linking transaction records or a summary of those records
- Digitally linking any adjustments (for example those made in a spreadsheet)

From April 2019 to March 2020, HMRC will operate "soft landing" meaning that requirement (ii) will not be strictly enforced. However (i) will be in force from April 2019 as above.

### **What is the status of HMRC pilot programme?**

HMRC expects to come out of the current private beta programme at the end of summer or early autumn. It will be followed by the public pilot. At this time HMRC will release a list of all the software that has been successfully tested during the private beta, and as more software concludes the test, the list will be updated.

HMRC started the private beta programme in April 2018 and since then they have been testing different elements of the functionality, including receiving VAT submissions through MTD. This includes Accounting Software and Bridging Software (to a spreadsheet).

### **What if we can't comply with MTD requirements?**

Non-compliance for MTD can happen in two ways.

(i) Not submitting your returns through the MTD API - this will be a point-based penalty. [As published in December 2017](#), HMRC will use point based penalty scheme for non-submission of VAT return. Under this scheme, when the cumulative points reach a certain level, penalty will be charged.

(ii) Not keeping digital records - this will be treated as breach of record retention requirement under the VAT regulation. Besides penalties accompanying the Regulation, businesses should be aware of any potential impact on evidence if any dispute arises.

### **Will there be any exceptions for businesses in transition, e.g. implementing a new ERP system?**

The submission of the return, regardless of the internal processes, must be submitted through the MTD API as per the published timeline.

There is a soft-landing period of 12 months to accommodate business transitions, but HMRC will look at on a case by case basis.

***Does HMRC have any “back-up” plan for MTD?***

HMRC is on track to deliver MTD for VAT in April 2019 as planned.

HMRC started the private beta programme in April 2018 and since then they have been testing their API functionality, including receiving its first VAT submissions through MTD.

HMRC plans to start the public beta phase of the pilot at the end of summer/early autumn this year. This timeline should allow the service to have been tested before any business is mandated to use it.

# Digital Transaction Records

## ***What information must be kept digitally?***

Records to be kept digitally include:

- Business name
- Address of business
- VAT number
- Total output tax and total input tax amount
- Any special VAT accounting schemes used
- Adjustments or error corrections
- Transaction data from sales and purchase records

## ***When is the record “digital”?***

Digital records mean records that are captured and held in an electronic/digital format and can viewed on a computer, whether a desktop, laptop, tablet or mobile phone.

This could include:

- a digital image/copy of a paper record (such as a photo, legibly showing all the necessary details, taken on a camera phone close to the point of the transaction),
- an entry into accounting system; or
- an entry into a software/app.

The record itself must include, as a minimum, the date, amount and category of each business transaction.

Further details are contained in regulations (The Value Added Tax (Amendment) Regulations 2018 (2018, No 261) and VAT Notice, which is published [here](#).

## ***Do we need to create “digital invoice”?***

There is no requirement to create digital invoices. If a business receives a paper invoice, they can digitise it if they choose, retain the digital copy and, if they wish, destroy the paper copy. If a paper invoice is retained then the relevant data on that paper invoice must be entered into a system to be kept digitally.

## Digital Links

### ***Can we use spreadsheets?***

Spreadsheets can be used to record data. However, if more than one spreadsheet is used, these must be digitally linked together without manual transfer or re-keying of data from one to another.

Although the use of spreadsheets is still allowed for record keeping and making calculations, if the spreadsheet is capable of linking with HMRC's API an alternative or additional software must be used for this part (Bridging software).

### ***Do we need to link invoices to the accounting system and/or accounting software?***

This is not required under MTD. However, a number of software packages do enable this, and HMRC would recommend this feature is used.

## LINKING THE DIGITAL RECORDS (SOURCE DATA)

### ***Is an export of data from the ERP system to a spreadsheet and/or software counted as a digital link?***

Yes, any file downloaded from the ERP system in CSV, TXT, ML or any format, as long as the file is downloaded with no human intervention and then uploaded to the next phase of the process. Additionally, download can be a direct link from the spreadsheet to the accounting systems both scenarios maintain a digital link.

### ***What do we need to prove to HMRC that source data are digitally linked?***

HMRC will supply examples of several scenarios which will give businesses reassurance, but appreciates these cannot be exhaustive. If a business is in any doubt whether or not its solution complies then it should contact HMRC to confirm.

### ***How do we "digitally link" source data for VAT group where each member entity has different source systems?***

HMRC recognise that a VAT Group return is generally consolidated from several sources of data, MTD is not regulating the internal processes of how this is achieved. The flow of data being processed when arriving at the consolidated return however should be digital, notwithstanding any adjustments.

## MANUAL ADJUSTMENTS TO TRANSACTION RECORDS

### ***Once the data is extracted to spreadsheet, any changes we make in spreadsheet are not automatically reflected in ERP - is this ok?***

Yes. However, HMRC expects to see audit trail of any changes made to the transaction records. The audit trail should show what changes are being made and why.

### ***We filter downloaded records to prepare VAT return - would it break "digital link"?***

No, provided there is audit trail of how the records are filtered and extracted are clear.

### ***We "enrich" the downloaded records - e.g. adding tax codes after we download the records. Would that break the "digital link"?***

No. If the digital records are not complete at the time of data download and the business is completing its digital records on a spreadsheet, it is the business's choice. Any changes made to the transaction records should have clear audit trail.

### ***Can I manually enter transaction details into the spreadsheet after the ERP data has been downloaded?***

If the transaction records are not yet "digitalised" and the details are typed in the spreadsheet, it will constitute digital record for that particular transaction.

## MANUAL ADJUSTMENTS TO VAT RETURN

### ***How will Partial Exemption Special Method (PESM) work in the digital calculations and linking?***

HMRC recognise PESH calculations are normally carried out manually. There is no requirement under MTD to carry out PESH calculation automatically.

HMRC's preference is for the final result of the adjustment calculation (e.g. reducing input tax by £1,000) to be linked to the working and VAT return digitally which should reduce the risk of error. However, HMRC accept that it may need to be typed up, so long as there is a record of reason for the adjustment.

Even if the adjustment (£1,000 in this example) is typed up, the result of the adjustment (e.g. if input tax of £10,000 reduced by £1,000 to £9,000, then the end result of £9,000 must be automatically calculated then linked to the VAT return.

A digital link can be an electronic link between two products where changes in one automatically impact the other. Or could be download of data from one and uploaded to another. There should be no manual intervention between the exchange of data.

The same applies to other manual adjustments carried out outside of the ERP, such as bad debt relief, fuel scale charge or employee expenses.

### ***We use external agent to add information before submitting VAT return on our behalf. What digital link need to exist?***

Similar to manual adjustments, the final VAT return must have digital link to the source. If external agents are adding information to the VAT return, it should be treated as manual adjustment and the result of the calculation must be digitally linked to draft VAT return with digital link to the source.



# Software

## ***What's the difference between functional compatible software and bridging software?***

Functional compatible software is a software program or a collection of software programs that can be used to store records, perform the required calculations, submit and receive information to and from HMRC directly via their API.

Bridging software is generally thought of as an element of that collection, giving the business or agent the ability to file to HMRC via the MTD API platform.

## ***Does software have to be HMRC approved software like CTSA software?***

HMRC does not approve software. However, during the pilot HMRC will work with the supplier to test the software for the ability to send the VAT return through their API. HMRC provides each software package with a unique token so when that software tries to file through HMRC's API, HMRC knows the data is coming from an authenticated product.

HMRC does not however test the functionalities and features of individual products.

## ***Will HMRC provide support with software and guidelines?***

HMRC will support business signing up to MTD and making submissions through software, guidelines will be available on Gov.UK.

HMRC has no plans to provide software products.

## About ONESOURCE

Thomson Reuters ONESOURCE Indirect Compliance fully supports the core requirements of MTD, and automates your VAT processes end-to-end. A robust risk management framework ensures fully compliant automated data collection; fast, reliable, intelligent reporting and easy to manage submission.

ONESOURCE also provides all the required digital links, and incorporates an underlying process control and digital audit trail of any manual adjustments from review to sign off, allowing you to file your returns directly from the application with confidence.

If your company goes beyond borders, the move by tax authorities globally to digital reporting will require a scalable solution that meets a range of requirements. ONESOURCE can support indirect tax filings in over 50 countries from traditional VAT returns, GST, EC Listings and Intrastat, to the more complex requirements for SAF-T, Spanish SII and other country specific reports.

### ***MTD for VAT ready***

- Automated VAT returns from data taken directly from financial systems
- Full support for VAT grouping and divisional reporting
- Detailed exception reporting built in
- Full audit trail of data, including manual adjustments
- Ready to file electronically in the UK, and in multi-jurisdictions within EU

For more information contact us at [onesourceuk@tr.com](mailto:onesourceuk@tr.com) or visit our [MTD website](#)

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