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Regulated by the Institute of Chartered Accountants in England and Wales for a range of investment business activities.

MTD for VAT - FAQs November 2018

Making Tax Digital (MTD) is an initiative that will transform the UK tax system through the implementation of a fully digitalised tax system.

The changes apply to a wide range of taxpayers, including most businesses, self-employed professionals and landlords, and require the majority of business owners to maintain digital records and submit their financial data using functional compatible software.

MTD is initially being launched for Value Added Tax (VAT) but in the future it will also apply to Income Tax and Corporation Tax.

What is the timeline for MTD?

From April 2019, quarterly reporting is mandatory for all VAT-registered businesses with a taxable turnover above the VAT registration threshold (currently £85,000). A business must follow the new rules starting with the first VAT Return period that starts on or after 1 April 2019.

VAT taxable turnover is the total value of everything you sell that is not exempt from VAT.

The government recently announced that it has made the decision to delay the mandation of MTD for VAT until 1 October 2019 for a small minority of VAT-registered businesses with "more complex requirements".

The six-month deferral applies to customers who fall into one of the following categories: trusts; 'not for profit' organisations that are not set up as a company; VAT divisions; VAT groups; those public sector entities required to provide additional information on their VAT return (such as government departments and NHS Trusts); local authorities; public corporations; traders based overseas; those required to make payments on account; and annual accounting scheme users.

What is a "digital" record?

Digital records mean records that are captured and preserved in an electronic/digital format and can be viewed on an electronic device such as a desktop computer, laptop, tablet or mobile phone.

These records must include, as a minimum, the following:

- Sales – date of sale (tax point), value of sale and rate of output VAT charged.
- Purchases – date of purchase (tax point), value of purchase and amount of input VAT to be reclaimed.

Please be aware that keeping the above records does not negate the responsibility of the business of keeping invoices.



What is "functional compatible software?"

Functional compatible software records and preserves digital records and provides them to HMRC via the Application Programming Interface (API) platform.

Most accounting software providers will be releasing updates to their current software products to enable them to meet MTD requirements.

Once data has been recorded in a software program, any further transfer 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.

A digital link is an electronic or digital transfer/exchange of data between software programs. The use of "cut and paste" between software programs is not considered a digital link.

Does the software used to digitally send the VAT returns have to be approved by HMRC?

HMRC are not approving software, however they are working with a number of vendors to test various software programs to send the VAT through their API platform. HMRC will provide a full list of MTD-compatible software programs as soon as possible: an initial list can be found on the gov.uk website. HMRC are providing each software system with a unique reference so when that system links to HMRC's API in the future it will be authenticated.

Please speak to your Cohen Arnold contact to assist you in ensuring that your current accounting software is MTD compliant.



Currently I prepare my VAT Returns using Excel spreadsheets, do I now need to purchase an accounting software package?

Ideally, all businesses should be using an accounting software package to record the transactions of their business. This has many benefits including reducing time spent on manual processes, decreasing the possibility of errors and providing the business with real time financial information.

There are many reasonably priced and simple accounting software packages available on the market and your Cohen Arnold contact would be happy to discuss the options with you.

However, for those businesses still preferring to use Excel spreadsheets, there are several new bridging products available that will enable the Excel spreadsheets to be transferred to HMRC via the API platform. However, HMRC do not encourage the use of Excel spreadsheets and may require the use of functional compatible software in the future.

My business activity is that of property investment and I receive a quarterly rent statement from a third-party managing agent, how do I provide this information to HMRC?

HMRC have said that in circumstances where a third-party agent makes supplies on behalf of a business and it is not possible nor practical for the business to digitally record every single supply, HMRC will allow the business to record these digitally as a single invoice. Consequently, it would be acceptable to digitally record the quarterly rent statement as a single invoice.

How do I digitally link source data for a "partial exempt" business where adjustments are calculated outside of the software?

There are two options:

The business should calculate the adjustment outside of the software (e.g. on an Excel spreadsheet or manually) and journal the effect of the calculation back into the software. The VAT return can then be submitted directly from the software.

Alternatively, the business should export the data from the software into an Excel spreadsheet (a digital link will be required) and then the adjustments and VAT return calculations can be undertaken in an Excel spreadsheet. The bridging software can then be used to submit the VAT return figures to HMRC.

This will also apply to businesses that operate a VAT margin scheme.

I have a number of questions to ensure that my business is MTD compliant before 1 April 2019, who can I speak to about this?

Please be in touch with your Cohen Arnold contact who will assist you further.

