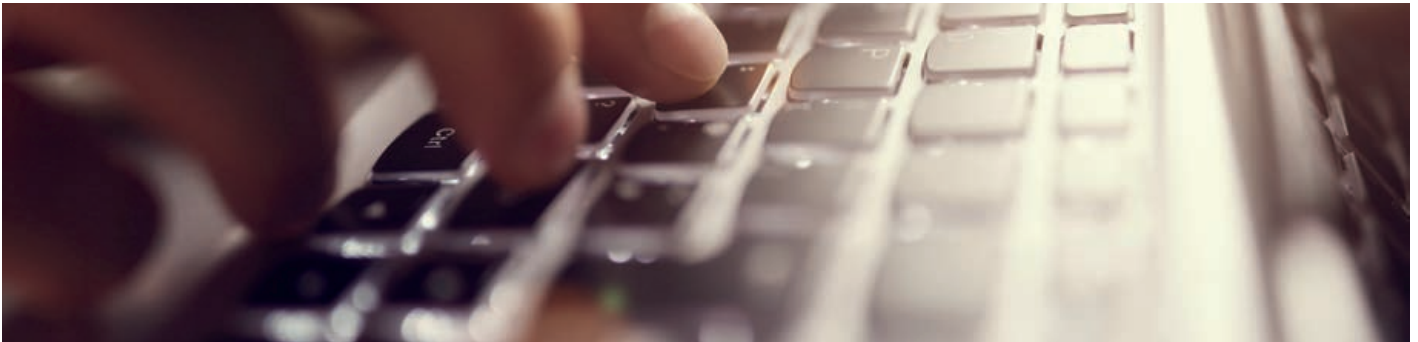


MTD for VAT Q and A www.dkraccountants.co.uk info@dkraccountants.co.uk

The questions and responses below have been prepared in the light of the issue of the **VAT Notice 700/22: Making Tax Digital for VAT** on 13 July 2018. We hope you find them of interest in dealing with your own and your clients' queries.



Questions on time of supply

Question 1

In terms of time of supply, what happens when a client receives invoices but does not pass to their accountant to be recorded in time and the invoice is received after the passing of VAT quarter. What date is recorded on the system?

Response summary

If the VAT return has not yet been submitted although the VAT return period has ended then there is a helpful guidance provided in the New VAT Notice for MTD at section 3.4:

Example 2

A business has a software package that requires a period to be closed before the return can be completed. After the period has been closed the business is calculating adjustments before submitting the return. Invoices are found that should be included on the return. The business can enter the figures as an adjustment to ensure the return is correct, but they must record the invoices in their functional compatible software to complete their digital records.

If the VAT return has been submitted and then a VAT invoice is received so that it has not been recorded in the correct quarter then the treatment is that it is dealt with as an error adjustment in the current VAT return subject to materiality of error rules. This principle does not change under MTD. If the error is discovered outside the VAT return period to which it relates and the trader notifies HMRC using form VAT652 (Method 2), the business is not required to amend the digital records for the error.

Question 2

If a client is on VAT cash accounting, and has always been using the cashbook (without keeping a sales ledger or purchase ledger) for preparing their VAT returns, does that mean they will now need to keep a sales and purchase ledger and no longer be able to use just the cash book?

Response summary

Page 18 section 4.3 deals with this. The new VAT notice states: **'The time of supply is the date that you must declare output tax on. Typically, this is when you send a VAT invoice or, if you are on cash accounting, when you receive payment for the supply'**

This latter statement appears to state that, as the time of supply for cash accounting is the receipt or payment date and not the invoice date, that this is acceptable for MTD and this would mean that there would be no need to keep a separate

sales and purchase ledger for MTD and that the cash book entries would be sufficient.

Recording each individual supply in the records for MTD

Question 1

Can a shop record daily sales and not individual sales and still comply with MTD?

Response summary

There is an exception for retail schemes. It is sufficient to digitally record the daily gross takings (DGT) in respect of retail sales and businesses do not need to record the individual sales that make up the DGT. In addition, the following appears in the MTD notice:

The following rule has the force of law:

In addition to the records listed in paragraph 3.3 above, if you account for VAT using a retail scheme you must keep a digital record of your Daily Gross Takings (DGT). You are not required to keep a separate record of the supplies that make up your DGT within functional compatible software.'

Question 2

Can a hotel record daily sales and not individual sales and still comply with MTD?

Response summary

The concession regarding DGT rather than individual sales applies to those accounting for VAT using a retail scheme. Retail sales are sales of goods or services made to consumers. A hotel may make supplies to both consumers and VAT-registered businesses, so the concession would only apply to sales made to consumers and operating two systems would be unwieldy.

Question 3

If a business trades on Amazon or Ebay but does not use a retail scheme, are they still expected to report their daily gross takings (DGT) in the Functional Compatible software or can you just continue to enter the monthly sales summary into the software?

Response summary

Strictly per the Regulations each individual supply must be recorded in electronic records. If the retail scheme applies

then the VAT notice indicates that those using a **retail scheme** can use DGT. As advised above in question 2 this would appear to apply to retail businesses generally provided that an election is made.

The MTD notice at 3.3.2.1 states:

'HMRC is aware of a number of circumstances in which a third-party agent makes supplies on behalf of a business and it may not be possible or practical for the business to record digitally every single supply. Therefore, HMRC can accept businesses recording these digitally as a single invoice.'

*'Where a third-party agent makes supplies on your behalf, those supplies do not fall within the digital record keeping requirements until you receive the information from the agent. Where the information is received as a **summary document** you can treat this document as one invoice issued by you for the purpose of creating your digital record.'*

Software related questions

Question 1

What about clients using various specialist sales software in addition to computerised accounting software? One example is a Veterinary Practice the system records sales and receipts and maintains a debtor ledger. The csv file for sales is extracted which doesn't import into Sage. However, it appears that Sage will create all the individual customer accounts but that the receipts cannot be imported. It will be too time consuming to try and create the same balanced sales ledger in Sage.

Response

This is solely software related-issue.

Question 2

Will clients who maintain their records on an excel sheet be able to link the details to a csv file to be uploaded into selected software for example Xero, QB or Sage?

Response

The MTD notice states:

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.

It follows that 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.

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 two or more pieces of software.

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.

HMRC will also accept digital links as:

- 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)
- 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
- XML, CSV import and export, and download and upload of files
- automated data transfer

API transfer

HMRC does not consider the use of 'cut and paste' to select and move information, either within a software program or between software programs, to be a digital link.'

VAT return frequency

Question 1

Will clients who wish to submit their VAT returns monthly need to be submitted to HMRC through API?

Response

Businesses submitting monthly returns (whether directed to by HMRC or doing so voluntarily) will continue to do so. Similarly, businesses submitting non-standard returns can continue to do so.

Adjustments

Question 1

What is happening with regards to partially exempt VAT registered businesses/individuals?

Response

All compulsorily registered VAT businesses will have to comply with MTD for VAT regardless of complex adjustments. However, it is recognised that calculations may need to be done outside of the digital records. The MTD VAT notice states:

3.2 .1.2 VAT calculations made outside of software

HMRC recognises that there may be points during preparation of your VAT Return when calculations will have to be made outside of any software you use to keep the digital records, or there may be a need to enter data into your software from particular sources. For example, a capital goods scheme adjustment calculation done in a separate spreadsheet may need some form of input by hand into the software that will send your VAT Return information to HMRC.'