THOMSON REUTERS
ONESOURCE™

THOMSON REUTERS®

Guide to Making Tax Digital for VAT

Guide to Making Tax Digital for VAT

CONTENTS

Introduction

HMRC's stated aim to be the "most digitally advanced tax administration in the world" is in-line with the broader global trend for tax authorities to move towards a more digital relationship with customers, and increased regulatory guidance from the OECD for transparency in tax data.

Making Tax Digital (MTD) is the UK's flavour of this trend, as HMRC move their tax operations onto a new technology platform. After a series of consultations the first implementation for MTD for Business mandates digital record keeping and filing for VAT, and is due to commence from April 2019.

Careful consideration of the regulations are required to ensure current processes meet the required standard, and that organisations are using compatible software.

The four pillars of MTD

The ambitions for the complete MTD project are:

1. Better use of information - To help taxpayers by not asking them to supply HMRC data that it already has, or will be able to get elsewhere. This could include banks, and other governmental departments.

2. Real-time access - Access to a Digital Tax Account (DTA) which should provide a live view of current liabilities

3. One complete picture - "A comprehensive financial view within the DTA"

4. Digital interaction with customers - Allowing customers and their agents to interact at a time that suits them. This includes digital communication, and an ability to link bookkeeping software to HMRC systems.
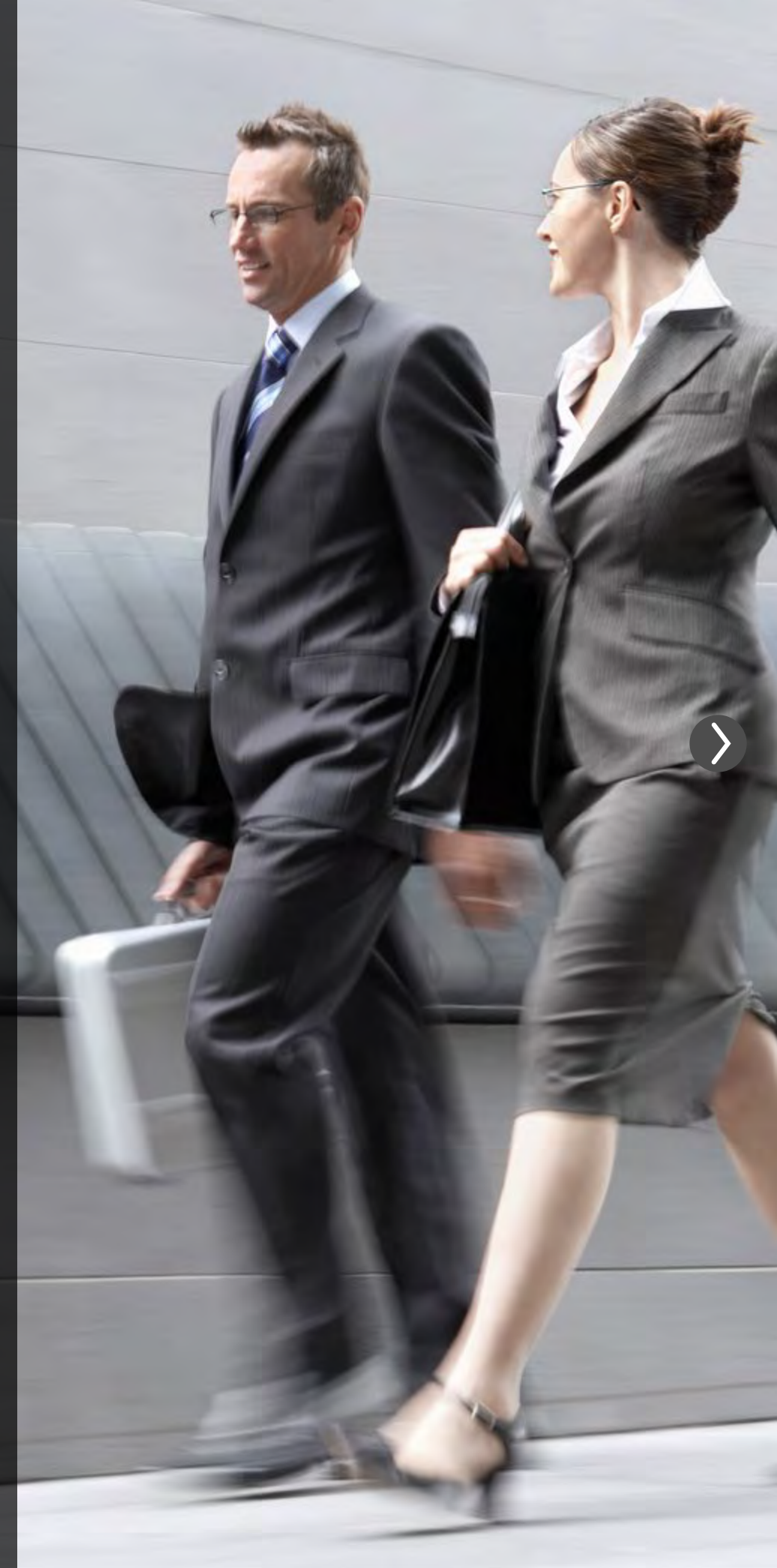
Introduction continued

The drivers of the digital agenda

MTD is designed to achieve a number of key aims for HMRC, including a reduction in the perceived tax gap - Estimated at £34 billion in 2015/16, of which £12.6 billion relates to VAT.

Key to this is the belief that a significant amount of this gap is less to do with fraud than the lack of quality recording of transactions, and mistakes caused by manual process such as the incorrect keying in of data.

Reducing errors as a result of manual processing is central to the use of technology, although it should be clear that it also indicates that in the future there may be a requirement for greater access to granular data and analysis - something that is already occurring in jurisdictions such a Poland, with the introduction of the Standard Audit File for Tax (SAF-T) for all businesses from Jan 2018.
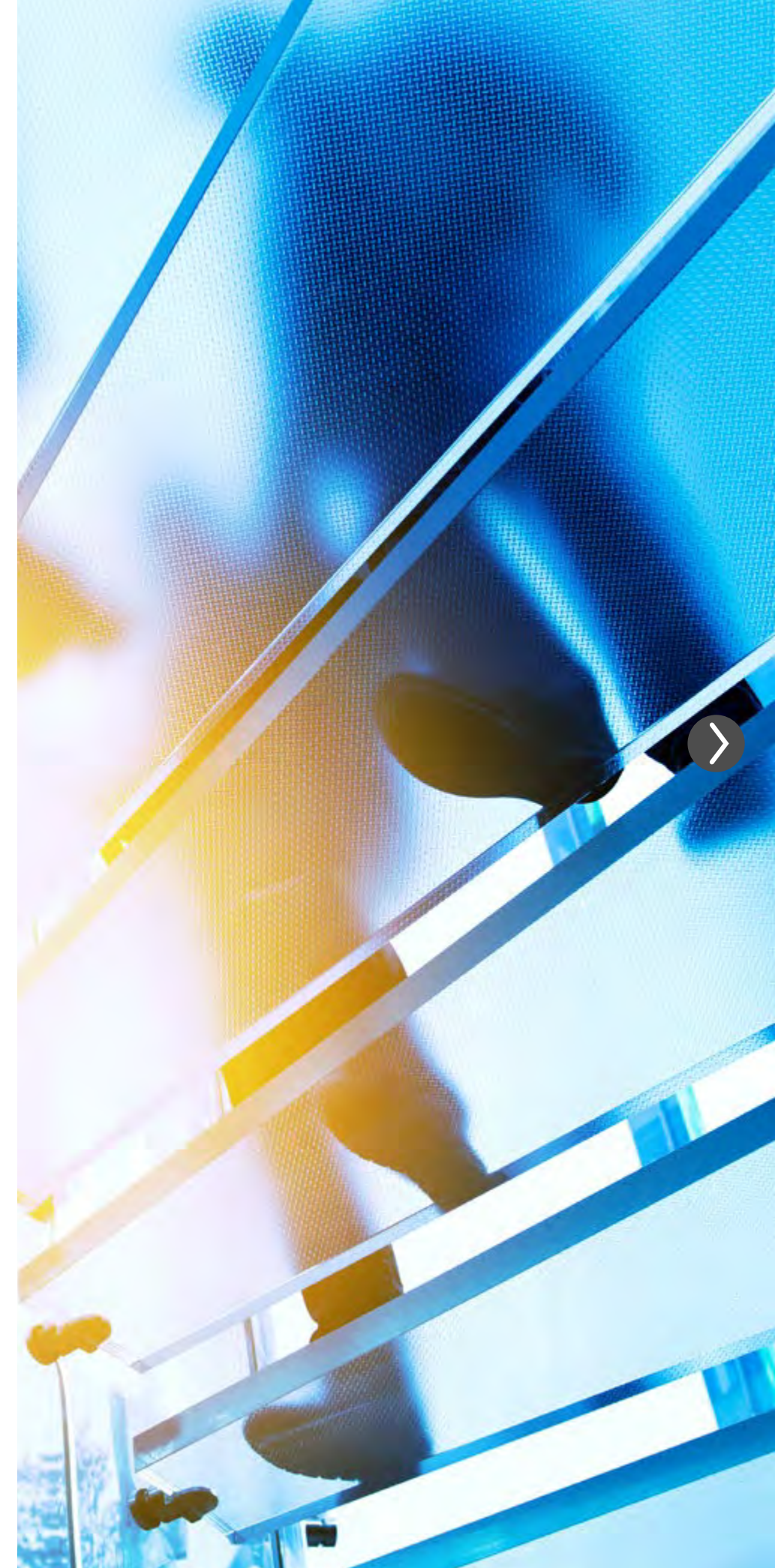
Key dates

To give businesses time to understand and adapt to the required changes, taxes are being phased in over a number of years:

From April 2019

- VAT for all VAT registered businesses over £85K turnover.

Not earlier than 2020

- Corporation tax
- Personal tax
- Capital gains tax

MTD for VAT

The Three Key Requirements

Digital record keeping

- You must store and analyse all Accounts Payable and Accounts Receivable data in electronic form, ideally using functional compatible technology - in other words technology that can be used to store records, perform the required calculations, and submit the information to HMRC directly via their API.
- Spreadsheets can be used, but will require additional software to handle filing, and have certain conditions attached.

Digital links

- There must be a direct digital link between your software and HMRC. This means that spreadsheets are acceptable, but only if it can digitally link through to another programme which is able to make the final digital submission - referred to as bridging software.
- Any movement of data between one programme and another should not require any rekeying or manual intervention.
- Importing data via CSV or through automatic links in a spreadsheet will be allowed.

Digital submissions

- Manual input of figures via the current government gateway will no longer be accepted. All submissions must be made using appropriate software with a digital link. As it stands only data for the current 9 boxes are mandated, however supplementary or voluntary information will be allowed.

During a recent Thomson Reuters Survey on Making Tax Digital for VAT, **87%** of respondents said they currently keyed in submissions directly into the government gateway. This will not be acceptable from April 2019.

Spreadsheets and their place

Spreadsheets and their place

Spreadsheets can be used to record data, however if you have several spreadsheets these must be digitally linked together. There must be no manual transfer or rekeying of information from one to another.

They can also be used to create calculations that might be seen in a normal VAT return e.g partial exemptions. However these calculations must be kept and referenced to create an audit trail.

Connecting all your digital records

All systems that contain digital records (any transaction data) must be linked together in a digital way in order to be compliant, however businesses will be given the opportunity to ensure their systems and processes meet this standard before penalties are enforced.

Soft landing in year one:

- For the first year of mandation, businesses will not be required to have a digital link between all sources that contain digital records. However, this is only to provide 12 months to conform and change systems.

There is no soft landing for:

- Digital submission to HMRC
- Links into functionally compatible software, or into bridging software
- Sending data to an agent or outsource partner.

Identifying which systems contain digital records therefore is critical to be compliant.

Spreadsheets will not be able to file directly into HMRC, so alternative or additional software must be used.
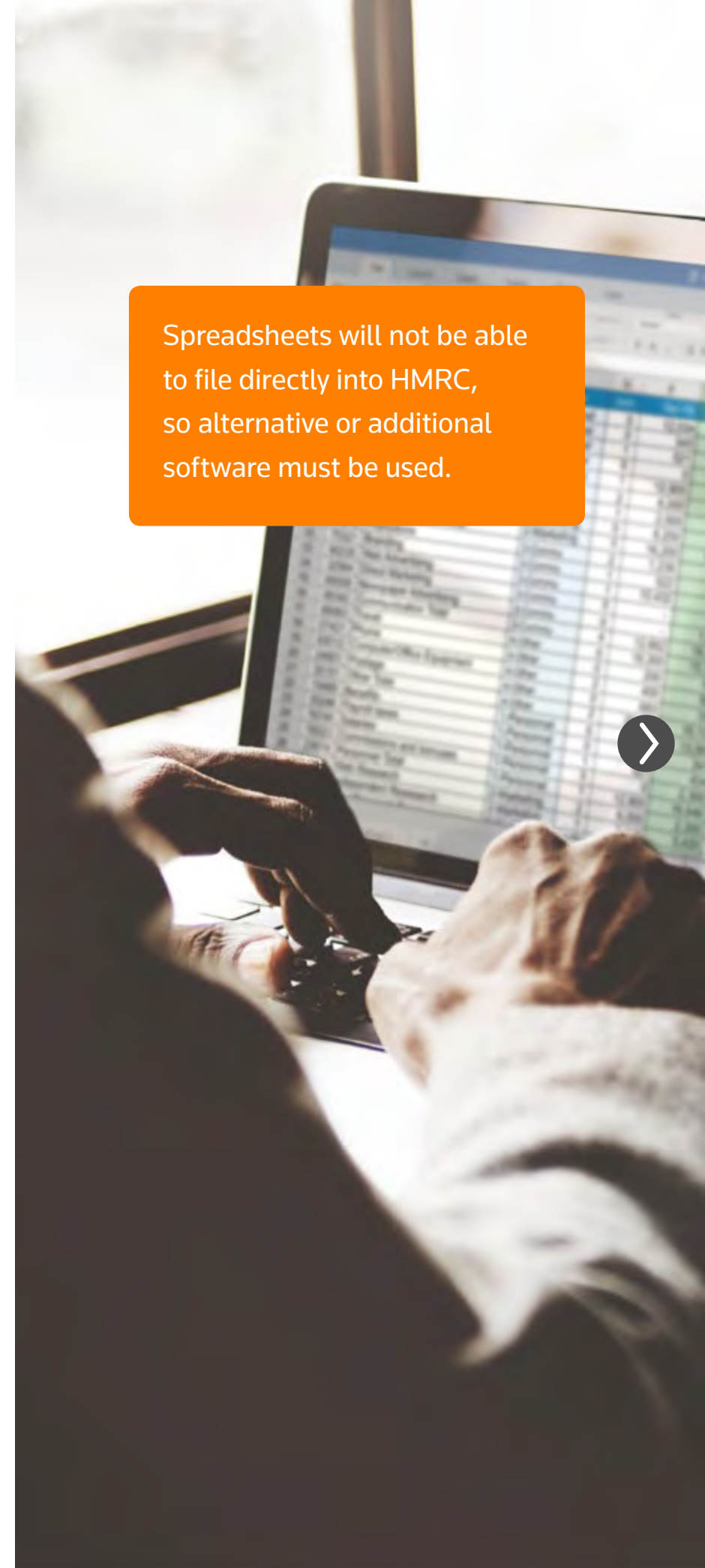
Preparing Your Organisation

Impact assessment

Understanding to what extent you are already compliant is the obvious first step. The main areas of focus need to be:

- Where is all your relevant data, and how is it currently collated?
- What are your current processes for producing a VAT return and does each stage conform to the requirements?
- Are submissions currently done manually via HMRC's web site?

Deciding your approach

Making a decision on what level of change is required, and how far you wish to go, is the next phase. This effectively spans the minimum required to full scale IT tax transformation:

- Decide on what level of risk you are comfortable with to ensure compliance.
- Do you want a fully robust compliance process from the outset, or comfortable to meet minimum requirements?
- Identify which areas are of greatest priority e.g. Digital submissions

There are solutions available to meet each gap of MTD for VAT compliance, however piecemeal solutions should be put in context of the general trend towards a digital tax agenda, and their long term suitability.

Implementation

Reviewing the options with internal and external stakeholders such as IT, software providers and external consultants will ensure that the best solution to meet operational needs is selected. This could include considering:

- Data security policy
- Compatibility with existing systems (e.g. ERP)
- Tax technology strategy

While MTD for VAT is a UK initiative, it is also worth considering the growing impact on tax teams of similar reporting requirements in other jurisdictions, and how greater efficiencies can be made to reporting and accessing data.

What is your global approach to indirect tax reporting?

How We help

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 or visit our MTD website

tax.thomsonreuters.co.uk/making-tax-digital
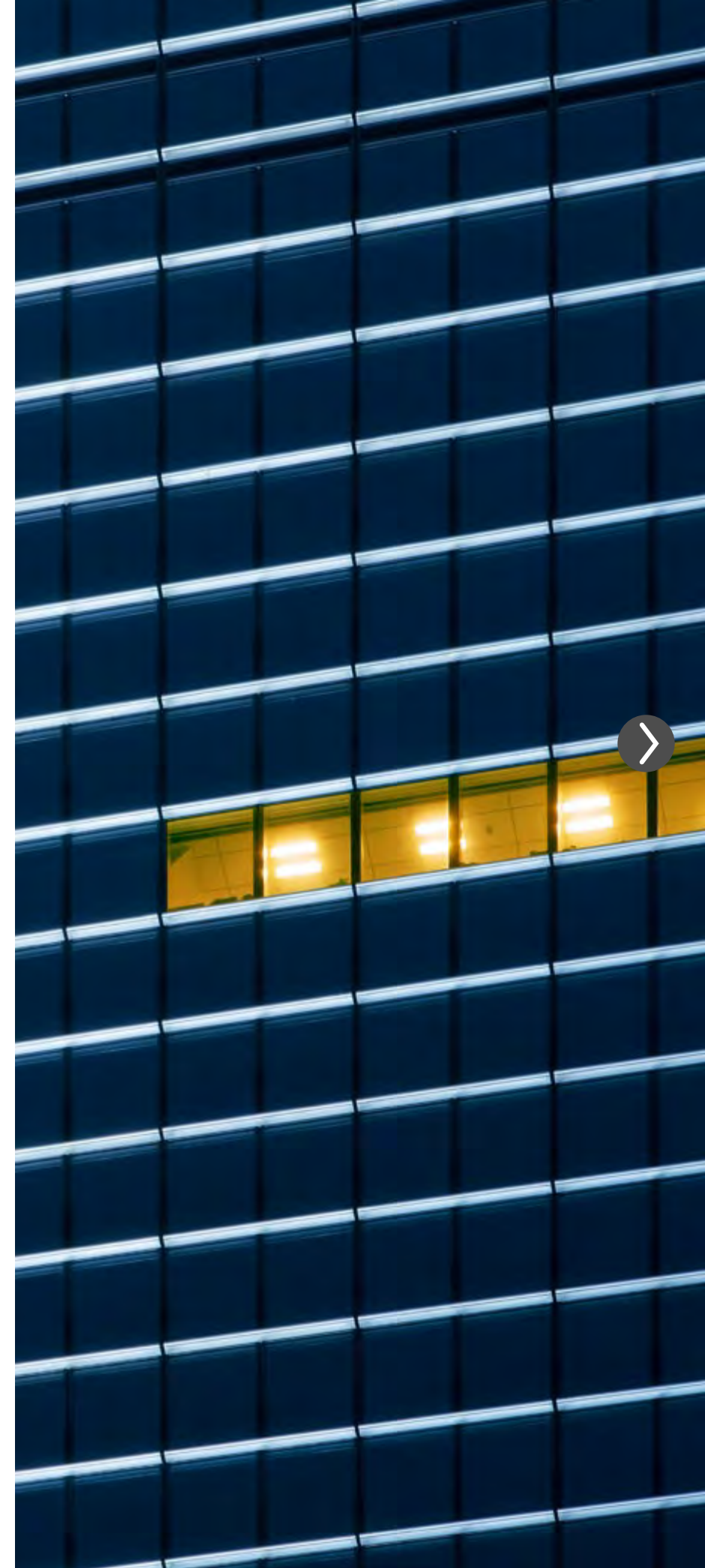
Useful Definitions

- **Functional compatible software** - a digital programme that can both contain the relevant transaction data, and is capable of handling the digital submission to HMRC

- **Bridging software** - End of process filing software that can be electronically linked to spreadsheets or VAT software that does not have the appropriate filing capability.

- **Digital record** - AR and AP data stored in electronic format

- **Digital links** - Connections enabling the transfer of data between programmes without human intervention

- **Digital submission** - Filing returns to the tax authority via functional compatible or bridging software.

- **API** - Application Programming Interface - Mechanism through which different software programs can be linked together to share specific data.

Frequently Asked Questions

What is the timeline for MTD for VAT?

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

This means the April-June 2019 VAT return will be the first return required to be filed according to the new MTD regulations due in July/August 2019.

If your VAT return period is Feb-April or Mar-May, then the first VAT return periods subject to MTD will be May-Jul and Jun-Aug respectively.

What is a "digital" record?

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 and accounting system or other software solution or 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 (2018/261)) and VAT Notice, which is available here.

Is a spreadsheet a digital record?

Yes. However, you need to be very careful as HMRC will expect to see an audit trail of any changes made to the transaction records, showing what changes are being made and why. This can be very difficult to manage in a spreadsheet and a much better solution would be to have a dedicated compliance solution like ONESOURCE Indirect Tax Compliance that will ensure an audit trail is maintained throughout the VAT return process.

Frequently Asked Questions continued

What is a Digital Link?

HMRC defines this is a 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.

A digital link is an electronic or digital transfer or exchange of data between software programs, products or applications. The use of 'cut and paste' does not constitute a digital link.

Further details are contained in regulations (The Value Added Tax (Amendment) Regulations 2018 (2018/261)) and VAT Notice, available here.

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

It is widely recognised 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.

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

HMRC do not approve software. However, HMRC is currently working with vendors like Thomson Reuters to test various software solutions to send the VAT return through their API. HMRC provides each software system with a unique reference so when that system links to HMRC's API in the future it will be authenticated. Make sure that any software you are using for this purpose has been tested and the link to HMRC has been authenticated.
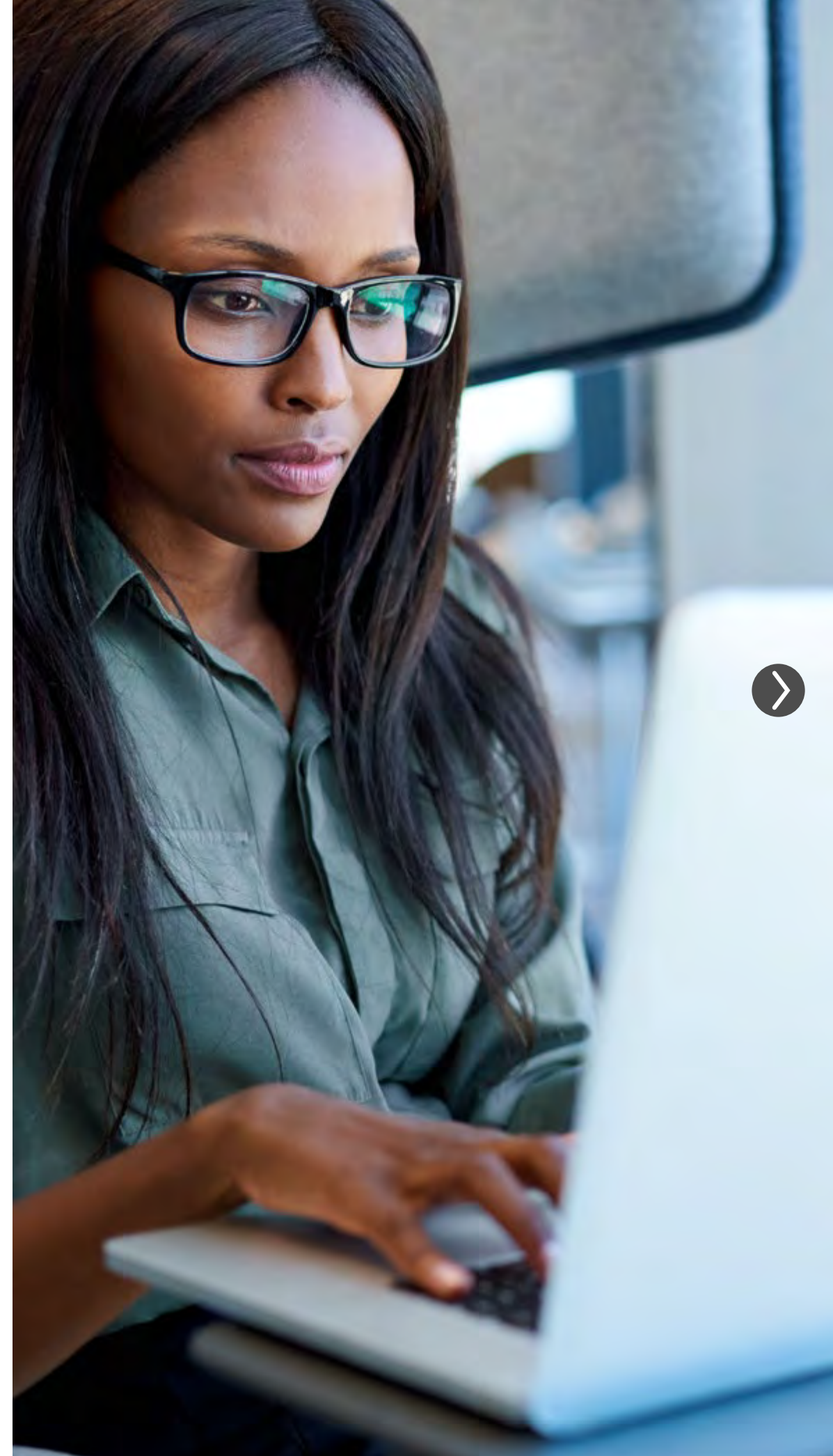
Contact Us

Click here to schedule a consultation with us.

THOMSON REUTERS®