

The latest VAT developments that could affect you or your clients' businesses

## Making Tax Digital (“MTD”) - what you need to know

### Part 2 - what does MTD involve?

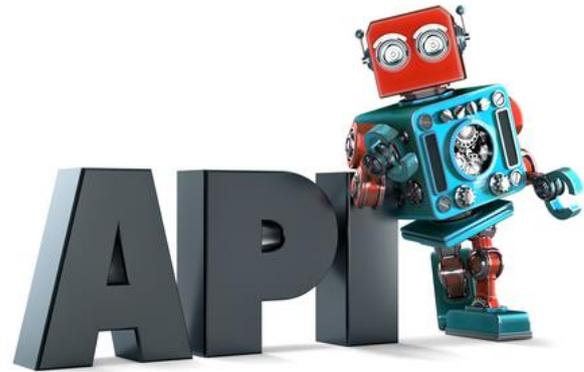
My last Insight explained who needed to know about MTD and when they needed to do something about it. This Insight will provide a broad outline of what those businesses need to do.

Getting to grips with MTD has been a salutary exercise for VAT advisers. We are all too ready to slip unintentionally into a foreign language many of our clients do not understand, such as “residual input tax” or “direct attribution”. MTD has brought us face to face with terms new to the VAT regulations that are well outside our own comfort zones (certainly mine for sure). Before explaining the requirements of MTD, I need to define these terms.



### Government Gateway (“GG”)

Don't relax too much. This is the easy definition, but I am including it in case anyone reading this has not encountered it before. The Government Gateway (“GG”) is the website that individuals and businesses must use to register for online Government services and to comply with online reporting requirements.



### Application Programming Interface (“API”)

Popular APIs apparently include Google Maps API, YouTube APIs and Amazon Product Advertising API. Webopedia.com defines an API as “a set of routines, protocols, and tools for building software applications. Basically, an API specifies how software components should interact.”

In the real world of the VAT regulations, API is defined to mean an application programming interface that enables electronic communication with HMRC, as specified by the Commissioners in a specific or general direction. In other words, a platform that enables two-way electronic communication between HMRC and the taxpayer for MTD purposes and which has been approved by HMRC.

### Functional compatible software (“FCS”)

FCS means a software program or set of compatible software programs whose functions include:

- Recording and preserving electronic records in an electronic form;
- Providing information to HMRC from those electronic records, and filing returns in an electronic form using an API platform; and
- Receiving information from HMRC using the API platform in relation to obligations under MTD.

In short, FCS means a software program or programs that connect electronically with the GG using an API and enable a VAT-registered person to comply with MTD.

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## What records must be kept electronically?

### *Permanent information*

A VAT-registered person within MTD must keep and maintain the following information in an electronic form:

- Name
- Address
- VAT Registration Number
- A note of any VAT accounting schemes they use (such as cash accounting).

### *For each VAT return period*

For each supply made in that period:

- Time of supply
- Value of supply
- Rate of VAT charged

For each supply received in that period:

- Time of supply
- Value of supply
- Amount of VAT claimable

The total VAT on sales and purchases from businesses in the EU.

The total of any VAT to be accounted for under the reverse charge.

The total input tax that they are entitled to claim.

The total of any VAT error corrections or adjustments in that period.

## And then?

All the above information must be submitted to HMRC quarterly, monthly or annually, as the case may be, using an API. HMRC expect most VAT-registered persons to use API-enabled software packages to keep digital records and to file VAT returns. However, the following are among other available and acceptable alternatives:

- Bridging software that incorporates MTD APIs and connects software to HMRC systems enabling two-way MTD compliance; and
- API-enabled spreadsheets, that is, spreadsheets that incorporate MTD APIs, and again facilitate compliance with MTD.

## The soft-landing period

The timing of the soft-landing period was explained in my first MTD Insight. The soft-landing period is the period during which the minimum required compliance will be a capacity to use an API to send the figures in the 9 VAT return boxes electronically to HMRC.

During the soft-landing period, HMRC will accept “cut and paste” as a digital link and digital links will not be required between software programmes. However, by the end of that period, taxpayers within MTD must only have digital links between the various parts of their VAT records. Once data has been entered into a person’s VAT records, broadly there must be no further manual intervention.

There are exceptions to this, but they go beyond this short introduction. Please get in touch if you would like help in deciding whether your plans meet the regulatory requirements of MTD and/or if you would like someone subsequently to review whether you have met those requirements. If you need help to execute your plans, contact a software company.

To discuss how this may affect your clients or your business, or to talk about a VAT issue in general - contact:

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