



Burgis & Bullock
Chartered Accountants

the natural choice

MAKING TAX DIGITAL FOR VAT

UPDATE

September 2018

MAKING TAX DIGITAL

HMRC has released an update on Making Tax Digital for Business (MTDfB)

The guidance has added some clarity to the limited guidance previously provided by HMRC however its disappointing that this was only issued in July 2018 when Business effected will need to implement the new systems by April 2019.

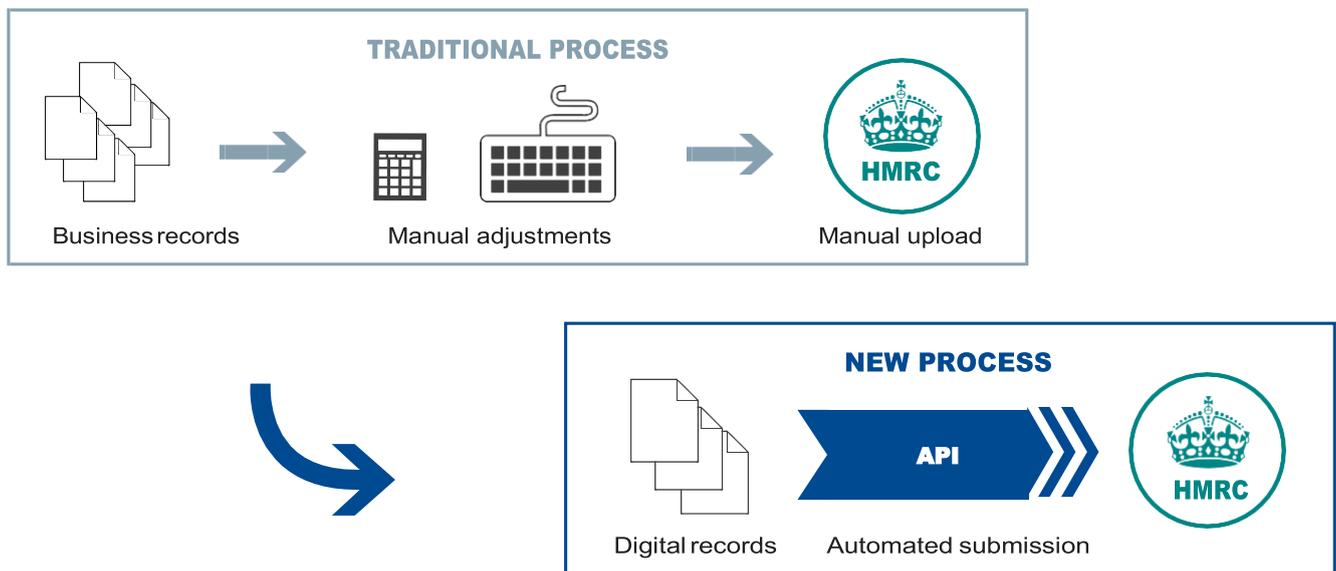
BACKGROUND

MTDfB is the government's vision to have one of the most digitally advanced tax systems in the World. In their words “to improve efficiency and to reduce error”. By forcing businesses to store and share information digitally, HMRC will have quicker access to data and clear audit trails from source documents to filed returns.

The first step in the MTDfB process focuses on the way VAT return information is stored, processed and communicated and will impact VAT registered business with a taxable turnover greater than the VAT registration threshold (currently £85,000).

From April 2019 “businesses must be capable of keeping and maintaining the records specified in the regulations, preparing their VAT returns using the information maintained in those digital records and communicating with HMRC digitally via an Application Programming Interface (API) platform” (HMRC VAT notice 700/22).

Visually, this means the following:



In general, the requirements will place different pressures on businesses depending on how complex their VAT position is. For simple VAT structures there are software solutions available that will quickly make you compliant.

Sadly, for more complex VAT profiles and group companies' life may not be so straight forward.

In this brief we have tried to simplify some of the language and give examples of businesses you may be able to relate to.

CUTTING THROUGH THE JARGON

There are phrases in the guidance that you may not be familiar with so here is our summary of the important ones:

FUNCTIONAL COMPATIBLE SOFTWARE



This is a software program, or set of programs, that can record and preserve digital records and communicate directly with HMRC. Packages like Sage (v 24 or later), Xero and QuickBooks for example, are classed as functional compatible software. If you are already using them to file your VAT return direct to HMRC then you are MTDfB compliant as long as you adhere to the rules of processing and retaining data. A list of all software solutions that have been tested by HMRC can be found on the HMRC website by searching “MTD Compatible Software”

DIGITAL RECORDS

These are software programs that are capable of recording and preserving digital information but do not have all the attributes of functional compatible software like communicating directly to HMRC. For many businesses this may be a combination of bespoke accounting ledgers, legacy accounting systems and spreadsheets. To be MTDfB compliant, the information stored in these digital records needs to be shared using Digital Links...



DIGITAL LINKS



These are the means to transfer information electronically between software programs, applications or products without any manual influence. The days of ‘cut and paste’ are no longer allowed in the new MTD landscape. Digital links can be anything from an excel formula to complex API’s...

API (APPLICATION PROGRAMMING INTERFACE)

This is like a pipe between two software solutions that allows data to pass between them both without human intervention. It is via this ‘pipe’ that HMRC require you to share your VAT information with them from April 19 onwards. If your accounting system is not API compatible you can use Bridging Software...



BRIDGING SOFTWARE



This is something that has HMRC has developed in its language as MTDfB draws closer. This is a tool that that can be used to connect digital records to each other and then to HMRC’s system via an API link. There is no clear guidance on bridging software yet, nor have commercial solutions yet appeared on HMRC’S approved list, although we understand a number of suppliers are going through tests with HMRC. We are consulting with various suppliers who are looking to provide approved solutions.

WHERE IS YOUR BUSINESS NOW?

You may be in one of the following camps:

01

NO DIGITAL RECORDS

It's not good news we're afraid, you need to take action. If you keep manual records, then sooner rather than later you will need to decide on a new accounting system and embrace the new world. Our business services team can help find the best compliant solution for your business.

02

LEGACY OR BESPOKE ACCOUNTING SYSTEMS

If you use this type of system, then you probably have a lot of work to do. If you have an accounting system that can store digital records but cannot send information directly to HMRC you have two choices.

Firstly, depending on how critical your systems are for running your business, you could change your system to compatible software. There are benefits to doing this, including the potential for quicker information and greater analytics to help better manage your business. On the down side it will require some change, investment and time.

If your software is mission critical to your business and you do not want to replace it, you can use Bridging software. This will involve getting information out of your systems (digitally) into a central processor and then sent to HMRC via an API.

03

COMPLEX GROUP ACCOUNTING AND / OR VAT POSITION

HMRC have accepted that not all functional compatible software will be able to deal with complex VAT positions and group accounting and Group VAT registrations. You need to take action to find a solution and have two choices.

Firstly, you could extract your VAT information via digital links to a central processor, undertake your calculations using formula only and use bridging software to share this with HMRC.

Alternatively, if you have functionally compatible software, you can undertake your calculations in your spreadsheets above then upload the required adjustments back into your system and send to HMRC from there.

04

YOU USE AN OLD VERSION OF A SOFTWARE SYSTEM THAT IS NOT MTDfB COMPLIANT

In this instance you can either upgrade to a later version of your software to become compliant, you could switch to another software provider if you are looking for a new way to manage your business or you can go down the bridging software route. All the above options require that you do something.

05

YOU ALREADY USE MTDfB COMPLIANT SOFTWARE

You are compliant, and these changes will be minor and you can get on with running your business.

What approach will you take?

We know from past experience that businesses will take a range of approaches to these changes, some early adopters, some gradual changers, a few last-minute panics and some will remain in denial... although beware of the fines if you choose this one!

From our experience of regulatory changes, the early adopters faced the least disruption, ensure a thorough solution is in place and its business as usual when the effective date arrives. We would urge as many of you as possible to take this approach to MTDfB.

If you would like to understand where your business fits in this process, discuss the best ways to address your specific needs and explore the right solutions for your business please contact us.

We are running a series of free briefings on MTDfB throughout 2018 and into 2019 giving you the latest news and insights, simply visit <https://www.burgisbullock.com/events/>

Many of our clients have already gone digital and they are delighted with the results, here are just a few of the comments we've heard:



We love the fact we can post invoices, check the bank and see who owes us money using the App on our phone!



Amazing, I can't believe what a difference this has made to my business!



We never have to do back-ups of our system again!

Cloud Accounting



Cloud accounting systems make your life easier and assist you in making those all-important business decisions, based on up-to-date and informative financial information.

The cloud is a major shift presenting efficiencies and possibilities that change the way business and accounting can be done. Time saved on repetitive tasks, greater security, convenience and flexibility and freedom from any single computer or location are just a few of the advantages 'Cloud' bring. When the accounting virtually does itself, our advisors with up-to-the-minute information can provide greater insight and guidance, and that enables you to do amazing things in your business.

We understand that no two businesses are the same and therefore may require different functions and facilities from a cloud accounting package. For this reason, we can help to analyse your business and recommend the most appropriate cloud solution that best meets your needs.

Benefits of Cloud Accounting

- Access to up-to-date financial information, at any time, on any device which has an internet connection
- You can share your data with us in real time, which will enable us to help you run and grow your business and assist with decision making
- No system downtime because all software upgrades are automatically installed by the supplier, meaning you are always on the latest version
- A monthly charge allows you to spread the cost of the system instead of incurring one lump sum cost
- 24/7 support is available from the supplier. We can also access your data in real time from our offices in order to assist you in resolving issues when required
- Data is automatically and securely stored to the supplier's servers. This avoids you having to take regular backups and potential loss of data
- Most cloud accounting systems have a live bank statement feed, which means bank transactions are automatically posted, allowing you to assess your cash-flow in real time

Why us?

- We have the technical expertise
- We provide a first-class service
- We provide constructive, practical advice
- We believe in promoting our clients wherever possible
- And, most importantly, we enjoy working with our clients

Speak to your local Burgis & Bullock office to better understand how cloud technology can help your business and ensure you are MTD compliant, or call 0345 1775500 to arrange a demo.



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