

Sherlock & Co

Chartered Accountants

Making Tax Digital (MTD) for VAT – The end of the “soft-landing period”

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Are you ready for the end of the MTD for VAT soft-landing period?

Most UK VAT-registered organisations with a taxable turnover above the VAT threshold (currently £85,000) will see the end of the soft-landing period for Making Tax Digital (MTD) on 31 March 2021. The soft-landing period was put in place to help organisations ease into MTD, meaning data could be copy and pasted into a VAT Return using MTD-compliant software.

For VAT periods beginning on or after 1 April 2021, organisations will need to maintain all accounting records digitally within “functional compatible software”. This is a software program, or a set of software programs, that can not only maintain digital accounting records but also generate the VAT Returns and submit them to HMRC.

In many cases, an organisation’s functional compatible software will comprise a single program which maintains the accounting records. In the instance of needing to use more than one software program, digital links must be used to transfer the data from one program to the other. Copy and pasting will no longer be allowed after the soft-landing period ends on 31 March 2021.

Organisations should ensure that digital links are maintained from the initial recording of the transaction through to their VAT submission. Below are some FAQs to help you consider your position and potential actions.

If you have any queries about your organisation’s current process, please do get in touch.

CONTACT US

If you have any queries or need any advice, please do not hesitate to contact us on:

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MAKING TAX DIGITAL (MTD) FOR VAT FAQs

Q. I handwrite my invoices and provide this to my accountant to prepare the VAT Return. Is this still ok?

A. You can continue to handwrite your invoices and deliver these to your customers. Your accountant needs to record the sales transactions from the handwritten invoices onto your MTD-compliant software making sure they capture the date of supply, the VAT rate and the sales amounts. Your accountant should make sure they are using the MTD connection between the software and HMRC to submit your VAT Return.

Q. I use cloud software to do my own accounting. Is this ok?

A. Your software should be approved functional compatible software (FCS). A list of FCS is available online here: <https://www.tax.service.gov.uk/making-tax-digital-software>. If your software is FCS, you still need to ensure that the relevant data is captured and stored digitally in the system. This data covers both sales and purchases and should include date of supply, VAT rate and amounts. Just using FCS does not make a business' VAT records MTD compliant.

Q. I use lots of spreadsheets for my accounting records – am I compliant?

A. Spreadsheets can be used as long as there are digital links between the information that forms the basis of the VAT Returns. For example, you have a sales sheet detailing your sales and a purchases sheet detailing your purchases. These spreadsheets capture the information required under MTD and use formulae and link to populate the VAT return boxes 1-9. You will then need to use bridging software to submit the VAT Return to HMRC.

Q. I currently file on my business gateway account – am I still allowed to do this?

A. MTD for VAT is currently only applicable to businesses with turnover in excess of £85,000, it will become compulsory for business under that threshold from April 2022. From April 2021, HMRC are updating the platform used to submit the VAT Return, so this may look different, but the process will still operate in the same way. If you currently use software to file VAT Returns and are not required to sign up to MTD for VAT, this functionality will cease from April 2021. After this date, you will either need to submit your return via MTD or enter the amounts directly into your HMRC business account.

Q. I pay by Direct Debit, do these changes effect this?

A. Businesses that pay by direct debit will need to provide HMRC with a valid email address to comply with banking regulations. HMRC will contact businesses by 28 February 2021 to gather this information. Without a valid email address, HMRC will be unable to collect payment via direct debit.

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