

Making Tax Digital for VAT - FAQs III



On 1 April 2020, it will mark a year since the implementation of Making Tax Digital for VAT (MTDfV). At the start of this year, HMRC figures showed that over 1.2 million businesses are now enrolled and over 3.1 million submissions have been made.

1 April 2020 was meant to see the end of the 'soft landing period' for the requirement to have a digital link between software that makes up the VAT return. However, HMRC have announced an extension to put this in place. This means that all businesses now have until their first VAT return period starting on or after 1 April 2021 to put digital links in place.

During the soft landing period there was no requirement for a digital link to exist between accounting programs. This gave businesses an opportunity to prepare their systems for compliance with the requirements of MTDfV.

Under MTDfV, certain records must be kept digitally within functional compatible software, which must be able to:

- Record and preserve digital records
- Provide information and returns to HMRC from data held in digital records by using the application programming interface (API) platform
- Receive information from HMRC using the API platform

HMRC accept that a single software product may not be able to carry out all of the functions and therefore multiple products can be used to perform them. Where multiple products are used, HMRC require digital links to be in place between all the programs used.

1. WHAT IS A DIGITAL LINK?

A digital link is defined as an 'electronic transfer or exchange of data' between software programs, products or applications. However, there has been uncertainty as to what is included in this definition.

One myth that has been commonplace is that the use of spreadsheets will no longer be a compliant option once the 'soft landing period' ceases. This is not the case, transfers in and out of excel spreadsheets such as XML, CSV import and export, as well as the download and upload of files do constitute digital links.

Other acceptable digital links include:

- Emailing a spreadsheet containing digital records, so the information can be imported into another software product
- Transferring a set of digital records onto a portable device (for example, a pen drive, memory stick, flash drive) and physically giving this to someone else who then imports that data into their software
- Automated data transfer
- API transfer

2. WHAT IS NOT A DIGITAL LINK?

The use of 'cut and paste' or 'copy and paste' to select and move information, whether within a software program or between software programs, is not considered to be a digital link.

3. WHAT ABOUT PARTIAL EXEMPTION ADJUSTMENTS?

Calculations, such as partial exemption and second hand goods margin scheme adjustments, are not required to be kept digitally in functional compatible software. These can be carried out outside of software, for example within a spreadsheet, and any adjustments can be typed back in to the software.

If you need to apply, you should email mtdspecificdirections@hmrc.gov.uk to request an application form and include your business name and VAT Registration number (businesses with an allocated customer compliance manager (CCM) should request a form directly from them).

Cost alone is not a sufficient reason to issue a specific direction. HMRC expect businesses to make every effort to comply with the digital links requirements by the end of the soft landing period.

4. ARE ANY FURTHER EXTENSIONS AVAILABLE?

Businesses with complex or legacy IT systems should have already applied for additional time to put the required digital links in place, provided they meet the criteria set by HMRC. If your business qualifies then the additional time will be granted as a specific direction.

Applications will be considered on a case-by-case basis and where HMRC considers it not appropriate to issue the specific direction, they will let you know the reasons for their decision.

5. HOW WILL HMRC KNOW IF MY BUSINESS DOES NOT HAVE DIGITAL LINKS IN PLACE?

For the time being, HMRC will continue to receive the same information it always has (i.e. the nine box figures making up the VAT return). Under the current arrangements, the information you are sending to HMRC is not changing, it is simply the way it is sent that is different. This is likely to change in the future.

Businesses should make sure they progress their plans to become digitally linked while waiting for a formal response from HMRC.

HMRC will consider specific direction applications outside of the soft landing period(s), where more time is needed to comply with digital link requirements following the purchase of another business.

The digital link requirement is a point of law. During a VAT compliance check, HMRC will carry out procedures to determine whether a business has digital links in place

6. COULD YOU PROVIDE AN EXAMPLE OF DIGITALLY LINKED DATA?

The following diagram shows how this would work in practice.

