



Making Tax Digital for VAT

FAQs

For some businesses, Making Tax Digital for VAT (MTDfV) will be a relatively straight forward transition. However, it is recognised that businesses that do not have a standard VAT registration and have complex VAT calculations will have many questions.

MTDfV is mandated from 1 April 2022 for all VAT registered entities, regardless of turnover.

These include VAT groups, businesses required to make payments on account, traders based overseas, unincorporated not-for-profit entities, trusts, annual accounting scheme users, certain public sector organisations and public corporations.

Here are 10 FAQs and answers designed to help with some of the complexities:

Q1 What does MTDfV mean?

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 programmes used.

Q2 What is a digital link?

A digital link is defined as an 'electronic transfer or exchange of data' between software programmes, 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. 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*

Q3 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 programme or between software programmes, is not considered to be a digital link.

Q4 Who is exempt from MTDfV?

The expectation is that most taxpayers will be able to meet the legal obligations of MTDfV however, HMRC accept that it may not be possible for a small number of taxpayers to do so. Businesses may be exempt for reasons of religion, age, location, disability or if the business is subject to an insolvency procedure. Applications for exemption must be made in writing to HMRC. Businesses do not need to sign up to MTDfV if they are already exempt from filing VAT returns online.

Q5 Does MTDfV apply to overseas businesses trading in the UK?

Overseas businesses with a UK VAT registration will be mandated to comply with MTDfV. It may be more difficult for overseas businesses to comply with MTDfV as the record keeping may be undertaken in the business' 'home' country. It may be possible to apply for exemption on the grounds that it is 'not reasonably practical', but such applications will be considered on a case-by-case basis. Where an overseas business uses an agent, the agent will be able to access MTDfV and submit returns on behalf of their customers (see Q6).

Q6 Can my agent continue to submit my VAT return?

Yes, MTDfV is part of the Agent Services Account (ASA) and client authorisations will continue under MTDfV where an existing online filing authorisation is in place for an agent.

Q7 I have MTD compatible software already in place, am I ready for MTDfV?

Almost! Once compatible software is in place, businesses will still need to enrol for MTDfV through HMRC's VAT Online Services website before it can submit returns digitally. The timing of this is crucial as once signed up VAT returns must be submitted using compatible software. The current online services channel will no longer be active to submit returns.

Q8 Does PKF Francis Clark have a recommendation for a bridging software supplier?

PKF Francis Clark have various bridging software providers and are seeking a suitable low cost option for small businesses ready for MTDfV 2022.

Q9 Will there be any penalties for non-compliance and how will HMRC know?

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. 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.

It is likely that HMRC will issue penalties to businesses that make no effort to comply with MTDfV. VAT returns and payments must be made on time regardless of filing under MTDfV or not. The timing of MTDfV coincides with the new penalty regime for late filing of VAT returns and late payment. Further guidance on this will be published separately.

Q10 When will my first return under MTDfV be due?

Return periods from	Filing date
From 1 April 2022	
Monthly - April 2022	07/06/2022
Quarter June 2022	07/08/2022
Quarter July 2022	07/09/2022
Quarter August 2022	07/10/2022
Annual March 2023	31/05/2023

The above table shows the first VAT return periods which must meet the requirements of MTDfV.

Businesses that pay VAT by Direct Debit cannot sign up in the 15 working days leading up to, or the 5 working days after sending a VAT return. Businesses paying by Direct Debit will also have to provide a valid email address as part of banking regulation rules. Note that those businesses on monthly returns have a very small window to enrol.

[Click here if you would like further guidance on Making Tax Digital for VAT.](#)

Contact us



Please get in touch with your client services manager or email:

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