

12 July 2018

Dear Sir/Madam

In 2015 the Chancellor of the Exchequer announced his intention to modernise the UK tax system and to bring it into the digital age. Despite various delays and numerous changes to the proposals along the way, the government has recently confirmed its commitment to the project and that it now intends to roll out Making Tax Digital (MTD) for VAT with effect from 1 April 2019, with other taxes to follow in later years. MTD is the most fundamental change to the administration of the tax system for at least 20 years.

From 1 April 2019 changes will be made to the way in which you file your VAT returns and keep your VAT records. It will become mandatory for businesses to use software or a spreadsheet to keep accounting records for VAT purposes. **Paper records will no longer be sufficient. HMRC will also be closing the portal through which VAT returns are currently submitted in due course.** HMRC prefer that businesses use online accounting software, but have advised that spreadsheets will still suffice, although additional “bridging” software will be required to submit the return to HMRC. At this stage there is limited information available as to how this “bridging” software will work.

As your accountants we will support you through these changes and can provide the ongoing services that you need to ensure you are compliant with MTD. However, the changes are so fundamental that it will be necessary to review your current record keeping systems and consider whether they are compliant with MTD. If they are not compliant, you will need to consider what changes you need to make and whether you require any ongoing assistance from us in meeting those obligations.

Who does it affect?

The MTD for VAT requirements apply to the following:-

- **Businesses that are VAT Registered; and**
- **Taxable turnover exceeds the current VAT registration threshold (2018/9 - £85,000).**

Businesses that are currently voluntarily registered (i.e. turnover < £85,000) can elect to join MTD but it is not compulsory. However this exemption may be removed in the future.

When does it start?

As your business is registered for VAT and your turnover is above the VAT threshold you will be required to keep digital accounting records and to file your VAT returns using MTD compliant software (or spreadsheet) **from 1 April 2019 (i.e. the first VAT quarter starting on or after 1 April 2019)**. The current HMRC online filing service for VAT will not meet the requirements of MTD and it is HMRC's intention to close this portal in due course. The same exemptions apply as for the current online filing service but they are very limited in scope.

Whilst HMRC have postponed start dates for MTD several times already, we do not expect the VAT MTD deadline to be postponed; indeed the implementation date was recently enshrined in law so is almost certainly going to happen. In view of the intention to further roll out MTD for income tax and corporation tax in due course, it is important you consider how your business processes may need to change in the future to meet the requirements of a digital tax system.

What do I need to do now?

We need to discuss your transition to MTD with you so that you are ready for MTD reporting for VAT by Spring 2019 and also consider the transition for other taxes. Some of the options available are:-

- If you currently use accounting software, you need to check it will be MTD compliant as it may need to be upgraded. If you are considering acquiring software or joining the MTD pilot, please discuss this with us first.
- If you currently maintain records on a spreadsheet you may wish to consider using accounting software to keep your records or alternatively consider the use of "bridging" software which will allow returns and updates to be made directly from the spreadsheets, or you may consider engaging us to do the bookkeeping/VAT returns for you. We will keep you informed as and when we receive further information about the availability of "bridging" software as unfortunately there is currently very little information available from HMRC.
- If you currently maintain records on paper your processes will need to change. If you would like any advice or assistance please do not hesitate to contact us and we can discuss the various options going forward to ensure you are compliant with MTD.
- Finally, we may need to consider the possibility of a digital exclusion exemption although these are only available in very limited circumstances.

Where can I get further information about these changes?

Please visit our website at www.harrisaccounts.co.uk/mtd or get in touch with your usual Harris + Co contact if you would like to discuss this further.

Yours faithfully

Harris & Co Limited