

## **Making Tax Digital for VAT – what records must be kept digitally**

Making Tax Digital (MTD) for VAT starts from 1 April 2019. VAT-registered businesses whose turnover is above the VAT registration threshold of £85,000 will be required to comply with MTD for VAT from the start of their first VAT accounting period to begin on or after 1 April 2019. If the business is VAT-registered but the turnover is below £85,000, compliance with MTD for VAT is optional.

### **Digital record-keeping obligations**

Under MTD for VAT, businesses will be required to keep digital records and to file their VAT returns using functional compatible software. The following records must be kept digitally.

#### *Designatory data*

- Business name.
- Address of the principal place of business.
- VAT registration number.
- A record of any VAT schemes used (such as the flat rate scheme).

#### *Supplies made*

For each supply made:

- Date of supply.
- Value of the supply
- Rate of VAT charged

Outputs value for the VAT period split between standard rate, reduced rate, zero rate and outside the scope supplies must also be recorded.

Multiple supplies made at the same time do not need to be recorded separately – it is sufficient to record the total value of supplies on each invoice or receipt that has the same time of supply and rate of VAT charged.

#### *Supplies received*

For each supply received:

- The date of supply.
- The value of the supply, including any VAT that cannot be reclaimed.
- The amount of input VAT to be reclaimed.

If there is more than one supply on the invoice, it is sufficient just to record the invoice totals.

### **Digital VAT account**

The VAT account links the business records and the VAT return. The VAT account must be maintained digitally, and the following information should be recorded digitally:

1. The output tax owed on sales.
2. The output tax owed on acquisitions from other EU member states.
3. The tax that must be paid on behalf of suppliers under the reverse charge procedures.
4. Any VAT that must be paid following a correction or an adjustment for an error.
5. Any other adjustments required under the VAT rules.

In addition, to show the link between the input tax recorded in the business' records and that reclaimed on the VAT return, the following must be recorded digitally:

1. The input tax which can be reclaimed from business purchases.
2. The input tax allowable on acquisitions from other EU member states.
3. Any VAT that can be reclaimed following a correction or an adjustment for an error.
4. Any other necessary adjustments.

The information held in the Digital VAT account is used to complete the VAT return using 'functional compatible software'. This is a software programme, or a set of compatible software programmes, that are capable of:

- Recording electronically the data required to be kept digitally under MTD for VAT.
- Preserving those records electronically.
- Providing HMRC with the required information and VAT return electronically from the data in the electronic records using an API platform.
- Receiving information from HMRC.

Functional compatible software is used to maintain the mandatory digital records, calculate the return and submit it to HMRC via an API.

### **Getting ready**

The clock is ticking and MTD for VAT is now less than a year away. Preparations should be underway to identify and test the software that will be used to comply with MTD for VAT.