



E-book

A guide to Making Tax Digital for VAT

Is your business VAT registered? Here's what you need to know about being compliant with Making Tax Digital

Sage

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Making business easier

Making Tax Digital (MTD) is the UK government's flagship programme to make tax accounting easier for businesses and individuals.

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As you might guess from the name, it does this by legislating the digitalisation of tax data and submission.

You might already use HMRC's online services to complete tasks such as submitting your tax returns, for yourself and your business.

But MTD goes further than this. It requires the use of software for your accounting.

There are an incredible number of benefits for businesses and individuals when it comes to digitalising taxes. For example, cash flow is improved because you have a good idea throughout the year how much tax you owe.

And using software for accounting means you spend much less time on admin, and more time doing what you love.



New Making Tax Digital for VAT requirements became a legal requirement in April 2019 for all VAT-registered businesses over the VAT-registration threshold.

Then, in April 2022, they became law for all VAT-registered businesses—including any that are below the VAT-registration threshold, and who registered for VAT voluntarily.

This means all businesses that register for VAT must also register for and use MTD.

In this e-book we explain the rules of MTD for VAT for businesses—everything from signing up, to what software you need, to remaining legally compliant throughout.

MTD for VAT:

What does it require?



MTD for VAT means that businesses must do their VAT accounting using software – and file their VAT Returns using software too, via an internet connection.

MTD for VAT means the following:

- **VAT Returns must be filed through compatible software:** Businesses must submit their VAT Returns using MTD-compatible software. This means it's no longer possible to submit them via HMRC's website. Your accountant can still submit the VAT Returns on your behalf.
- **Businesses must keep digital records:** Most VAT accounting records that pertain to the VAT Return must be kept using software for the mandated period of six years (or even longer with certain VAT schemes).

It isn't possible to opt-out of MTD for VAT, although some businesses can ask HMRC to consider that they're digitally exempt because of limitations such as remote location meaning they have no internet connection.

By making the necessary switch to digital accounting solutions, many businesses across the UK are using MTD for VAT as an opportunity to revolutionise their business accounting, and to significantly ease the administrative burden.

What are the MTD for VAT rules?

Accounting software should take care of it for you automatically, but if you rely on another type of technology for your VAT accounting (such as a spreadsheet), you will need to ensure the data is kept for the required period without any risk or loss or corruption.

HMRC's VAT Notice 700/22 sets out what VAT records must be kept digitally, which for most businesses includes:

- **Your business name**
- **The address of your principal place of business**
- **Your VAT registration number**
- **Details of any VAT accounting schemes** that you use.
- **Most businesses will need to record for each invoice** (or "supply" in the VAT Notice terminology) the time and date of supply (tax point date), the net value (excluding any VAT) and the VAT rate used to calculate VAT.

Some businesses will need to keep more or less information depending on their VAT scheme and circumstances.

If you print or even handwrite invoices or receipts then you'll need to transfer the VAT accounting information to your accounting software before you submit your VAT Return. This doesn't mean you should then destroy the paperwork, because it could be required for other aspects of your accounting.

Then when you come to submit a VAT Return, you must do so using MTD-compatible software.

MTD has nothing to do with VAT filing periods, so when you sign up for VAT you can choose to file monthly or quarterly (or possibly yearly) according to what works best for your business.

Nor does it affect your filing dates, or the times by which you have to pay the VAT Returns.



What accounting software should I use for MTD for VAT?

MTD for VAT will have varying levels of impact for your business depending on the accounting technology you choose.

For most VAT-registered businesses, MTD for VAT is likely to mean they will have to use accounting software, if they aren't already doing so.

Most accountants and financial experts say a cloud accounting solution is best for MTD. With cloud accounting the data is stored securely online.



Here are the benefits of cloud accounting:

Available 24/7

The cloud is available anywhere there's an internet connection, regardless of the time or location. You or your employees can work from home, or the office, or even locations such as a client's premises or a coffee shop. Why not issue an invoice while still on-site?

Mobile friendly

Working in the cloud means you aren't tied to just one computer, within the four walls of your office. Smart mobile devices such as phones and tablets can access cloud data too. Want to check your profit and loss while grabbing a sandwich between jobs? Now you can!

Multiple users

Because the data is in the cloud, multiple users can access and see the same data – meaning your staff haven't got to use a single computer or software package.

Reduced IT spend

No need to manually backup. No need to worry about the security of your data. No need to manually update the software using patches. The cloud takes care of it all for you.

For MTD for VAT, cloud accounting is simply unbeatable:

Online data

Because your VAT accounting data is online, connecting to HMRC's systems in order to comply with MTD for VAT's requirement to file your VAT Returns using software becomes a simple task.

Retaining VAT data

Since your data is stored in the cloud, without you having to even think about it, you can easily comply with MTD for VAT's requirement to retain VAT accounting data digitally for at least six years.

Ready for the future

Cloud accounting software is automatically updated, so you will remain compliant no matter what tax legislation is announced in the future. For example, Making Tax Digital for Income Tax Self Assessment is due in April 2024, and then Making Tax Digital for Corporation Tax is due no earlier than April 2026. Why not rest assured that your software will always be ready?

Can I use spreadsheets for MTD for VAT?

There's no explicit prohibition within the MTD for VAT rules around spreadsheets and, in fact, they continue to have many legitimate uses for calculations relating to your VAT accounting and elsewhere. The MTD for VAT rules permit them to be used for requirements such as partial exemption or adjustment calculations, or road fuel scale charges.

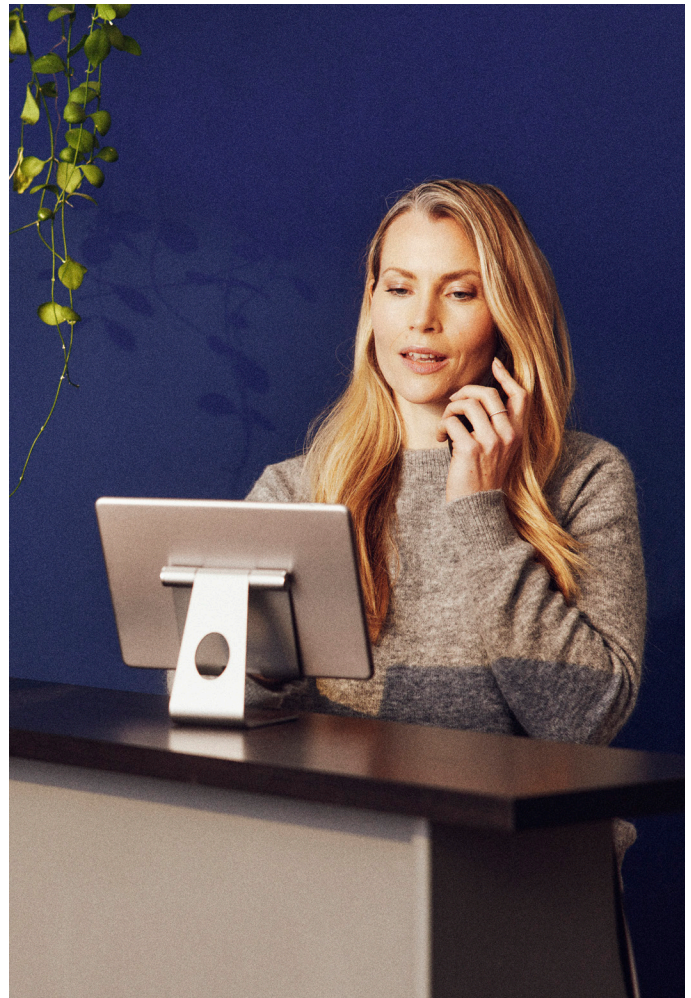
But the use of spreadsheets for all of your business accounting – including for VAT – is discouraged by most accounting and finance experts.

Spreadsheets typically lack security and make it difficult to observe data retention requirements. It's very easy to accidentally delete data without even realising it.

Copying and pasting from a spreadsheet is not allowed outside of performing necessary adjustments, nor is manually typing figures from one place to another.

For example, a business owner might think she can continue to create her VAT accounting as a spreadsheet, and copy and paste data from the spreadsheet into her accounting software in order to submit it.

This breaks the “digital linking” rules of MTD for VAT – and could lead to penalties from HMRC.



How to sign up to MTD for VAT

You will have to sign up to MTD for VAT ahead of time. You won't be automatically transferred across.

Signing up is done by visiting the following web page:
www.gov.uk/vat-record-keeping/sign-up-for-making-tax-digital-for-vat

if you want your accountant to file returns for you, you can ask them to sign-up for you – but you'll still need to follow the MTD for VAT rules.

Once you've signed up, you use the details provided within your accounting software to activate the MTD for VAT features.

What's required to sign up?

To sign up for MTD for VAT you'll need the following information to hand:

- Your Government Gateway ID and password.
- Your Unique Taxpayer Reference, for yourself if you're a sole trader, or for your limited company.
- Your National Insurance number if you're a sole trader, or your company registration number for a limited company.
- Your company's VAT number (which you'll find on your VAT certificate, issued after you registered for VAT).
- The date your business became VAT registered (again, found on your VAT certificate).
- The postcode of the principal place of business, which is to say the place where your company carries out most of its business activities and/or keeps its financial and business records.

You will need to specify the accounting software vendor you use while signing up, so cannot sign up for MTD for VAT until you've chosen a package.

Take note: final verification from HMRC that your business can start submitting VAT Returns via MTD for VAT might take up to 72 hours, and you should not submit your VAT Return until you receive this confirmation. Being unprepared for this delay might run the risk of you submitting a late VAT Return, so you should register sooner rather than later.



When should I sign up?

HMRC offers the following guidelines as to when you should sign up to MTD for VAT if you pay your VAT bill by Direct Debit. Don't sign up less than the following:

- 7 days before your VAT Return is due; or
- 5 days after your VAT Return is due.

If you don't use Direct debit, you must sign up to MTD at least three days before your VAT Return is due.



Using an accountant for MTD for VAT submissions

Accountants can digitally file VAT Returns on behalf of businesses, removing the requirement for businesses to carry out this task.

Your business will need to sign up for MTD for VAT, as described earlier, and then notify your accountant, who will configure their system to file returns on your behalf. Or your accountant can sign up to MTD on your behalf. There might also be additional steps to configure your accounting solution to connect to that of your accountant. They will be able to advise on the best route forward.

As a business, you will still need to ensure that the necessary VAT accounting records are kept digitally for the required period of time. This is typically at least six years but sometimes longer, depending on which VAT scheme you use.

It's time for your business to go fully digital

The world is going digital and businesses are not exempt from this revolution.

The benefits are huge for businesses in terms of time saved on admin tasks, and a reduction in stress.

MTD for VAT should be seen in the wider context of the Making Tax Digital plans over the coming years. It's likely you or your business will need to make further adaptations as follows:

- **Making Tax Digital for Income Tax Self Assessment:** This is mandated from April 2024 and will affect sole traders and landlords with turnover above £10,000 per annum. Certain kinds of partnerships will need to use it from April 2025 onwards. It will again require digital record keeping, plus making a minimum of four updates per year to HMRC alongside end of period statements and final declarations (all via software).
- **Making Tax Digital for Corporation Tax:** It's not yet known when this will be mandated but HMRC has said it won't be before April 2026. It will probably require incorporated businesses to embrace digital record keeping, make quarterly updates, and to file their Corporation Tax Returns digitally.

Save yourself stress further down the line and get started on MTD today.

Switching to cloud accounting software right now puts you in the best position to do that. You get the benefits of modern, efficient accounting ahead of time so can adjust your business processes – and reap the rewards.



How Sage can help you



As a partner to more than one million UK businesses and 14,000 accountants, we understand the impacts that Making Tax Digital will have. We're here to help you understand them and prepare for the transition.

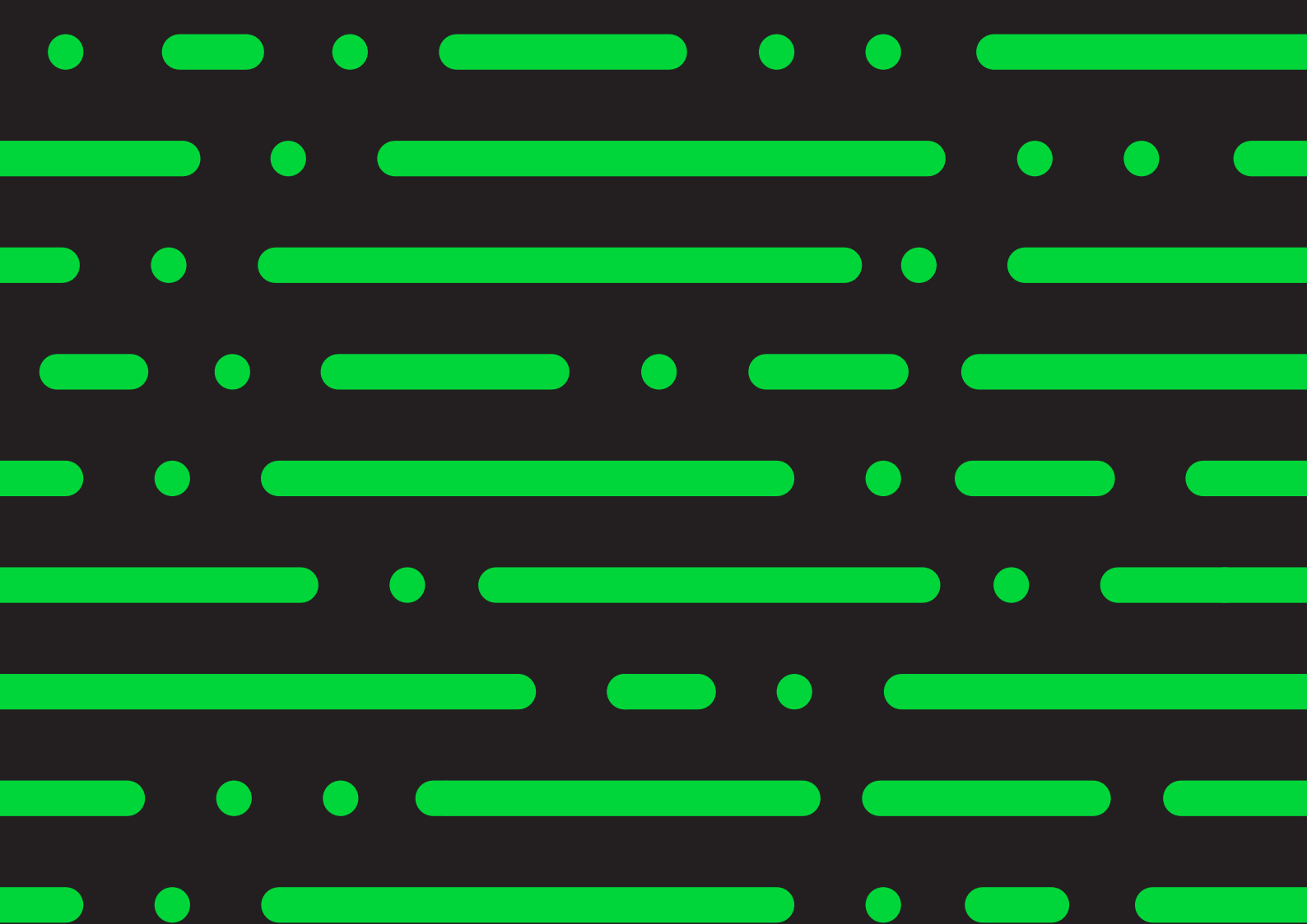
Whether it's helping you take care of your accounting or tax, straightforward practical advice on how to ensure you are prepared and how to comply, we are here for you.

Quick to set up and easy to use, Sage Accounting automates billing and invoicing and syncs with your bank, offering a real-time overview of your business finances.

It's built to drive your small business forward, and there's no better solution for MTD readiness.

Sage Accounting allows you to:

- **Send and track invoices:** Get paid on time and protect your cash flow with personalised invoices that you can track.
- **Snap and capture receipts:** Pull in data and documents including receipts automatically with live bank feeds and AutoEntry.
- **Take care of tax and compliance:** See a live running total of your tax liabilities, plan ahead and submit to HMRC. Accounting keeps you on top of latest legislation, such as MTD for Income Tax.
- **Forecast your cash flow:** See how much money is coming in and out of your business each month, on an insightful dashboard.
- **Share access with your accountant:** Collaborate securely in real-time. Let your team spot and fix mistakes. Works on any device.



Learn more about how Sage Accounting
helps you be ready for Making Tax Digital:

www.sage.com/accounting

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