This document supplements the guidance set out in Section 3 (Digital Record-Keeping) and Section 4 (VAT Returns) of the VAT notice.

The scenarios set out in this document are intended, for the MTDfB requirement for digital record-keeping and the digital reporting of VAT to HMRC, to outline the extent to which each part of the journey will need to link digitally to each other, where different digital record-keeping options are used. These journeys are not intended to be exhaustive or prescriptive, but merely to represent the more common scenarios.
Information transfer for VAT: General principles

- Information transfer between interfaces must be digital where the records are part of the MTDfB journey (i.e. information that MTDfB mandates that businesses keep digitally):
  - HMRC anticipates that there will be a soft landing period (without application of record-keeping penalties) in the first year to allow businesses, in certain circumstances, extra time to update legacy systems to be fully compliant.
  - The transfer of data from the mandatory digital records through to receipt of information by HMRC must be digital.

- Information can only be submitted to HMRC via APIs, this can be from software, bridging software or API enabled spreadsheets. Part of this process will include the VAT legal declaration by the customer. This may be done through either the software (including bridging software), or API enabled spreadsheet, or through a prompt presented to the customer by HMRC systems.

- The legislation will specify what needs to be digitally recorded.

- Digital transfer includes options such as XML import/export, macros or linked cells, but does not allow manual transfer or transposition of data.

- The VAT Notice defines “functional compatible software” as “a software program or set of compatible software programs the functions of which include—recording and preserving electronic records in an electronic form; providing to HMRC information from the electronic records and returns in an electronic form and by using the API platform; and receiving information from HMRC using the API platform in relation to a person’s compliance with obligations under these Regulations which are required to be met by use of the software”.

- Adjustments, such as partial exemption, can be calculated separately outside the digital records of the organisation and transferred in digitally or manually – i.e. this step is not part of the MTDfB journey.

- The complete set of digital records to meet MTDfB requirements do not all have to be in one place; digital records can be kept in a range of compatible digital formats. Taken together, these form the business’ digital records. As already set out in HMRC guidance, VAT registered businesses can continue to maintain valid invoices either in paper or electronic form.
Slide 4 – Using a single, API enabled software package

Slide 5 – Using a single spreadsheet (either API enabled or with bridging software)

Slide 6 – Using multiple spreadsheets (either API enabled or with bridging software)

Slide 7 – Using non-API enabled software and calculating returns in spreadsheets

Slide 8 – VAT for Group companies using multiple record keeping methods and spreadsheets to calculate VAT return

Slide 9 – Adjustments, journals and non-mandatory digital transfers

Slide 10 – Digital transfers and adjustments in agent journeys

**JOURNEYS**

**LEGEND**

- Mandatory Digital Link: Data must be imported/exported between programs without manual intervention
- API: API for direct submission of data to HMRC
- Digital Link: Data should ideally be imported/exported between programs digitally, but in first year a “soft landing” will be applied to allow businesses time to update legacy systems
- Data input/export may be digital or manual
Where information transfer for VAT must be digital

Example 1: One MTDfB compatible software package – HMRC

Records for VAT maintained, and VAT return calculated and prepared by API enabled software

Compatible software will be used to maintain the mandatory digital records, calculate the return and transfer data to HMRC using an API

API

VAT return submitted to HMRC
Where information transfer for VAT must be digital

Example 2: One spreadsheet (API enabled or with bridging software) – HMRC

Records for VAT maintained, VAT return prepared and calculated by spreadsheet

VAT return submitted to HMRC

The minimum requirements for digital VAT records are detailed in latest consultation document. The spreadsheet must also calculate the VAT return.

Submission to HMRC could be either through linking/bridging software or via API enabling the spreadsheets to access HMRC APIs and report data to HMRC systems.
Where information transfer for VAT must be digital

Example 3: Multiple spreadsheets (API enabled or with bridging software) – HMRC

- VAT records maintained in spreadsheet
- VAT return is calculated in another spreadsheet (or VAT Reporting Tool)
- VAT return submitted to HMRC

Where multiple spreadsheets are used to maintain records and calculate the VAT return, information must be digitally transferred between the Spreadsheets.

Submission to HMRC could be either through linking/bridging software or via API enabling the spreadsheets to access HMRC APIs and report data to HMRC systems.
Where information transfer for VAT must be digital

Example 4: Non Compatible software – spreadsheet – bridging software – HMRC

HMRC anticipates that there will be a soft landing period (April 2019 – April 2020) without application of record-keeping penalties, during which this digital link is not mandatory. This will allow businesses extra time to update their systems to be fully compliant.

Non API enabled software (Accounting systems/ General Ledgers)

Mandatory digital record keeping requirements are maintained in software

Spreadsheet

A spreadsheet is used to calculate adjustments such as Partial Exemption as well as calculating a VAT return based on the digital record keeping requirements

Bridging/linking software

Bridging software will be used to transfer data from a spreadsheet to HMRC

VAT return submitted to HMRC

Draft
Where information transfer for VAT must be digital

Example 5 (VAT for Group companies): Software – spreadsheet – HMRC

- VAT Group member 1 (XML)
- VAT Group member 2 (Spreadsheet)
- VAT Group member 3 (XML)

The mandatory digital record keeping requirements will be maintained by each member of the VAT Group.

HMRC anticipates that there will be a soft landing period (April 2019 – April 2020) without application of record-keeping penalties, during which this digital link is not mandatory. This will allow businesses extra time to update their systems to be fully compliant.

A spreadsheet (or a series of spreadsheets) will be used to collate figures of all members of the group.

This does not always have to be a VAT group, this may also apply to large organisation operating multiple systems e.g. Local authorities.

HMRC anticipates that there will be a soft landing period (April 2019 – April 2020) without application of record-keeping penalties, during which this digital link is not mandatory. This will allow businesses extra time to update their systems to be fully compliant.

VAT Group member 1 (XML)
VAT Group member 2 (Spreadsheet)
VAT Group member 3 (XML)
Adjustments, journals and non mandatory digital transfers

Example 6: Software – Spreadsheet – Software – HMRC

Records for VAT maintained, and VAT return calculated in API enabled software or spreadsheet

Information from digital record e.g. inputs, outputs (totals; splits between rates)

Adjustment by manual intervention

Spreadsheet

A spreadsheet is used to calculate adjustments e.g. Partial Exemption

VAT return submitted to HMRC

The digital records may be maintained in a separate spreadsheet/software and the VAT return may then be calculated by a VAT compliance/reporting tool.

Information from other records not mandated to be kept digitally e.g. floor space used, stock book, country info – for tour operator supplies.
Digital transfers and adjustments in agent journey

Example 7: Software – agent software – HMRC

Digital records maintained in non API enabled software

Agent/Auditor’s API enabled software

VAT return submitted to HMRC

Adjustments

Mandatory Digital Link

NB. Agents/Internal Control may have access to their client’s software.

Any correction of mistakes must be made by the agent back into the client’s digital records.

Adjustment by manual intervention

This could range from correcting mistakes to adjustments required by VAT law. These interventions could also take place within the confines of a single software product.