

VAT Notice XX: Making Tax Digital for VAT

This notice provides information further to the provisions of The Value Added Tax (Amendment) Regulations 2018 (SI 2018 No. XXXX) (“the regulations”). Parts of this notice have the force of law under the regulations. These parts are indicated by being placed in a box as in the example shown below.

Example:

The following rule has the force of law

In addition to the records listed in paragraph 3.3 above, if you account for VAT using a retail scheme you must keep a record of your Daily Gross Takings (DGT). You are not required to keep a separate record of the supplies that make up your DGT.

1 Introduction

1.1 What is this notice is about

This notice gives guidance on meeting your VAT obligations if your business falls within the scope of the regulations, in which case Making Tax Digital for VAT will apply to you from April 2019 onwards.

1.2 What is Making Tax Digital?

Making Tax Digital (MTD) will bring the tax system into line with what businesses expect from other service providers: a modern digital experience. It is a key part of the government's initiative to transform HM Revenue and Customs (HMRC) into a world leading, digital tax authority.

It introduces the requirement for certain VAT registered businesses to keep digital records and file their VAT returns via functional compatible software. It is now common for business records and accounts to be kept digitally, in a software program on a computer or tablet, or in a smartphone application, and/or maintained through such a device and stored using a cloud-based application. By mandating digital record-keeping and filing, the government expects to reduce the amount of tax lost through error and failure to take reasonable care.

1.3 Other helpful notices

You may find it helpful to read these notices on related subjects.

VAT Notice 700: the VAT guide <insert link to guidance>

VAT Notice 700/21: keeping VAT records <insert link to guidance>

VAT Notice 700/1: should I be registered for VAT? <insert link to guidance>

VAT Notice 700/12: how to fill in and submit your VAT Return <insert link to guidance>

VAT Notice 700/45: how to correct VAT errors and make adjustments or claims <insert link to guidance>

VAT Notice 718: the Margin Scheme and global accounting <insert link to guidance>

VAT Notice 727: retail schemes <insert link to guidance>

VAT Notice 733: Flat Rate Scheme for small businesses <insert link to guidance>

VAT Notice 700/21: The special accounting scheme for gold transactions <insert link to guidance>

2 Do I have to follow the MTD rules?

2.1 Turnover test

You must follow the rules in this notice if your business' VAT taxable turnover is more than the VAT registration threshold (currently £85,000) for VAT Periods starting on or after 1 April 2019. If your VAT taxable turnover subsequently falls below this amount you must continue to follow the rules in this notice.

You should check your turnover at the end of each month and if in the last twelve months it is over the registration threshold applying on the first day of the following month, then you are subject to the MTD rules and you should start following them from the start of your next accounting period.

VAT Notice 700/1: should I be registered for VAT <insert link to guidance> provides more information on the VAT registration threshold and VAT taxable turnover.

2.2 Other exemptions

You will not have to follow the MTD rules if HMRC are satisfied that any of the following apply:

- your business is run entirely by practicing members of a religious society whose beliefs are incompatible with the requirements of the regulations (e.g. those religious beliefs prevent them from using computers) or,
- it is not reasonably practicable for you to use digital tools to keep your business records or submit your returns, for reasons of age, disability, remoteness of location or for any other reason, or
- you are subject to an insolvency procedure.

If you think any of these apply to you then please contact the VAT Helpline to discuss alternative arrangements.

2.3 Can I chose not to be exempt?

If you are exempt from MTD you are not required to follow the rules in this notice. You may wish to have the rules apply to you in order to submit your VAT return using functional compatible software.

To do this you will need to make an election not be exempt before the start of the next prescribed accounting period and specify the date that the next period begins. You will then be subject to the rules from the start of the next period.

You may withdraw an election at any time and you will not be required to follow the rules in this notice from the start of the next accounting period following the withdrawal.

An election and withdrawal of an election must be made by notice to the Commissioners. To elect to use MTD please complete this form <insert link to guidance>

3. Digital record-keeping

3.1 Digital record-keeping

Under MTD for VAT some of your records must now be kept digitally within functional compatible software. Any records that are not listed in this notice do not need to be kept in a set way.

VAT notice 700/21 provides more information on keeping VAT records <insert link to guidance>.

3.2 What is functional compatible software?

Under MTD for VAT, functional compatible software will be used to maintain the mandatory digital records, calculate the return and submit it to HMRC via an Application Programme Interface or 'API' for short.

HMRC has a list of software you can use to submit your VAT Return via an API <insert link to commercial software suppliers>.

The complete set of digital records to meet MTDfB requirements do not all have to be in one piece of software. If there is a digital link between the pieces of software, records can be kept in a range of compatible digital formats.

Functional compatible software is a software program or set of compatible software programs that must be able to —

- record and preserve electronic records in an electronic form;
- provide to HMRC information and returns from the electronic records in an electronic form and by using the API platform; and
- receive information from HMRC

The following rule has the force of law

If a set of compatible software programs is used there must be a digital link between the pieces of software.

Below are examples of sets of software with digital links that meet the requirements of MTD, further examples can be found in the separate Addendum to this notice.

Example 1

A business uses one piece of accounting software to record all sales and purchases and transfers the totals into a spreadsheet that it uses to calculate the return. The information is then sent to a piece of bridging software which submits the return to HMRC.

Altogether the three pieces of software maintain the mandatory digital records, calculate the return and submit it to HMRC. The links between the three pieces of software must be digital for the set of software to be functional compatible software.

Example 2

A business uses one piece of accounting software to record all sales and purchases, this software then calculates the return and submits it to HMRC. As well as the records in the accounting software the business uses a spreadsheet to keep track of fleet of cars and work out its road fuel scale charges.

As the records in the spreadsheet are not listed in paragraphs 3.3 to 3.7 below the business can type the adjustment into its accounting software. However, a digital link will reduce the chance of errors.

Example 3

A VAT group uses three different software packages to record the mandatory records for different parts of the group. Each piece of software calculates the amounts needed for the return from each part of the group. A spreadsheet is used to compile the totals and create the return for the whole of the group. The information is then sent to a piece of bridging software, which submits the return to HMRC.

Altogether the five pieces of software maintain the mandatory digital records, calculate the return and submit it to HMRC. The links between the five pieces of software must be digital for the set of software to be functional compatible software.

3.3 What records need to be kept digitally?

Designatory data:

- Your business name
- The address of your principle place of business
- Your VAT registration number
- A record of any VAT accounting schemes that you use.

For each supply you make you must record;

- The time of supply
- The value of the supply
- The rate of VAT charged.

If you make multiple supplies at the same time these do not have to be recorded separately. You can record the total value of supplies on each invoice or receipt that have the same time of supply and rate of VAT charged.

For information on time of supply please see VAT Notice 700 parts 14 & 15<insert link to guidance>.

You must also have a record of;

- Outputs value for the period split between standard rate, reduced rate, zero rate, exempt and outside the scope outputs.

For each supply you receive you must record;

- The time of supply
- The value of the supply including any VAT that is not claimable by you
- The amount of input tax that you will claim.

If more than one supply is on an invoice you can record the totals from the invoice.

VAT account

The VAT account is the link - the audit trail - between your business records and your VAT return.

Under MTD for VAT, the information required to be held in the VAT account must be kept digitally (the regulations refer to this as your “electronic account”), and the information in that electronic account will be used by functional compatible software to calculate and fill in your VAT return.

To show the link between the output tax in your records and the output tax on the return, you must have a record of:

- the output tax you owe on sales
- the output tax you owe on acquisitions from other EU member states
- the tax you are required to pay on behalf of your supplier under a reverse charge procedure
- the tax that needs to be paid following a correction or error adjustment
- any other adjustment required by VAT rules

To show the link between the input tax in your records and the input tax on your return you must have a record of:

- the input tax you are entitled to claim from business purchases
- the input tax allowable on acquisitions from other EU member states
- the tax that you are entitled to reclaim following a correction or error adjustment
- any other necessary adjustment

3.4 Adjustments

Only the total for each type of adjustment will be required to be kept digitally not details of the calculations underlying them. If the adjustment requires a calculation it does not have to be made in software. However using software for all your calculations will reduce the risk of errors in your returns.

3.5 Retail schemes

The following rule has the force of law

In addition to the records listed in paragraph 3.3 above, if you account for VAT using a retail scheme you must keep a record of your Daily Gross Takings (DGT). You are not required to keep a separate record of the supplies that make up your DGT.

For more details on retail schemes and DGTs please see VAT notice 727: retail schemes

3.6 Flat rate scheme

The following rule has the force of law

In addition to the records listed in paragraph 3.3 above, if you account for VAT using the Flat Rate Scheme (FRS)

You do not need to keep a digital record of your purchases unless they are capital expenditure goods on which input tax can be claimed.

You do not need to keep a digital record of the relevant goods used to determine if you need to apply the limited cost business rate.

3.7 Gold Special Accounting Scheme

The following rule has the force of law

In addition to the records listed in paragraph 3.3 above, if you make any sales under the Gold Special Accounting Scheme, you must keep a digital record of the following.

Value of sales made under the special accounting scheme for Gold.

Total output tax on Gold purchased under the special accounting scheme for Gold

4. VAT returns

4.1 Submitting your VAT return

Your software will calculate your return for you from your digital records. It will then show the return to you and ask you to declare that it is correct and confirm that you want to submit it to HMRC. Once you have submitted your return you will receive confirmation through your software that it has been received.

4.2 Can my agent submit my VAT return?

If you have authorised your agent to submit your VAT return for you they can still do this. To do this your agent must have access to the functional compatible software that holds your mandatory records.

Example 1

A business uses one piece of cloud based accounting software to record all sales and purchases. The business provides access to their agent. The agent calculates the business partial exemption adjustment and enters this into the software. The software then calculates the return and submits it to HMRC.

As the records in the spreadsheet are not in the listed paragraphs 3.3 to 3.7 above, the agent can type the adjustment into its accounting software. However a digital link will reduce the chance of errors.

Example 2

A business uses one piece of accounting software to record all sales and purchases and transfers the totals into a spreadsheet. The business sends this spreadsheet to their agent, who uses it to calculate the return. The information is then sent to a piece of bridging software which submits the return to HMRC.

Altogether the three pieces of software maintain the mandatory digital records, calculate the return and submit it to HMRC. The links between the three pieces of software must be digital for the set of software to be functional compatible software.

5. Voluntary updates

5.1 Voluntary updates

VAT updates are a voluntary option that you can use to provide supplementary information ahead of your VAT return.

Data for VAT updates is drawn from your digital records and submitted to HMRC through your functional compatible software, just as would be done for a VAT return. However, a VAT update will not discharge the VAT return obligation and does not create a legal liability. There are no restrictions on the number of times this can be done during an accounting period.

If you are an unincorporated business and are subscribed to Making Tax Digital for both VAT and income tax, you may find the VAT update facility useful to submit update information for both taxes simultaneously. In the future, this approach could help you align the dates on which you send your VAT returns and income tax updates (although for the time being only alignment to a business's existing VAT return periods is possible). However, HMRC recognises that alignment may not always be possible or desirable.

Submitting a voluntary update will not change your payment position. You will not receive a repayment from HMRC or be asked to make a payment because of an update that has been submitted.

5.2 Correcting a VAT update

If you discover an error after you have submitted a VAT update you must correct the error in your records to ensure that the error is not repeated in your VAT return. If you discover an error after you have submitted your VAT return you must follow the error correction procedures [<insert link to guidance>](#). Once you have corrected your records you will be able to correct the update by sending an update correction.

As the update does not change your payment position you cannot receive a penalty for an error in a VAT update, however correcting the update ensures the information HMRC holds is correct.

6. Supplementary data

6.1 Supplementary data

Your software will also allow you to submit supplementary data to HMRC. You can only do this when you send a VAT return or a voluntary update. If you decide to send supplementary data your software will send additional information to HMRC.

Submission of this supplementary data is entirely voluntary. You can send this each time you submit VAT information to HMRC or you can do this on an occasional basis. If your businesses is selected for a tax compliance check HMRC will look at this information before contacting you. If this information is enough to give HMRC assurance that your return is correct they may not contact you.

6.2 What information will my software send?

If you decide to send supplementary data to HMRC your software will send the information below to HMRC.

- Your business name
- The address of your principle place of business
- Your VAT registration number
- A record of any VAT accounting schemes that you use.

- The output tax you owe on sales
- Outputs value for the period split between standard rate, reduced rate, zero rate, exempt and outside the scope outputs.
- The output tax you owe on acquisitions from other EU member states
- The tax you are required to pay on behalf of your supplier under a reverse charge procedure
- Any adjustment to the output tax.

- The input tax you are entitled to claim from business purchases
- The input tax allowable on acquisitions from other EU member states
- Any adjustment to the input tax.

6.3 Correcting Supplementary data

If you discover an error after you have submitted supplementary data you must correct the error in your records. Once you have corrected your records you will be able to correct the update by sending a supplementary data correction.

If the error is in supplementary data that you submitted with your VAT return you must check if you need to correct the VAT return. You will need to follow the standard error correction procedures [<insert link to guidance>](#) to correct this.

As the supplementary data does not change your payment position you cannot receive a penalty for an error in supplementary data.

Your rights and obligations

Your Charter explains what you can expect from HMRC and what they expect from you. For more information go to Your Charter.

If you have a question about VAT, Excise or Customs duty

Go to the GOV.UK website.

Telephone: 0300 200 3700 Monday to Friday, 8am to 6pm.

Os hoffech siarad â rhywun yn Gymraeg, ffoniwch: 0845 010 0300, Llun i Gwener 8.00am i 6.00pm.

If you're hard of hearing or speech impaired and use a Textphone: 0300 200 3719

Putting things right

If you're not satisfied with our service, please let the person dealing with your affairs know what is wrong. We will work as quickly as possible to put things right and settle your complaint. If you are still unhappy, ask for your complaint to be referred to the Complaints Manager.

For more information about our complaints procedures go to the GOV.UK website.

How HMRC use your information

HMRC is a Data Controller under the Data Protection Act 1998. They hold information for the purposes specified in the notification to the Information Commissioner, including the assessment and collection of tax and duties, the payment of benefits and the prevention and detection of crime, and may use this information for any of them.

HMRC may get information about you from others, or they may give information to them. If they do, it will only be as the law permits to:

- check the accuracy of information
- prevent or detect crime
- protect public funds.

HMRC may check information they receive about you with what is already in their records. This can include information provided by you, as well as by others, such as other government departments or agencies and overseas tax and customs authorities. They will not give information to anyone outside HMRC unless the law permits us to do so. For more information go to [Data Protection](#).