Making Tax Digital for VAT for charities

With effect from the start of the first VAT return period commencing on or after 1 April 2019 most VAT-registered charities and other businesses with annual taxable turnover of £85,000 or more will be required to:

● keep VAT transaction records in a prescribed digital format, and

● use 'functional compatible software' to digitally extract the information required for the VAT return from the digital transaction records, calculate the figures for the VAT return and then send the VAT return to HMRC electronically, via a dedicated HMRC Applications Programming Interface ('API'). The extraction, calculation and submission will all have to be done entirely digitally

HMRC refer to this as 'Making Tax Digital for VAT' ('MTD for VAT').

Deferral for VAT groups, trusts and various others

However there is a 6-month deferral, to 1 October 2019, for:

● VAT groups

● Trusts

● 'not for profit' organisations that are not set up as a company

● annual accounting scheme users

● those required to make payments on account

● VAT divisions

● Government departments, NHS Trusts, local authorities and public corporations

● traders based overseas

Such charities and businesses will only have to implement MTD for VAT with effect from the start of the first VAT return period commencing on or after 1 October 2019. HMRC is currently in the process of writing to all deferred businesses by the end of December 2018. This letter will formally defer the obligation to comply with MTD for VAT from April 2019 to October 2019. Any business wishing to rely on the deferral needs to receive a letter; they cannot rely on thinking they are in the deferred group. Affected charities should therefore contact HMRC if they are expecting to be deferred but do not receive an HMRC deferral letter.

Exemptions

A few charities and businesses will be exempt from the MTD for VAT requirements:

1 Charities and businesses with taxable turnover under £85,000 per annum

2 Charities and businesses subject to an insolvency procedure

3 Where the charity or business is run entirely by practicing members of a religious society whose beliefs are incompatible with the requirements (for example, those religious beliefs prevent them from using computers)

4   Charities and businesses for whom it is not reasonably practicable to use digital tools to keep business records or submit returns, for reasons of age, disability, remoteness of location or for any other reason

HMRC advise charities and other businesses that consider they are exempt under options 3 or 4 above to contact the HMRC VAT Helpline (phone 0300 200 3700, address HMRC VAT Written Enquiries Team, Alexander House, 21 Victoria Avenue, Southend-On-Sea, SS99 1BD)

Digital links

The entire journey from the digital transaction records to the submission of the VAT return must be carried out by the functional compatible software via digital links, without manual adjustment or correction. However there will be a 'soft landing' period, to 31 March 2020, during which businesses will be able to carry on manually extracting, adjusting and calculating VAT return figures, though submission will have to be via HMRC's MTD for VAT API.

A digital link is one where a transfer or exchange of data is made electronically between software applications without the involvement or need for manual intervention such as the copying over of information by hand or the manual transposition of data.

HMRC accept that digital links include the following:
- linked cells in spreadsheets, for example, if you have a formula in one sheet that mirrors the source's value in another cell, then the cells are digitally linked.
- emailing a spreadsheet containing digital records to a tax agent so that the agent can import the data into their software to carry out a calculation
- transferring a set of digital records onto a portable device (for example, a pen drive, memory stick, flash drive) and physically giving this to an agent to import that data into their software
- XML, CSV import and export, and download and upload of files
- automated data transfer
- API transfer

However HMRC does not consider the use of 'cut and paste' to select and move information, either within a software program or between software programs, to be a digital link.

Implications of MTD for charities

The implications of MTD for VAT depend on the complexity of the charity's operations and accounting systems.

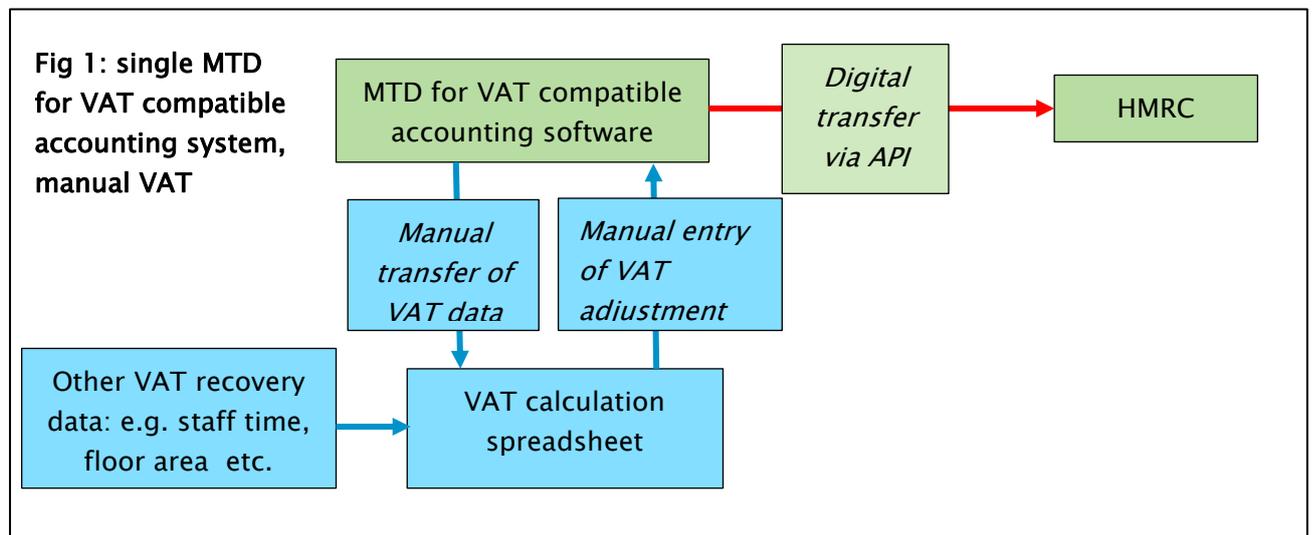### (1) SINGLE MTD FOR VAT COMPATIBLE ACCOUNTING SYSTEM
Most of the standard UK accounting software packages have been or are being made MTD for VAT compatible, for example Sage, QuickBooks, Xero, Access and Exchequer are all in

the process of being made compatible. Users of such products may need to upgrade to the latest version or install an MTD for VAT add on to their existing package.

For a list of commercial accounting software products that have been tested as MTD for VAT compatible see https://www.gov.uk/government/publications/software-suppliers-supporting-making-tax-digital-for-vat/software-suppliers-supporting-making-tax-digital-for-vat

Charities that use such products to keep transaction records should find implementation of MTD for VAT relatively straightforward. Many of these packages will also have a facility for compiling and submitting a group VAT return, in respect of two or more separate entities registered as a VAT group. For example, Sage will have a downloadable 'Sage MTD Submissions Module' which will be able to compile and submit group VAT returns.

It will be acceptable to carry out manual calculations for partial exemption, business/non-business apportionments, annual adjustments, Capital Goods Scheme adjustments, membership subscription apportionments, road fuel scale charges, Tour Operators' Margin Scheme adjustments etc. These can be carried out manually in a calculation spreadsheet and then posted back into the accounts system as correcting transactions. For example if a partial exemption calculation spreadsheet is used by a partially exempt charity to calculate the irrecoverable VAT for a quarter, the links to the calculation spreadsheet do not have to be digital and it will be acceptable to post the adjustment into the accounting software manually.

Fig 1: single MTD for VAT compatible accounting system, manual VAT

MTD for VAT compatible accounting software	Digital transfer via API → HMRC
Manual transfer of VAT data	Manual entry of VAT adjustment
Other VAT recovery data: e.g. staff time, floor area etc.	VAT calculation spreadsheet

In effect you will have to make sure the accounts system's VAT module shows the correct VAT return figures before clicking its submit button.
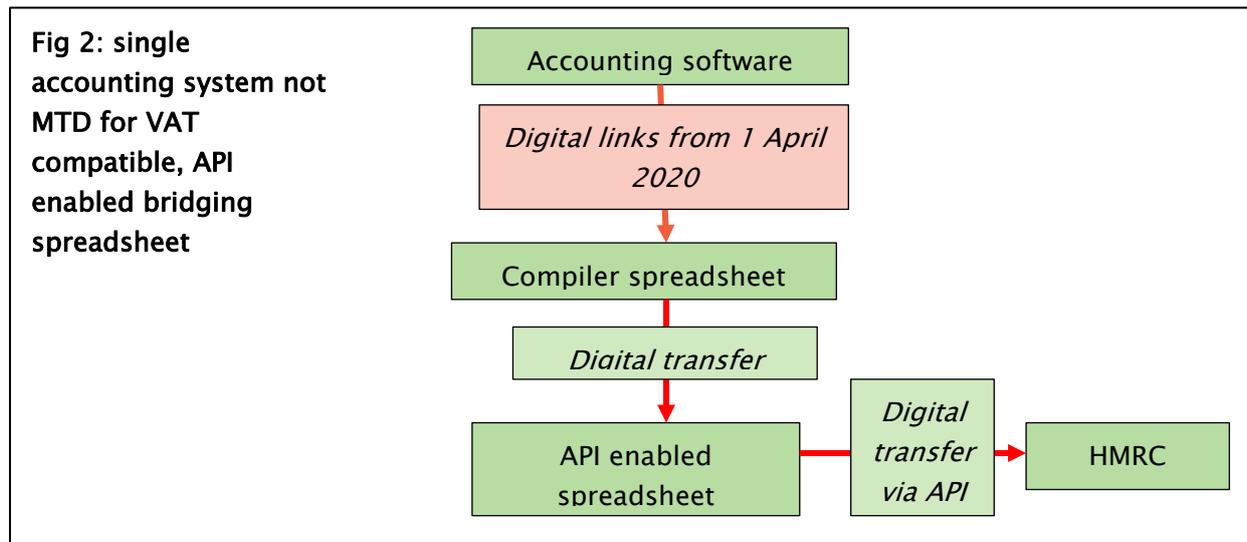
(2) SINGLE ACCOUNTING SYSTEM – NOT MTD FOR VAT COMPATIBLE

Some charities operate bespoke, old or non-UK products that will not be updated for MTD for VAT. Such charities have two main options:

● Switch to a accounting software product that is MTD for VAT compatible, or
● Extract data from the accounting system into a spreadsheet which calculates the figures for the VAT return and use 'bridging software' to submit the return to HMRC via the API. Bridging software is software that is specifically designed to link accounting systems, spreadsheets etc. to HMRC's systems via the MTD for VAT API.

For example:

1 VAT return data is extracted from the accounts system into a custom spreadsheet that compiles the figures for the VAT return. Up to 1 April 2020, the extraction of the data from the accounts system to the compiling spreadsheet can be by manual transfer or copy and paste, however from 1 April 2020 it will have to be via digital links

2 The compiler spreadsheet will then have to populate the VAT return cells on an API enabled spreadsheet via digital links. HMRC require this link to be digital immediately upon entry into MTD for VAT and there is no soft landing period to 31 March 2020

Fig 2: single accounting system not MTD for VAT compatible, API enabled bridging spreadsheet

Accounting software

Digital links from 1 April 2020

Compiler spreadsheet

Digital transfer

API enabled spreadsheet

Digital transfer via API

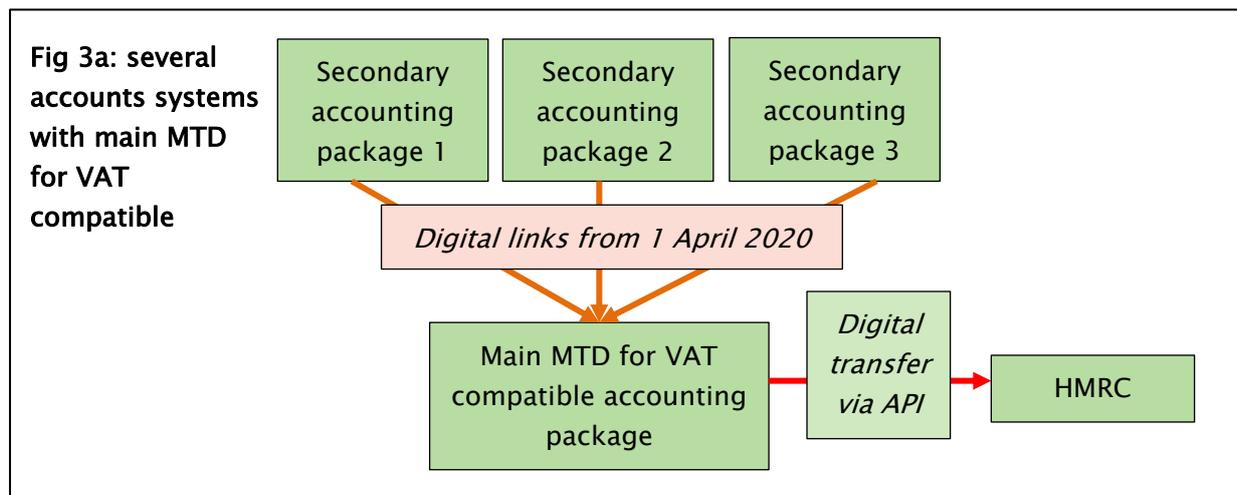HMRC

3) SEVERAL DIFFERENT ACCOUNTING SYSTEMS

Some charities use several different accounts systems, for example a leisure trust might operate a 'main' accounts system which is a standard accounting software package together with one or more secondary systems such as a specialist or legacy booking system for a leisure centre.
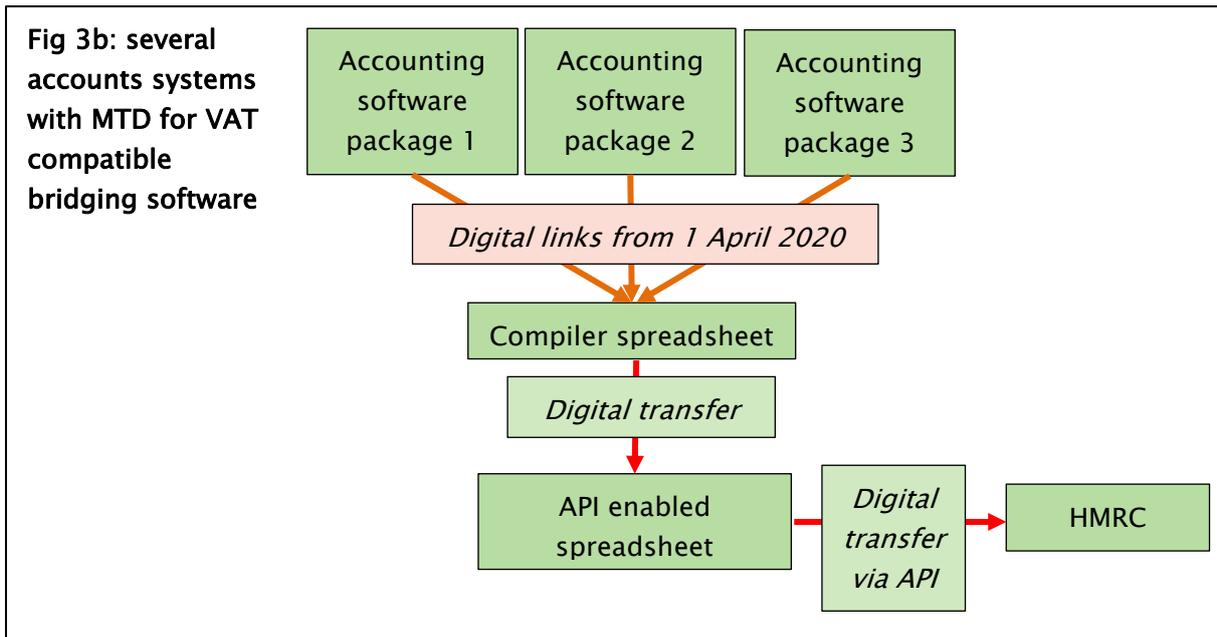
It is acceptable for the digital transaction records to be stored in several different accounting systems (provided each system meets the transaction data recording requirements, for which

see below). However, subject to the soft landing period to 31 March 2020, all links between the various systems must be digital.

There are several possibilities for charities in this position, for example:

(a) If you have a 'main' accounts system that will be made MTD for VAT compatible, with several subsidiary systems (that may or may not be made MTD for VAT compatible), it might be possible to use the main system to submit the VAT returns and to transfer summary data from the secondary systems into the main system. For example, in the leisure trust scenario described above, the main accounts system could record the totals of standard-rated, reduced rate, zero-rated and exempt sales in the VAT return period from the secondary leisure centre system. Up to 1 April 2020 the summaries can be posted manually into the main system but from 1 April 2020 the summary data will have to be transferred via digital links

(b) A spreadsheet bridging product could be used in conjunction with a compiler spreadsheet that takes data from the various accounting systems and compiles the figures for the VAT return. Up to 1 April 2020 the data can be transferred manually from the accounting systems to the compiler spreadsheet, but from 1 April 2020 the data will have to be transferred via a digital link

Fig 3a: several accounts systems with main MTD for VAT compatible

Fig 3b: several accounts systems with MTD for VAT compatible bridging software

Accounting software package 1

Accounting software package 2

Accounting software package 3

Digital links from 1 April 2020

Compiler spreadsheet

Digital transfer

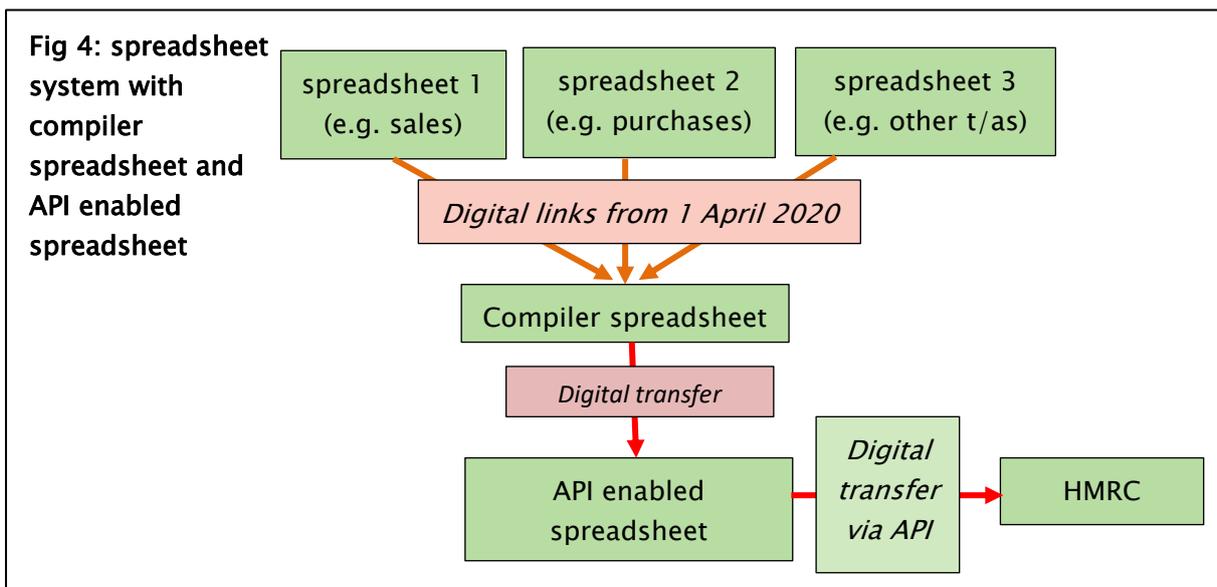API enabled spreadsheet

Digital transfer via API

HMRC

(4) SPREADSHEETS FOR TRANSACTION RECORDS

It will also be possible to keep transaction records in a spreadsheet system and use an API enabled bridging spreadsheet to send the VAT return data to HMRC. For example:

- Several spreadsheets are used to record transactions
- An MTD for VAT compatible spreadsheet sends the VAT return data to HMRC
- The spreadsheet accounting system and MTD for VAT compatible spreadsheet will have to communicate via digital links from 1 April 2020

Fig 4: spreadsheet system with compiler spreadsheet and API enabled spreadsheet

spreadsheet 1 (e.g. sales)

spreadsheet 2 (e.g. purchases)

spreadsheet 3 (e.g. other t/as)

Digital links from 1 April 2020

Compiler spreadsheet

Digital transfer

API enabled spreadsheet

Digital transfer via API

HMRC

Bridging software

As explained above (scenario 1), if a spreadsheet is used to calculate figures that are posted back into an MTD for VAT compatible accounts system, for example to calculate recoverable/irrecoverable VAT for a VAT period, then the spreadsheet does not have to be digitally linked to the accounts system.

However if a spreadsheet forms a direct link between the digital transaction records and API transferor (scenarios 2 and 3b), or if some or all of the digital transaction records are stored in spreadsheets (scenario 4) then such spreadsheets will have to be digitally linked to each other and to any API enabled bridging product.

A review of the software products that have been tested as MTD for VAT compatible (see the link above) suggests there are likely to at least two different types of spreadsheet bridging product available:
1. **Basic API enabled Excel workbooks.** You essentially download an API enabled Excel workbook which has pre-defined cells for entry of the VAT return figures (boxes 1 – 9), entity information (business name and address, VAT registration number, VAT period etc). and a 'submit' button. You then populate these boxes, manually up to 31 March 2020 and via digital links from 1 April 2020 then click the submit button. The API enabled spreadsheet then records any HMRC submission confirmation or message
2. **More sophisticated API enabled Excel workbooks**. These submit the VAT return data to HMRC via the API however they are also set up, or can be set up, to digitally extract the relevant data from specific accounting systems, for example via SQL queries into the accounting system's database. For these products it is likely to be necessary to discuss the system's capabilities and functionality with the suppliers concerned

Digital record format

The accounting system(s) which record the digital transactions must be able to store the following for each sale or purchase transaction:

For each sale that is within the scope of VAT:
- Time of supply (tax point)
- Value of supply (net of any VAT)
- Rate of VAT charged

Note that there is no requirement to record income transactions that are outside the scope of VAT, for example most donations and grants. However for accounting purposes these transactions will usually be recorded in the accounts system but excluded from the VAT return.

For each purchase that is to be reported on the VAT return:
- Time of supply (tax point)
- Value of supply (net of any VAT)
- Amount of purchase VAT to be claimed

Where the amount of purchase VAT to be claimed is not known at the time you record the supply, you can record:
- the total amount of VAT and adjust for any irrecoverable VAT once calculated
- no VAT and adjust for any recoverable VAT once calculated
- VAT recoverable based on an estimated percentage and adjust for any VAT once calculated

However you do not have to retrospectively adjust each transaction individually, it is acceptable to record a single transaction to record the total recoverable or irrecoverable VAT for the VAT return period.

In order to be able to submit the VAT return via the API enabled software, the API submitting software must record:
- the business name
- the address of the principal place of business
- VAT registration number
- any VAT accounting schemes that you use (e.g. annual accounting scheme, flat rate scheme etc.)

For each VAT return period the functional compatible software system must (in its entirety) record the following summary data:
- total output VAT due on sales
- total acquisition VAT due on acquisitions from other EU member states
- total tax output VAT due under a reverse charge
- total input VAT claimed on purchases
- total input VAT claimed on acquisitions from other EU member states
- any VAT adjustment following a correction or error adjustment, and
- any other adjustment allowed or required by VAT rules

A total of each type of adjustment must be recorded as a separate line.

MTD FOR VAT PILOT

The MTD for VAT pilot started in April 2018 and was opened to most VAT registered businesses in October 2018. Any business that has taxable turnover of at least £85,000 and has acquired MTD for VAT compatible software can join the pilot, though the following are (at the time of writing) excluded from the pilot:
- a trust or charity
- a VAT group or VAT Division

- trade with the EU
- based overseas
- partnerships
- submit annual returns,
- make VAT payments on account
- use the VAT Flat Rate Scheme,
- are a business that is newly registered for VAT and has not previously used their VAT online account to submit their VAT Return