Making Tax Digital for VAT for charities

Introduction

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 of the VAT return will all have to be carried out entirely digitally, though there will be a 'soft landing period' of one year in which to sort out digital extraction and calculation, though digital submission via the API will have to be done immediately.

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

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Deferral for VAT groups, trusts, non-profit organisations and various others

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 must implement MTD for VAT with effect from the start of the first VAT return period commencing on or after 1 October 2019. HMRC is aiming to write to all deferred businesses by the end of February 2019. The deferral letter from HMRC instructs the recipient to continue using existing methods to file VAT returns for all periods starting before 1 October 2019. It also exempts the recipient from the requirement to keep digital VAT records.

Any charity or business wishing to rely on deferral must receive such a letter from HMRC. You cannot rely on thinking you are in the deferred group. Affected charities should 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 a taxable turnover of 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, United Kingdom)

Digital transaction records

The VAT transaction record must be held digitally in an electronic database or retrieval system, for example in an accounting software package or in a spreadsheet. However they do not all have to be stored in the same system, it will be permissible to store digital transaction records across several different systems, though if several systems are used, they will have to be linked digitally from the end of the soft landing period.

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

For each sale	For each purchase
- Time of supply (tax point) - Value of supply (net of any VAT) - Rate of VAT charged	- Time of supply (tax point) - Value of supply (net of any VAT) - Amount of purchase VAT to be claimed

There is no requirement to record transactions that are outside the scope of VAT and that do not have to be reported on the VAT return, for example most donations and grants. However, for accounting purposes such transactions can be recorded in the system but excluded from the VAT return.

Where you apportion the output VAT due on a mixed rate supply with a single inclusive price, for example an apportioned membership subscription, you do not have to record these supplies separately. You can record the total value and the total output VAT due.

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
- VAT recoverable based on an estimated percentage and adjust for any VAT once calculated
- No VAT and adjust for any recoverable 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 contain:
- 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.

Digital links and the soft landing period

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', 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.

The soft landing period will be one calendar year:
- For non-deferred businesses implementing MTD for VAT with effect from the start of the first VAT period ending on or after 1 April 2019: the soft landing period will run to the start of the first VAT return period commencing on or after 1 April 2020
- For deferred businesses implementing MTD for VAT with effect from the start of the first VAT period ending on or after 1 October 2019: the soft landing period will run to the start of the first VAT return period commencing on or after 1 October 2020

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.

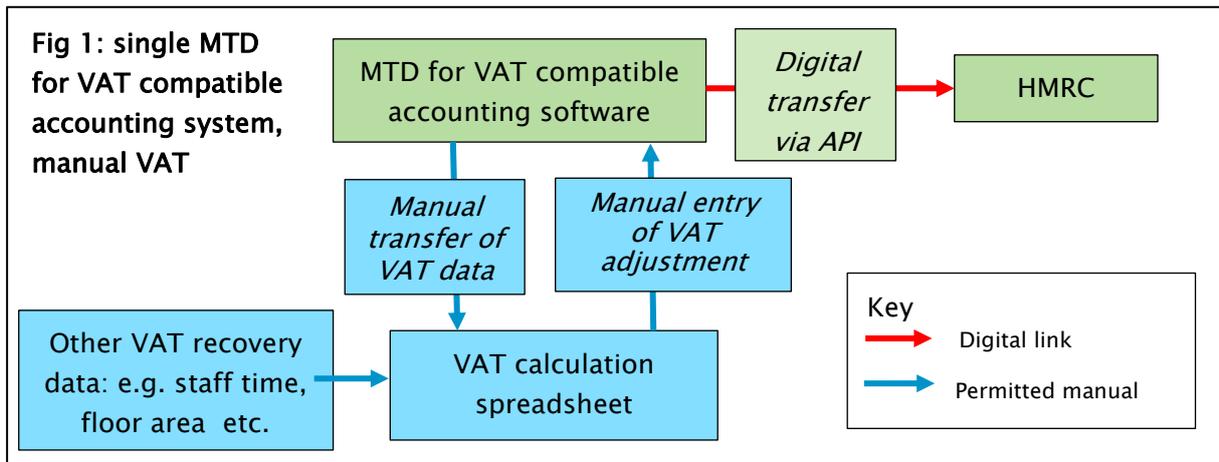### 1   Single MTD for VAT compatible accounting system

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 all 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 using manually extracted data 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, for example as a journal to remove irrecoverable VAT from the purchase VAT control account.

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

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.
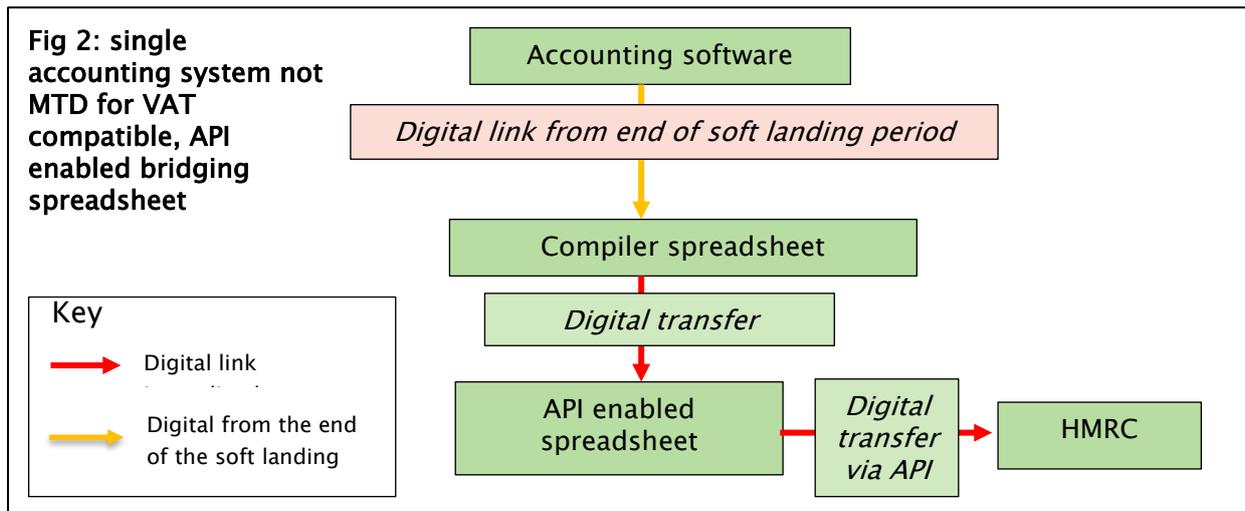
2   Single accounting system – not MTD for VAT compatible

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 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 the end of the soft landing period, the extraction of the data from the accounts system to the compiling spreadsheet can be by manual transfer or copy and paste, however from the end of the soft landing period 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
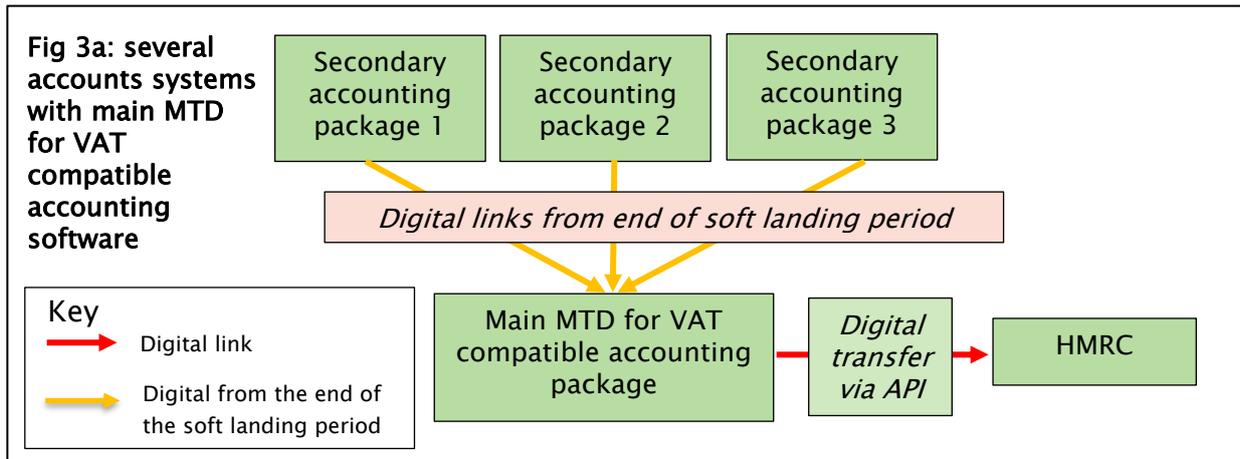
Fig 2: single accounting system not MTD for VAT compatible, API enabled bridging spreadsheet

Accounting software

Digital link from end of soft landing period

Compiler spreadsheet

Digital transfer

API enabled spreadsheet

Digital transfer via API

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Key

→ Digital link

→ Digital from the end of the soft landing

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.
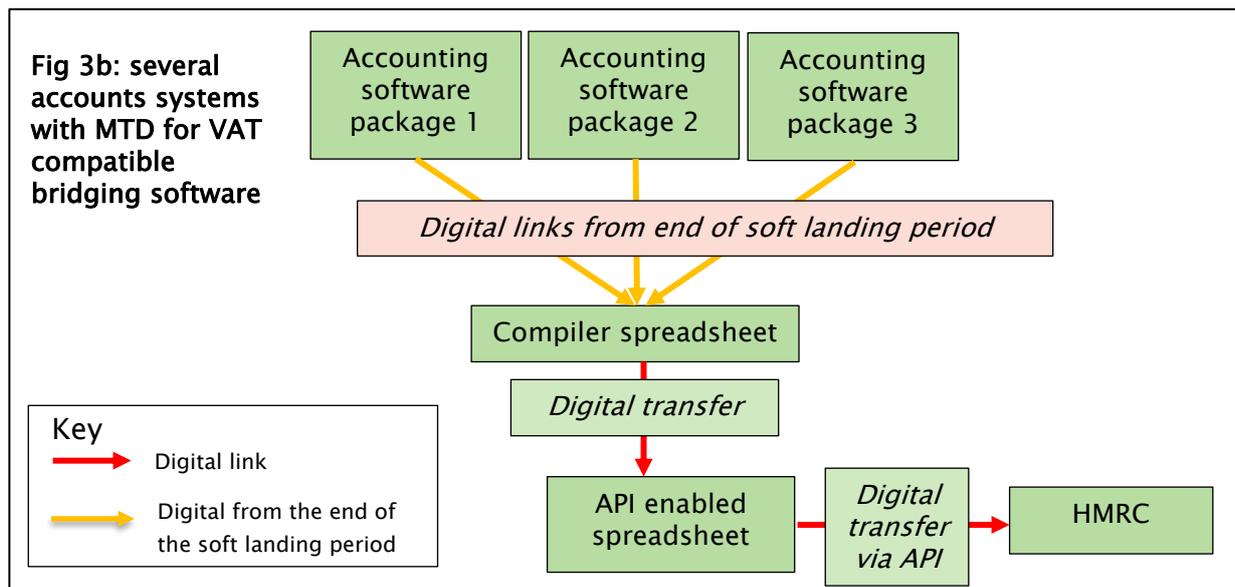
The digital transaction records can be stored in several different accounting systems (provided each system meets the transaction data recording requirements). However, subject to the soft landing period, all links between the various systems must be digital.

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 the end of the soft landing period the summaries can be posted manually into the main system but from end of the soft landing period the summary data will have to be transferred via digital links

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

Secondary accounting package 1

Secondary accounting package 2

Secondary accounting package 3

Digital links from end of soft landing period

Key
Digital link
Digital from the end of the soft landing period

Main MTD for VAT compatible accounting package

Digital transfer via API

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(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 the end of the soft landing period the data can be transferred manually from the accounting systems to the compiler spreadsheet, but from end of the soft landing period the data will have to be transferred via a digital link

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 end of soft landing period

Compiler spreadsheet

Digital transfer

Key
Digital link
Digital from the end of the soft landing period

API enabled spreadsheet

Digital transfer via API

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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
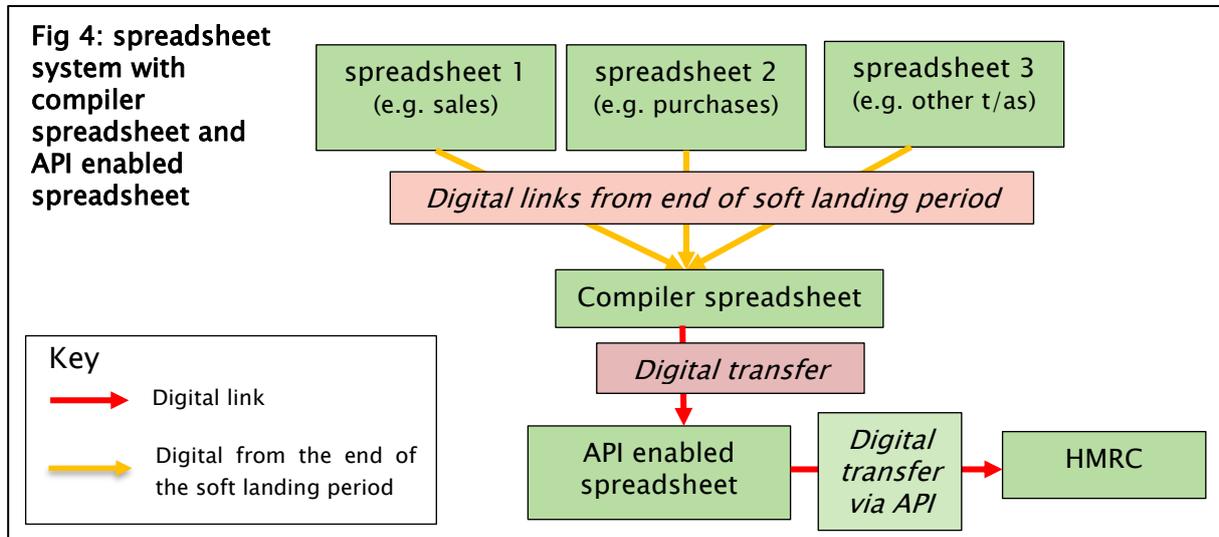
Bridging software

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 the end of the soft landing period and via digital links from the end of the soft landing period 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

MTD for VAT pilot

The MTD for VAT pilot and allows businesses with MTD for VAT compatible software to join the pilot scheme and test software and submit VAT returns via the HMRC API. The pilot started in April 2018 but initially excluded charities and trusts. However it is now open to any business whose start date is the first VAT period starting on or after 1 April 2019.

Miscellaneous points

Mini One Stop Shop VAT Return and EC sales lists
The Mini One Stop Shop VAT return and EC sales lists are excluded from MTD for VAT and should be submitted as usual.

Employee expenses
Where you are claiming input tax on employee expenses and your employee provides the combined value of more than one purchase, you do not have to record each purchase separately. You can record the total value and the total input tax due.

Supplies or purchases made by agents
Where a third party agent makes or receives supplies on your behalf, those supplies do not fall within the digital record keeping requirements until you receive the information from the agent. Where the information is received as a summary document you can treat this document as one invoice issued or received by you for the purpose of creating your digital record.

Retail schemes
If you account for VAT using a retail scheme you must keep a digital record of your Daily Gross Takings. You are not required to keep a separate record of the supplies that make up your Daily Gross Takings within functional compatible software.

Non-established taxable persons
A charity or business that is established outside the UK and which does not have a fixed establishment in the UK, but nevertheless makes taxable supplies in the UK (a 'non-established taxable person' or 'NETP') may have to submit UK VAT returns in respect of UK sales. However an NETP will only have to submit UK VAT returns via MTD for VAT if its UK taxable turnover exceeds the UK VAT registration threshold (currently £85,000). NETPs are also deferred as traders based overseas.