

Making Tax Digital for VAT - FAQ

What is Making Tax Digital?

In 2015, the UK Government announced an initiative to digitise tax in the UK. The goal is to make it easier for businesses to get their tax right and keep on top of their affairs by interacting digitally with HMRC. HMRC estimates that over £8 billion is lost annually in tax due to errors and mistakes, and it hopes that digital record keeping will help 'to prevent errors associated with manual processes.

Who will be affected and when do the changes come into force?

Making Tax Digital (MTD) will begin with VAT in April 2019. It will apply to businesses above the VAT threshold of £85,000. Businesses will need to file VAT returns using commercial accounting software and will be obligated to keep digital records of their transactions.

Businesses registered for VAT but with turnover below the VAT threshold can opt in and file their VAT information via MTD if they wish.

When will other businesses need to comply?

The government has committed that it will not widen the scope of Making Tax Digital for Business beyond VAT before the system has been shown to work well, and not before April 2020 at the earliest.

HMRC says "Software will help businesses to stay on top of their record keeping, allowing them to better understand how their business is performing".

Do I have to purchase a software package?

Under the scope of the new MTD regulations, a business must use HMRC compatible software to meet the new requirements. So, if you are not currently using a compatible software package you will need to purchase software yourself or get your accountant to maintain your records and file your VAT return digitally on your behalf.

There are lots of software packages available on the market for small and medium sized businesses, the most well-known are Sage, Xero and QuickBooks but there are many more. Ask your accountant for advice on what is the best option for you.

Need more help?

Can I still keep my records manually and simply file the VAT return through the HMRC VAT portal?

No. The new regulations mandate that businesses must keep digital records in compatible software, which can connect to HMRC via an Application Programming Interface (API)

Do Excel spreadsheets count as compatible software?

Not on their own. HMRC has stated that records can be maintained on spreadsheets, but there has to be some linking/bridging software that can communicate with HMRC's API in order to comply with MTD for VAT.

Do I need to provide information more often?

No business will need to provide information to HMRC more regularly than they do now. Where businesses have alternative reporting arrangements, these will be maintained. Businesses submitting monthly or non-standard returns will continue to do so as long as they keep digital records and submit their annual or monthly VAT return through functional compatible software.

Who is exempt from MTD for VAT?

The exemptions under Making Tax Digital mirror the existing VAT online filing exemptions. You can apply for an exemption for the following reasons:

- Religious beliefs incompatible with the use of electronic communications
- Not reasonably practical due to age, disability, remoteness of location or other reason
- Subject to an insolvency procedure

No other exemptions are currently available, so (for example) charities, local authorities, trusts etc, are all within the scope of MTD for VAT if their taxable turnover exceeds the VAT registration threshold.

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Accounting software comparison

This list is intended to give you an idea of possible accounting software available and is a guide only. We would always advise that you thoroughly investigate all the possible options and speak to your accountant about the best one for your business.

Kingston Burrowes Accountants can offer discounted software rates to its clients, please ask us for details.

	Xero 	Clearbooks 	Quickbooks Online 	Kashflow 	Sage One 	Free Agent 
Price £ (exc VAT) per month	£10, £22, £27.50	£10, £21.50	£7, £15, £25	£7, £14, £19	£10, £22	£19, £24, £29 Free for NatWest Customers
Customer support function	Email	Email/phone M-F 9am-5pm	Phone M-F 8am-8pm Web chat M-F 8am-6pm	24/7 Support via web chat	24/7 support by email/phone	Email/phone M-F 9-5pm
Handle multiple currencies?	With premium package £27.50	✓	With Essentials package £15	With Business package £10	Only with Sage One Accounting £10	✓
How secure?	Specify same data encryption as online banking and hosted by Amazon web services	256 bit data encryption on their own data servers	256 bit data encryption on their own data servers	Specify same data encryption as online banking and hosted by Rackspace	128 bit encryption, stored at Amazon web services	256 bit data encryption stored at The Bunker
Credit control function?	Available with Starter package at £9 but limited to 5 invoices	Available as an integration through Spendgate	✓	✓	✗	Available with add-ons at extra price
Add-ons	300+	19	120+	94	36	38
Integration with business bank account (bank feed)?	All price plans. Direct - HSBC, RBS, NatWest, Metro Bank, Santander Otherwise 3 rd party Yodlee.	Available on Together+ account £20.60 through 3 rd party Yodlee	All price plans and only specifies all major UK banks	All price plans and through 3 rd party Yodlee	All price plans and through 3 rd party Yodlee	All price plans and through 3 rd party Yodlee
Reporting	Wide range of reports and export to Excel, google & pdf	Wide range of reports	Wide range, customisable, export to excel & pdf	Good reports including audit trail	Audit trail report, export to csv & pdf	Basic report but includes excel export of all data.
Billing and Invoicing	Customise invoices, service improves with purchase of add-ons	✓	✓	✓	✓	✓
HMRC integration e.g. VAT	✓	✓	✓	✓	✓	✓
Payroll	5 Employees free for 3 months then £1/month per employee	2 employees at £5.20per month 3+ employees at £2.60 per month each	Unlimited employees £1/month per employee	Only with Business + Payroll package £15	Additional cost starting at £5 for 15 employees	✓

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