



Making Tax Digital (MTD) – Mythbusters

From 1 April 2019 most businesses above the VAT threshold are required to keep their records digitally and submit their VAT return using compatible software.

Businesses don't know MTD is happening or what to do

✘ This is not correct

Even back in December 8 in 10 of the businesses required to join were aware of MTD, and 83% of them had already started to make preparations.

We have written to every business to tell them how to prepare and where to get more information. We've also worked extensively with stakeholders and software developers to shape the design of the service.

Everyone affected needed to join the service by 1 April

✘ This is not correct

Businesses are required to join MTD and submit their VAT returns using the new service for their first VAT period which begins on or after 1 April. For the majority, who file quarterly, their first MTD returns won't be due until August or later.

But remember – businesses will need to have signed up to the service, begun keeping their records digitally and set up their MTD-compliant software to send information to MTD, in good time before they file their first return under MTD.

Under MTD, businesses will have to provide more information than they already do

✘ This is not correct

No business will need to provide information to HMRC more regularly than they do now, nor send any additional information.

MTD won't reduce errors

✘ This is not correct

Keeping records on paper and submitting VAT returns to HMRC manually results in errors – in a YouGov poll 61% of businesses said they have previously lost receipts – and errors also occur in the manual transposition of data and manual calculations. MTD offers a more integrated approach to business administration and tax, reducing the time businesses spend on administration in the longer term and making it easier for them to get their tax right.

HMRC have underestimated the admin burden and costs to businesses for MTD

This is not correct

There are MTD-compatible solutions available at no or low cost for most businesses – indeed there are already 14 products that are available for free, with varying conditions of use.

Costs will differ from business to business, and are influenced by the size and complexity of the business and their degree of digital capability, as well as the type of functionality they want their software to include. Most businesses will be able to claim any costs for hardware and software against their tax.

Small businesses should be automatically exempt

This is not correct

The smallest businesses are already exempt from MTD. Only those with taxable turnover above the VAT threshold of £85,000 are required to join MTD, although the c.1m VAT registered businesses below the threshold can choose to join voluntarily. Businesses that cannot go digital will not be required to do so.

Eventually you will not be able to use spreadsheets or bridging software under MTD

This is not correct

Businesses can choose to use spreadsheets to both maintain digital records and perform tax calculations, provided the spreadsheets combine with some form of 'bridging' software that will allow their VAT return data to be sent to HMRC from the spreadsheet.

It is not true that HMRC sees the use of spreadsheets or bridging software for MTD as a temporary arrangement. There is no set end date for the use of spreadsheets or bridging software within the MTD for VAT service.

However, users will get the maximum benefits from MTD – fewer errors, increased productivity and better financial planning – by using dedicated MTD software. This provides the full end to end experience, from digital record keeping to sending the return to HMRC.

We recognise that for some businesses 'bridging' products, which work by linking and extracting data from other software products and spreadsheets to submit the returns, will be the simplest way to comply with the new requirements.

HMRC will penalise me if I get the new process wrong

This is not correct

HMRC recognises that businesses will require time to become familiar with the new requirements of MTD. During the first year of mandation HMRC will take a light touch approach and will not issue record keeping and filing penalties where businesses are doing their best to comply with the law.

If a business receives a penalty of any other type, for example for late payment or for inaccuracy, and believes the failure was due to problems arising from the transition to MTD, they have the right to appeal against the penalty and all relevant factors, including any transitional issues, will be taken into consideration. We remain committed to our light touch approach to penalties for the first year, ensuring customers are supported in their transition to MTD.