Making Tax Digital for VAT

October 2020

Making Tax Digital - Timeline

- Budget 2015 – The Chancellor announced the 'death of the tax return' and the end of "complex, costly and time consuming" tax compliance. In the same year, the government set out its long-term vision for the digitisation of the tax system – Making Tax Digital (MTD).
- April 2017 - HMRC launched a private pilot to test MTD for Income Tax.
- July 2017 - Following a wide range of consultations, a decision was made to slow the pace of the introduction for MTD but the commitment to the values that underpinned the vision remained - to make tax reporting more accurate, more reliable, and more efficient, delivering 'a modern, digital tax system for all businesses'.
- April 2018 – HMRC launched a private pilot to test MTD for VAT with a small number of business types.
- October 2018 – HMRC launched a live public pilot to test MTD for VAT.
- April 2019 – MTD for VAT goes live, all VAT-registered businesses with turnover above the £85k VAT threshold (1.2m businesses) required to sign up (short deferral for some complex customers to October 2019).
- July 2020 – Government announced that:
  - The remaining VAT-registered businesses must sign up to MTD from April 2022;
  - Unincorporated businesses and landlords with over £10k total business and property income must sign up to MTD Income Tax from April 2023;
  - A consultation on MTD for Corporation Tax will be launched from Autumn 2020.

What is Making Tax Digital for VAT?

MTD is HMRC’s flagship policy which aims to move all business tax reporting online. HMRC believes that MTD will increase revenue (eg, by preventing transposition / arithmetical errors etc – right tax at the right time) and will help businesses through productivity gains. Making Tax Digital for VAT is the start of a wider programme to digitise reporting across all taxes, but the implementation for other taxes has been delayed. For VAT, please see the requirements below:

By 2019:

- Keep records (certain transactions, VAT accounts and summary of outputs) digitally.
- Businesses must use ‘functional compatible software’ and submit VAT returns digitally using an application programming interface (“API”).

By 2020 (delayed to 2021):

- Businesses need to have a clear 'digitally linked' audit trail from the transaction records (source data) to the VAT return filing.
- This is a marked shift and will require manual transpositions to be removed from the VAT process.

Beyond 2020:

- HMRC is looking to apply a similar approach to other taxes.
- Potentially increasing the scope of the digital record requirements.
- Requiring greater disclosure of transactional level data.

Functional Compatible Software

HMRC require that businesses use ‘functional compatible software’. This is defined as a software program **or set of compatible software programs** the functions of which include:

Record and preserve electronic records in an electronic form.

1

Provide information to HMRC from the electronic records and returns in an electronic form and by using the API platform.

2

Receive information from HMRC using the API platform in relation to a person’s compliance with obligations under the new regulations which must be met by use of the software.

3

Examples of where digital records can sit

Accounting information system

Compliance system

Standalone tool e.g. MS Excel

Combination

(Consider digital journey and digital links)

HMRC API

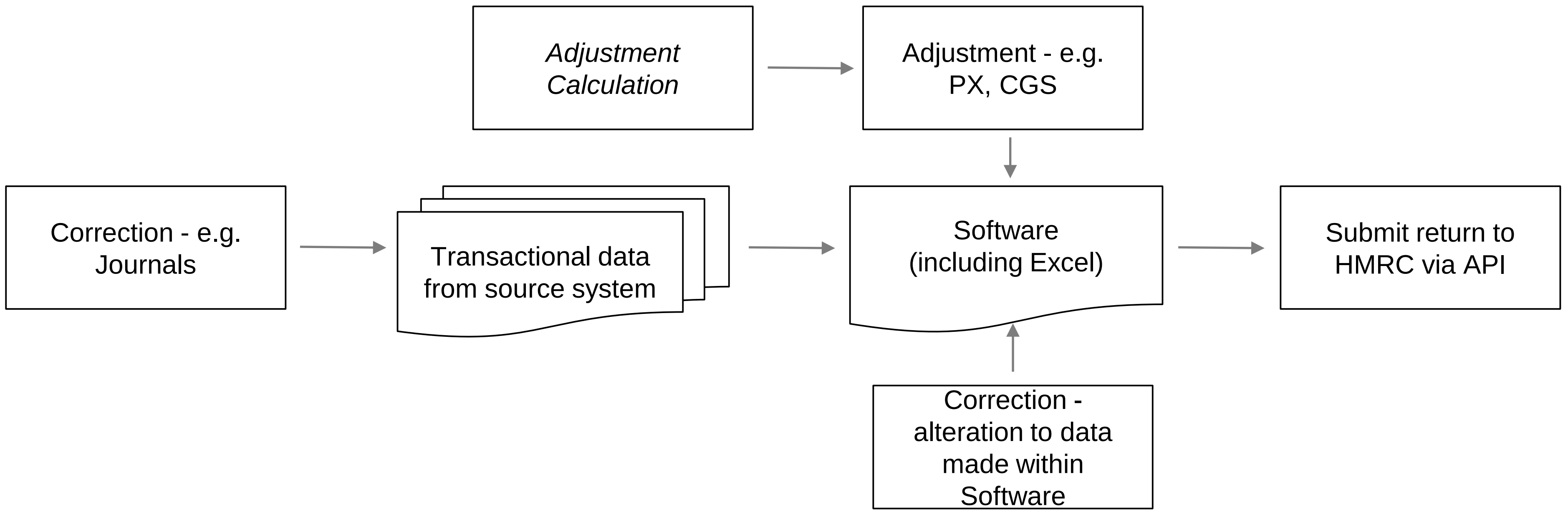
Digital linkage

If a business uses more than one piece of software to make and keep its digital accounts, those programmes must be 'digitally linked'.

For example, a company might use one piece of software to create their records, then they might use spreadsheets to perform special accounting measures, and yet another piece of software to send their returns electronically to HMRC.

The point of linking these programmes is to prevent human error during the transfer of VAT data. There are a number of adjustments (eg, partial exemption calculations) that can be executed outside the digital links environment. Difficult to get rid of tax return completely?

Practical guidance - electronic records



An electronic record may be stored at source or in an upstream system, providing it is complete and digitally linked.

Information Required - Inputs: Date, Net and Recoverable VAT, Outputs: Date, Net and Rate of VAT & Summary Data.

Corrections (typically for errors) - made to a transactional record

Adjustment Calculations (typically defined as an adjustment required or allowed by the VAT rules) are outside of MTD.

What are we seeing?

- Over 1.4 million taxpayers signed up (including over 30% of the non-mandated VAT population)
- Over 6 million VAT returns submitted using software
- Over £11bn received through new IT system & £5bn in repayments
- Over 34,000 Agent Services Accounts created
- ~500 software vendors with MTD compatible products

What are we seeing?

- Businesses with a mixture of filing deadlines - phased approach to implementation
- Good awareness on API filing – e.g. via bridging software (not provided by HMRC). Use of Excel spreadsheets still possible, but not necessarily engaging maximum benefit of MTD.
- Less comfortable with Digital Records (2019) and Digital Linking (2021).
- HMRC officers should have some flexibility to agree the digital link position with businesses – any issues should be raised at the earliest opportunity.
- No specific MTD penalties legislated for to date. HMRC would not look to penalise where a business is trying to comply.
- Current HMRC priorities are to get rest of the VAT population into the system, and then move onto other taxes. No plan yet to require the provision of supplementary data.

European Compliance Landscape

- Increasing real time reporting requirements globally
- Non-uniform approach from member States within the EU

Adoption timeline in Europe

Bulgaria
1 Jan 2007
Submission of monthly VAT purchases and sales ledger. Requirement to submit this data electronically from 1 Jan 2018.

Slovenia
1 Jan 2008
SAF-T
On request from local tax authorities.

Germany
31 Dec 2013
E-Bilanz – taxpayers must file their accounts in a format set by the German tax authorities.

Slovak Rep.
1 Jan 2014
Control Statement – item by item reporting of selected transactions. The Local Listing must be filed electronically using an.xml format published by the Slovak Financial Directorate.

Turkey
1 Jan 2015
SAF-T (OECD)
E-archiving and e-delivery note requirements.

Latvia
1 Jan 2016
VAT return Electronic Declaration System -Invoice matching.

Belarus
1 Jul 2016
E-Invoices submitted to the tax authorities. Invoice matching.

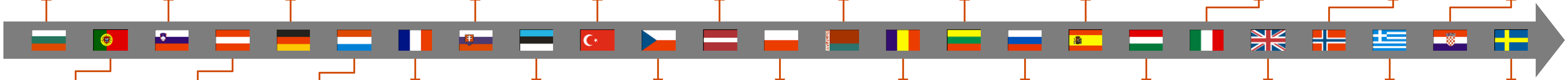
Lithuania
1 Oct 2016
SAF-T (OECD).

Spain
1 Jul 2017
Spanish Immediate Supply of information ('SII') Information must be transmitted electronically to the Spanish Tax Authorities within 4 days.

Italy
1 Jan 2019
Mandatory real time reporting for invoices received and issued.

Norway
1 Jan 2020
SAF-T (OECD).

Croatia
Electronic VAT reporting similar to SAF-T.



Portugal
1 Jan 2008
SAF-T (OECD) monthly submissions or only upon request of tax authorities.

Austria
1 Apr 2009
SAF-T (OECD).

Luxembourg
1 Jan 2011
SAF-T (OECD).

France
1 Jan 2014
Fichier des Ecritures Comptables ('FEC') – Compulsory electronic submission of the accounting entry journal.

Estonia
1 Nov 2014
All VAT registered taxpayers are obliged to submit VAT listings together with the VAT return.

Czech Republic
1 Jan 2016
Monthly SAF-T reporting.

Poland
1 Jul 2016
SAF-T (OECD) called JPK in Poland.

Romania
1 Oct 2016
Taxpayers registered for VAT purposes in Romania have to submit the 394 VAT Statement.

Russia
the electronic submission of invoices in real time to enable the customer to claim input tax.

Hungary
1 Jul 2018
Taxpayers required to immediately report invoices of above HUF 100,000 VAT to the Hungarian tax authorities.

UK
1 Apr 2019
Making Tax Digital – records must be kept digitally and provide data through MTD compatible software.

Greece
1 Jan 2014
List of transactions with customers and vendors – invoice matching – 1 Jan 2020 introduce mandatory e-invoicing and e-bookkeeping.

Sweden
1 Apr 2019
E-invoicing to be made mandatory with regards to B2G.

Major requirements within Europe

The United Kingdom – Making tax digital

Making Tax Digital for Business (MTDfB) is the government's policy to move all business-related tax reporting online. The stated objective of MTDfB is to make tax reporting more accurate, more reliable, and more efficient: the government wants to deliver 'a modern, digital tax system for all businesses'.

Italy – SDI

As of 1 January 2019, electronic invoicing in the format of XML (as implemented by the Italian decree) is mandatory through an SDI interchange system as developed by the Italian tax authorities.

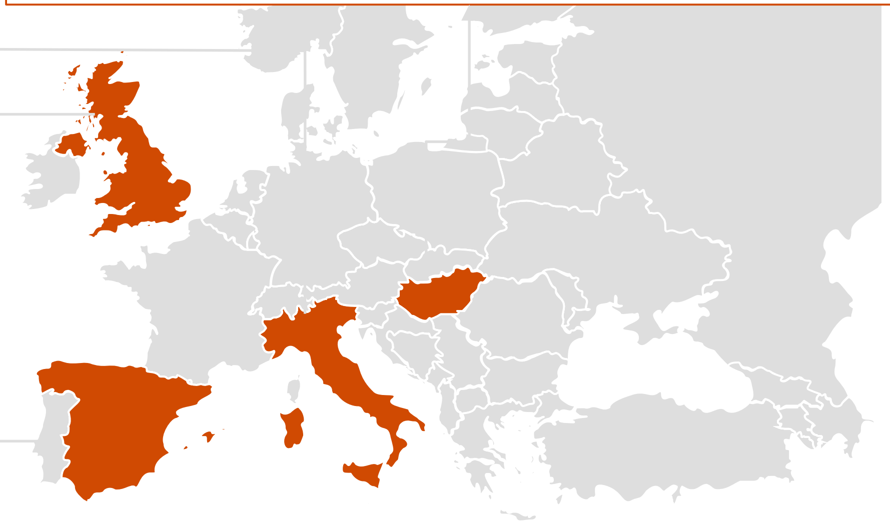
Hungary – Real time reporting

As of the 1 July 2018, invoices that are issued with an invoicing software and have a VAT content of at least 100,000 HUF (c. £285). This data reporting obligation will require taxpayers to immediately report the data content of invoices issued electronically to the Hungarian tax authorities.

This report is required to be in.xml format through an interface built into their ERP. This interface data must be registered by the Hungarian Tax authority.

Spain – Spanish immediate supply of information

From 1 July 2017, the information related to all invoices issued, received, customs documents and accounting documents, must be transmitted electronically to the Spanish Tax Authorities within 4 working days.



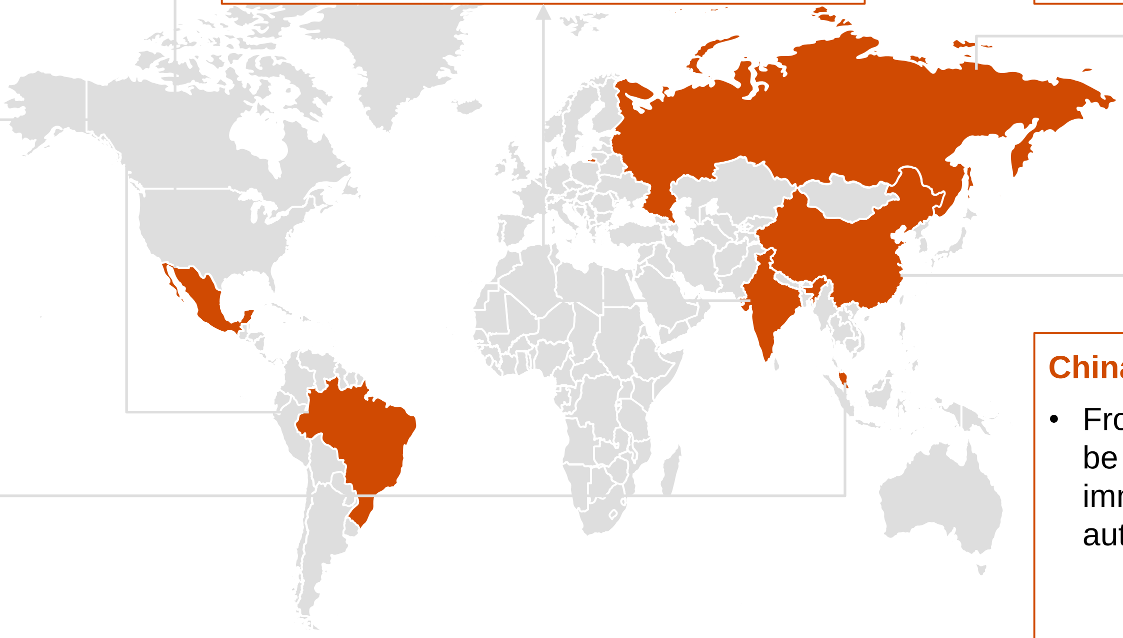
Rest of world

Mexico
- Standard electronic accounting
- Electronic invoices sent to tax authority
- E-reviews

Brazil
- Automated data reporting program (SPED). Sales invoices must be sent to tax authority before issue to customer
- Data analytics capabilities (DICE and Qlick tools)

Singapore
- Digital service strategy
- Mobile apps in TA
- Changing communication patterns
- Big data analytics
- No filing service

India – Purchase and sales
- Purchase and sales data is required to be submitted periodically along with submitted tax returns
- Certain states require sales invoices to be uploaded to the official tax authority portal



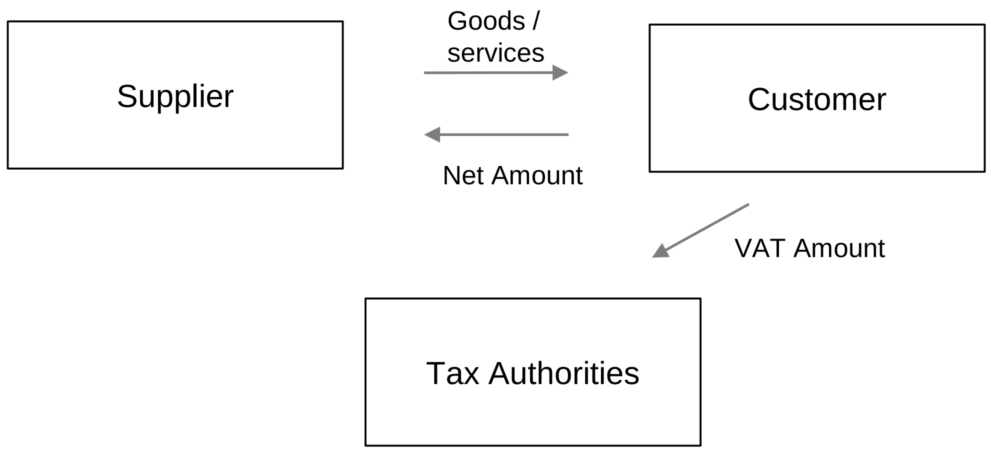
Russia
- Building data centre for all TA business
- Big data technologies to monitor VAT compliance

China – The Golden Tax III Project
- From 2015, all sales invoices must be issued online and uploaded immediately onto the tax authority database

Thoughts from a business perspective

- MTD represents evolution rather than revolution. It is not as radical as the approach taken by many tax administrations. The legislation provides for additional reporting of supplementary data – building for a digital future via a phased approach.
- Primary aim – to transition smaller businesses into a digital accounting and reporting environment which is as close to real time as possible.
- To date MTD has been relatively inexpensive for HMRC and for business to use 3rd party software.
- For larger businesses, MTD has provided leverage for tax teams to secure business investment in more sophisticated tax technology as part of a longer term strategy based on automation – eg:
  - Bridging software as a short term solution
  - Move away from complex Excel workbooks and spreadsheets to implementing more comprehensive automation
  - Documented data journey for MTD compliance throughout
- UK government looking to other measures to drive (anti-fraud) control into the VAT system – eg, split payment. Other European countries are looking into blockchain solutions.

Split Payment



1. Supplier provides goods/services to Customer
2. Customer pays net amount to supplier and VAT amount to supplier’s ring-fenced bank account or directly to Tax Authorities
3. Supplier cannot access funds in ring-fenced bank account other than to pay Tax Authorities