



Making Tax Digital for VAT: Getting Ready For The First Submissions

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Introduction

Getting Ready For The First Submissions

[Making Tax Digital \(MTD\) is here.](#) And the first quarterly VAT submissions are due on 7 August 2019. But unless you already have some monthly MTD for VAT submissions under your belt, you'll still have a lot to do before that final August deadline rolls around.

So, are you and your firm ready to meet the deadline, perform your digital duties as a tax agent for your business clients and start MTD without any hitches?

And are you ready for the long-term MTD pathway to 2020, when HMRC's aim is to move both corporation tax and income tax over to digital?

is that time is running out – and this is where our MTD emergency kit comes to your aid.

What's on the MTD to-do list?

If you're acting as a tax agent for your business clients, you'll have a checklist of duties that need to be performed before you can submit your first VAT return under MTD.

The most obvious of these duties is communicating the MTD requirements to clients. But, beyond this, agents have to make friends with their agent services account (ASA). And, as we'll see in this guide, setting up your ASA is just the start of the process.

As a tax agent, your firm must:



1. Communicate MTD requirements to your clients



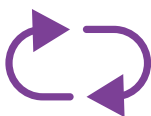
2. Claim exemption for any clients who meet the criteria



3. Get new engagement letters in place for MTD clients



4. Decide which MTD software to use – this may require more than one package



5. Link with your 'agent services account'



6. Work out your MTD costs and budget



7. Start the MTD journey for clients

All these tasks must be completed before your client presses submit on 7 August. And getting these foundations in place will be vital to the next steps in supporting the expansion of MTD to all business taxes... and you thought you were ready, right?

Don't worry. We'll walk you through each of these tasks, with the practical steps needed to help you be prepared for MTD for VAT and beyond.

1. Communicate MTD requirements to your clients

40% of VAT-registered business were not aware of Making Tax Digital (MTD) and the need to be MTD compliant by April 2019, according to research carried out in Autumn 2018 by the ICAEW.

When 2 in 5 affected businesses are not even aware of MTD, that's a worryingly high proportion of the UK business community, making it clear that there's plenty of work required to get your business clients up to speed with MTD.

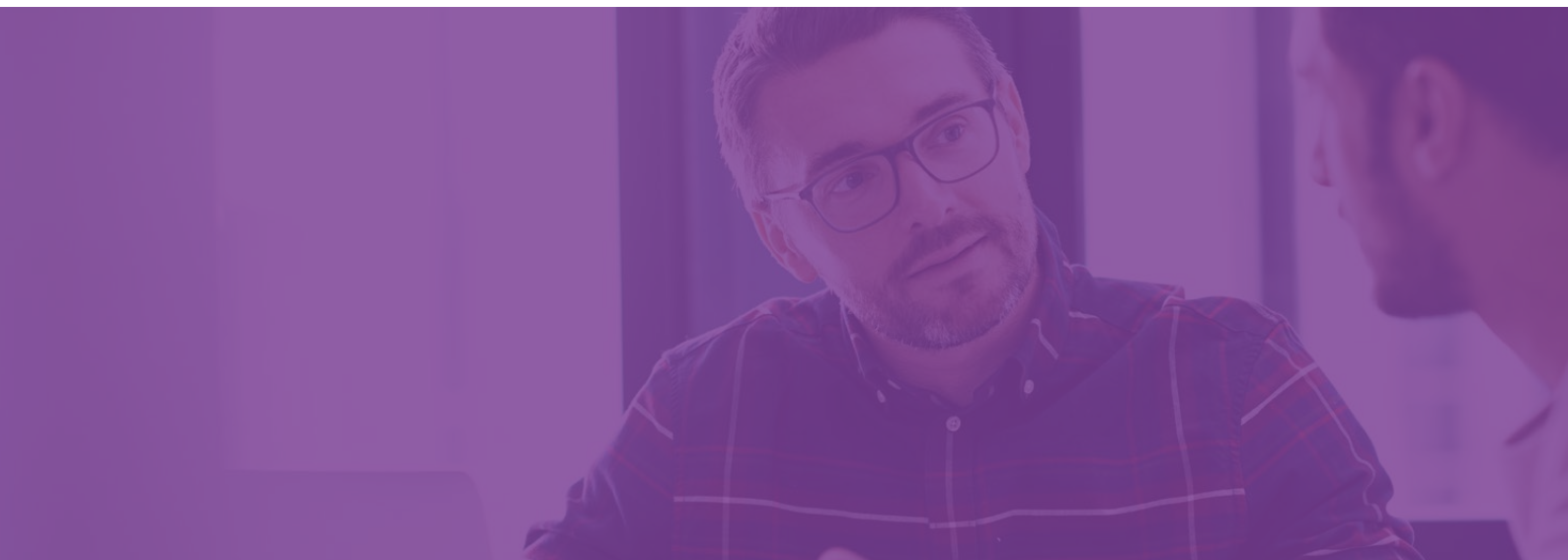
So one of your biggest initial MTD tasks will be working on communications that set out the concepts behind MTD, why it's needed and the impact on your client's business.

Action Points:

You'll need to draft email and online communications to clients, informing them:

- ✓ What MTD is and the aims of the initiative – explaining how HMRC's MTD initiative is part of a wider move to digital, and how (eventually) all their business accounting, tax and compliance will take place in the digital space.
- ✓ How it benefits their accounting and tax – by migrating their financial management over to a cloud-based accounting platform, with all the benefits this brings around cloud storage of documents, real-time data and digital submissions of tax information.
- ✓ That it's a mandatory requirement – with penalties for non-compliance if the MTD deadlines and requirements are not met (unless clients meet the criteria for exemption)
- ✓ How you'll implement their MTD-compliant system – with a clear overview of how you'll set up their digital accounting software, finances, tax and VAT to be compliant.
- ✓ What the timescales are – with a precise overview of the April 2019 deadline for registration, when you plan to migrate them to new accounting software and the 7 August deadline for their first digital VAT submissions.

There's also value in providing links to other helpful MTD content – for example, writing blogs, linking to useful guides for businesses and any articles that reinforce the key digital messages.



2. Claim exemption for any clients who meet the criteria

Not all VAT-registered will be required to sign up for MTD – there are some exemptions in place, which you'll need to understand and work into your review and planning schedule.

Reasons for exemption

It's vital to review your existing client base as a matter of urgency, so you can highlight any clients who may be able to claim this exemption and can start the process of applying.

To be exempt, HMRC must be satisfied that:

- It's not reasonably practicable for your client to 'use digital tools to keep their business records or submit VAT Returns'. This can be due to age, disability, the remoteness of their location or any other reasonable criteria for a lack of digital capability.
- Your client is currently subject to an insolvency procedure.
- Your client's business is 'run entirely by practising members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records'.
- Your client is an unincorporated businesses earning under £10k p/a (this clause is still to be confirmed by HMRC).

Clients will also be exempt if they already meet the criteria for exemption from filing VAT returns online, or their taxable turnover falls below the current £85k threshold for VAT registration.

Full details regarding exemption are available in [Section 3.2 of VAT Notice 700/22: Making Tax Digital for VAT](#).

Deferring MTD for 'complex businesses'

Some complex businesses and organisations can defer beginning the MTD process until October 2019, to give organisations and their advisers more time to get digital-ready.

Deferred businesses include trusts, some not-for-profit organisations, public sector organisations and local authorities – and these organisations should already have been sent a deferment letter from HMRC. [More details can be found here](#).

Action points:

- ☑ Check which clients are exempt – so you've identified any clients who meet the exemption criteria due to age, religion, location or size of turnover.
- ☑ Check if any clients may defer – by contacting affected clients who meet the deferment criteria and checking if they have received the relevant letter.
- ☑ Liaise with HMRC – so the firm has begun applying for any exemptions and deferments and has all the relevant information and details that HMRC will require.

3. Get new engagement letters in place for MTD clients

Providing MTD-related services to clients who are VAT registered means changing the nature of the services your firm provides, and therefore the terms of your engagement.

To rectify this, you'll need to review and update your standard engagement letter for VAT-registered clients, so your schedule of services covers all elements of implementing and running an MTD-compliant service as your client's accountant and tax agent.

A few key elements to review include:

- Updates to your schedule of services – so you give a clear overview of the supplied digital services, the software used and what you'll be providing as their tax agent.
- Stating who's keeping the digital records – so there's agreement on whether the client or your firm (as the tax agent) is responsible for updating and keeping accounting and tax records.
- Agreement on who is checking and submitting the VAT returns – so each part of the quarterly VAT submission process is detailed and agreed on.

This is not an exhaustive list and your institute or professional body is likely to have updated MTD-ready engagement letter templates and guidance that you can access as a member.

Restating your terms of engagement is also a good opportunity to have conversations with clients around their services, package and what you can upsell to them – so don't see this just as an admin exercise.

Action points

- ☑ Action the changes to your engagement letters – so you have an MTD-ready engagement letter template ready to use with MTD for VAT clients.
- ☑ Send out new engagement letters – so all affected MTD clients have the correct terms of engagement in place as soon as possible.
- ☑ Factor in the additional workload – setting aside time in your firm resourcing for dealing with the additional admin and compliance workload.



4. Decide which MTD software to use

Having the relevant software in place is critical to being MTD-ready. Without the right digital accounting platform, you won't have the capabilities needed to keep digital records, create tax returns and submit them digitally via HMRC's API (application program interface) platform.

So a key task is sourcing an accounting and tax platform with the capabilities for MTD.

Your accounting software must be able to:

- **Work in the digital domain**
Providing an impetus to switch from ancient desktop software to one of the many available cloud-based accounting platforms.
- **Capture and store digital records**
So you can store financial data, scanned documents, accounts and tax information and submit them digitally to HMRC.
- **Have the relevant tax templates**
Allowing you to quickly complete a digital VAT submission (and, at a later stage, corporation tax and income tax returns as well, once the detail is confirmed and mandated by HMRC).
- **Connect via an MTD-compliant integration**
Giving you full integration and connection with HMRC's API platform to transfer digital returns and financial information.

- **Be simple and easy to use**

So clients can get to grips with the interface and your staff can quickly pick up using the platform as their key accounting solution.

- **Make collaboration easy**

So you, your staff and your business clients can all access the key numbers, accounts and tax information in the cloud.

There's a wide choice of suitable accounting software, so it's worth weighing up features, ease of use and (crucially) price before making your selection.

Action points:

- ☑ Review the accounting software market – so you're aware of the various accounting platforms and the pros and cons for your practice.
- ☑ Choose your ideal platform/s – decide which accounting platform (or platforms) you'll opt for and begin the process of signing up and learning the product.
- ☑ Implement your platform solution – by integrating your new software choices into your existing practice systems, processes and internal procedures.
- ☑ Train up staff and clients – so everyone involved in the accounting and tax process is comfortable with the software and you can get up and running.

5. Link with your 'agent services account'

In order to act as an agent for clients when it comes to MTD services, your firm will need to have an [agent services account \(ASA\)](#) set up to manage your digital tax submissions.

The firm will only have one ASA, with all digital client submissions dealt with through this one centralised HMRC account, alongside your existing online tax account. As such, it's vital that you, your clients and your choice of accounting software are set up correctly well before it's time for their first submissions.

Action points:

- ✓ Set up your agent services account – this means creating a new Government Gateway ID and password, then entering your Unique Tax Reference (UTR) and corporation tax reference to set up your firm's ASA.
- ✓ Authorise your clients through the new ASA – once your account is created, your firm will be given a unique agent account number. Re-enter this to link your new ID with any existing VAT and Income Tax client relationships.
- ✓ Sign clients up for MTD – after you've linked you clients to your ASA, you'll need to also sign them up directly to the Making Tax Digital scheme. This two-step process is required for each client where MTD services will be delivered.
- ✓ Authorise your accounting software – finally, in order to be able to submit clients VAT submissions via MTD, you'll need to link your accounting platform (or platforms) to HMRC's servers via their proprietary application programming interfaces (APIs).

6. Work out your MTD costs and budget

HMRC has estimated the cost of MTD to small and medium-sized enterprises (SMEs) at £70 per year – but there's speculation in many quarters that this is a wildly optimistic figure.

80% of accountants estimated the cost of MTD be more than £200 for each SME, in a recent survey by Thomson Reuters. And many of the professional accounting bodies have estimated total costs – including software, implementation and training expenses – as running into the thousands of pounds, rather than the hundreds.

So it's important to review your own MTD costs and draw up a realistic budget – so you know precisely what to charge clients without leaving the firm out of pocket.

Action points:

- ✓ Work out a 'total MTD cost per client' – factoring in the cost of MTD-compliant software and the time and cost of software implementation, staff training, client education and training – plus any other sundry expenses you'll incur.
- ✓ Consider ways to reduce cost – for example, by choosing the most cost-effective and easy-to-use software and reducing both your subscription costs and the time taken to train up clients and staff.
- ✓ Factor your cost into your MTD package price – make sure the fee you're charging for providing digital tax services has a respectable margin once your total MTD cost per client is included.

7. Start the MTD journey for clients

Getting your clients past the post for MTD for VAT requires a keen eye on the details and an ability to plan out how you and your clients will meet this digital challenge.

It's also important to remember that MTD for VAT is only the first step along the MTD journey, with HMRC aiming to move both corporation tax and income tax over to the digital domain. However, the Government did announce in July 2017 that the pace of MTD would be slowed and that MTD won't be mandated for taxes other than VAT until at least April 2020.

So, at present, the details, timelines and structure for moving corporation tax (for limited companies) and income tax (for self-assessment) over to digital are unclear. But the agenda of moving all taxation over to digital is in place, and that means you will need to be prepped, ready and with the right software in place for further steps in the MTD journey.

Making Tax Digital – Key Dates 2019-2020



April 2019

Making Tax Digital for VAT begins the start of 2019

August 2019

First digital VAT submissions due for MTD for VAT clients

October 2019

Deferred businesses begin Making Tax Digital for VAT

April 2020 (TBC with HMRC)

Corporation tax and income tax move to digital tax returns

In a landscape where all clients, from freelancers up to large SMEs, will soon mandatorily have to be set up for digital – across all business and personal taxes – it's critical to get your first foundational MTD steps in place and bedded in as soon as possible.

Action points:

- ☒ Communicate the practical steps of MTD to your VAT-registered clients
- ☒ Link the firm and your clients up with your agent services account (ASA)
- ☒ Implement your choice of MTD-compliant accounting platform
- ☒ Train your staff in MTD and using your new software platform
- ☒ Get clients set up on all systems so you're ready for the August deadline.

Planning ahead and getting organised NOW is absolutely essential if your firm isn't already meeting these key action points.

Capture, Connect and Collaborate:

Get MTD-ready with Capium

By making Capium the centre of your accounting firm, you set the foundations for your digital future and access the tools you and your clients need to become MTD-ready. Our mantra is that Capium provides the three core elements your firm requires to meet the MTD challenge: allowing you to Capture, Connect and Collaborate.

With Capium as your MTD software, you can:

- **Capture clients records and bookkeeping data** – with OCR data-capture functionality from our mobile app, so clients can upload their receipts, and centralised cloud storage of all bookkeeping data, VAT records and core financials
- **Connect with HMRC** – with an accounting platform that's recognised as MTD-compliant by Companies House and HMRC, and iXBRL tagging to ensure accuracy and compliance when making digital submissions via HMRC's API platform.
- **Collaborate with clients** – with clients' accounts, tax information and reporting all accessible to both your team and your clients 24/7, from any location, making it easy to collaborate, ask and resolve queries and interact more closely with clients.

By providing a single platform with a choice of the latest cloud technologies, we help you to streamline your firm, switch to digital and meet the challenges of making your clients, systems and internal process compliant with Making Tax Digital.

[Find out more about MTD and how Capium is your ideal digital accounting platform.](#)

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At last. An accounting software designed to simplify the accountant's life by providing a cloud-based integrated accountancy suite. Our 6 core modules work together to ensure accountants and their clients can capture, connect and collaborate.

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