



Making Tax Digital for VAT (MTD) – Digital record keeping

1 Digital record-keeping

All VAT registered businesses must keep and preserve certain records and accounts. Under Making Tax Digital, some of these records must be kept digitally within functional compatible software.

1.1 Example 1

A business receives an invoice and types selected data contained in the invoice into functional compatible software. They must still keep the invoice in its original form as the data in the functional compatible software is not a copy of the invoice.

1.2 Example 2

A business has functional compatible software that scans the invoices received and puts the information in its ledger. If the image is retained and contains all the detail required for VAT purposes then the business does not need to keep the original invoice unless it is required for another purpose.

If you deregister from VAT you will no longer need to keep digital records in functional compatible software, but you must retain your VAT records for the required period.

2 Functional compatible software

Functional compatible software is a software program, or set of software programs, products or applications, that must be able to:

- record and preserve digital records
- provide to HMRC information and returns from data held in those digital records by using the API platform
- receive information from HMRC via the API platform

Some software programs will not be able to perform all of these functions by themselves. For example, a spreadsheet or other software product that is capable of recording and preserving digital records may not be able to perform the other 2 functions listed above, but can still be a component of functional compatible software if it is used in conjunction with one or more programs that do perform those functions.

The complete set of digital records to meet Making Tax Digital requirements does not all have to be held in one place or in one program. Digital records can be kept in a range of compatible digital formats. Taken together, these form the digital records for the VAT registered entity.

Is your current software compatible? Do you need bridging software (below) to link your software/spreadsheet?

3 Digital links

Data transfer or exchange within and between software programs, applications or products that make up functional compatible software must be digital where the information continues to form part of the digital records.

Once data has been entered into software used to keep and maintain digital records, any further transfer, recapture or modification of that data must be done using digital links. Each piece of software must be digitally linked to other pieces of software to create the digital journey.

It follows that transferring data manually within or between different parts of a set of software programs, products or applications that make up functional compatible software is not acceptable under Making Tax Digital. For example, noting down details from an invoice in one

ledger and then using that handwritten information to manually update another part of the business functional compatible software system.

A 'digital link' is one where a transfer or exchange of data is made, or can be made, electronically between software programs, products or applications. That is without the involvement or need for manual intervention such as the copying over of information by hand or the manual transposition of data between 2 or more pieces of software.

A digital link includes 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 linked.

HMRC will also accept digital links as:

- 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 (for instance, a Partial Exemption 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

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.

4 Soft landing regarding digital links requirements

HMRC will allow a period of time ('the soft landing period') for businesses to have in place digital links between all parts of their functional compatible software.

For the first year of mandation businesses will not be required to have digital links between software programs.

This means that if Making Tax Digital rules first apply to you from either a:

- VAT period starting on or after 1 April 2019, you will have until your first VAT return period starting on or after 1 April 2020 to put digital links in place
- VAT period starting on or after 1 October 2019, you will have until your first VAT return period starting on or after 1 October 2020 to put digital links in place

During the soft landing period only, where a digital link has not been established between software programs, HMRC will accept the use of cut and paste as being a digital link for these VAT periods.

5 VAT calculations made outside of software

HMRC recognises that there may be points during preparation of your VAT Return when calculations will have to be made outside of any software you use to keep the digital records, or there may be a need to enter data into your software from particular sources. For example a capital goods scheme adjustment calculation done in a separate spreadsheet may need some form of input by hand into the software that will send your VAT Return information to HMRC.

6 Submission of information to HMRC

The submission of information to HMRC must always be via an Application Programming Interface (API). While HMRC expects most businesses to use API-enabled commercial software packages both to keep digital records and file their VAT Returns, the following alternatives may be available.

6.1 Bridging software

This is a digital tool (incorporating relevant Making Tax Digital APIs) that is used to connect accounting software/spreadsheets to HMRC systems, and allows the required VAT information to be reported digitally to HMRC, and for information to be sent digitally back to the business from HMRC.

6.2 API-enabled spreadsheets

These are spreadsheets that incorporate relevant Making Tax Digital APIs. They can either:

- combine with accounting software/spreadsheets to submit the required VAT information digitally to HMRC, and allow information to be sent back to the business digitally from HMRC
- be used to keep digital records and then directly submit the required VAT information digitally to HMRC

7 Records that must be kept digitally

The records listed in the following paragraphs must be kept, maintained and preserved in digital form.

7.1 Designatory data

You must have a digital record of:

- your business name
- the address of your principal place of business
- your VAT registration number
- any VAT accounting schemes that you use

This will be entered as your business details in accounting software (eg SAGE/Xero/Quick Books) or on a separate tab or on your return summary data (see below) in excel

7.2 Supplies made

- For each supply you make you must record the:
 - time of supply (tax point)
 - value of the supply (net value excluding VAT at each VAT rate)
 - rate of VAT charged (VAT at each VAT rate)

	Date	Invoice number	Details	Gross	VAT (20%)	VAT (5%)	Net (20%)	Net (5%)	Net (0%)	Net (Exempt)	Net (Outside scope)	Sales	Interest	Transfers
1														
2														
3														
4														
5														
6														
7														
8														

The time of supply is the date that you must declare output tax on. Typically this is when you send a VAT invoice or, if you are on cash accounting, when you receive payment for the supply. Where more than one supply is recorded on an invoice and those supplies are within the same VAT period and are charged at the same rate of VAT you can record these as a single entry.

7.3 Supplies received

For each supply you receive you must record the:

- time of supply (tax point)
- value of the supply
- amount of input tax that you will claim

This only includes supplies recorded as part of your VAT Return, supplies that do not go on the VAT Return do not need to be recorded in functional compatible software. For example, wages paid to an employee would not be covered by these rules.

There is no requirement under the regulations to record inputs for the period split by VAT rate.

The time of supply is typically the date on the VAT invoice or, if you are on cash accounting, when you pay for the supply. However you must also hold the associated evidence to claim deduction of input tax.

If more than one supply is on an invoice you can record the totals from the invoice.

Where the amount of input tax that you will claim is not known at the time you record the supply you have received, you can record:

- the total amount of VAT and adjust for any irrecoverable VAT once calculated
- no VAT and adjust for any recoverable VAT once calculated
- VAT recoverable based on an estimated percentage and adjust for any VAT once calculated

Where an invoice includes supplies with different times of supply that are within the same VAT period, you may record all supplies on the invoice as being at the same date. On cash basis, you may record supplies based on statement total and date if the statement details the input VAT. (HMRC may update this guidance to state that the statement does not have to detail the VAT)

8 Summary data

To support each VAT Return you make, your functional compatible software must contain:

- the total output tax you owe on sales
- the total tax you owe on acquisitions from other EU member states
- the total tax you are required to pay on behalf of your supplier under a reverse charge procedure

- the total input tax you are entitled to claim on business purchases
- the total input tax allowable on acquisitions from other EU member states
- the total tax that needs to be paid or you are entitled to reclaim following a correction or error adjustment

Business Name: XYZ Business
Address: 6 Salop Road, Oswestry, Shropshire, SY11 2NU
VAT scheme: Flat rate
VAT Registration No: 124546856
Start Date: 01/04/2019
End Date: 30/06/2019

BOX 1	VAT due in this period on Sales and other outputs	
BOX 2	VAT due in this period on acquisitions from other EC Member States	
BOX 3	Total VAT due (the sum of boxes 1 and 2)	£0.00
BOX 4	VAT reclaimed in this period on purchases and other inputs (including acquisitions from the EC)	
BOX 5	Net VAT to be paid to Customs or reclaimed by you (Difference between boxes 3 and 4)	£0.00
BOX 6	Total Value of sales and all other outputs excluding any VAT. Include your Box 8 figure.	
BOX 7	Total value of purchases and all other inputs excluding any VAT. Include your Box 9 figure.	
BOX 8	Total value of all supplies of goods and related costs, excluding VAT, to other EC Member States.	
BOX 9	Total Value of acquisitions of goods and related costs, excluding VAT, from other EC Member States	