

JTC NEWSLINE

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Making Tax Digital things are starting to gear up

The piece that follows has been released by HMRC. Comments from Liz Bridge are in bold italics.

Introduction

If you run a VAT-registered business with a taxable turnover above the VAT registration threshold (currently £85,000) you are required to keep digital VAT business records and send returns using Making Tax Digital (MTD) compatible software for VAT periods starting on or after 1 April 2019.

Businesses with a taxable turnover below the VAT threshold can also sign up for MTD for VAT voluntarily. This also applies to other VAT entities, such as charities, government bodies and limited companies.

If you don't have a taxable turnover above the VAT threshold i.e. you have registered for VAT voluntarily, it might be sensible to wait and continue to file as you do now.

The MTD for VAT pilot started in April 2018 and is currently in a private stage, available only to invited volunteer VAT businesses and their agents. This is so we can work with software providers, testing our systems and their products on a small scale before opening MTD to a wider audience.

At the moment we are limiting the number and types of business we invite into the pilot. We'll provide more guidance about how to sign up to MTD for VAT on **GOV.UK** later in the year, but you can email us if you are interested in becoming involved in the private VAT pilot earlier. If you have an agent, you should speak to them to find out when it may be best for you to join the pilot.

From October, ***perhaps November***, the pilot will be open to sole traders and companies (except those who are a trust or charity; part of a VAT group or VAT Division) provided they are up to date with their VAT – over 600,000 businesses in total.

Those who trade with the EU, are based overseas, submit annually, or make payments on account, will not be able to join at this point.

If you currently use accounting software and the software house you use tells you it is MTD compatible, it might be sensible to join the pilot and have a longer and 'softer' run in.

When MTD for VAT will be mandatory for your business

If you are registered for VAT and your taxable turnover is above the VAT registration threshold (currently £85,000), for accounting periods starting on or after 1 April 2019, you must keep digital business records and send your VAT returns to HMRC using MTD-compatible software. This obligation doesn't apply if you de-register from VAT or if you are exempt from MTD for VAT. ***(Yes MTD is 'sticky', once you have been caught in its web you can never return to manual accounting).***

Continued overleaf

Making Tax Digital – things are starting to gear up continued

What happens if your taxable VAT turnover is below the VAT MTD threshold

The paragraph which follows is HMRC propaganda for using online accounting software. HMRC holds the view that accounting software makes life easy. All I can say is that this is not true for everyone and that if you are managing your accounting records well now without accounting software it might be wise to hold fire.

If your business has a taxable turnover below the VAT threshold you can still sign up for MTD voluntarily. HMRC is encouraging businesses with a taxable turnover below the VAT threshold to sign up so they can also benefit from MTD.

Businesses can also sign up for MTD for Income Tax. This means, subject to your business type, you can further streamline your business processes. You can read more about MTD for Income Tax further down.

Software will help you stay on top of business record keeping, allowing you (and your agent, if you have one) to better understand how your business is performing.

What your business needs to do to be ready to sign up for MTD

You will need to keep your business records digitally from the start of your accounting period. If you already use software to keep your business records, check your software provider's plans to introduce MTD-compatible software.

If you don't currently use software, or your software won't be MTD-compatible, you'll need to consider what software is suitable for your requirements. ***(This is code for, you will have to buy, install and learn to use some.)***

We'll publish details of the VAT software available later in the year, when we open the VAT pilot to more businesses. ***Currently HMRC have an alpha list simply of the firms which have produced software which will submit returns in the correct format. They have been repeatedly told that small businesses need lists sorted by price of the software and some indication of what other functions it will do. In construction we will need software that will verify, compile and submit CIS returns and do reverse charge VAT. HMRC have promised that they will have such lists of software***

available around Christmas time.

Using spreadsheets for your business records

A spreadsheet can be used to calculate or summarise VAT transactions to arrive at the return information you need to send to HMRC.

If you use spreadsheets to keep business records, you'll need MTD-compatible software so that you can send HMRC your VAT returns and receive information back from them. Bridging software may be required to make spreadsheets MTD-compatible. You can read what we mean by 'bridging software' below. The information **must not** be physically re-typed into another software package.

Records that you need to keep digitally for MTD for VAT

MTD does not require you to keep additional records for VAT, but to record them digitally. Your digital records should include, for each supply, the time of supply (tax point), the value of the supply (net excluding VAT) and the rate of VAT charged. They should also include information about your business, including business name and principle business address, as well as your VAT registration number and details of any VAT accounting schemes you use.

Making Tax Digital things are starting to gear up *continued*

MTD-compatible software

Compatible software is a software product or set of software products that between them support the MTD obligations of keeping digital records and exchanging data digitally with HMRC through the MTD service. If more than one application is being used, data that flows between those applications must also be exchanged digitally.

Digital records can be kept in a range of compatible digital formats. They do not all have to be held in the same place or on one piece of software. For example, a spreadsheet can be a component of digital record keeping provided the product that consolidates records, or summary records from the spreadsheet, can exchange data digitally with HMRC.

HMRC will give businesses until 31 March 2020 to make sure there are digital links between software products. Before that date, cut and paste will be an acceptable way to transfer information.

The exception to this is where return information is to be transferred to a software product enabled for an Application Programming Interface (an API provides a

secure link between software and HMRC) and designed to submit the 9-box VAT return (such as bridging software).

In those circumstances the transfer of information must only be digital.

If in doubt, businesses should discuss with their agent or software provider.

Bridging software

'Bridging software' is HMRC's description of the digital tool that can take information from other applications, (for example, a spreadsheet or an in-house record keeping system), and lets the user send the required information digitally to HMRC in the correct format.

Finding out what software is available for MTD

We will publish details of the VAT products that will be available later this year, when we make the private pilot a public one. You can already see which software companies are working with HMRC to produce compatible VAT software on **GOV.UK**.

Remember that HMRC have promised lists by trade specialism and price at or around Christmas.

Class 1A on private fuel - making good made too late - learn from someone else's mistake

In *Excel Computer Systems PLC v HMRC*

[2018] TC06561 the First Tier Tribunal upheld NIC decisions for class 1A despite employees making good the private fuel provided; payment was not made within the tax year and no concession applied as the company's fuel card policy did not meet the necessary conditions.

An employee is taxed on the cash equivalent of fuel benefit if an employer makes any type of fuel available for private use.

- The benefit can be reduced if the employee 'makes good' the cost of private use fuel.
- From 2017/18 the deadline for this is 6 July following the end of the tax year; for prior periods s151 ITEPA 2003 required that making good took place in the tax year in question.
- The Limitation Act 1980 applies to NIC and places a limit of 6 years for HMRC to take action to recover unpaid NIC. ■

**If you have a query on any item in newsline contact
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Have you registered for self-assessment?

Do you know anyone who should register? The registration deadline is 5 October following the end of the tax year, meaning that anyone who needs to register for 2017/18 has a few days left to register.

There is an obligation to notify HMRC of chargeability to income tax and capital gains tax within 6 months of the end of the tax year. You have an obligation to notify HMRC of chargeability to tax if you have, during the tax year:

- Made a capital gain.
- Earned employment income that is not taxed under PAYE.
- Received dividend income and further tax to pay on that income.
- Received any other untaxed income or are liable to tax at higher rates. This includes where you are subject to the High Income Child Benefit Charge.

If you fail to make such notification and have unpaid tax as at 31 January following the end of the tax year, penalties will be due unless you have reasonable excuse for the failure. ■

White goods VAT block was correct

In *Taylor Wimpey PLC v HMRC [2018] UKUT 55*, the Upper Tribunal (UT) concluded that the majority of the kitchen goods included in houses sold were subject to the ‘Builder’s block’ on recoverable VAT. Property developers, and house builders, large or small are not able to recover VAT on goods other than building materials, that are incorporated or installed as fittings in a dwelling which will be subject to a zero-rated first grant of a major interest. This is under the ‘Builder’s Block’.

This case involved built-in ovens, surface hobs, extractor hoods, washing machines and tumble driers, microwave ovens, dishwashers, fridges & freezers, carpets & carpeting material. **Where items on this list are installed you must block recovery of the VAT.** ■

Energy saving materials single supply cannot be split for partial reduced rate

In *A N Checker Heating & Service Engineers v HMRC [2018] UKUT 292*, the Upper Tribunal (UT) found that a single supply cannot be artificially split to allow reduced rate to apply to one component of that supply.

- A N Checker made supplies of installing boilers or central heating systems in residential accommodation.
- Part of these systems comprised energy-saving materials.
- It used a tool called ‘VAT Optimiser’ to identify energy-saving components which would qualify for reduced rating where supplied in their own right.
- A N Checker claimed that it should be able to apply reduced rating to those components despite there being a single supply of installation services.

The UT agreed with the First Tier Tribunal:

- The legislation for the reduced rating starts by referring to the ‘supply’ not components of the supply. This means the supply as a whole is to be considered.
- Here, it is a single supply of the installation of the boilers or central heating systems. That, in entirety, must meet the rules for reduced rating to apply.
- There is no apportionment provision in relation to these supplies, whereas there are for other reduced rated supplies. This illustrates that it is intended to be an all or nothing.

The appeal was dismissed. The supply is a single standard rated supply. **I often get the question, “I am re-roofing a building can I zero-rate the insulation?” The answer is no! And the reasons are above.** ■