

JTC NEWSLINE

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Reverse charge VAT begins on 1 October 2019 and Making Tax Digital begins on 1 April 2019

The coming year will be a big year for all accounts departments. You must make sure your software is Making Tax Digital (MTD) compliant and you are ready to go by 1 April 2019. Then something even bigger will need your all your resources – reverse charge VAT.

The first public guidance has now been released for reverse charge VAT. You can find it at www.gov.uk/publications/vat-reverse-charge-for-building-and-construction-services-guidance-note Please download a copy and read it. It takes some time to settle into a human head.

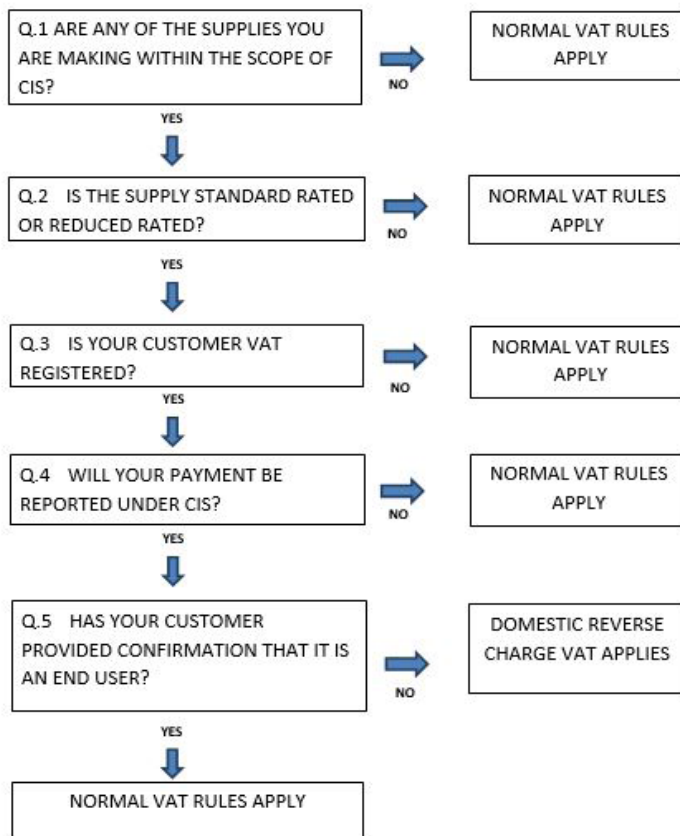
There will be lots more literature including example letters for subcontractors and example invoices as we start the move towards it – but you need to start thinking. You must not start reverse charging before the start date – just think and learn.

Reverse charge VAT will involve some decision making before an invoice is sent to a customer based on the nature of the work done and your accounts department will need to know whether the customer is VAT registered and whether the customer is CIS registered.

Have a look at this flow chart – you will be using a similar chart daily after October 2019.

Think about collecting your customers VAT registration numbers and CIS UTR now for projects that will run over into autumn 2019. There will be far more guidance and help as we get closer to the start – just think and be aware that change is happening. ■

Decision Flowchart



Making Tax Digital

This changeover is now going live and if you are VAT registered you **must** know what you are doing and be ready to join after 1 April 2019.

HMRC started posting 20,000 ‘encouragement’ letters on 7 November 2018. Even if you haven’t received one (I haven’t had mine!) you **must** learn what it is talking about and make sure that your business is ready for the change.

Two versions of the letter are being used. One version of the letter explains the changes to the way in which firms ‘keep VAT records and submit their VAT returns to HMRC’ under MTD for VAT. The other is a shorter letter and will supply businesses with advice on how to prepare for the introduction of MTD for VAT in April 2019. You should get one of these letters. ■

CIS guidance - The main guidance on the Construction Industry Tax Deduction scheme is called CIS 340 and should be printed and at hand for anyone who works the CIS scheme. It has just been updated to make clear that non-resident companies trading, dealing in or developing land in the UK must register for corporation tax to comply with the “transactions in UK land” provisions. When we move into reverse charge VAT the staff working VAT and accounts will need to be familiar with CIS 340 especially the scope of the scheme outlined in the Appendix. (I suggest it is worth a read now). ■

HMRC encouragement letter - version 1

The way you send us VAT information is changing – find out what it means for you

We are changing how businesses need to keep their VAT records and submit their VAT returns. This new service is known as Making Tax Digital. If you are a VAT registered business with annual taxable turnover above the VAT threshold (currently £85,000) you will need to use this service to report your VAT. This will be mandatory for periods starting on or after 1 April 2019, but you can make the switch now by following the guidance below.

To use this service you will need to keep digital records. This may mean using software designed for record-keeping or a combination of software packages or spreadsheets. You will then need to submit your return using software that works with Making Tax Digital.

By joining early you will know that your business is ready, but there are other benefits too. Going digital makes managing business finances easier. It can do this by making tax part of your day-to-day record-keeping in a way that will give you the confidence you’ve got things right. Once your software is set up and your VAT return is ready, it just takes the click of a button to send it to us.

What you need to do

To join the new service you can either:

- talk to your accountant about Making Tax Digital and joining, if you have one
- go to www.gov.uk and search for ‘MTD ready’ then click on the first link - this will tell you about the steps you need to take and give you the option to join

If you already use software to keep your VAT records, you need to make sure it has been updated to work with Making Tax Digital before you join.

If you need help, the link above includes short YouTube videos and help to find the best software for your needs. The pages also have links to the ways you can contact us to talk about Making Tax Digital.

HMRC encouragement letter - version 2

We are modernising the VAT system - get your business ready now

For accounting periods starting on or after 1 April 2019, VAT registered businesses with an annual taxable turnover above the VAT threshold of £85,000 must:

- keep digital records for all VAT transactions
- use software to submit VAT returns to us digitally

We call this Making Tax Digital. If your business is VAT registered and has an annual taxable turnover above the VAT threshold, you should act now to get ready for this change.

What you need to do

To get your business ready, you must:

- talk to your accountant, if you have one, about signing up to Making Tax Digital
- go to www.gov.uk, search for ‘MTD Now’ and click on the first link to sign up

either

- start using software to keep VAT records, if you don’t already
- ask your software supplier if the software you already use is ready for Making Tax Digital

Sign up now to be certain that your business meets the new requirements. Once your software is set up, you can send your VAT returns to us with just the click of a button.

Support is available on the link above. This includes short YouTube videos and help choosing the best software for your needs. The guidance pages also have links to the ways you can contact us.

WARNING

Businesses must not be signed up until they are ready to file future VAT returns using MTD functional compatible software.

Once the sign up process has been completed any VAT return filed through the government gateway or using non-MTD software will not be processed by HMRC. ■

Making Tax Digital: What equipment (hardware) and software or apps do I need?

- Your requirements depend on you, how you feel about technology and the nature of your business.
- Every business is different.
- If you use an accountant you can continue to do so.
- You can delegate all your bookkeeping and online filing to an accountant, tax adviser or bookkeeper if you feel you cannot cope with this new system.
- If you are one of the 2 million taxpayers who do not engage any professional help in reporting to HMRC you need to decide which system to use.
- Accounting using a phone is not for everyone: choose what may be best for you from the table below. ■

Equipment/system	Phone or tablet apps	Computer/tablet & Spreadsheet	Computer/tablet & accounting software
<p>About you/your business (not all will apply: chose the ones which may apply to you)</p>	<p>You own a smart phone or a tablet.</p> <p>You always have good internet access or a phone signal.</p> <p>You are happy to enter data onto your phone or tablet.</p> <p>You rarely need to issue paper invoices: your customers don't want or expect receipts.</p> <p>Your expenses are pretty simple and you don't expect to have many queries.</p> <p>You don't give customers credit.</p> <p>You do not have many transactions in a tax year.</p> <p>You mainly receive your income in cash and pay out your expenses in cash.</p> <p>You keep a separate business bank account.</p> <p>You like to do your bookkeeping every day.</p>	<p>You have access to a computer.</p> <p>You have internet access. Internet and phone signals may be restricted.</p> <p>You would rather use a big screen/don't like/don't use a phone for data entry.</p> <p>You are familiar with spreadsheets / you are not good with software/ technology.</p> <p>You need a simple system to replace your manual bookkeeping system.</p> <p>You pay for goods using cash or bank card or credit card.</p> <p>Your income comes in by cash, cheque or online banking.</p> <p>You do quotes for customers, or your customers like receiving invoices.</p> <p>You allow basic credit to customers.</p> <p>You have a business bank account or you use one bank account for business and private transactions.</p>	<p>You have a computer.</p> <p>You would rather use a big screen/don't like to use a phone for data entry.</p> <p>You are OK with software.</p> <p>You are willing to learn new systems.</p> <p>You pay for goods using cash or bank card or credit card.</p> <p>Your income comes in by cash, cheque or online.</p> <p>You do quotes for customers, or your customers like receiving invoices.</p> <p>You need credit control.</p> <p>You have a business bank account or you use one bank account for business and private transactions</p>

Continued overleaf

Making Tax Digital: What equipment (hardware) and software or apps do I need?

continued

Equipment/system	Phone or tablet apps	Computer/tablet & Spreadsheet	Computer/tablet & accounting software
Present bookkeeping method(s) may include:	<p>You keep receipts for payments, total up mileage per MOT certificate, maybe use a diary and total up everything at the end of the tax year using bank statements.</p> <p>You keep a paper cash book.</p> <p>You enter details on tax return once a year.</p>	<p>You maintain a receipt book/ keep a pile of issued invoices to record sales.</p> <p>You keep receipts in a box, and enter them in batches during or at the end of the tax year.</p> <p>You manually check over your bank statements to check you have captured all the relevant income and expenses.</p> <p>You keep a paper cash book, or use a spreadsheet to summarise your income and expenses.</p> <p>You enter details on tax return once a year.</p>	<p>You do all your bookkeeping using your software.</p> <p>You generate an invoice for your sales from your software and you like to keep receipts on paper and then enter them in batches into the software.</p> <p>You might sometimes use a spreadsheet for summaries.</p> <p>You enter details on tax return once a year.</p>
Changes with Making Tax Digital	<p>You have real time recording of income/sales.</p> <p>You record all your income and expense on your phone and store the data in the cloud.</p> <p>Your app sends your bank receipts and payments to your summary for HMRC.</p> <p>You have to check each transaction to set up the system; you will need to manually enter your cash sales and purchases.</p> <p>Your app sends your figures to HMRC every quarter; You still have to make the usual accounting adjustments at the yearend in the final yearend report.</p> <p>It is best to avoid using a personal bank account for business. This will make your bank feed more complicated.</p>	<p>You use a spreadsheet instead of a paper book to:</p> <ul style="list-style-type: none"> List your sales/invoices List and analyse your expenses <p>Your spreadsheet will now have to link to HMRC to allow quarterly reporting. Software will become available to do this as the software market grows.</p> <p>Depending on the results of its test pilots, HMRC may allow you to manually enter your quarterly figures.</p> <p>You still have to make the usual accounting adjustments at the year end.</p>	<p>Your software will need to be updated to allow MTD filings.</p> <p>If your software does not have a bank feed then you can update to add that.</p> <p>You still have to make the usual accounting adjustments at the year end.</p> <p>It is best to avoid using a personal bank account for business. This will make an automatic bank feed more complicated.</p>
Verdict	Good for very small technically minded business with reliable internet who like entering data on phones/tablets daily.	Good for any size of business if you prefer a simple system where you can see all your transactions on a big screen and you don't have to do bookkeeping daily.	Good for any size of business if you prefer a system where you can see all your transactions on a big screen and you don't have to do bookkeeping daily, provided that you are happy to learn new software.

Digital exclusion opt out

You will be excluded from the electronic bookkeeping and filing elements of MTD if you are unable to handle it, due to age, disability or location, or if it is contrary to your religion. You will need to satisfy HMRC that you cannot do so before they will agree to the exemption. ■

Tax frauds

There are scammers who phone people and claim that tax is outstanding and that immediate payment is essential. They go to the lengths of copying HMRC telephone numbers.

If you ever receive a call from HMRC to say that your tax is outstanding, ring off and check your own records to see if this is likely. Then go online using your own search engine to find your HMRC account. To check whether there is money outstanding use the numbers on the HMRC site to phone for help. ■

Minimum Wage legislation

You may be surprised to learn that entitlement to the minimum wage does not depend on someone's job title, the type of work they do or how the work is described (such as 'unpaid' or 'expenses only'). What matters is whether the arrangement they have with you makes them a 'worker' for minimum wage purposes. ■

Budget Measures which were announced but have now been dropped from the Finance Bill – they may be reintroduced in a future Finance Act

Rent-a-room relief: non-exclusive residence – would have amended the definition of "rent-a-room receipts" to add a shared occupancy condition, where the individual or a member of the individual's household would have been required to use the residence as sleeping accommodation for all or part of the period of the tenancy in order to qualify.

Penalties for failure to make returns and deliberately withholding information and penalties for failure to pay tax: The proposals would have introduced a points-based system for late submission penalties, to change the approach to late payment interest for VAT, and replaced the current late payment penalties for corporation tax, income tax and VAT with a hybrid regime of penalties and penalty interest. The Government has announced that the reform of the penalties regime will be delayed and implemented in a future Finance Bill.

Repayment interest: VAT – legislation would have ensured that repayment interest worked in the same way for VAT as it currently does for income tax self-assessment, except for two areas concerning reasonable enquiry and missing returns. This had been expected to take effect on 1 April 2020. Budget 2018 has not made clear whether or how the Government intends to take this forward. ■

If you have a query on any item in newsline contact

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