

# **Making Tax Digital: Key things that your charity needs to know**

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# Charity Tax Group

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- Leading representative body for charities on tax issues
- Over 700 Charity and “Observer” members
- Co-ordinates an active Gift Aid working group
- [www.charitytaxgroup.org.uk](http://www.charitytaxgroup.org.uk) provides access to regular newsletters and consultation & case law trackers
- Register for our regular newsletter!

# Overview of today's session

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- What is Making Tax Digital (MTD)?
- Who needs to comply?
- Timeline
- Signing up to MTD
- Digital record-keeping
- Digital links requirement and permitted manual adjustments
- Resources and software options
- What should charities be doing to prepare for MTD?

# What is Making Tax Digital (MTD)?

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- New reporting requirements for VAT
- The information required (9 boxes) and deadlines for sending VAT returns and making payments are not changing **BUT**
- Businesses will have to keep digital records and send the returns to HMRC using MTD-compatible software
- HMRC believes that the move to digital integration will eliminate errors in existing paper-based processes, making the system, more effective and efficient and easier for taxpayers to get their tax right
- Plans to extend MTD to other taxes put on hold

## Who needs to comply?

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- **NO** general exemption for charities
- Mandatory for VAT registered businesses with taxable turnover above the VAT threshold (£85,000)
- Taxable turnover includes standard, reduced and zero rate supplies
- Limited exemptions in place
- Many charities will be affected and need to start planning

# Timeline

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- Most businesses have a mandated start date for MTD of 1 April 2019
- Mandated start date for certain charities delayed until 1 October 2019:
  - Applies to trusts, not for profit organisations not set up as a company and charities operating within a VAT group
  - Charities should have already been contacted by HMRC by February 2019 if their start date is being deferred
- Mandated start date is for processes to be in place – MTD reporting will apply to first VAT period beginning on or after that date
- “Soft landing” for digital links requirements (only) for 1 year after mandated start date

# Signing up for Making Tax Digital

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- HMRC will not do this for you!
- All customers sign up to the MTD VAT service via gov.uk.
- You may authorise HMRC to receive data from (and send data to) an agent on your behalf in relation to any Making Tax Digital service
- Businesses that pay by Direct Debit must sign up at least 15 working days before they need to submit to allow the payment to be taken
- Once your charity is signed up to MTD, you returns **MUST** be submitted using MTD compatible software, so do not sign up until you are ready and have the correct systems in place!

# Digital record-keeping

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- Business records must be kept digitally within functional compatible software to be compliant
- Digital records should include:
  - For each supply made: the time of supply (tax point), the value of the supply (net excluding VAT) and the rate of VAT charged
  - For each supply you receive: time of supply (tax point), value of the supply, amount of input tax that you will claim
  - Information about the business, including business name and principle business address as well as your VAT Registration Number and details of any VAT accounting schemes you use



# Digital record-keeping

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- To be MTD compliant software must be able to:
  - Record and preserve digital records
  - Provide information and returns to HMRC from data held in those digital records by using the API platform
  - Receive information from HMRC via the API platform
- The complete set of digital records to meet MTD requirements does not all have to be held in one place or in a single format
- ‘Soft approach’ to record-keeping penalties where businesses are clearly trying to get it right, but not if no steps are taken or VAT paid is incorrect

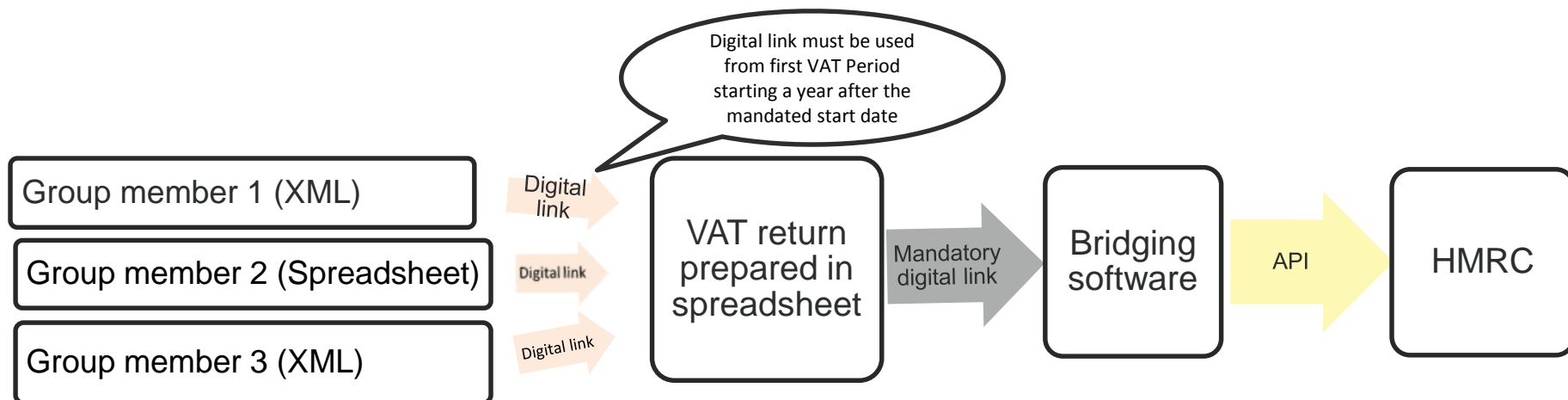
# Digital links requirements

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- Will apply at the end of the “soft landing” period (Apr 2020/Oct 2020)
- Digital link = a transfer or exchange of data electronically between software programs, products or applications
- Each piece of software must be digitally linked to other pieces of software to create the digital journey
- Manual transfers of data including ‘cut and paste’ will not be permitted except in the case of approved manual adjustments
- Special rules for charity fundraising events run by volunteers (e.g. fêtes) and processing of volunteer expenses
- Likely to be the biggest challenge for charities in the short-term

# Example

VAT groups or different parts of the same business



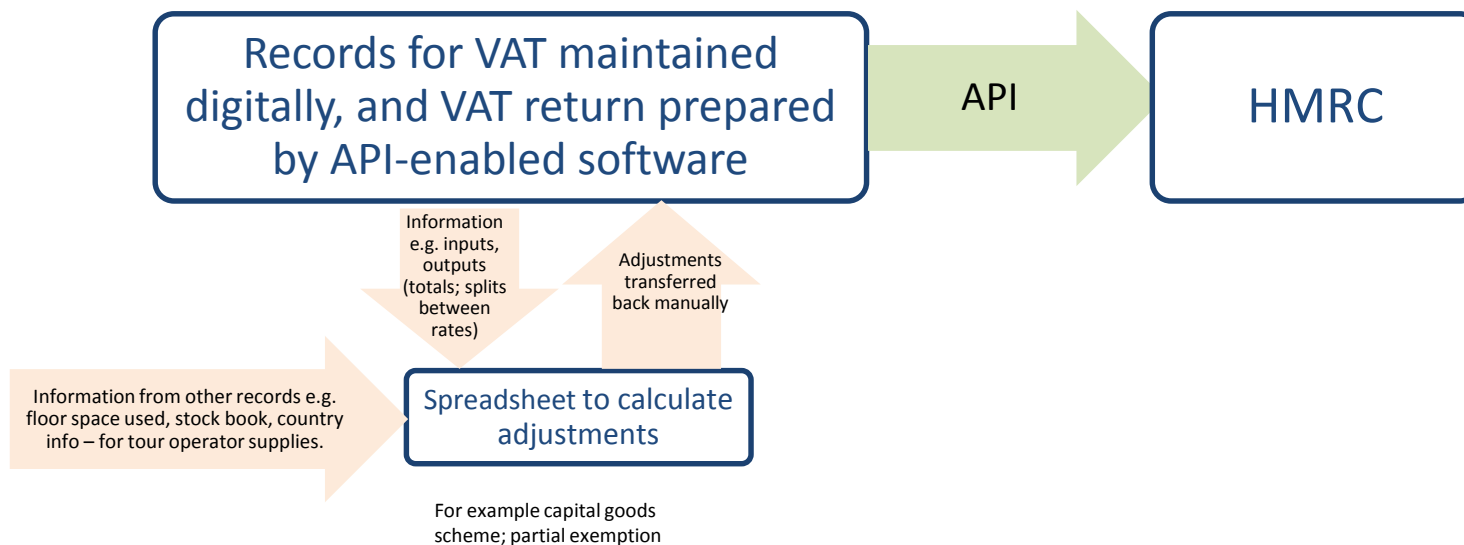
# Permitted manual adjustments

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- Charities regularly adjust the input tax claimed or output tax they owe according to the VAT rules
- Examples include partial exemption and business/non-business calculations and Capital Goods Scheme (CGS) adjustments
- Only the total for each type of adjustment will be required to be kept in functional compatible software, not details of the calculations underlying them
- If the adjustment requires a calculation, this calculation does not have to be made in functional compatible software and digital links are not required
- See <https://www.charitytaxgroup.org.uk/news-post/2018/making-tax-digital-updates-discussions-hmrc-permitted-adjustments/>

# Adjustments example

Adjustments, journeys and transfers outside of software



# Resources

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- [Guidance: VAT Notice 700/22: Making Tax Digital for VAT](#)
- [Stakeholder communications pack](#) including FAQs
- [“Mythbusters” information sheet](#)
- YouTube videos including [How to sign up to MTD](#) and [Digital record-keeping for VAT](#)
- HMRC [webinars](#)
- Extensive guidance on the [Charity Tax Group website](#)

# Software

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- HMRC is **NOT** offering its own software products
- Third-party software developers preparing API enabled software to enable businesses to keep their records digitally and integrate with HMRC systems to exchange data
- Wide range of software solutions available, including free options
- Charities encouraged to plan ahead to identify their software needs
- In some cases it will just be a case of updating existing software, but in others, new or bridging software will need to be purchased
- More sophisticated software needed once digital link requirements are mandatory

# What should charities be doing?

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- Planning ahead – do not leave everything to the last minute
- Reading the HMRC guidance and other resources available. Register for CTG's Newsletter for regular updates
- Speaking to your existing software suppliers and identify your options
- Talking to other charities about their experiences and software choices
- Consider joining the pilot or registering early if your ready
- Reviewing their current VAT procedures and practices. What parts of your current VAT return procedures that are not MTD compliant? What are the implications for group structures or branches?



## Feedback from charities

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- “MTD is challenging but not as daunting as it seems at first. The first stage requiring an API links should be relatively straightforward – the challenge will be implementing digital links”
- “We are using MTD as an opportunity to streamline and improve our VAT records and reporting and there should be long-terms benefits”
- “MTD is not just for the tax team – in fact it is more of an accountancy and financial reporting task. Speak to the rest of the finance team and other departments including IT and internal communications”
- “Share any practical concerns with CTG as they have a strong working relationship with HMRC officials and can pass these on”

# Charity Tax Group

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- For more information or to register for the CTG newsletter contact us:
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  - [info@charitytaxgroup.org.uk](mailto:info@charitytaxgroup.org.uk)
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# Q&A