**Making Tax Digital for VAT - Digital links session with HMRC (14 January and 25 February 2021)**

On 14 January 2021, the Charity Tax Group held a session with HMRC on Making Tax Digital for VAT, with a particular focus on the “digital links” requirements, which will become mandatory from April 2021.

The slides from the meeting are available [here](https://www.charitytaxgroup.org.uk/wp-content/uploads/Charity-Tax-Group-MTD-session-14-January-2021.pdf) and a recording of the session can be viewed [here](https://zoom.us/rec/play/mm1Q1Ca_R63kBvCXMB_L2KEzMGsF13k_9Z0OauH59gm81i_CH390Zd_hTypUzBV47v-CSrb7WpBBZMug.qVmCj6rGkLn-AUZp?startTime=1610640007000) (approx 1 hour). The VAT Notice (on Making Tax Digital) referred to by speakers can be accessed [here](https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat). All charities subject to MTD reporting requirements should read this guidance.

A follow-up session on Thursday 25 February 2021 (slides available [here](https://www.charitytaxgroup.org.uk/wp-content/uploads/Charity-Tax-Group-MTD-1.pdf) and a recording of the session available [here](https://zoom.us/rec/play/c-FAo55Bv1dyFX79-MKoV_HKXSbI_RaASBn8n-jMSFHyaoJ49SiM3EsTzoG43uCzBgide38EKGNpcd0i.aTU7Ps6XzrpMbIZ0?startTime=1614268967000)) provided an opportunity for charities to get their questions about digital links answered directly by HMRC. Questions were grouped into themes including:

the nature of a digital record,

* what is a permitted digital link,
* when does the digital journey start,
* what manual adjustments are permitted
* what steps do charities need to take to demonstrate compliance.

Answers to questions at the webinar have now been answered in writing by HMRC officials below. Charities are reminded to review their own individual arrangements and take advice from HMRC and professional advisers where appropriate.

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| **Question** | **Response** |
| What will HMRC expect to see during a compliance visit? (slide 10) | *HMRC will expect the tax manager/ accountant/ agent to run through the build up of the “electronic VAT account” and describe how data is passed between functional compatible software, this may include a request for a demonstration in limited circumstances.* |
| What happens if our digital links processes are not compliant? (slide 10) | *HMRC officers will routinely check customer compliance with MTD rules. Warning letters will be issued for the first instance of non-compliance with digital link requirements. If subsequent checks identify that remedial action has not been taken to comply with MTD rules, HMRC may decide to issue record-keeping penalties. If non-compliance with MTD rules results in errors on VAT returns, inaccuracy penalties may be issued that take in to account the customer’s failure to adhere to digital record keeping and/or digital link rules.*  |
| After downloading data digitally from our accounting system into Excel, it’s indistinguishable from data that’s been typed in manually. How might we be expected to prove that it’s been downloaded digitally? (slide 10) | *HMRC will expect the tax manager/accountant/agent to run through the build up of the “electronic VAT account” and describe how data is passed between functional compatible software. Where possible and only if necessary, officers may request a demonstration of download functionality to establish that a digital link is in place.* |
| There’s no penalty for the Box 6 and Box 7 figures being wrong, so is there any penalty for those figures not being derived using correct digital links? (slide 10) | *The electronic VAT account must be maintained in functional compatible software that must be digitally linked. This includes the build up of the Box 6 and Box 7 figure. While there may be no tax bearing error for incorrect values in boxes 6 and 7, the figures are used by HMRC for both risking and wider statistical/economic purposes. Failure to maintain digital links in this scenario could leave a charity exposed to record keeping penalties.* |
| It would be good to hear directly from HMRC the rationale for digital links and where it lies on the spectrum of the two extremes mentioned. (slide 11) | *Making Tax Digital Programme supports the Government’s plans to build a trusted, modern tax administration system. This will help the tax administration keep pace with rapid change in society, the economy and technology.**Making Tax Digital will also help reduce the tax gap, which currently stands at £31 billion, of which 32% is VAT related. A key component of the tax gap are errors caused due to ‘failure to take reasonable care’ resulting from transposition errors.**To help improve this situation under Making Tax Digital transferring data manually between different parts of a set of software programmes is not acceptable. This information needs to be exchanged electronically between software products without manual intervention.* |
| Can you please confirm that bridging software is an acceptable on-going solution to HMRC? (slide 12) | *We will be continuing with bridging software. This is also highlighted in the VAT Notice 700/22 section 4.2.3.* |
| “I’ve been unable to find a definitive definition of what a digital link is - can HMRC clarify this” (slide 13) | *The definition is set out under para 4.2.1 of the VAT Notice 700/22:**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.* |
| If a set of transactions are downloaded from a separate system and then uploaded into the main accounting system, does this constitute a digital link? (slide 13) | *Yes* |
| In what kind of scenarios would the digital journey begin prior to the stage of a transaction being present in the main accounting system? Or is the main accounting system always the first stage? (slide 13) | *Where a business is holding a digital record at point X in a system and only summary data is being forwarded on from that point then point X is where the electronic account data is held.* *Patrons book event tickets online & the ticketing software records the details of each transaction. Reports are generated from the ticketing software which are import into Excel itemising transactions by type and VAT treatment. In Excel formulas are used to restructure the data from one worksheet to another, then this can be imported from the second worksheet into the finance software.* |
| Where does the digital journey begin? Is the ticketing software considered part of our ‘functional compatible software’? (slide 14) | *The requirement for the digital journey beings at the excel spreadsheet because itemised details of each sale are in the excel spreadsheet. However, as the information has been exported electronically from the ticket machine the ticketing machine can be considered as part of the functional software.**If the ticket machine only sent summary level data electronically to the excel spreadsheet then the ticket machine would be the beginning of the digital journey in this scenario.* |
| If there is an error in the data exported from the ticketing software can we make a manual correction in the Excel worksheets?” (slide 14) | *Yes* |
| Our EPOS system produces daily gross takings & VAT on the end of day printouts. These are typed into a spreadsheet for each trading day. Currently I post these as one total monthly deposit into Quickbooks, giving the correct VAT and accounting entries. For MTD would this pass the "digital" test?!” (slide 15) | *Yes* |
| Calculate and manually adjust out total outputs that are “outside the scope” when I do the quarterly VAT return (leaving SR and ZR outputs in the Return figures). I can prove these numbers using different reports from our EPOS. (slide 15) | *Yes* |
| What manual adjustments are permitted? (slide 16) | *All adjustments are allowed/required by VAT legislation i.e. partial exemptions, retail schemes, capital good schemes.*  |
| Are partial exemption adjustments allowed? (slide 16) | *Yes* |
| Reverse charge question (slide 17 – 19) | *In para 4.4 of the VAT Notice (Adjustments) Example 2 covers changes to records after a period has been closed on the system. This example clearly provides a relaxation permitting changes to be entered as an adjustment.**In the quoted example the way information is being entered in to the functional compatible software is correct. Adjusting a record in this manner does not create an error. We want to make clear that these will only be an error if the VAT Return was complete without making these required adjustments. Please note such adjustments must be recorded in the functional compatible software to complete the digital records.* |
| It would be so useful to clarify the principle of a permitted level of "manual" input when bringing data across from the source system, in our case EPOS. (slide 20) | *MTD legislation requires data for the electronic VAT account (set out under para 4.3) to be stored in functional compatible software. A software programme is part of a set of functional compatible software if data transfers electronically between them.**If the source system is the only place where some of the information required in the electronic VAT account is stored, then a digital linked is required from that point to the remaining components of functional compatible software.**If the EPOS system is the only place that stores the data for individual sales but the daily gross takings are stored in the accounting software then a digital link is not required. The daily gross figures can input manually or electronically from the EPOS system.**If the daily gross takings are not entered in to the accounting software then the figures from the EPOS system must be transferred digitally (using digital links).* |
| HMRC officials have said that manually typing into a spreadsheet and then uploading digitally was ok, but this seems to be against the spirit of MTD and is not how the VAT notice appears to read – can you clarify? (slide 20) | *The legal requirement is that electronic VAT account must be stored in functional compatible software. We insist there is a digital link between functional compatible software components. We don’t have set requirements of how data is inputted in to functional compatible software. We would encourage customers to use a digital links, even where it’s not required, to reduce the risk of error and help increase productivity.* |
| I’m sure lots of organisations regularly post manual journals into their accounting systems.We have a small number of petty cash adjustments that I do as an adjusting entry in the finance system and would like to clarify if that is acceptable. This is done on a quarterly basis rather than posting all petty cash vouchers in this way.How can these be compliant from a digital journey/digital links perspective, where these transactions are brought into the VAT return? (slide 21) | *For MTD VAT purposes petty cash does not need to be individually recorded in the digital records. The business can record the total value and the total input tax allowable. This applies to individual purchases with a VAT-inclusive value below £50 and the total value of petty cash transactions recorded in this way cannot exceed a VAT-inclusive value of £500 per entry.**This is set out in the VAT Notice 700/22 para 4.3.3.2.* |
| Is HMRC expecting organisations to no longer use manual journals? (slide 21) | *HMRC expects the use of manual journals to decrease following the advent of digital journeys required under MTD. However, we do not expect the use of manual journals to cease completely as they will still be used for things such as manual adjustments and petty cash.* |
| “Sometimes we get sent self-billing invoices from our customers for royalties, where they send us a VAT invoice and the cash they owe us, including the output VAT. A management accountant will post a journal in our accounting software, which will include the value of the income and the value of the output VAT due to HMRC. Can you confirm that entering a journal into the accounting system to record our VATable sales is ok under MTD? (slide 22)“And if, during the VAT return preparation process, it was found that the accountant had posted the journal incorrectly.Can you confirm it would be ok to treat this error as an ‘adjustment’ and correct it in our VAT return spreadsheet (which forms part of our functional compatible software)? (slide 22) | *Yes, provided all the information required under para 4.3.2 is recorded.**If any error is found in the Return perpetration process then this can be corrected using an adjustment if it is not reasonably practicable to adjust the original record and have it flow through to the VAT Return.*  |
| Data out of Raisers Edge (fundraising database) for the correction journals is reviewed by running queries to pick up data related to Trading VAT related transactions. We currently then type the data into spreadsheet manually which is then uploaded into our Finance system via a ‘.csv’ file. Do we need to find a way to export the data in the queries and use formulae in the spreadsheet of downloaded data to prepare the upload spreadsheet for entry into our finance system? (slide 23) | *Provided the full details required are being input in to the spreadsheet then a digital link will not be needed. However, using a digital link will help reduce errors and may improve productivity.**A digital link tracking back will be needed if the full details required under MTD VAT are not recorded in the Finance System.*  |
| Is the digital link tracking back beyond entry into the Finance system? (slide 23) |
| How do digital links apply when we transfer sales data from our EPOS system to our account system. Or when we transfer data from our donation database?The data is transferred by downloading the EPOS information to Excel, formatting the data into a format for upload to the accounts system (using lookups – no manual typing involved), and then uploading the formatted sales information into the accounts system.Is this process compliant with the digital link requirement?” (slide 24) | *Yes, this process is compliant with digital link requirements.*  |
| In relation to our online trading orders, we currently download reports from Paypal and Magento (which holds the online order information).We currently have some manipulation of this data before importing into Raisers Edge (fundraising database), some of which is copying and pasting. E.g. using a new tab to add the postage and packaging from the Paypal spreadsheet, then removing duplicate rows and then copying it back to the main spreadsheet page.Is the data entering into our Finance system or our fundraising database the first point at which we need digital links and no copy/paste or does this have to go back as far as the website online orders data coming from Magento and Paypal? (slide 25) | *Where the full data required under MTD VAT is entered in to a system there are no requirements as to how that data is entered. However, if summary data is entered e.g. weekly totals, then a digital is required to transfer data between software packages.*  |
| We currently use a spreadsheet for the monthly income/expenses. These go off to our accountants at the end of the year to prepare the accounts. As we are an RSPCA Branch and overall consolidation by national HQ is stopping, are we expected now to buy an accounts package to do our quarterly vat returns? btw the continuation of the long standing special arrangement for RSPCA for umbrella vat returns by national HQ has only just been declined, so we have 5 weeks to get sorted! [Unanswered question during session] | *We are not able to check details of individual business without dealing with their agent or the businesses themselves. It’s not clear whether RSPCA branches are going to be individually VAT registered. We also do not know whether the National HQ will be acting as their agent and submitting VAT Returns on their behalf. If the individual branch is VAT registered with taxable turnover above the VAT Registration threshold and the National HQ is not completing VAT Returns on their behalf, then the branch will be required to follow MTD VAT rules. If this is the case, they will need compatible software, as set out in the VAT Notice 700/22 under Section 4. This will not necessarily need to be an accounting package.* *Businesses can use excel for Making Tax Digital VAT purposes. The excel spreadsheet can be connected to bridging software which will enable the 9 box data to be sent to HMRC via an Application Programming Interface (API) connection. This is mentioned in the VAT Notice 700/22 under Section 4. Another alternative is to use API enabled spreadsheets that incorporate relevant Making Tax Digital APIs. These can either:** *combine with accounting software 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*

*There are currently over 500 products on the MTD VAT software choices page to support businesses, which also include some free products.* *Businesses can consider applying for a digital links deadline extension for additional time to set up their MTD VAT systems. Details about the application process and criteria are set out in section 4.2.1.3 of the VAT Notice 700/22. Each application is considered on a case by case basis.* *Please note businesses with taxable turnover above the VAT Registration Threshold are mandated to follow MTD VAT rules. However, if you are VAT Registered and your taxable turnover remains below the VAT Registration Threshold then you will not be mandated to follow MTD VAT rules until April 2022* |
| As a charity we have many shops that use an EPOS and export the data and will be imported into our finance system On a monthly basis, our eBay sales are entered into the EPOS which then subsequently flow through to finance. Do the eBay sales now need to be input on a daily basis? | *Sales via eBay can be treated as a third party agents as set out under VAT Notice 700/22 section 4.3.2.1. If eBay provides a monthly summary then you can enter the details in monthly. When using a statement in this way you can enter the total transaction figure for supplies at each rate of VAT e.g. treat the statement as if it was one invoice.*  |
| PwC provide a macro-enabled spreadsheet for charities that has been enabling us to submit our returns. Will this still remain acceptable?We have a very complex partial exemption calculation which is performed by analysing data downloaded from the accounting software into excel. There are numerous linked spreadsheets feeding into a main spreadsheet which calculates the VAT amounts for the return. Our software is not API enabled, therefore bridging software is used to comply with MTD which is linked to main spreadsheet. If the process is mapped can it be reviewed by HMRC to assess compliance and highlight where weaknesses may be? | *Yes, this should be acceptable if the information is being provided to HMRC via an Application Programming Interface (API).* *The process described above is MTD VAT compliant. We do not think it will be necessary to review the process map for MTD VAT purposes.*  |
| We have a piece of invoicing software that exports data as csv but in a slightly different format than our main accounting software requires, so it has to be manually modified to be uploaded. According to the VAT notice this is not a digital link. Could you please clarify | *If you need to make manual adjustments to ensure a digital transfer can take place, as set out above, then this will be acceptable.*  |
| We download excel reports from Eventbrite for tickets sold for events and registration fees. Is this a digital link? | *Yes, this would be classified as a digital link.*  |
| As a small RSPCA branch with turnover below threshold, most of our income is exempt, but we do have adoption income from donated animals which are 0% rated - are we eligible for voluntary registration for VAT? Upgrading our systems from a simple spreadsheet would be expensive and time consuming but we are presently able to reclaim VAT on vet fees for our 0% rate donated animals. | *From the statement the RSPCA branch is making taxable supplies (zero rated) and therefore may register for VAT with HMRC. If you are voluntarily registering with taxable turnover below £85,000 then you will not be mandated to follow MTD VAT rules until 1 April 2022.**Businesses operating under MTD VAT will need compatible software, as set out in the VAT Notice 700/22 under Section 4. This will not necessarily need to be an accounting package.* *Businesses can use excel for Making Tax Digital VAT purposes. The excel spreadsheet can be connected to bridging software which will enable the 9 box data to be sent to HMRC via an Application Programming Interface (API) connection. This is mentioned in the VAT Notice 700/22 under Section 4. Another alternative is to use API enabled spreadsheets that incorporate relevant Making Tax Digital APIs. These can either:** *combine with accounting software to submit the required VAT information digitally to HMRC, and allow information to be sent back to the business digitally from HMRC*
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