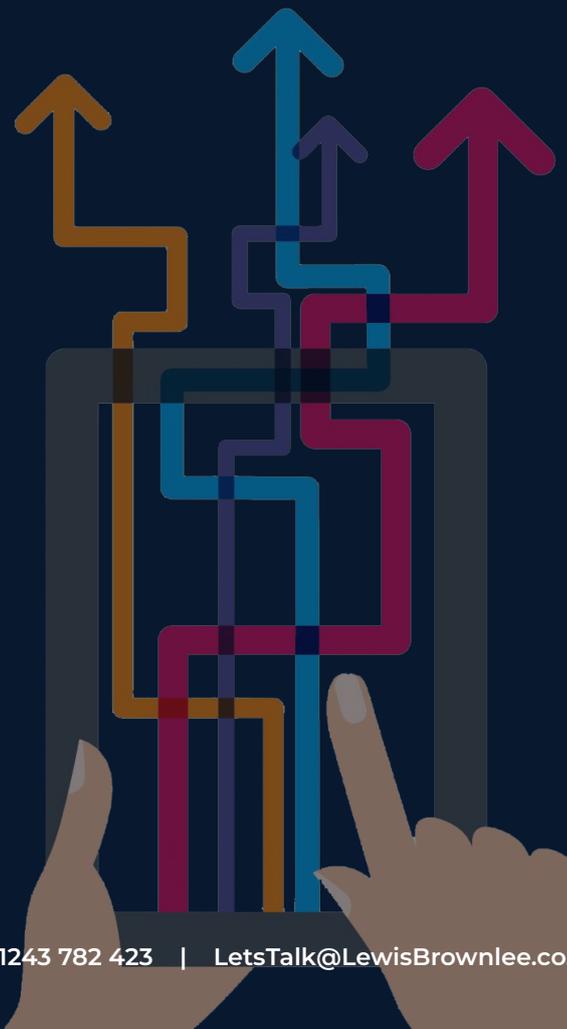




LEWIS BROWNLEE

# MAKING TAX DIGITAL (MTD)

The complete guide and  
everything you need to know



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**“The hardest  
thing in the  
world to  
understand is  
the Tax.”**

Albert Einstein

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SECTION 01

# WHAT IS MTD?

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# OVERVIEW

**MAKING TAX DIGITAL (MTD) IS A KEY PART OF THE GOVERNMENT'S PLANS TO MAKE IT EASIER FOR INDIVIDUALS AND BUSINESSES TO GET THEIR TAX RIGHT AND KEEP ON TOP OF THEIR FINANCIAL AFFAIRS.**

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HMRC's ambition is to become one of the most digitally advanced tax administrations in the world. Making Tax Digital is making fundamental changes to the way the tax system works – transforming tax administration so that it is:

- more effective
- more efficient
- easier for taxpayers to get their tax right

We've taken a major step forward in this ambition with the introduction of Making Tax Digital for VAT.

At the Spring Statement the government announced that they would not be introducing MTD for other taxes in 2020 as planned, but will instead focus on VAT.

## WHO MUST COMPLY WITH MTD?

### **VAT REGISTERED BUSINESSES WITH INCOME OVER £85,000.**

From 01 April 2019 all businesses who are VAT registered with 'taxable turnover' of more than £85,000 must file their VAT returns via the Making Tax Digital platform.

This means that you will no longer be able to file your returns via HMRC's website. Instead you must use MTD compliant software such as Xero, Quickbooks, Sage (certain versions - see page 11) or bridging software.

### **SOME MORE COMPLEX BUSINESSES WILL BE DEFERRED**

The 6-month deferral applies to customers who fall into one of the following categories: trusts, 'not for profit' organisations that are not set up as a company, VAT divisions, VAT groups, those public sector entities required to provide additional information on their VAT return (Government departments, NHS Trusts), local authorities, public corporations, traders based overseas, those required to make payments on account and annual accounting scheme users.

## MTD TIMELINE

<b>01 April 2019</b>	All VAT periods starting on or after this date must be filed via the MTD route, for businesses who must comply (per above).
<b>30 June 2019</b>	The first MTD VAT quarter ends on this date (unless you file monthly returns).
<b>07 August 2019</b>	This is the deadline for filing the first MTD VAT return for most businesses.
<b>01 October 2019</b>	MTD starts for more complex 'deferred' businesses (as outlined above).

## EXEMPTIONS

HMRC expect that most customers will be able to meet the legal obligations of Making Tax Digital, but accept that it may not be possible for a small number of customers to do so.

You will not have to follow the rules for Making Tax Digital if HMRC is satisfied that either:

- it's not reasonably practicable for you to use digital tools to keep your business records or submit your VAT Returns because of age, disability, remoteness of location or for any other reason; or
- you or your business are subject to an insolvency procedure; or
- your business is run entirely by practising members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records.

You do not need to sign up for Making Tax Digital or apply for an exemption if either:

- you're already exempt from filing VAT Returns online; or
- your taxable turnover is below the VAT registration threshold.



If you believe that your business is exempt from complying with Making Tax Digital for any reason other than not being VAT registered or having a taxable turnover less than £85,000 please get in touch by emailing [LetsTalk@LewisBrownlee.co.uk](mailto:LetsTalk@LewisBrownlee.co.uk)

# THINGS TO BE AWARE OF

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## WHAT COUNTS TOWARDS TAXABLE INCOME?

You should be careful when determining whether your taxable turnover (taxable income) is over the threshold of £85,000.

When doing your calculations you need to take into consideration the value of all standard, reduced and zero rated items.

The £85,000 threshold applies to any 12 month period of trading. Once the threshold is breached you have 30 days to register.

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## YOUR HMRC VAT ACCOUNT

Your current HMRC VAT account will stop working and you will no longer be able to file your VAT return via that method.

You will be required to register for MTD in most circumstances and we cover this later.

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## EXEMPTIONS ARE FEW AND FAR BETWEEN

The exemption criteria, as mentioned on the previous page, are quite subjective. HMRC have quoted that “where a business thinks that it is exempt, HMRC expects it to contact the VAT helpline to discuss alternative arrangements.”

HMRC have also suggested that exemptions are going to be limited and will not be available to the majority of businesses.

**“WE ARE ALL NOW  
CONNECTED BY  
THE INTERNET,  
LIKE NEURONS IN  
A GIANT BRAIN ”**

---

Stephen Hawking

SECTION 02

# SOFTWARE

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# THE OPTIONS

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## OPTION 1 ACCOUNTS PACKAGE

Accounts Software can be either cloud-based (SAAS) or desktop based.

### Cloud Based

Cloud based software is hosted on the internet, usually backed up and updates happen automatically. You can usually have unlimited users and it can be used on most devices (PC, Mac, iOS and Android Tablets & Phones).

The leading packages are Xero, Quickbooks Online and Sage Business Cloud.

### Desktop Based

Desktop packages are usually installed locally on a single PC. This makes you responsible for back-ups and disaster recovery planning. You are usually also restricted on the number of users.

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## OPTION 2 BRIDGING SOFTWARE

Bridging software is a piece of middle-ware (software) that can communicate with HMRC's systems for Making Tax Digital purposes. This software then allows the relevant information to transfer through to HMRC from an Excel spreadsheet.

In essence, Bridging software will replicate the look of a VAT return. It will also be incorporated into the spreadsheet workbook that the business records are recorded in.

Ideal for people who want to continue to use their spreadsheets.

Please refer to page 12 for further details.

# ACCOUNTS PACKAGE

Each of the below packages are MTD compliant but they each have their own benefits. It is important to note that other software is available, as mentioned in Step 1 on page 17.

At Lewis Brownlee we are trained in all of the below but Xero is our preferred option for the reasons given below.



Xero is the market leading cloud based accounting software. Needless to say, you will be 100% MTD compliant if you utilise this software.

Apart from the benefits mentioned on page 10, Xero has a whole host of reasons why you should choose it. For starters it has over 1,000 add-ons to significantly increase functionality.

Xero is also incredibly easy for non accountants to use and understand.

If you are interested in using Xero please email [LetsTalk@LewisBrownlee.co.uk](mailto:LetsTalk@LewisBrownlee.co.uk).



Quickbooks Online is similar to Xero functionality wise, and is fully MTD compliant.

The downsides of Quickbooks, as opposed to Xero, is the lack of add-ons. It is also relatively more difficult to set up and use.

One advantage of Quickbooks is its A.I. voice command functionality, which Xero does not have.



Sage Business Cloud is a basic cloud base accountancy suit. It would be 'OK' for most businesses. However, by the time you add on all optional extras it works out more expensive than Xero.

This version of Sage is fully MTD compliant.



This desktop version of Sage comes with all the negatives mentioned on page 10.

We have been told that version 24.2 and later are compatible for MTD. However, Sage also tell us that users who bought their Sage package outright or are not on a monthly subscription, will have to pay an additional £300 per annum to access the MTD module. Making Sage considerably more expensive than Xero.

## BRIDGING SOFTWARE & EXCEL



**PLEASE NOTE:** Whilst Bridging software is accepted by HMRC, we strongly urge against it. It is less secure than accounts software, more prone to errors and HMRC hinted that they will perform additional checks on businesses that use it.

### WHAT IS BRIDGING SOFTWARE?

Bridging software enables you to connect your excel spreadsheets to HMRC. It is fully MTD compliant but does not provide any additional benefits apart from that of a spreadsheet.

### HOW DO YOU USE IT?

The way you use bridging software differs for each software provider. However, they are effectively a 'mapping agent' that puts your spreadsheets into a special format.

### WHERE CAN I BUY?

Bridging software is available from a multitude of suppliers. However, the market leaders are:

- [TaxOptimiser.co.uk](https://www.taxoptimiser.co.uk)
- [FileMyVatReturn.co.uk](https://www.filemyvatreturn.co.uk)
- [VitalTax.uk](https://www.vitaltax.uk)

## CONVERTING TO XERO

One of the biggest concerns of business owners is how complex the conversion will be. Business owners have told us that they tend to envisage huge downtime and hours of hard labour.

The good news is that the process is nothing like that at all... provided you use a Xero Certified Partner (such as us!). We can make the entire process slick, easy and well planned.

## THE PROCESS

We are different to most accountants, in so much as we bespoke plan every single conversion to fit your needs. However, for the purpose of explanation, the rough timeline is outlined below:

### STEP 1

We will sit with you, or your team, and discuss exactly what you hope to get out of using Xero.

### STEP 2

One of our Xero Certified Migration Advisers will determine the best possible structure for your Xero, taking into account tracking options, reporting requirements and, most importantly, what is important to you.

### STEP 3

We will set your Xero up well in advance of your scheduled conversion date. We will also set up a Demo company looking exactly like your new Xero set-up. The purpose of this is to give you time to mess around in the new system to learn your way, without adversely affecting the live site.

### STEP 4

We provide ongoing support as required to ensure that you are getting the most of your exciting new system.

**“YOU CANNOT ASSUME YOU ARE  
ALREADY REGISTERED. 99% OF  
BUSINESSES WILL NEED TO TAKE  
SOME FORM OF ACTION.”**

---

David Jones, Director of Innovation  
Lewis Brownlee

SECTION 03

# REGISTERING WITH HMRC

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## SIGN UP FOR MTD

### **MOST BUSINESSES WILL NEED TO SIGN UP FOR MAKING TAX DIGITAL (MTD). THIS APPLIES EVEN IF YOU HAVE ALREADY BEEN FILING YOUR VAT RETURNS ELECTRONICALLY.**

If we prepare your VAT return, we will be performing this process for you and you will not need to do anything. **We will be unable to perform this step if you prepare your own VAT return, or if we simply check it for you.**

#### **How to register:**

You will need the following before you attempt to sign up for MTD with HMRC:

- your Government Gateway user ID and password, if you have one; and
- the VAT number of the business that's signing up.

If you need help with any of the following please do contact us via email at [LetsTalk@LewisBrownlee.co.uk](mailto:LetsTalk@LewisBrownlee.co.uk), or by calling us on 01243 782 423. If you are a client, please request to speak with your Client Relationship Manager.



Once you sign up for the process, all unfiled returns will have to follow the MTD process. You should only do the following once you have successfully filed all vat periods commencing prior to 1 April 2019.

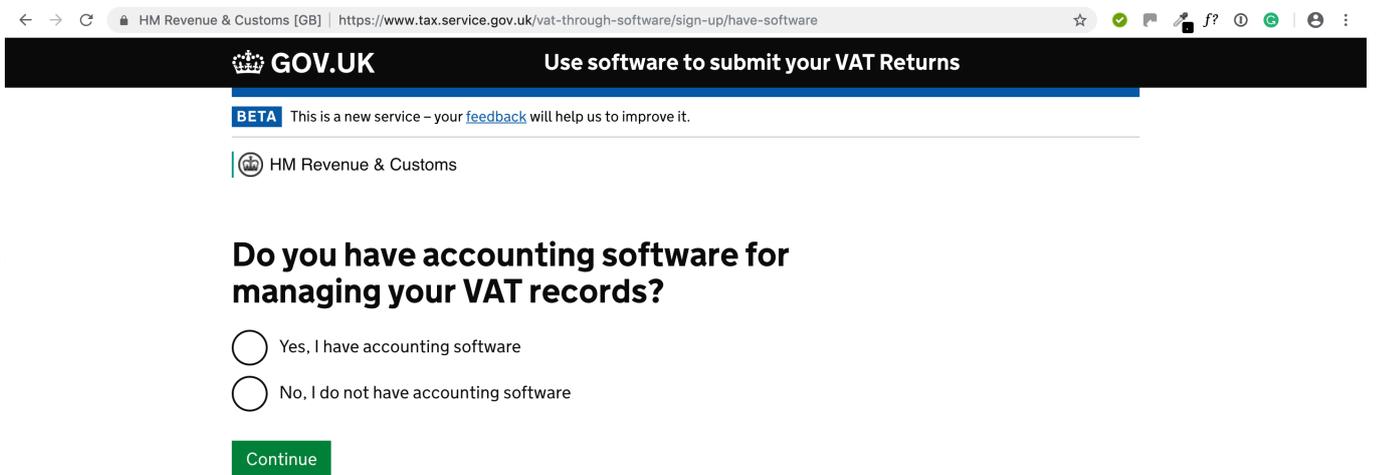


Your HMRC Direct Debit will be cancelled. Clients will need a new direct debit for MTD for VAT and there is only a limited window each month to make the change. HMRC requires that clients sign up 15 days in advance for a new direct debit before they submit a return.

# STEP-BY-STEP GUIDE

## STEP 1 - VISIT THE HMRC WEBSITE

The website you will need to visit is: [www.tax.service.gov.uk/vat-through-software/sign-up/have-software](https://www.tax.service.gov.uk/vat-through-software/sign-up/have-software). This should bring you to the below page:

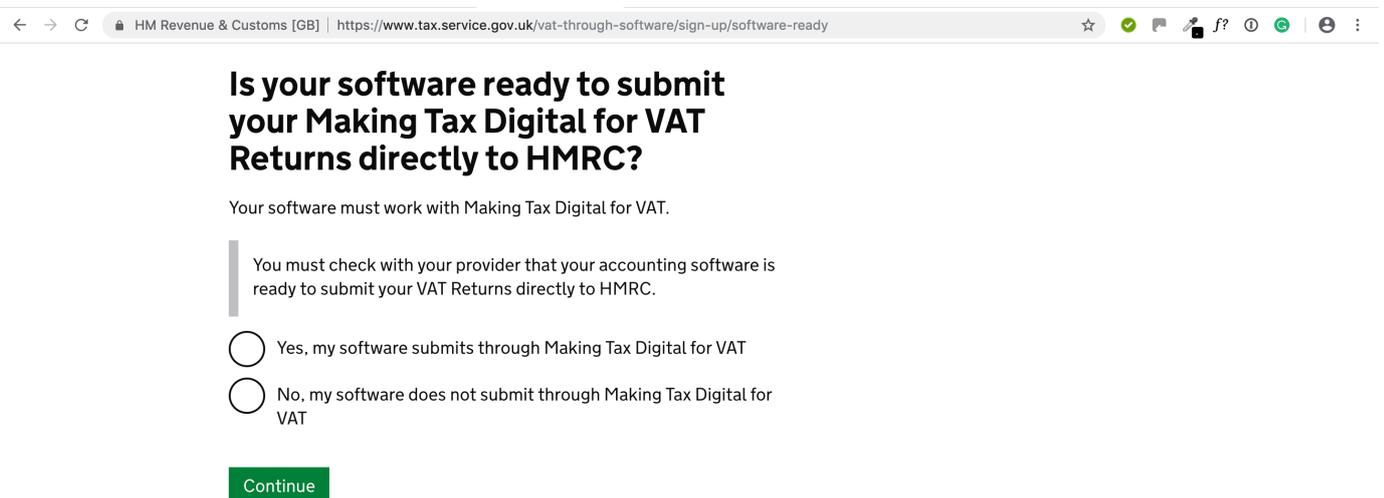


The screenshot shows a web browser window with the URL <https://www.tax.service.gov.uk/vat-through-software/sign-up/have-software>. The page header includes the GOV.UK logo and the text "Use software to submit your VAT Returns". A blue banner indicates "BETA This is a new service – your feedback will help us to improve it." Below this is the HM Revenue & Customs logo. The main heading asks "Do you have accounting software for managing your VAT records?". There are two radio button options: "Yes, I have accounting software" and "No, I do not have accounting software". A green "Continue" button is located at the bottom of the form.

For most businesses, the answer to the above should be 'Yes'. However, if you find yourself clicking 'No', please do contact us at [LetsTalk@LewisBrownlee.co.uk](mailto:LetsTalk@LewisBrownlee.co.uk) for a quote to move you on to Xero.

Should you wish to choose your own software, HMRC have published a list of all MTD compliant packages, which you can view at: [www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-vat](https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-vat)

## STEP 2



The screenshot shows a web browser window with the URL <https://www.tax.service.gov.uk/vat-through-software/sign-up/software-ready>. The main heading asks "Is your software ready to submit your Making Tax Digital for VAT Returns directly to HMRC?". Below this is a sub-heading: "Your software must work with Making Tax Digital for VAT." A grey box contains the text: "You must check with your provider that your accounting software is ready to submit your VAT Returns directly to HMRC." There are two radio button options: "Yes, my software submits through Making Tax Digital for VAT" and "No, my software does not submit through Making Tax Digital for VAT". A green "Continue" button is located at the bottom of the form.

If you are you using Xero, Quickbooks online or Sage Business Cloud, the answer will be 'Yes'. For all other software please check with the software provider.

# STEP-BY-STEP GUIDE

## STEP 3

You will now be asked to log in to your HMRC Gateway:



**BETA** This is a new service – your [feedback](#) will help us to improve it

English | [Cymraeg](#)

## Sign in using Government Gateway

Government Gateway user ID  
This could be up to 12 characters.

Password

Sign in

If you do not have any HMRC credentials (and have never set them up) you will be asked a series of questions:



Use software to submit your VAT Returns

Sign out

**ALPHA** This is a new service – your [feedback](#) will help us to improve it.

[← Back](#)

### What is your VAT number?

This is the 9-digit number of



Use software to submit your VAT Returns

Sign out

**ALPHA** This is a new service – your [feedback](#) will help us to improve it.

[← Back](#)

### When did you become VAT registered?

This is the effective date on your VAT registration certificate.



Use software to submit your VAT Returns

Sign out

**ALPHA** This is a new service – your [feedback](#) will help us to improve it.

[← Back](#)

### Where is the principal place of business?

This is where the company carries out most of its business activities.

# STEP-BY-STEP GUIDE

## STEP 4



Use software to submit your VAT Returns

**ALPHA** This is a new service – your [feedback](#) will help us to improve it.

[◀ Back](#)

### Do you have more than one VAT registered business?

Yes  No

Continue

If you answer 'Yes' you will be asked a few additional questions to enable HMRC to link the businesses.

# STEP-BY-STEP GUIDE

## STEP 5

 **Use software to submit your VAT Returns** Sign out

**ALPHA** This is a new service – your [feedback](#) will help us to improve it.

[◀ Back](#)

### Agree to get emails instead of letters

When you have a new message about VAT in your HMRC account, we'll send you an email to let you know.

You'll need to sign in to your account to read the message.

**Agree** ←

## STEP 6

 **Use software to submit your VAT Returns** Sign out

**ALPHA** This is a new service – your [feedback](#) will help us to improve it.

[◀ Back](#)

### What is your email address?

For example, me@me.com

**Continue**

# STEP-BY-STEP GUIDE

## STEP 7



Use software to submit your VAT Returns

Sign out

**ALPHA** This is a new service – your [feedback](#) will help us to improve it.

[◀ Back](#)

## Verify your email address

We've sent an email to [abcltd@abc.com](mailto:abcltd@abc.com). Click on the link in the email to verify your email address.

You can [change your email address](#) if it is not correct.

[▶ I did not get an email](#)

## STEP 8



Use software to submit your VAT Returns

Sign out

**ALPHA** This is a new service – your [feedback](#) will help us to improve it.

[◀ Back](#)

## You've verified your email address

You'll now receive messages and email notifications from HMRC.

[Continue to sign up](#)

# STEP-BY-STEP GUIDE

## STEP 9



Use software to submit your VAT Returns

Sign out

**ALPHA** This is a new service – your [feedback](#) will help us to improve it.

[◀ Back](#)

## Terms of participation

By taking part in this trial, you agree to:

- use relevant software to record your sales and purchases, then to submit your VAT Returns
- submit each VAT Return within one calendar month and 7 days from the end of your accounting period
- authorise any third party you use (such as your accountant) and have responsibility for any information they give to HMRC on your behalf
- tell HMRC if you stop trading and then submit your final VAT Return
- tell HMRC if you want to leave this trial

These terms are not contractual and you can stop taking part in the trial at any time.

[Accept and continue](#)

Please note that whilst the above mentions 'trial' we anticipate that the live version will be identical, except the word 'trial' will be removed.

# STEP-BY-STEP GUIDE

## STEP 10

 **GOV.UK**

Use software to submit your VAT Returns

Sign out

**ALPHA** This is a new service – your [feedback](#) will help us to improve it.

**We have received your  
information**

### What happens next

As this service is currently a trial, it is only available to some limited companies and sole traders.

We will send you an email to let you know whether you can take part in this trial. You should wait for this email before you choose software.

1. We will let you know whether you can take part in this trial, usually within 24 hours.
2. [Choose relevant third party software \(opens in a new window\).](#)
3. Allow your software to submit VAT Returns to HMRC. You might need to sign in with your Government Gateway details.
4. Use software to record your sales and purchases.
5. Submit your VAT Returns before your deadlines.

You can view your VAT Return deadlines in your accounting software or [business tax account](#).

Sign out

Please note that whilst the above mentions 'trial' we anticipate that the live version will be identical, except the word 'trial' will be removed.

**“THE BEST THINGS IN LIFE ARE  
FREE, BUT SOONER OR LATER  
THE GOVERNMENT WILL FIND A  
WAY TO TAX THEM.”**

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Anonymous

SECTION 04

# SETTING UP XERO

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## BEFORE YOU START

- 1) Sign up for MTD for VAT with HMRC and wait for confirmation by email that you've been moved to the MTD service.
- 2) Have your Government Gateway login details ready.
- 3) Check the VAT number in financial settings is correct.

## CONNECT XERO TO HMRC

- a) Log in to Xero.
- b) Click **Accounting** then select **VAT Return**.
- c) Read the information about Making Tax Digital for VAT, then click **Set up MTD for VAT in Xero**.
- d) Read the information about MTD for VAT with Xero, then click **Connect to HMRC**.
- e) Read the information about allowing authority to interact with HMRC on your behalf, then click **Continue**.
- f) Enter your Government Gateway user ID and password, then click **Sign in**.
- g) Read the HMRC authority information, then click **Grant authority**.
- h) Once access is granted, you'll see your new VAT dashboard in Xero.

## VAT DASHBOARD

Your VAT dashboard shows the VAT returns HMRC wants you to attend to. Click **Review** to open your return. If you have more than one return to attend to, you'll need to complete the earliest one before you can review the next one.

After you file a MTD VAT return it will show as filed on your VAT dashboard.

## TROUBLESHOOT

If you see an error message saying that you're not authorised to access the organisation's data from Xero, check:

- Your VAT number is correct in the financial settings screen.
- You're using the correct Government Gateway login (GOV.UK website) for the organisation.
- HMRC have confirmed by email that they've moved you to the MTD service.

Services Lewis Brownlee can assist you with include:

Audit & Assurance  
Year-End Accounts  
Cash Flow Forecasting  
Management Accounts  
Tax Planning & Returns  
Outsourced Back Office  
Payroll & Benefits-in-Kind  
Virtual Finance Directors  
Virtual Financial Controllers  
Business Advisory & Transformation  
Cloud Based Accounting & App-Stacking

If you are interested in any of these services please email:

[LetsChat@LewisBrownlee.co.uk](mailto:LetsChat@LewisBrownlee.co.uk)

or call 01243 782 423



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