Less than one week to go for MTD

Businesses have less than a week to prepare for Making Tax Digital (MTD) for Value Added Tax (VAT) becoming mandatory for VAT-registered businesses on 1 April, HM Revenue and Customs (HMRC) said today.

MTD helps taxpayers get their tax returns right by reducing common mistakes as well as saving time managing their tax affairs and is a key part of the overall digitalisation of UK tax.

Evidence shows MTD is succeeding in its central aims of reducing errors, while also making it faster to prepare and submit returns, and boosting productivity for businesses. New research, conducted by HMRC and peer reviewed by independent academics, shows MTD is likely to have generated increased revenue through reducing errors in both 2019 and 2020.

Nearly 1.6 million taxpayers had joined MTD for VAT as of December 2021 with more than 11 million returns successfully submitted. Around a third of VAT-registered businesses with taxable turnover below £85,000 have voluntarily signed up to MTD for VAT ahead of April 2022, and thousands more are signing up each week.

VAT-registered businesses that have not yet signed up to MTD for VAT should do so now. All VAT-registered businesses must use MTD for VAT for their first VAT return starting on or after 1 April 2022. Businesses should use the time left to choose the software that is right for them, whether that is one of the simple free options available, or a more advanced product for those with more complex affairs.

Lucy Frazer, HM Treasury's Financial Secretary to the Treasury, said

> Businesses using MTD are saving time on their tax affairs, streamlining their processes and boosting their productivity as a result.
>
> Our first move towards a modern, digital tax service – MTD makes it easier for businesses to get their tax right first time.

There is a range of support and information available for those that need it – including accessible online content such as YouTube videos, GOV.UK help pages and HMRC's Extra Support service.

Agents can sign up on behalf of a business, although businesses remain responsible for meeting their VAT obligations. Those who do not join may be charged a penalty for failure to do so.

There are a range of compatible software products available for MTD for VAT, allowing businesses to choose which tools they use to run their business and tax affairs. A list of software compatible with MTD for VAT, including free

and low-cost options, can be found on GOV.UK.

HMRC understands that some businesses will find it easier to comply with MTD than others. For those who need more help and support on signing up for MTD, HMRC is running a series of webinars.

Some VAT-registered businesses may be eligible for an exemption from MTD, if it is not reasonable or practicable for them to use digital tools for their tax. If a business has previously been granted an exemption for VAT online filing, this will carry over to MTD VAT requirements. Go to GOV.UK for more information on whether an exemption may apply.

Example MTD case studies from businesses who are currently benefitting from MTD for VAT can be found on YouTube.

To sign up to MTD VAT, businesses, or an agent on a businesses' behalf, need to:

Step 1: Visit GOV.UK and choose MTD-compatible software

Step 2: Keep digital records starting from 1 April 2022 or the beginning of their VAT period

Step 3: Sign up and submit their VAT Return through MTD

Businesses can choose to register themselves for MTD or can ask their agent to do this for them.

Businesses, or an agent on their behalf, must sign up to MTD for VAT via GOV.UK to fully join MTD. They must have MTD-compatible software before signing up.

Businesses should ensure that they sign up to MTD at least 5 days after their last non-MTD VAT return deadline date, and no less than 7 days before their first MTD VAT return deadline date to avoid paying for their VAT twice.

Businesses must keep digital records through MTD. This can be done via software. Where a business chooses to use bridging software (a type of recognised MTD compatible software which extracts information from a business's spreadsheet and then submits it to HMRC in a way which is compliant with MTD requirements) digital links must be in place to ensure that records are kept digitally as information is transferred between different platforms.

Businesses need to have signed up to MTD for their first VAT return starting on or after 1 April 2022. They may not be required to make their first submission via MTD until Summer 2022.

A piece of qualitative research, published in February 2022, based on 60 in-depth interviews conducted with a random sample of small businesses that had made the change to MTD for VAT following mandation showed the ongoing

customer impact of record-keeping behaviour change in the second year of mandation. This found that businesses using fully compatible software were reaping the rewards of MTD through saving time on their tax affairs and improving their financial confidence.

HMRC published a new report, [Evaluating additional tax revenue from Making Tax Digital for VAT](), in March 2022 that represents the strongest evidence yet that MTD for VAT is succeeding in helping to ensure the right amount of tax is collected from businesses by reducing opportunities for error or miscalculation.

In 2020, the government published 'Building a trusted, modern tax administration system', setting out a vision of a UK tax system fit for the 21st century, designed to improve its resilience, effectiveness and support for taxpayers. MTD is the first phase of a move toward this modern, digital tax service.

Since April 2019, businesses with a taxable turnover above £85,000 have already been required to follow MTD, keeping digital records and filing VAT returns using MTD compatible software. In July 2020, it was announced that all VAT-registered businesses must file digitally through MTD from April 2022, regardless of turnover. HMRC has reminded businesses below the £85,000 threshold of the steps which they need to take to be ready.