

FOCUS ON

Digital Links

The next step for Making Tax Digital

From April 2021 VAT registered businesses submitting VAT returns using Making Tax Digital (MTD) need to ensure digital links are in place within their records.

Making Tax Digital has 3 main requirements:

- 1** Records to be maintained digitally (from 1st April 2019)
- 2** VAT return submissions using compatible software (from 1st April 2019)
- 3** Digital links (from 1st April 2021)

HMRC have allowed a 'soft landing period' from the introduction of MTD from 1st April 2019. The soft-landing period allowed businesses to ensure their software would be digitally linked to comply with MTD's requirements for VAT returns commencing on or after 1st April 2021.

Do all VAT registrations have to sign up to MTD from 1st April 2021?

No, only VAT registered businesses with a taxable turnover of more than £85,000 must follow the rules for 'Making Tax Digital for VAT'. However, from 1st April 2022, all VAT registered business must, sign up to MTD irrespective of their turnover.

I'm signed up to MTD, when do I need to have digital links in place?

Digital links are required to be in place for VAT returns commencing on or after 1st April 2021.

What are digital links?

HMRC define a 'digital link' as a transfer or exchange of data which is made, or can be made, electronically between software programs, products or applications.

Practically this means HMRC requires a digital audit trail starting from your accounting systems all the way through to the figures on your VAT return. Each piece of software must be digitally linked to other pieces of software to create an acceptable audit trail.

What do HMRC accept as digital links?

- Linked cells within a spreadsheet
- Emailing a spreadsheet containing digital records to enable the information to be imported into another software product
- Transferring a set of digital records onto a portable device (i.e. memory stick) and physically giving this to someone else who then imports that data into their software
- XML, CSV import and export, and download and upload of files
- Automated data transfer
- API transfer

From April 2021 the use of 'cut and paste' or 'copy and paste' will not be allowed.

What about calculations outside the software?

There may be times when calculations have to be made outside of any software in a separate spreadsheet (e.g. partial exemption calculations). These may need some form of input by hand into the software that will send your VAT Return information to HMRC. Providing these adjustments can be input into the software using a journal, or the spreadsheet is linked by formulas to another spreadsheet, the digital links requirements will be met.

Is the use of spreadsheets still acceptable?

Yes, HMRC will still permit the use of Excel spreadsheets providing that the cells are linked digitally and are used in conjunction with software that is capable of taking the relevant information from the spreadsheet electronically and sending it to HMRC.

Can bridging software still be used?

Yes, as long as the bridging application is capable of extracting the box 1-9 VAT summary data from the spreadsheet data.

Data can still be exported from accounting packages and uploaded to bridging software, providing digital links are either in place, or can be added following the export from the accounting package.

If your bridging software requires the VAT return summary data to be input manually, it may not meet the requirements from April 2021.

What information will HMRC receive from April 2021?

HMRC will still only receive the VAT summary information (boxes 1-9). They will not receive the transactional/backing data.

Are exemptions available?

Businesses with complex, legacy or bespoke IT systems may require a longer period to put digital links in place. A formal application can be made to HMRC requesting additional time to put the required digital links in place. If HMRC feel the reasons for the request are acceptable and you have a timetable plan to put digital links in place, they can grant an extension.

The application must be made to HMRC before April 2021. Cost alone is not sufficient reason to ask for an extension.

Will HMRC issue penalties for non-compliance?

HMRC do have powers to charge penalties to VAT registrations not signed up to MTD at the correct time, and to businesses not complying with the new digital links requirements.

Are any additional changes required during 2021?

From 1st March 2021, any business paying VAT by Direct Debit must have a current email addresses lodged with HMRC. This is required for HMRC to comply with UK banking regulations.

An email address can be added via the business tax account.

How can we help?

MHA MacIntyre Hudson can assist by:

- Reviewing your accounting records to ensure you will be compliant from 1st April 2021
- Completing VAT return submissions on your behalf using compliant bridging solutions
- Advising on solutions for complex business i.e. Groups with multiple accounting packages or bespoke systems
- Recommending cloud-based accounting systems to fulfil all MTD requirements including the appropriate training if required.



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