

Making Tax Digital

Our guide provides information on HMRC's Making Tax Digital for VAT requirements, the questions that we're seeing organisations ask, and how we can help.

With the digital links 'soft-landing period' ending from the first VAT return period commencing on or after 1 April 2021, businesses already within the Making Tax Digital regime will be mandated to meet the digital journey rules from that date.

For UK VAT registered businesses under the VAT registration threshold, they will need to be Making Tax Digital compliant for the first time from April 2022.

Making Tax Digital

Click buttons for answers



01 Making Tax Digital

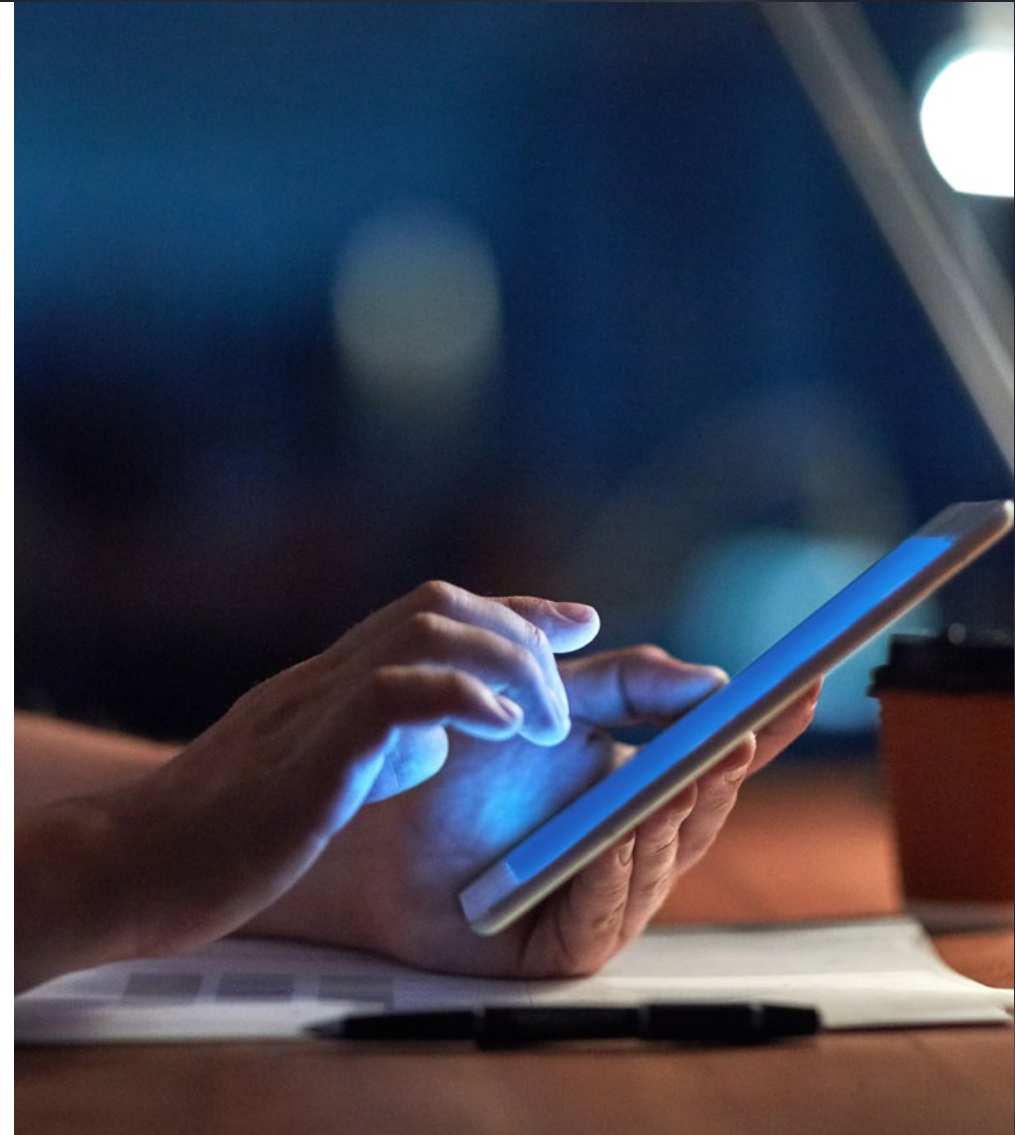
Why was Making Tax Digital introduced?

Global tax administrations are embarking on transformational digitisation programmes as they seek to use existing and emerging technologies to manage and use data more effectively.

Their aim is to improve the collection of tax by making better use of their resources to reduce errors and non-compliance.

In the UK, this resulted in a £1.3 billion government investment to introduce Making Tax Digital.

The changes are being implemented in relation to VAT first, but other taxes are expected to follow at a later date.

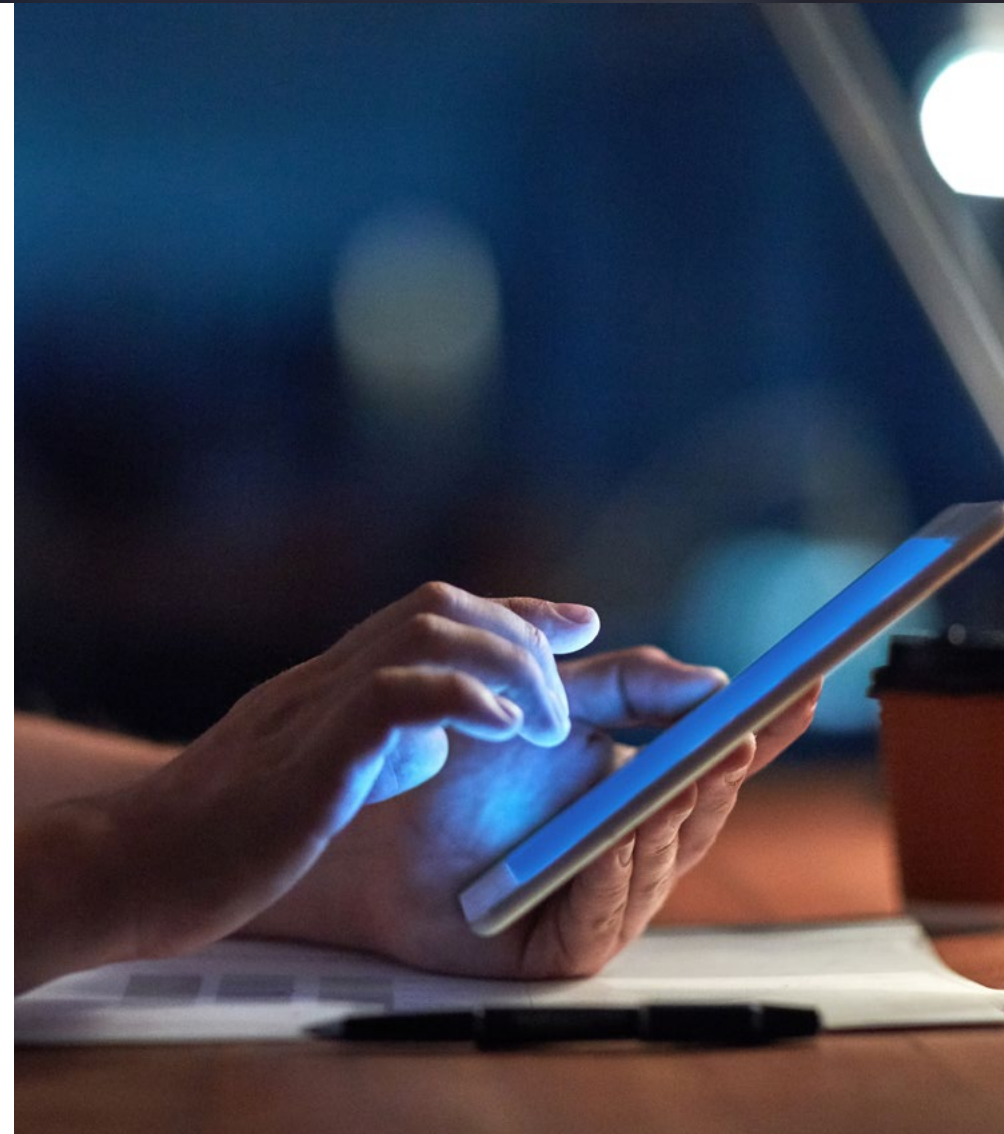


01 Making Tax Digital

What are the Making Tax Digital for VAT requirements?

Under the Making Tax Digital for VAT rules, organisations which fall into the regime must:

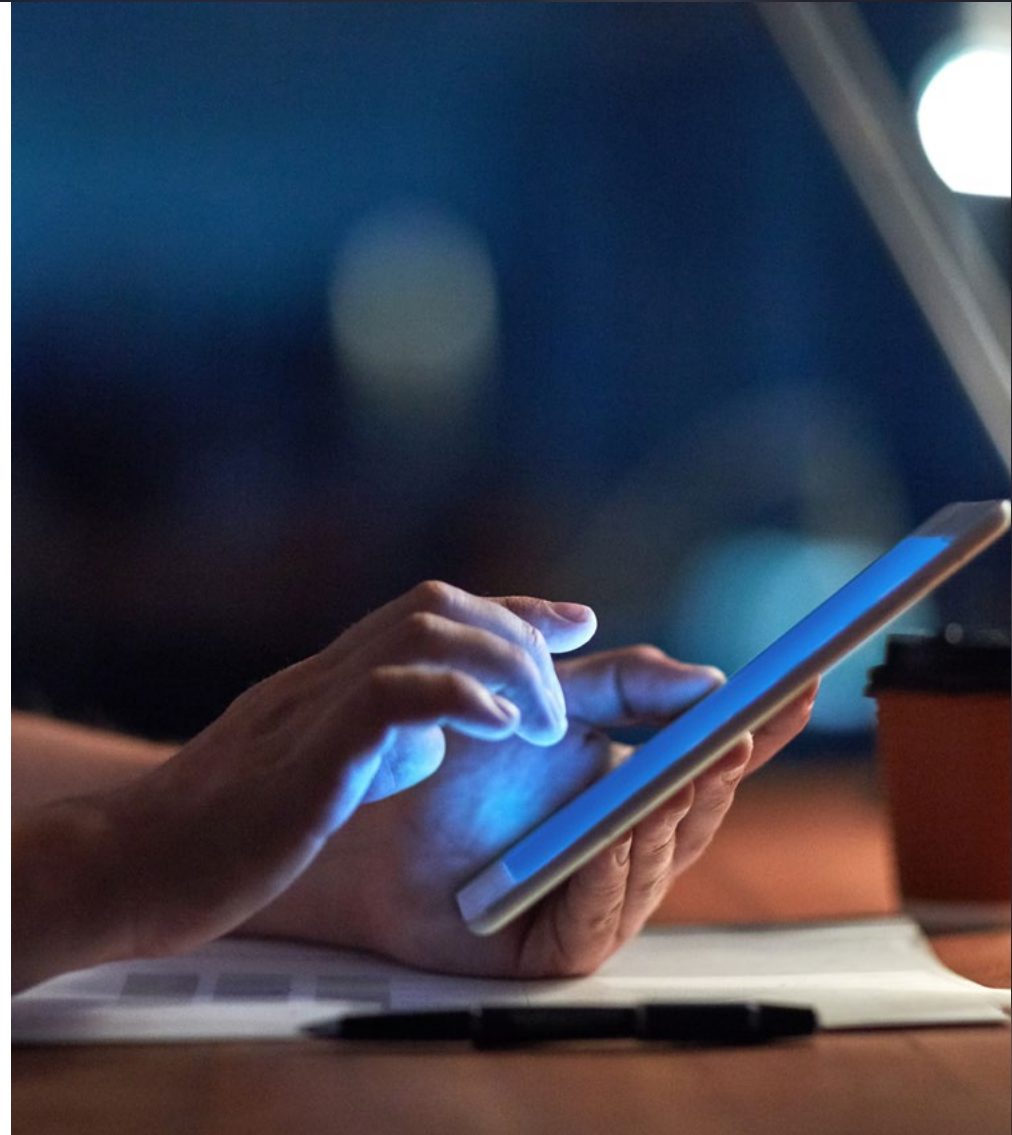
- ▶ Keep digital VAT records.
- ▶ Evidence a digital journey from source systems through to the VAT return (subject to the end of the 'soft-landing period' for VAT return periods commencing on or after 1 April 2021).
- ▶ Use authorised software to submit the nine box VAT return figures to HMRC.



01 Making Tax Digital

Who do the rules apply to?

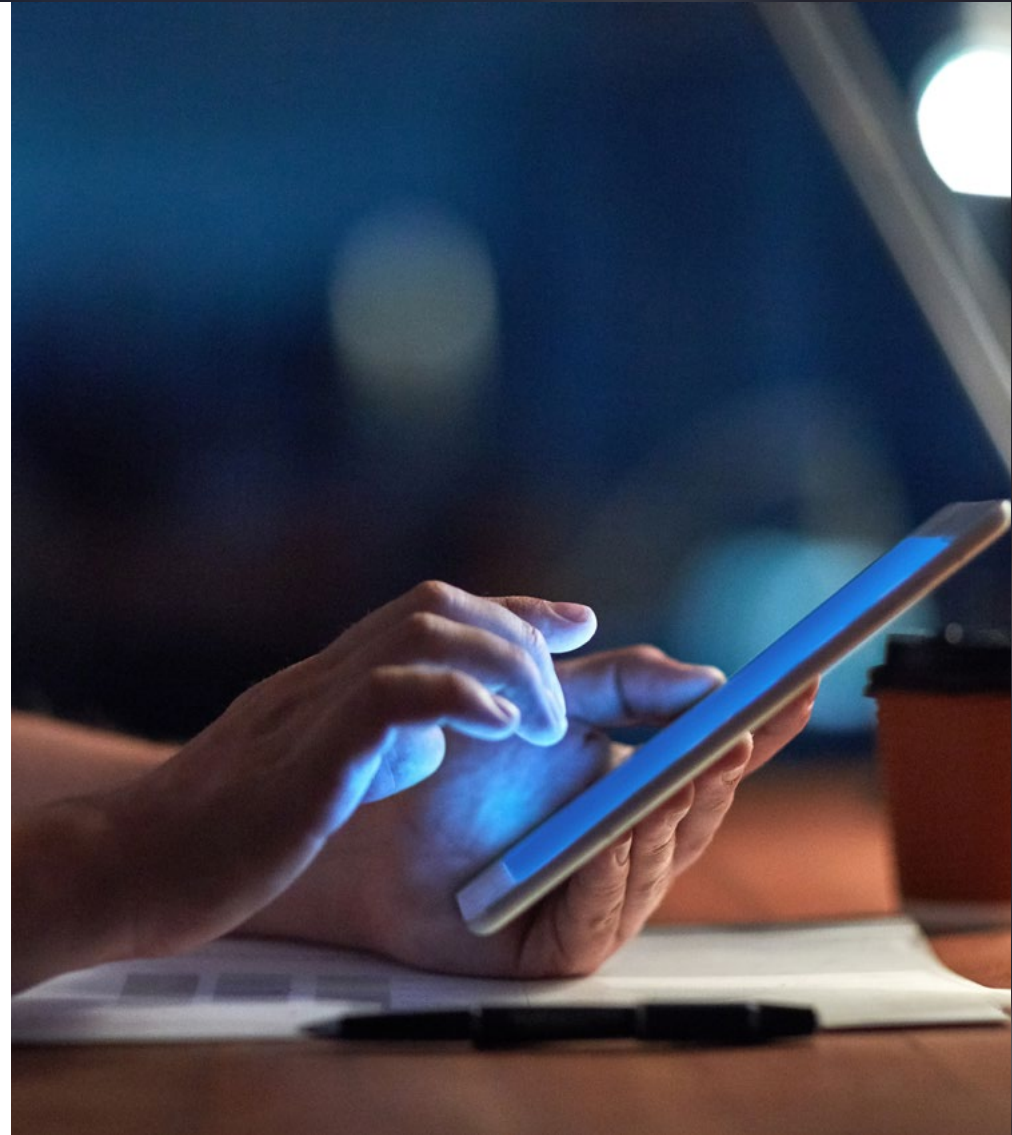
- ▶ From 2019, all organisations VAT registered (or required to be) in the UK with a taxable VAT turnover which exceeded the UK VAT registration threshold (currently £85,000) were required to meet the Making Tax Digital requirements.
- ▶ The £85,000 Making Tax Digital taxable turnover threshold applies to UK established businesses, non-established businesses and distance sellers.
- ▶ If a business is voluntarily VAT registered, i.e., its taxable turnover is below the £85,000 taxable threshold, it can choose whether to submit its VAT returns and keep its VAT records in accordance with the Making Tax Digital requirements.
- ▶ From 1 April 2022, all VAT-registered businesses must sign up to Making Tax Digital, regardless of turnover. This does not for the time being include certain section 41(3) VATA 1994 bodies i.e., certain public and government bodies.



01 Making Tax Digital

When do I need to be Making Tax Digital ready?

- ▶ Organisations with taxable turnover exceeding the VAT registration threshold were mandatorily required to be Making Tax Digital for VAT compliant in 2019.
- ▶ A 'soft-landing period' was available in relation to the digital journey requirements, meaning that organisations had until the first VAT return period starting on or after 1 April 2021 to put these in place. The other two Making Tax Digital for VAT requirements were required to be in place from the organisation's Making Tax Digital commencement date.
- ▶ From 1 April 2022, the scope of Making Tax Digital for VAT will be mandatorily extended to VAT registered businesses with taxable turnover under the VAT registration threshold. This does not for the time being include certain section 41(3) VATA 1994 i.e., certain government and public bodies.



Digital journey



Click buttons for answers

02 Digital journey

What does HMRC mean by a digital journey?

HMRC will require organisations to demonstrate a clear digital audit trail from source systems to VAT return filings. This includes digital links throughout the VAT return process.



02 Digital journey

What is a digital link?

Where data is transferred, exchanged, recaptured or modified this must be done via a digital link.

A digital link is the transfer or change in data via electronic means. There should be no manual intervention or involvement such as manually typing information from one piece of software to another or a person copying and pasting data across. The digital link can be very basic, e.g., linking two cells in a workbook using a formula.

However, HMRC accepts that there are adjustments which need to be made outside approved software, for example, partial exemption calculations. These manual adjustments are acceptable so long as they are backed up by a clear audit trail.



02 Digital journey

When do I need to have digital links in place?

Digital links need to be in place in line with the organisation's Making Tax Digital commencement date. However, HMRC introduced a soft-landing period which ended for the first VAT return period starting on or after 1 April 2021. From this date, digital links must be in place.



02 Digital journey

How do I check whether the digital links I have in place meet the digital journey rules?

Mapping and identifying the digital journey and how manual adjustments will be documented electronically will be key to understanding what (if any) changes are required.

See the readiness assessments in the [how we can help](#) section for more details.



Common questions

Click buttons for answers



03 Common questions

Is Excel compliant with Making Tax Digital?

Yes, as long as it meets all the Making Tax Digital requirements, in particular, the digital links requirements.



03 Common questions

I have lots of manual adjustments. What should I do?

Manual adjustments such as partial exemption calculations and capital goods scheme adjustments can be completed outside the Making Tax Digital return records.

However, once a final figure is added in, it will need to meet the Making Tax Digital requirements – for instance, if the figure is added to an Excel workbook, certain controls would need to be in place to ensure the figure is locked down.



03 Common questions

My organisation uses a number of different systems and is complex. How can you help me?

Complex organisations which are not able to adapt their VAT/ Goods and Services Tax (GST) compliance processes to fit within the rigid requirements of a standard off-the-shelf VAT compliance software may wish to think about a bespoke proposition.

More details about our global VAT return reporting tool is available here in [Section 06](#).



03 Common questions

Our data quality needs improving. What should we do?

Improving data quality can reduce time and costs going forward by increasing accuracy and reducing the risk of errors.

Organisations can either:

- ▶ Review and improve data in-house
- Or
- ▶ Ask a third party, for instance, EY uses EY Data Schema



Making Tax Digital readiness for 1 April 2022

Click buttons for answers



04 Making Tax Digital readiness for 1 April 2022

I know what the Making Tax Digital rules are, but how do I assess how ready we are?

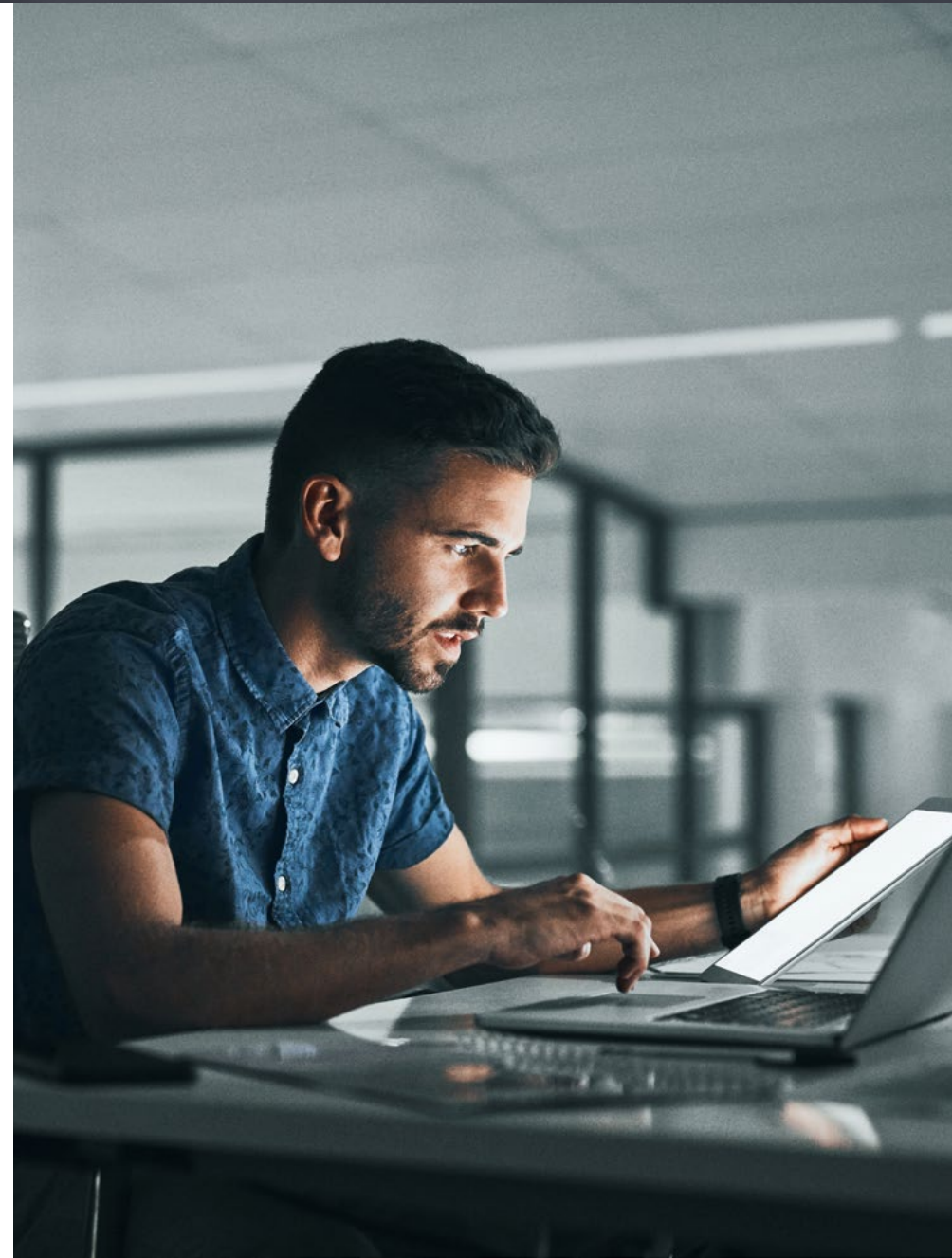
EY offers two readiness styles which are scalable and can be tailored according to the organisation's needs.

Electronic questionnaires

- ▶ On-site or desktop review
- ▶ Online questionnaire completed by organisation through EY Client Portal
- ▶ Automated scoring and risk rating
- ▶ Heat mapping and report of findings identifying
- ▶ Making Tax Digital gaps
- ▶ Prioritisation of areas requiring further analysis and remediation
- ▶ Particularly beneficial where there are a high number of VAT returns across the group

On-site or desktop review

- ▶ On-site or telephone detailed walkthrough of processes
- ▶ Process mapping
- ▶ Identification of Making Tax Digital gaps
- ▶ Options and recommendations to close gaps
- ▶ Focus on tactical and strategic fixes



04 Making Tax Digital readiness for 1 April 2022

I am not sure which areas I need to focus on to become Making Tax Digital ready. What actions should I take in the short and long term?

Short to medium term

- ▶ Identify key data, systems and processes to understand how the changes will impact your overall VAT reporting process.
- ▶ Areas of manual intervention should be identified and digital links should be developed to replace these.
- ▶ Ensure that all stored data sets are complete and that a process is in place to digitally store and readily access data.
- ▶ Ensure that approved software is in place for mandated 'go live' date.

Medium to long term

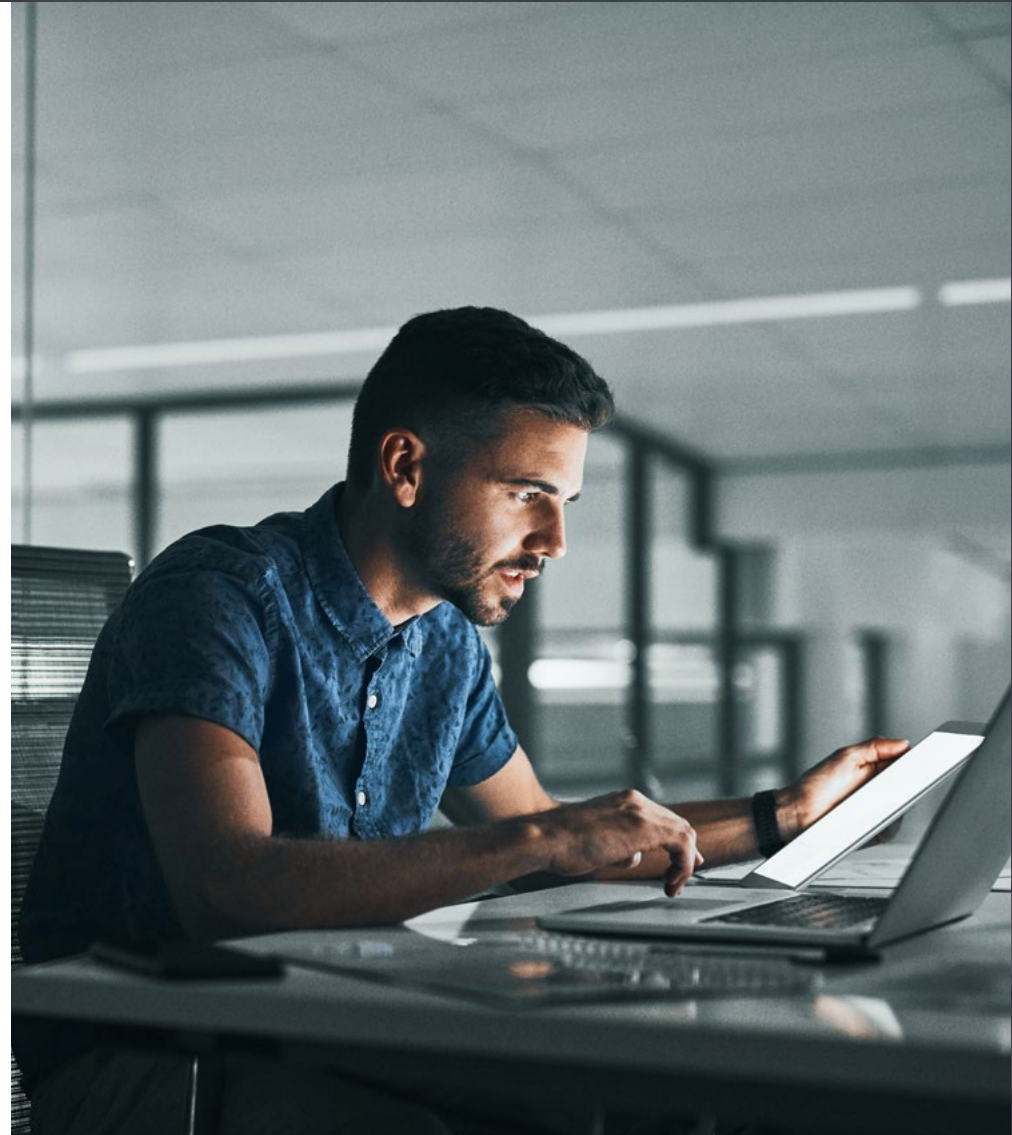
- ▶ Gap analysis of the VAT source data and reporting process should be carried out and possible tech solutions should be evaluated and recommended based on any gaps identified.
- ▶ Ensure accuracy of manual calculations such as partial exemption calculations.
- ▶ Map out potential risks and controversy areas.
- ▶ Re-assess the digital tax strategy and tax function effectiveness, particularly as Making Tax Digital gathers pace.



04 Making Tax Digital readiness for 1 April 2022

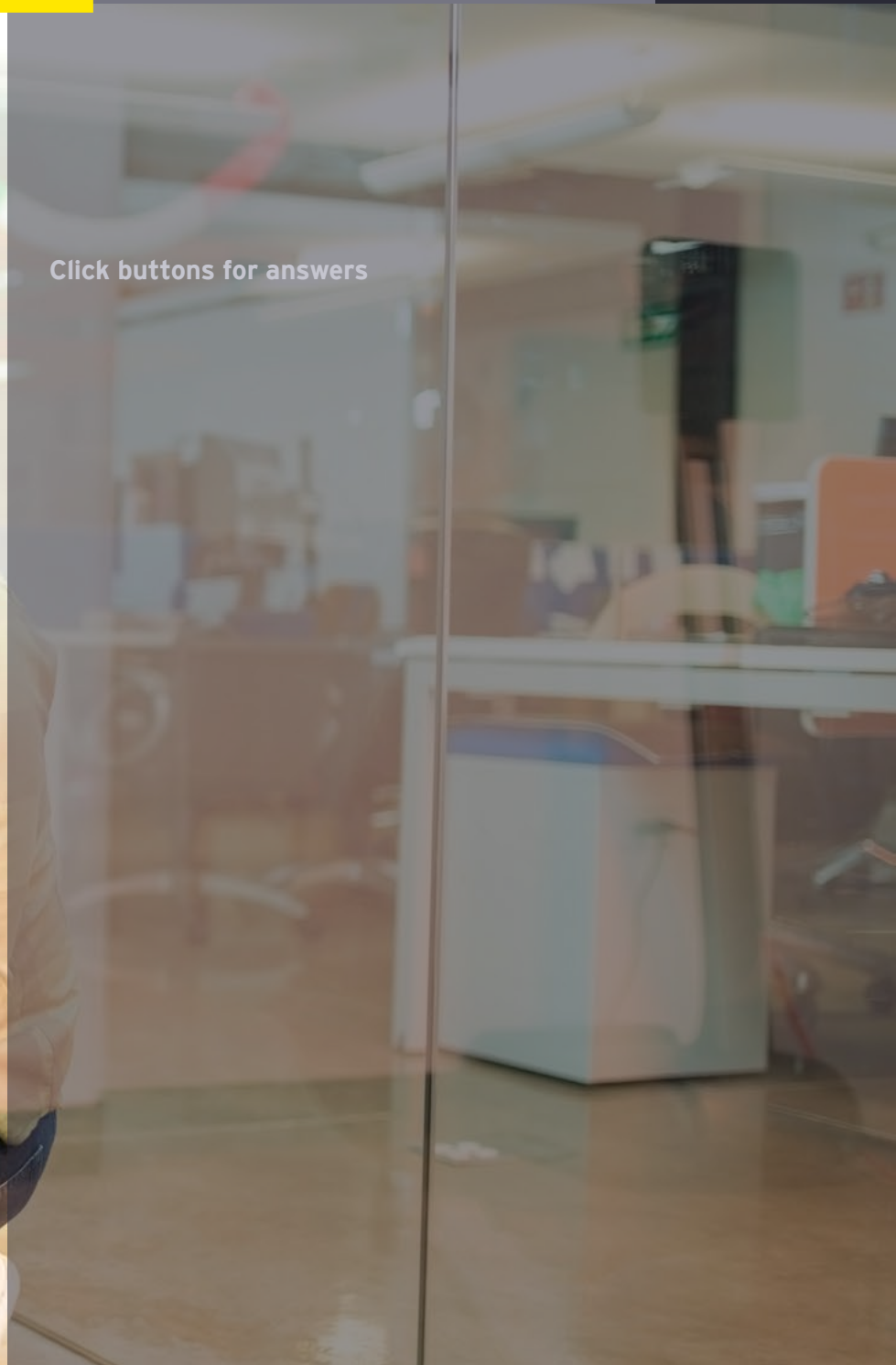
I am pretty sure we are compliant so why spend time and money on readiness assessments?

- ▶ All businesses should have a tax risk framework and Making Tax Digital should be approached in the same way. Taking time to prioritise any readiness issues may save time, cost and resources in the long run.
- ▶ Readiness assessments should provide a level of comfort allowing organisations to consider short-term fixes against long term solutions and plan the best way forward.
- ▶ Examples of Making Tax Digital best practice can be considered if a more in depth risk analysis is undertaken.
- ▶ You can work towards ensuring that the appropriate budgets for the tactical or strategic fixes which might be necessary are in place.
- ▶ You can also demonstrate to HMRC that you understand the requirements.



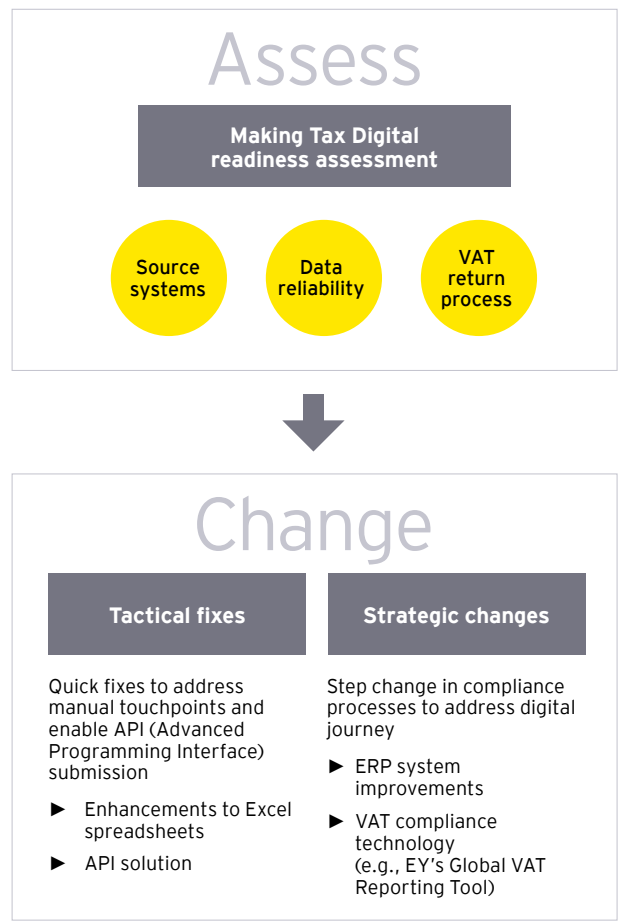
How we can help

Click buttons for answers

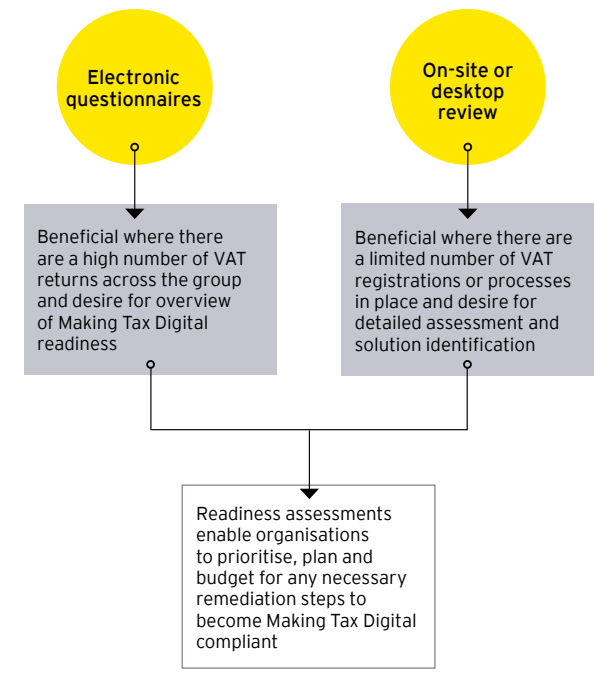


05 How we can help

Readiness assessments



EY offers two readiness styles which are scalable and can be tailored according to the organisation's needs



05 How we can help

EY VAT for Excel

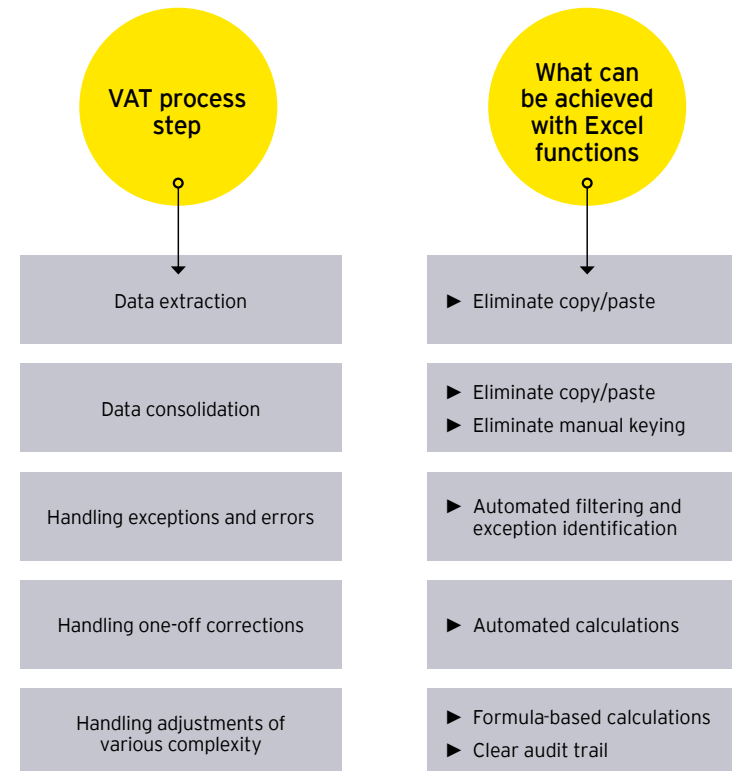
The EY VAT for Excel solution enables businesses to collate, protect and submit UK VAT returns easily, efficiently and cost effectively.

The solution is a Microsoft add-in that seamlessly integrates into Microsoft Excel, maximising the native Excel capabilities in order to streamline the preparation of your UK VAT return.

EY VAT for Excel has been developed in response to a significant number of client conversations which identified a growing market need for user-friendly technology, without software integration and the complexities that can ensue.

Download EY VAT for Excel [here](#).

Find out more information [here](#).



05 How we can help

EY Global VAT Reporting Tool

The EY Global VAT Reporting Tool (GVRT) is a cloud-hosted end-to-end global VAT and Goods and Services Tax (GST) reporting solution. GVRT redefines and globally standardises the preparation, production and reporting process. GVRT automates the preparation of indirect tax returns globally.

Integrated within GVRT is a powerful tax technical testing engine, capable of identifying anomalies by reviewing the VAT treatment applied to transactions against highly customisable parameters, covering general VAT checks and business-specific scenarios.

Returns are mapped automatically and are reviewed and finalised within a defined control framework, supported by a dashboard and an end-to-end digital audit trail which can be used to meet the Making Tax Digital digital links requirements.

Request a demo of GVRT [here](#).

[Indirect tax compliance services | EY UK](#)



Pierre Arman
Client Technology Office leader
EY UK&I Indirect Tax

Watch a video of GVRT [here](#)

05 How we can help

Outsourcing

Some organisations are choosing Making Tax Digital as the driver for outsourcing. We offer two main outsourcing options in response to Making Tax Digital. For further information, please contact your usual advisor or one of our Making Tax Digital contacts.

| Type of outsourcing | Relevant to | Summary |
|--|--|---|
| VAT compliance outsourcing | Businesses who want to outsource the VAT return process on a UK only or a global basis | We can assist by providing a standardised outsourced process which is fully Making Tax Digital compliant. |
| Full finance outsourcing (EY Absolute) | Generally small/ medium-sized businesses | We have a specialist team who can assist with outsourcing the entire Finance function – the VAT compliance element meets Making Tax Digital requirements. |

05 How we can help

E-Filer

As part of Making Tax Digital for VAT, businesses are required to use an approved software to submit their VAT return. The EY E-Filer is hosted within a secure EY domain to upload and submit VAT return files the HMRC's portal. Businesses need to setup a Business Tax Account with HMRC but the E-Filer requires no system or software changes.



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Watch a video of our E-Filer [here](#)

Further information and contacts

To find out more about Making Tax Digital for VAT, please contact your usual EY contact, one of the people listed here or visit our [Making Tax Digital page](#).



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