

Bookkeeping Basics: Making Tax Digital

Making Tax Digital (MTD) is the latest development from HMRC. It begins with VAT and many farm businesses now need to comply. Here's what you need to know.

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What is Making Tax Digital for VAT?

HMRC's ambition is for the UK to become one of the most digitally advanced tax administrations in the world and MTD is how they intend to achieve this. They hope it will reduce the 'tax gap' (the difference between the taxes which should be paid and those actually paid—many attributable to simple errors).

Traditionally many businesses kept their records in a paper book or spreadsheet, they did their VAT calculations manually, providing HMRC with several pieces of information on the VAT return:

- the total amount of VAT they had charged/been charged.
- the total sales and total purchases during the period.



Currently HMRC are looking for the same information they were provided with previously. There is potential for HMRC to begin to ask for more detailed information, e.g. the number or value of transactions you make as they progress the system.



Under MTD for VAT businesses will need to keep their records digitally and use a software product to submit the VAT return.

Taxable turnover includes **standard rated, reduced rated and zero rated income**. It does not include exempt income, or income outside the scope of VAT.

Outside the scope of VAT includes subsidies and grants, wages, and funds you introduce into the business.

Currently MTD is being rolled out for VAT, and is only mandatory for those businesses whose taxable turnover exceeds the VAT registration threshold, which in 2020/21 is £85,000. There are some exceptions, including businesses subject to insolvency procedures and it is possible to apply for an exemption on other grounds. These are most likely to succeed where you already have an exemption from submitting your VAT return on Government Gateway, i.e. you still submit a paper return.

Who is affected by MTD?

Registering for MTD

If you qualify for MTD then you must sign up with HMRC—you aren't moved over automatically:

<https://www.gov.uk/guidance/sign-your-business-up-for-making-tax-digital-for-vat>

When you register for MTD you will need your **Government Gateway user ID and password**.

You will also need either the **National Insurance number** (sole traders) or for a partnership, the **Unique Taxpayer Reference (UTR) number of the partnership**.

Part of the process involves a validation email being sent to you so you will also need to be able to access your email.

This guide does not constitute advice. For advice about your business contact your accountant.



Putting MTD for VAT Into Practice



Moving to accounting software for the farm bookkeeping is something most farmers will come to welcome. In recent years software has improved to become user-friendly, intuitive and time-efficient—your bookkeeping **will** become easier and quicker!

Choosing Software

There are many software products available and it's worth looking at options, asking for a demonstration, and seeking recommendations from advisers. Typical features of modern software include:

- Bank reconciliation—connect securely to your bank account and receive details of new bank transactions daily.
- Simple to enter transactions, easy to find transactions you've already entered, and easy to alter or delete transactions.
- Cloud-based—the programme is accessed over the internet and you can grant your accountant, other members of the business, or advisers access. You pay a monthly subscription fee and there is no software to buy.
- Look for a product that has a simple way to deal with a 'contra', e.g. where you enter a mart invoice and have commission to deduct. Some systems allow you to do this in a single transaction.
- The ability to upload your bills onto the system, either by forwarding an email containing a bill, scanning and uploading it, or taking a photograph of it on an app.
- Speed up bill paying, either by downloading a BACS file from the software with details of all the payments you wish to make and uploading this into your online banking, or using an app which allows you to pay directly from the software product.



You do not need to keep paper copies of financial documents (except relating to import/export) - you can keep these documents digitally in your software product. When many suppliers don't routinely provide hard copy bills this saves time printing and filing documents, and it is much easier to find things—both for you and the accountant.



Don't try to set up your new system yourself! Take some advice from your accountant or adviser to make sure you have things set up correctly from the start, especially your **nominal ledger**. Even if you're confident about operating the system a very little bit of help at this stage is still invaluable!



Modern systems have apps for tablets & phones.



Consider who can support you with any new software package—an accountant, bookkeeper or adviser—the ability to lift the phone if you have a problem or query is invaluable.

A key driver of MTD is to reduce errors in the VAT system. When switching to a digital bookkeeping system many businesses discover things that they could improve.

Now is the ideal time to review your processes with your accountant, e.g.

- What is the business & private share of farmhouse running costs, e.g. electricity, phones etc.
- How you account for private use of vehicles and fuel.
- The VAT rate of common items.

Tuning Your System

Most systems will allow you to set default VAT rates for each nominal code. This helps you to get the correct VAT rate. Ask your accountant or adviser for help with these.

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