Making Tax Digital: Case Study

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Charity Finance Group Webinar

Making Tax Digital for Business

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Making Tax Digital for VAT as a business: step by step

Software Choice Selection Tool

VAT Notice 700/22

Please note that all businesses affected by MTD have to either sign themselves up or have an agent sign them up on their behalf. This is not automatic and HMRC are not signing businesses up.

Mythbusting

Businesses can't use spreadsheets as part of MTD

That is not correct.- Businesses can choose to use spreadsheets to both maintain digital records and perform tax calculations, provided the spreadsheets combine with some form of 'bridging' software that will allow their VAT return data to be sent to HMRC from the spreadsheet.

HMRC will penalise me if I get the new process wrong

That is not correct.- HMRC recognises that businesses will require time to become familiar with the new requirements of MTD. During the first year of mandation HMRC will take a light touch approach to digital record keeping and filing penalties where businesses are doing their best to comply with the law.

Making Tax Digital- Spring Statement

"The government can confirm a light touch approach to penalties in the first year of implementation. Where businesses are doing their best to comply, no filing or record keeping penalties will be issued. The focus will be on supporting businesses to transition and the government will therefore not be mandating MTD for any new taxes or businesses in 2020."

Spending Review

Spring Statement: Hammond confirms 2019 Spending Review and allocates Brexit cash

Written by **Richard Johnstone** on 13 March 2018 in **News**

Chancellor says if public finance improvement continues he could increase public spending from 2020

Spending Review faces Brexit delay, warns Hammond

Written by **David Blackman** on 15 April 2019 in **News**

Three year review "inappropriate" until withdrawal deal is concluded, says chancellor

Increasing the uptake of Gift Aid- 4 October

Gift Aid FAQs for volunteers & donors

What is Gift Aid?

Gift Aid is a tax relief for charities in the UK to increase donations - at no extra cost to the donor. When a charity receives a donation from a UK taxpayer, the organisation is entitled to claim an extra 25% paid on that donation.

A £10 donation processed with Gift Aid becomes a £12.50 donation.

What do donors need to do?

All donors have to do is #tickthebox on the Gift Aid declaration form and the charity can claim 25p for every £1 given.

Once a donor has given their permission by filling in the Gift Aid declaration form, there is no need for them to do anything else.

Who qualifies to donate through Gift Aid?

For charities to claim Gift Aid on a donation, the donor must have paid UK income tax or capital gains tax that tax year, at least equal to the tax that the organisation will reclaim on the individual's donations.

Even if the donor is not currently employed they are eligible to make Gift Aid payments if, in the tax year in which they make the donation, they are paying tax on any of the following:

- personal or occupational pension
- stocks or shares
- bank or building society savings accounts
- rental income
- overseas or UK investment dividends

Higher rate tax payers

Higher rate tax payers are entitled to claim the difference between their rate of tax and the basic rate on the total value of the donation. Individuals can claim the additional tax relief through their Self-Assessment tax return or by asking HMRC to amend their tax code.

Example for higher rate tax payer

You donate £100 to charity - they claim Gift Aid to make your donation £125. You pay 40% tax so you can personally claim back £25.00 (£125 x 20%).

For more on Gift Aid visit **cfg.org.uk/giftaid**

**Date for your diary:
Thursday 16 May,
QEII Centre**

Book online: **www.cfg.org.uk/ac19**

Introduction

Richard Bray
Finance Regulatory & Taxes Manager

Making Tax Digital at CRUK

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Tax Projects Manager

Today's session will cover:

➢ Reminder of key deadlines

➢ Setting the scene: our current VAT Return process

➢ Adjustments - examples

➢ How will Making Tax Digital affect CRUK?

➢ Approach to the Making Tax Digital project

➢ What can stay the same/what will we need to do differently?

➢ What have HMRC said about adjustments?

➢ How will CRUK meet the 2019 & 2020 deadlines?

➢ Digital links and digital records

➢ Challenges encountered/areas where we seek clarity

Reminder of key deadlines

For most organisations:

➢ For VAT Return periods starting on/after **1st April 2019**, organisations must submit their VAT Return using API enabled software, rather than type figures into HMRC website

➢ 12 month soft landing period for digital links from 1st April 2019 to 31st March 2020

➢ From **1st April 2020**, data transfer within/between software programs, applications or products that make up functional compatible software must be digital where the information forms part of the digital records, and there must be digital links between your functional compatible software and the VAT Return being submitted

For organisations where Making Tax Digital has been deferred (e.g. VAT groups):

➢ The same but the dates become **1st October 2019** and **1st October 2020**

Setting the scene: our current VAT Return process

➢ CRUK is in a VAT group with its two trading subsidiaries – we submit a quarterly return for the group, all companies are based in the UK and all records are kept in Business World

➢ CRUK closes its books on working day 5 – VAT Return workings start after this

➢ VAT Return figures are completed in Excel (and typed into HMRC website)

➢ We put the VAT payable/reclaimable figures per the balance sheet, and the inputs/outputs figures from the Tax tables, into an Excel spreadsheet – this forms our starting point

➢ We then make lots of adjustments – these are calculated in separate Excel spreadsheets

➢ We post any VAT adjustments back into Business World the following month

Adjustments - examples

➤ Reverse charge – we review overseas invoices as part of the VAT return process to determine whether the reverse charge is due (and what the correct VAT recovery would be if it is)

➤ Invoices with incorrect VAT recovery (invoices booked to wrong project, change in the use of a purchase etc.)

➤ Invoices coded incorrectly (e.g. invoices with some lines at 20% and some at 0% where the way that Business World uses tax codes means VAT recovery gets calculated incorrectly)

➤ Outputs/inputs without tax codes (so not in tax tables) – e.g. the interface brings exempt lottery income into Business World without a tax code

➤ Cash receipts into the bank where they are not yet matched – we assess whether we need to account for output VAT (e.g. if the cash is received before a sales invoice is raised)

How will Making Tax Digital affect CRUK?

Positives:

➢ Opportunity to streamline a complex process that has single point sensitives – we wanted to do this anyway

➢ Easier to get buy-in at a senior level/get some resource if it is an HMRC requirement

➢ Easier to get buy-in from wider finance/systems teams

Negatives:

➢ Any enforced process change puts pressure on an organisation, and additional resource is sometimes hard to come by

➢ Digital link requirement – creates extra work that we don't personally feel we need

➢ Some of the adjustments we post are easier/more accurate to do as part of VAT Return process

➢ Will require better VAT coding across CRUK – that requires training for lots of people

Approach to the Making Tax Digital project

➢ Speaking to senior management and planning for time/resource required

➢ Speaking to charities in a similar position, especially ones using Business World

➢ Working out the minimum we need to do to comply, plus aspirational objectives

➢ Seeking API enabled software – an interim solution as well as long term options

➢ Considering whether our information is already stored/linked digitally

➢ Working through each VAT return adjustment to see if it can stay offline or not

➢ Finding a way to digitally link our software to our VAT Return workings

➢ Working with systems/finance team to start getting required changes made

What can stay the same?

➤ Most of our adjustments relate to partial recovery – we can continue to do these in separate spreadsheets and copy/paste the totals into the VAT Return workings (though best practice would be to digitally link these)

➤ Our system already calculates most partial recovery at source, so other than errors and exceptions, our input and output VAT figures are often reasonably accurate

➤ The vast majority of our records are already stored and linked digitally

➤ We can still do the majority of our workings in Excel (as Excel can form part of your functional compatible software)

What will we need to do differently?

➢ Can't type numbers into HMRC portal – need API enabled software

➢ Can't copy/paste starting point for VAT Return – need to extract it via a digital link from Business World

➢ Certain adjustments may need to be right at source (e.g. reverse charge)

➢ Need to consider whether <u>all</u> required records are stored/linked digitally

➢ Focus on making adjustments in month rather than via VAT Return process

What have HMRC said about adjustments?

➢ Certain adjustments can still be made in separate Excel spreadsheets and only the total of the adjustment needs to be entered into your functional software – no digital link required

➢ Adjustments for partial recovery are ok, as are corrections of errors identified where the accounting period is closed, and other adjustments listed on CTG website:

➢ https://www.charitytaxgroup.org.uk/news-post/2018/making-tax-digital-updates-discussions-hmrc-permitted-adjustments/

➢ We are seeking clarity from HMRC around the reverse charge – they seem to state that the reverse charge should be applied during the period the invoice is received, whereas a lot of charities apply it during the VAT Return process, after the period has closed

How will CRUK meet the 2019 & 2020 deadlines?

2019 deadline (for CRUK that is the VAT Return period starting on 1 October 2019):

➢ Register for MTD and submit figures via API enabled software (PwC spreadsheet – free for charities)

➢ Continue to create the 9 boxes in Excel and then input those figures into our API enabled software

➢ Soft landing period for digital links - will still use copy/paste if we need to

➢ Continue to make multiple offline adjustments in separate Excel spreadsheets

2020 deadline (for CRUK that is from 1 October 2020):

➢ Continue to create the 9 boxes in Excel – then digitally link that spreadsheet to API enabled one

➢ Digital links from Business World to our Excel spreadsheet for starting point for 9 boxes (using something like 'excelerator')

➢ Partial recovery adjustments/error corrections will continue to be made as they currently are, with focus on getting things right at source/correcting in month where possible

➢ Reverse charge & other adjustments where we seek clarity from HMRC – aim to get right in month

➢ Ensure all necessary records stored/linked digitally - consider ourselves largely compliant on this already

Digital links and digital records

➢ Information that must be kept digitally includes:
  ▪ time/values of supplies made (and rate of VAT charged)
  ▪ time/values of supplies received, including the amount of input tax you will reclaim

➢ Our accounting records for the 3 entities are kept in Business World – information gets into Business World from various sources (interfaces with our shops/online sales/event registration platform, sales and purchase invoices being processed, journals being posted etc.)

➢ Most required information is already stored digitally at CRUK - this is especially true of purchases/supplies that include VAT (i.e. standard rated)

➢ We have concerns around some of our exempt supplies, such as income from CRUK committee events

Challenges encountered/areas where we seek clarity

➢ Realised how much easier it is to fix some things in the VAT Return process, and how much of a challenge it will be to get some things right at source

➢ Exempt committee income/expenditure: there is no VAT to pay/reclaim in respect of these events, so we question how essential it really is that this information is stored and linked digitally – it may require a lot of work for us to change things

➢ Reverse charge – don't always have time to post this in month as we have lots of overseas purchases where the reverse charge may not apply and it often requires judgement

➢ Input/output VAT will be straight forward, but inputs and outputs will be harder – we don't know how much effort to put in, given they don't affect the VAT payable/reclaimable figure

Key points

➢ We did a detailed review of our current VAT Return process to understand how Making Tax Digital will affect it, and what changes we need/want to make

➢ We worked out the minimum requirements to comply, and made sure we will be compliant by the necessary deadlines – although there are still areas to resolve

➢ We are using Making Tax Digital as a catalyst for improvement over and above the minimum requirements where possible

➢ We thought about who else needs to be involved/informed, and engaged with them at an early stage

Thank you

Any Questions?