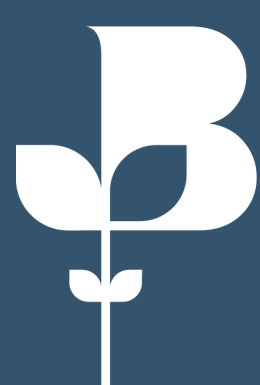




# *Your guide to...* **Making Tax Digital**



Herefordshire  
& Worcestershire  
Chamber of Commerce



**WORCESTERSHIRE**  
BUSINESS CENTRAL



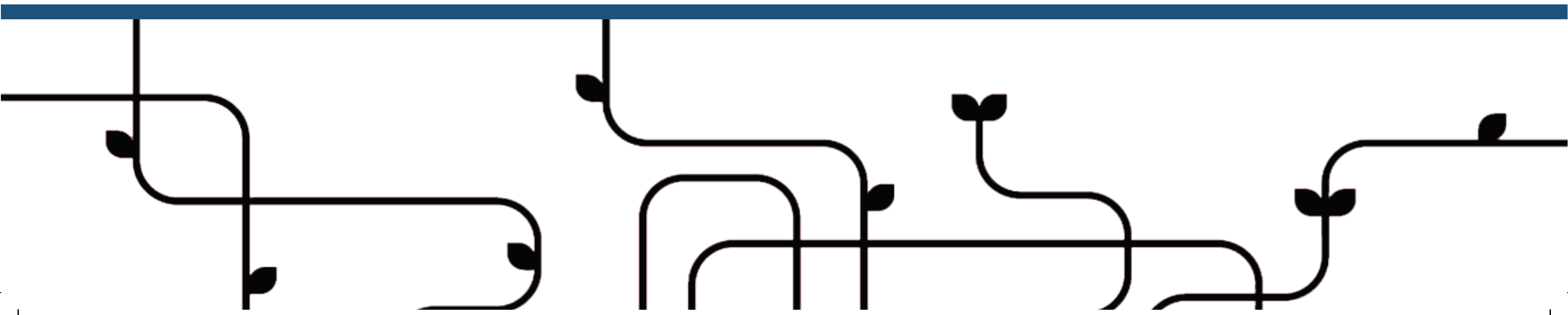
**European Union**  
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# What is the point of Making Tax Digital?

■ Making Tax Digital intends to reduce revenue losses due to avoidable mistakes on VAT returns. Once compliant, businesses might benefit from faster and more efficient VAT accounting and returns. The British Chambers of Commerce (BCC) and Herefordshire & Worcestershire Chamber of Commerce have repeatedly expressed concerns about the imminent timing of the implementation of Making Tax Digital.

## What is Making Tax Digital?

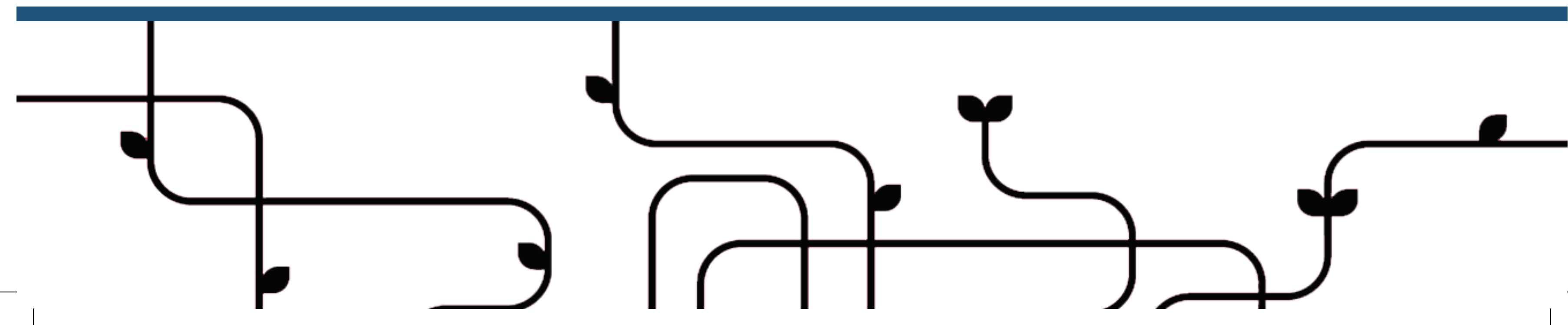
■ It is increasingly common for business records and accounts to be kept digitally, in a software program on a computer, or on a smart phone application, or maintained through such a device and stored using a cloud-based application. The difference under Making Tax Digital is that the software which businesses use must be capable of keeping and maintaining the records specified in the regulations, preparing their VAT Returns using the information maintained in those digital records and communicating with HMRC digitally via the government's Application Programming Interface (API) platform. If your digital records are up to date, software will be able to collate and prepare your return for you. It will then show the return to you and ask you to declare that it is correct and confirm that you want to submit it to HMRC. Manual calculations will no longer be performed nor will information be transposed by hand.

# Does Making Tax Digital Legislation affect my business?

- All VAT registered businesses with a taxable turnover above the VAT threshold (currently £85,000) must join Making Tax Digital for VAT from 1 April 2019. Taxable turnover includes standard, reduced and zero rated but does not include exempt supplies or income outside the scope of VAT. HMRC has also introduced a deferral for those with more complex VAT requirements and will now allow a further six months to prepare for the legislative change. The deferral will apply to trusts, 'not for profit' organisations that are not set up as a company, VAT divisions, VAT groups, local authorities, public corporations, traders based overseas, and those required to make payments on account and annual accounting scheme users.

## What does my business need to do?

- VAT has been online since 2010 and over 98% of VAT registered businesses already file electronic returns. Businesses to which Making Tax Digital for VAT applies will no longer be able to submit VAT returns using the HMRC portal.
- For VAT, Making Tax Digital doesn't change how often businesses have to send information to HMRC, but rather how they do it. Making Tax Digital will require VAT registered firms to have Making Tax Digital compatible software in place that can create a VAT return and connect to HMRC systems via an Application Programming Interface (API). The API can send and receive VAT information with HMRC, as well as generating a VAT return. For more information please visit [www.bit.ly/stakeholdercomms](http://www.bit.ly/stakeholdercomms)





# When does Making Tax Digital begin?

■ From April 2019 all VAT registered businesses with a taxable turnover above the VAT threshold (currently £85,000) are required to keep VAT records digitally and file their VAT returns using Making Tax Digital compatible software. Making Tax Digital is mandatory for VAT return periods that start on or after 1 April 2019. For more information please visit [www.bit.ly/VATnotice70022](http://www.bit.ly/VATnotice70022)

■ The primary legislation for Making Tax Digital relating to VAT is contained here [www.bit.ly/FinanceAct17](http://www.bit.ly/FinanceAct17), providing certainty about the broad framework in which Making Tax Digital will operate. Secondary legislation for VAT was laid out in February 2018, and will come into force from April 2019.

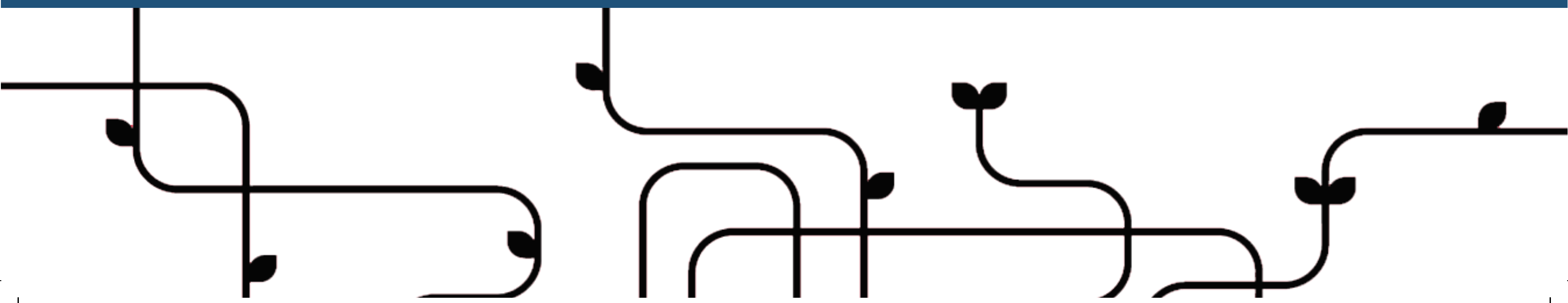
## How can businesses prepare?

■ HMRC will not be offering its own software products, but will provide the Application Programming Interfaces (APIs) that commercial software developers will use to develop a range of applications that will enable businesses to keep their records digitally and integrate with HMRC systems.

■ If you have an agent or tax advisor, speak to them about getting ready for Making Tax Digital. If you already use software, you should speak to your software provider to find out when it will be Making Tax Digital-compatible and what you have to do. If you are unsure about how to enter information into your software, you should speak to your software provider.

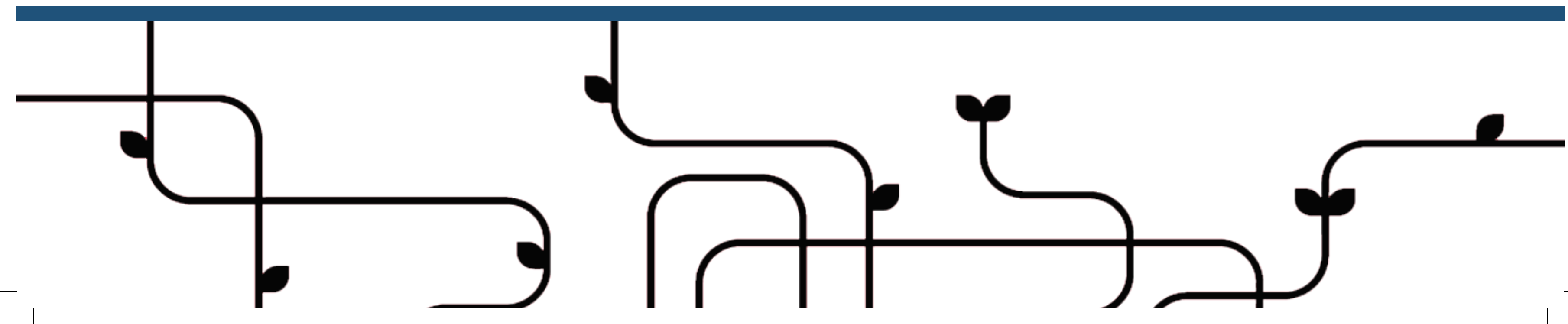
# Can I still use spreadsheets for my business records?

- Spreadsheets may be used to record and store business transactions digitally. However, those spreadsheets must be able to submit the required data to HMRC digitally, for example, using bridging software or an API enabled spreadsheet that can integrate directly with HMRC systems.
- The bridging software must be capable of extracting or receiving the information from the spreadsheet digitally and then sending it to HMRC systems.
- The summary information must not be physically re-typed into another software package.



# What is an Application Programming Interface?

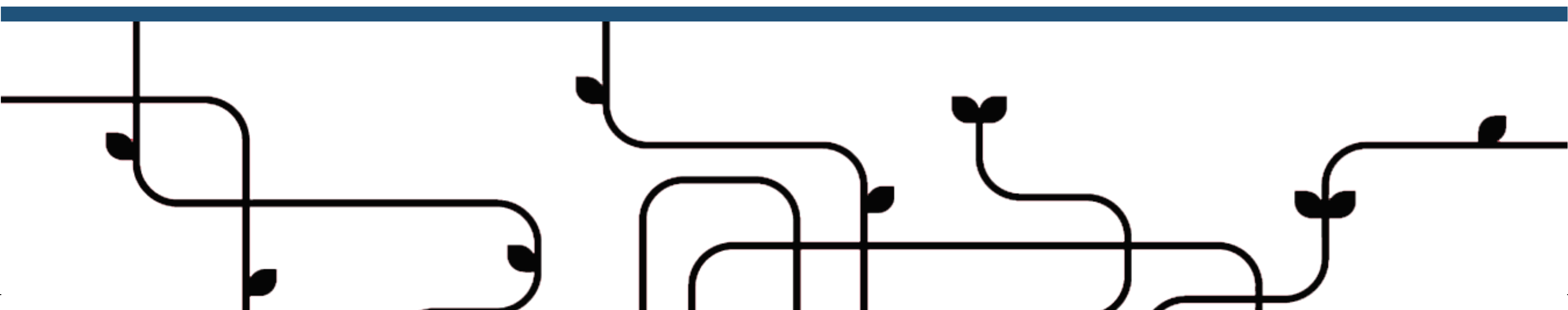
- An API is software that links two or more software programmes together, allowing them to exchange data. Please visit [www.bit.ly/VATnotice70022](http://www.bit.ly/VATnotice70022) to see an example of using API-enabled software and accounting software.
- Compatible software is a program, of set of programs, products or applications that must be able to:
  - Record and preserve digital records
  - Provide to HMRC information and returns from data held in those digital records by using the API platform. The submission of information to HMRC must always be via an API. While the HMRC expects most businesses to use API-enabled commercial software packages both to keep digital records and file their VAT Returns, the following alternatives may be available, such as bridging software or API-enabled spreadsheets.
  - Receive information from HMRC via the API platform
- Some software programs will not be able to perform all of the functions listed above. The complete set of digital records to meet Making Tax Digital requirements does not all have to be held in one place or in one program. Digital records can be kept in a range of compatible digital formats.





# What is Bridging Software?

- Bridging software is how HMRC describes the digital tool that can act as a digital 'bridge' between the business and HMRC's systems.
- Bridging software can take information from other applications, for example, a spreadsheet or an in-house record keeping system and then lets the user send the required information digitally to HMRC in the correct format. Bridging software also allows information to be sent digitally back to the business from HMRC. The summary information must not be physically re-typed into another software package.
- Transferring data manually between different parts of software programs products or applications is not acceptable under Making Tax Digital. Digital links will replace manual links.
- Please visit [www.bit.ly/VATnotice70022](http://www.bit.ly/VATnotice70022) to see how to use a spreadsheet and bridging software.
- For larger businesses using bespoke in-house software solutions, make sure your IT team is aware of the new Making Tax Digital technical standards as they may want to link in-house solutions directly to HMRC's APIs. For more information contact [SDSTeam@hmrc.gsi.gov.uk](mailto:SDSTeam@hmrc.gsi.gov.uk)







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