

AVALARA

# Making Tax Digital Deadline Extended to 1 April 2021

**Does your business still need to digitally link your VAT returns? If so, HMRC has announced some welcome breathing space.**

The 'soft landing period' for Making Tax Digital (MTD) for VAT was due to come to an end on 31 March 2020 but has now been extended by a year. It means that all businesses have until their first VAT return period starting on or after 1 April 2021 to put full digital links in place.

Here is a closer look at the scope of this extension, the broader requirements of MTD – and at how to make sure you stay on the right side of the rules.

## Making Tax Digital: A Quick Overview

**First announced in the 2015 Spring Budget, MTD is the government's initiative for modernising the UK's business tax framework. Its aim is to make tax administration more effective, efficient, and fairer.**

The plan, ultimately, is to bring all business taxes under the MTD umbrella. It is an ambitious project, involving a fundamental shift from paper to digital record keeping, and from annual to quarterly reporting. To ensure compliance, it requires businesses to reassess both their reporting procedures and the accounting tools they currently have in place.

VAT has been the first area of focus in the plan. As from April 2019, most VAT-registered businesses with a taxable turnover above the VAT threshold (£85,000) are now covered by the MTD framework.



## Software requirements for MTD

Businesses caught by MTD are required to move their VAT accounting to “functional compatible software”. In short, the software must be capable of storing and maintaining the organisation’s VAT records. It must enable the preparation of VAT returns using the information maintained in those records. It must also be capable of linking up with HMRC digitally through HMRC’s own API platform.

But what happens if your accounting processes involve more than one software application? Or what if you use spreadsheets for your accounting?

Where data is scattered across more than one location or systems, you can still be MTD-compliant, so long as you have a digital link in place for transferral of the data.

## What is a digital link?

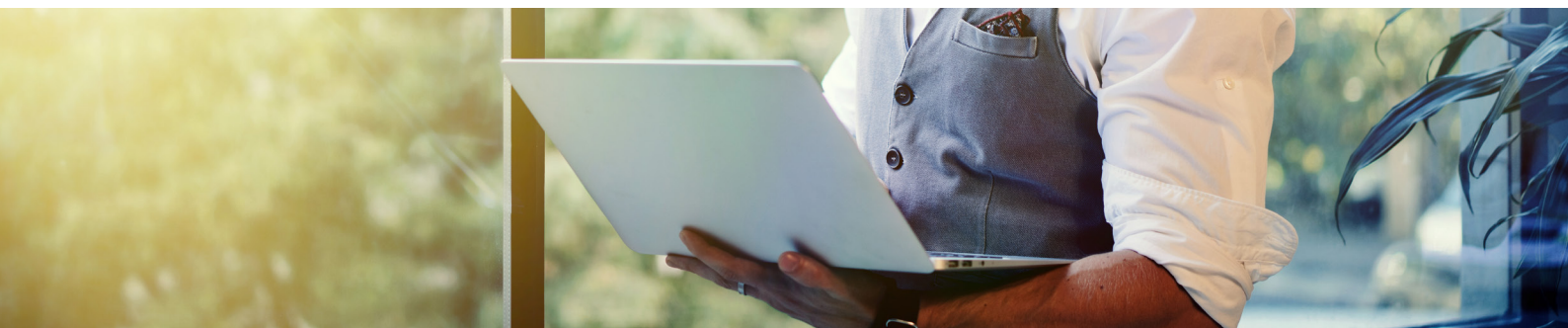
HMRC rules specify that in order to be compliant with MTD rules, a digital link must have two characteristics:

- ✓ Data must be transferred electronically between programs, products, or applications.
- ✓ The transfer must be automated. In other words, the process of transferring the data must not involve any manual intervention, such as copying and pasting it from a spreadsheet to another location.

## What is the ‘soft landing’?

It is essentially a ‘grace period’, providing businesses with time to get their technology in order. So during the soft landing period only, if a company has not been able to set up complete and effective digital links between its various software programs, spreadsheets and locations, HMRC will accept the use of ‘cut and paste’ or ‘copy and paste’ as a digital link.

Businesses should still note, however, that even during this soft-landing period, you still need to use MTD-compliant software for submitting your VAT return to HMRC.



## How to become fully MTD compliant

Full automation of your VAT processes is not just essential for compliance purposes, it also makes perfect sense for your business. Not least, it helps reduce the time and resources you need to commit to VAT reporting, freeing up your finance team to focus on driving your business forward.

With our partners, Avalara, we offer a one-stop solution to automate all forms of VAT compliance in the UK, Europe and over 50 countries around the world. To join up your multiple systems, to stay compliant and to free up your resources, speak to Millennium Consulting today.

If you would like more details of the requirements for the application, please complete the quick questions below, and we will provide free details.



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