



# MAKING TAX DIGITAL

CHANGE THE WAY YOU  
TREAT YOUR TAXES  
BEYOND 2020

IDEAS | PEOPLE | TRUST

**BDO**

# THE JOURNEY SO FAR



## WHY WAS MAKING TAX DIGITAL (MTD) INTRODUCED?

- ▶ HMRC introduced this initiative with the goal of making tax administration more effective, efficient and simpler for individuals and businesses.
- ▶ MTD is a rolling programme and MTD for VAT (MTDfV) is the first major phase of this initiative.
- ▶ Behind this is an acceptance that current errors in reporting VAT numbers has created a gap between the expected and actual numbers collected.

“ HMRC have confirmed that they are giving business more time to implement digital links through their systems, in order to create the so-called unbroken electronic chain of information from the accounting system to the VAT return. This will now be required for the first VAT accounting period starting on or after 1 April 2021.

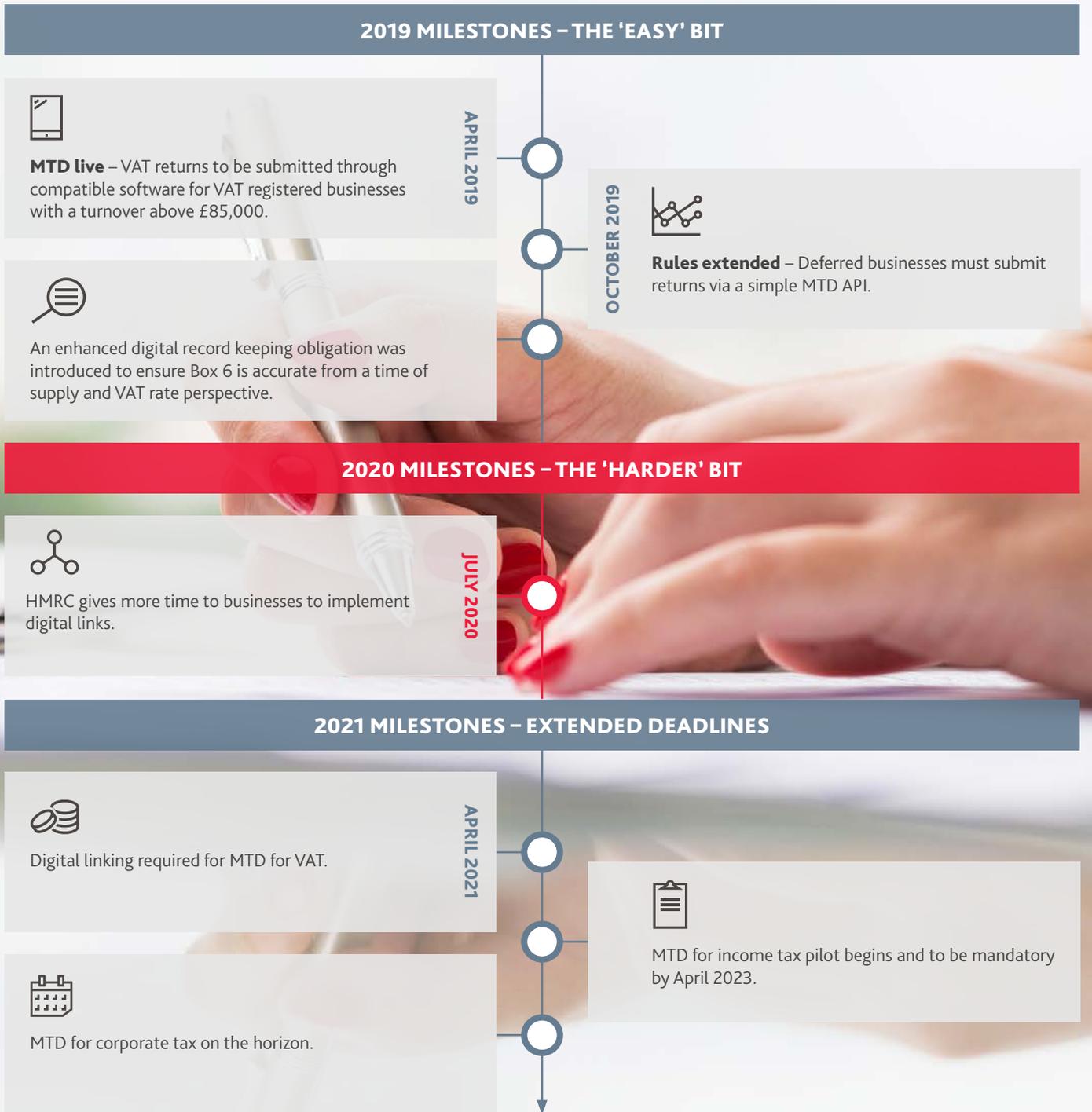
**Those businesses that take this opportunity to strategically review their systems and data beyond this immediate mandate, will save cost and time when additional taxes are later added.**

**IAN BOWDEN,**  
Partner,  
Head of Tax Performance Engineering

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**MAKING TAX DIGITAL FOR VAT TIMELINE**



# DIGITAL LINK MANDATE

The April 2021 requirement of ensuring digital links is set to be the most challenging requirement of MTD to date and will present very practical problems to lots of businesses. Those that consider their systems and data more progressively at this point, will benefit when additional taxes are later added.

## WHAT ARE DIGITAL LINKS?

HMRC have defined these as a digital means of transferring VAT information from one software program to another. This could include running a VAT report in your accounting system or sales and purchase ledger reports from your sales ledger, with automatic extraction to your calculation tool. HMRC have confirmed that these software processes constitute as digital links.

Digital gaps occur where manual intervention is required, for example, copying information from VAT output files across to a VAT return spreadsheet. Businesses will need to find alternative solutions to ensure these digital gaps are bridged. Bridging software alone will not solve this issue.

## POTENTIAL MTD FV DIGITAL LINK SOLUTIONS:

The right solution for you will not necessarily be the same as for others and will depend on your existing data, systems and VAT return process. When deciding which approach to adopt, it's important to consider not only these initial VAT requirements, but also likely future additional VAT MTD requirements and those likely to be put in place for other taxes.

## WHAT ARE THE CURRENT POTENTIAL PENALTIES?

 <b>ISSUE</b>	 <b>POTENTIAL PENALTY</b>
<b>'Careless' VAT error arises</b>	Penalty of up to 30% of value of VAT error
<b>Material issue with VAT controls and processes after providing a 'clean' annual certificate to HMRC</b>	Fixed penalty of £5,000 levied on Senior Accounting Officer (if business is subject to that regime)
<b>VAT return form filed late</b>	In the Default Surcharge Penalty regime – a late VAT payment to HMRC in the next 12 months leads to a penalty of 2%/5%/10%/15% of the VAT paid late  Sliding scale penalty: minimum £50; maximum of greater of (i) £1,500 or (ii) 0.5% of VAT due to HMRC for the period covered by the late VAT return form
<b>Not keeping all required VAT records (including filing VAT return figures to HMRC in the new way when required to do so)</b>	£500 fixed penalty
<b>Not filing a VAT return form 'electronically' at all (ie either via the existing portal or in the new way)</b>	Up to £400 per return



# SPOT THE OPPORTUNITY

Global tax digitalisation is accelerating the timing of tax reporting and filing obligations for businesses and upping the pressure on data governance, availability and quality. Authorities will inevitably be moving on to other types of taxes and preparing for this today is relevant and appropriate. Companies must plan, by addressing the issue holistically and strategically.

## WHAT COULD AN IMPROVED VAT PROCESS DELIVER?

Achieving automation should lead to:

A reduced risk of VAT errors.

Less time preparing VAT returns.

Increased detection of potential VAT errors prior to filing.

Preparation for rollout to other taxes.

Standardised processes.

Full compliance audit trail and log of VAT exemptions.

## WHAT DOES THE FUTURE HOLD?

Additional corporate taxes will be introduced later which will increase the frequency of HMRC reporting. With increased volumes of data being sent to HMRC, there will be a stronger audit trail with clear data markers that show where the data originated. This is most likely to be submitted directly from your systems to HMRC in real time and could include transactional line level information. Businesses will need to consider MTD on changes in the business such as purchase of a new company.



# HOW CAN BDO HELP?

## HAVE YOU IMPLEMENTED A SOLUTION FOR PHASE ONE - IS IT WORKING AS WELL AS YOU WOULD LIKE?

When deciding which approach to adopt, it's important to consider not only these initial VAT requirements, but also likely future additional VAT MTD requirements and those likely to be put in place for other taxes following that.

### VAT MTD ASSURANCE

To ensure you are compliant and ready for the 2020's VAT MTD deadline, we propose assessing your preparedness through the execution of a VAT MTD Assurance. Our holistic offering relies on advanced data flow mapping techniques in contrast with the conventional process or data audit methodology.

The deliverables you will get from the VAT MTD Assurance, are:

**1. A data flow map of your VAT return process, with area of risks**

**2. A report composed of three sections:**

01. Compliance/non-compliance with each item of the legislation
02. Risk rating against:



Sustainability of the digital records maintenance and process



Technological risks



Change management



VAT returns' versioning management



VAT returns' repeatability

**03. Summary of findings and recommended next steps.**

Wider assurance can also be given to your whole control environment, as this Report can form the basis for your tax risk strategy, including helping with the new Business Risk Review and other similar control requirements.



### Software agnostic

We are one of the only leading firms who is completely system agnostic. Our only priority is ensuring you get the right solution. We know the whole market, working with all the leading vendors.



### Experienced tax technology and VAT professionals

Leading tax technology professionals, including a special advisor with design and implementation experience. Through to VAT system professionals with years of experience in VAT systems and data.



### Integrated Tax Performance Engineering team

We have an integrated tax governance and technology team. So all reviews are considering more than just the best technology solution for you, but also what the control framework needs to look like.



### Strategic and holistic thinking

We won't just focus on the calculation, but consider wider improvements further downstream, from improving data quality at the point of entry to focusing on the reporting from your current ERP systems.

FOR MORE INFORMATION:

**IAN BOWDEN**

PARTNER,  
HEAD OF TAX PERFORMANCE  
ENGINEERING

+44 (0) 7932 633 099  
ian.bowden@bdo.co.uk

REGIONAL VAT CONTACTS:

**RICHARD HOGG**

VAT DIRECTOR, NORTH

+44 (0) 7785 420 422  
richard.hogg@bdo.co.uk

**AMIT DEV**

VAT TECHNOLOGY SPECIALIST,  
MIDLANDS

+44 (0) 7583 061 888  
amit.dev@bdo.co.uk

**MARTYNE PEARSON**

VAT DIRECTOR, LONDON

+44 (0) 7970 023 325  
martyne.l.pearson@bdo.co.uk

**KAMAL KATARIA**

VAT DIRECTOR, SOUTH

+44 (0) 7805 808 781  
kamal.kataria@bdo.co.uk

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