

## HMRC Factsheet published on how to avoid Making Tax Digital for VAT Penalties

HMRC has published a [factsheet](#) explaining how businesses can avoid incurring making tax digital (MTD) penalties.

Making Tax Digital (MTD) was introduced to help customers to get their tax right. Under MTD, VAT registered businesses must keep certain records digitally and file their VAT returns using software.

Businesses that do not do this can be charged penalties. This factsheet tells you what to do to avoid being charged a penalty.

### **You must file your VAT return using functional compatible software**

Functional compatible software means a software program, or set of software programs, products or applications (apps) that can:

- *record and store digital records*
- *provide HM Revenue and Customs (HMRC) with information and VAT returns from the data held in those digital records*
- *receive information from HMRC*

If you file your returns, but do not use functional compatible software, HMRC may charge you a penalty of up to £400 for every return you file.

To find details of functional compatible software you can use, go to [www.gov.uk](http://www.gov.uk) and search for 'Making Tax Digital for VAT'.

### **You must keep records digitally**

You must keep some records digitally within your functional compatible software. This is known as your 'electronic account'. Your electronic account must contain the following:

- *your business name, address and VAT registration number*
- *any adjustments from calculations you make outside your functional compatible software for any VAT accounting schemes you use*

- *the VAT on goods and services you supplied, meaning everything you sold, leased, rented or hired (supplies made)*
- *the VAT on goods and services you received, meaning everything you bought, leased, rented or hired (supplies received)*
- *any adjustments you make to a return*
- *the 'time of supply' and 'value of supply' (value excluding VAT) for everything you bought and sold*
- *the rate of VAT you charged on goods and services*
- *your reverse charge transactions, where you record the VAT on the sale price and the purchase price of the goods and services you buy*
- *copies of documents that cover multiple transactions made on behalf of your business like those made by volunteers for charity fundraising, a third party business or employees for expenses in petty cash*

All transactions must be contained in your electronic account but you do not need to scan paper records like invoices and receipts.

If you do not keep these records digitally, HMRC may charge you a penalty of between £5 to £15 for every day on which you do not meet this requirement.

### **You must use digital links to transfer or exchange data**

If you transfer or exchange data within and between software programs, apps or products (that make up functional compatible software), and the information forms part of your electronic account, you must do this using digital links.

You must digitally link each piece of software you use. A digital link is where you transfer or exchange data electronically between software programs, apps or products. You must not transfer or exchange data manually.

Some examples of digital links are:

- *linked cells in spreadsheets, including the use of 'cell number/return' functions*
- *emailing a spreadsheet containing digital records so the information can be imported into another software product*
- *transferring a set of digital records onto a portable device, such as a pen drive or memory stick, and physically giving this to someone else to import that data into their software*
- *XML, CSV import and export, and download and upload of files*
- *automated data transfer*
- *Application Programming Interface (API) transfer*

Use of 'cut and paste' or 'copy and paste' to select and move information is not a digital link.

If you do not use digital links to transfer data between pieces of software, HMRC may charge you a penalty of between £5 to £15 for every day on which you do not meet this requirement.

### **You must use the checking functions within your software**

You must use the checking functions within your software to make sure your returns are correct before you file them. If you can, you should also download a copy of the return before you file it.

If you file a return that contains errors, you will have to pay back any VAT that you owe. HMRC may also charge you a penalty of up to 100% of the VAT you owe.

### **You must sign up to MTD**

To sign up to MTD, go to [www.gov.uk](http://www.gov.uk) and search for 'VAT record keeping'. You must have functional compatible software in place before you sign up.

**Should you have any queries, please do not hesitate to contact us**

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