MAKING TAX DIGITAL FOR
CHARITIES AND ACADEMIES

As you may know HMRC are aiming to "make it easier" for individuals and businesses (including charities) to "get their tax right" by introducing digital tax administration. The first step in this plan is to introduce Making Tax Digital (MTD) for VAT.

What does this mean?

VAT registered businesses, including charities and academies, with a taxable turnover above the VAT threshold will be required to use the MTD service to keep records digitally and use software to submit their VAT returns.

When will this affect charities?

MTD for VAT is applicable to most businesses from 1 April 2019. However, in February HMRC sent letters to some charities and academies to say that they could defer entry into MTD until 1 October 2019. One reason that you can be deferred is that your charity or academy is part of a VAT group.

What do we need to do to be ready for MTD?

Firstly, check whether you have received a letter from HMRC to say that your entry into MTD has been deferred. If you haven't received such a letter it may be worth calling HMRC to check whether the letter has been lost in the post.

Whether or not you have been given permission to defer to October urgent action is still required. You should:

- Speak with your software provider as soon as possible to see if your software is compatible with MTD. However, some software providers may use this as an opportunity to sell you the latest version of the software.

- If your accounting software is not compatible with MTD, or an expensive upgrade is required:

  - You might consider getting new accounting software. However, this isn't a quick or cheap fix. Also given charities often have complex VAT positions, it may not actually be that helpful.

  - You might consider using bridging software. This is software that provides a bridge from your accounting software to HMRC's systems. It will allow you to report VAT information to HMRC and allows HMRC to send information to you using the API link. It is the simpler, cheaper short term solution. However, as your accounting information will not be stored in a single software solution and may not be suitable for HMRC's longer term digital plans

  - You might consider outsourcing VAT returns to your accountant.

- You also need to consider whether your accounting systems are compatible with MTD for VAT. For example:

  - For each supply you make, do you digitally record the time of supply, the value (ex VAT) and rate of VAT charged? If you have a charity shop or branch, how does sales information get entered into the accounting software?

  - For each purchase you make, do you digitally record the time of supply, the value of the supply (ex VAT) and the amount of VAT that you will claim?

Please be aware, there isn't an option to ignore MTD. You must comply or face potential penalties.

How can we help?

We are knowledgeable about many different accounting packages and are aware if they meet the MTD requirements. We are happy to talk to you about your software package and discuss what the best solution for you might be. If appropriate, we do have bridging software that we can demonstrate and recommend.

We would also be happy to discuss how accounting records are retained digitally and suggest best practice.

If you would like to discuss this further, please contact the following specialists:

CHARITIES

Simon Brown
Not for Profit Partner
0191 285 0321
simon.brown@taitwalker.co.uk

Louise Cottam
Tax Manager
0191 285 0321
louise.cottam@taitwalker.co.uk

ACADEMIES

Brian Laidlaw
Business Services Partner
0191 285 0321
brian.laidlaw@taitwalker.co.uk

Beth Ramsden
Business Services Manager
0191 285 0321
beth.ramsden@taitwalker.co.uk