

Making Tax Digital

FAQ's



**COOPER
SOFTWARE**



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Why are we still talking about Making Tax Digital (MTD)?

A long, long time ago, back in 2015, the government announced an ambitious plan to digitise the UK tax system and reduce the tax gap. This is the amount lost to the treasury through 'avoidable' errors so it was hoped that automating business processes, including the remittance of tax, would reduce the occurrence of many of these errors.

The first stage, MTD for VAT went live in April 2019 and, overall, the government considers the rollout a success with more than 1.4 million businesses (roughly 84%) signed up and putting through over £41 billion of payments.

Forecasts predict this will save the treasury an estimated £300 million a year but as the original estimate of the tax gap is £9.9 billion, we are unlikely to have seen the end of making tax digital.

What's happened so far?

The plan was to mandate that every business had a digital record keeping system by April 2019 and furthermore, these systems needed to send information automatically to HMRC. These submissions were originally to include the transaction data underlying the VAT return but following consultations with stakeholders, concerns were raised with the scale of this change.

In response, this requirement was delayed in favour of submitting only the VAT totals (the nine boxes from your VAT return) along with some key identifiers for your business. To further ease the transition to MTD, smaller businesses were allowed more time to get systems in place, the so-called 'soft landing'.

Initially lasting until April 2020, this grace period would see a lenient approach taken by HMRC for those without the requisite systems and given all the other pressures in our new Covid world, this has been extended until April 2021.

What is MTD?

Digital record keeping is nothing new but the difference under MTD 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 through their 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. Once you have submitted your return you will receive confirmation through your software that it has been received.

What digital records do I need to keep?

MTD requires that 'some' of your records must be kept digitally in **'functional compatible software'**, records that are not directly specified or that are not required to complete your VAT Return, do not need to be kept.

The records you need to store are:

- Key identifiers of your business (Name, VAT no. etc)
- Records of sales/purchases (time and net totals for each rate)
- Summary data for your VAT return

What is 'functional compatible software'?

Functional compatible software is a software program, or set of software programs, products or applications, that must be able to:

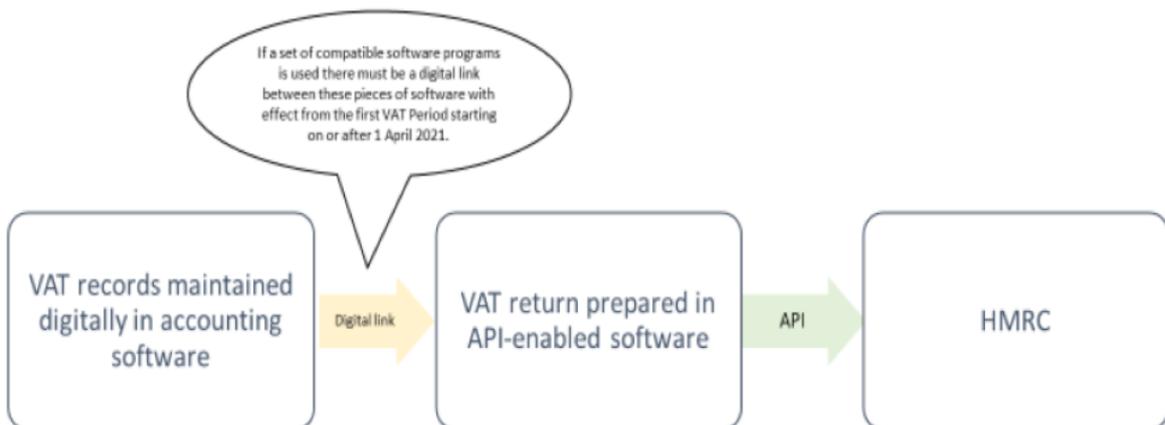
- record and preserve digital records
- provide to HMRC information and returns from data held in those digital records using the API
- receive information from HMRC using the API

In simple terms, this will be whatever system you use to record the day to day activity of your business and prepare your accounts, potentially supported by spreadsheets or additional bridging software. Your digital records do not all have to be in a single piece of software, you can have different systems in use throughout your organisation but where data is in different databases you will need a 'digital link' to connect them.

What constitutes a ‘Digital Link’?

Once data has been captured any further transfer, recapture or modification of that data must be done using digital links. There should be an end to end digital journey for your data with no manual intervention at any point, as a rule, information should not be entered twice.

Using API enabled software and accounting software



A ‘digital link’ is one where a transfer or exchange of data is made electronically between software programs, products or applications. This includes linked cells in spreadsheets, for example, if you have a formula in one sheet that mirrors the source’s value in another cell, then the cells are linked.

HMRC also accepts that the following are digital links:

- 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 (for example, a pen drive, memory stick, flash drive) and physically giving this to someone else who then imports that data into their software
- XML, CSV import and export, and download and upload of files
- automated data transfer
- API transfer

This list is not exhaustive but give you a good indication of the flexibility of the HMRC approach, they do not however, consider the use of ‘copy and paste’ to be a digital link.

So what's next for MTD?

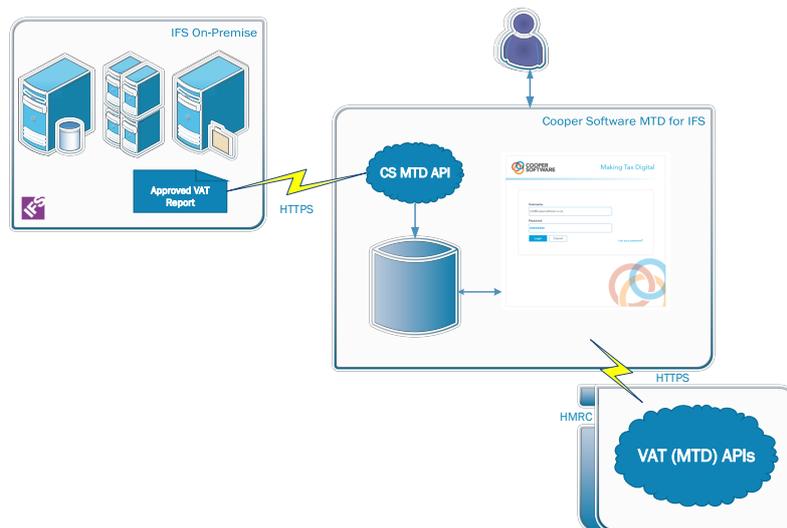
Looking at the HMRC roadmap, the next phase for MTD is Income Tax for the Self-Assessed (ITSA) which will return quarterly summaries of income and expense for the self-employed and landlords. There is already a pilot running for ITSA but dates for some features, such as CIS integration, remain unconfirmed at the time of writing.

Longer term, HMRC have made no secret they would like to go back to the original plan where the supplementary data supporting your VAT return is submitted but customers of our solution can have peace of mind that we will continue to maintain our solution ahead of the HMRC roadmap.

How does Cooper Software MTD for VAT solution work?

TrAX Digital for IFS has been built using our extensive knowledge and understanding of the IFS and enterprise software architecture gained through years of developing solutions for our customers.

A hybrid cloud solution, an agent is installed on-premise (depending on the version of IFS) and communicates seamlessly between the IFS tax ledger on site and our cloud based MTD portal using secure HTTPS protocols.



Through the MTD portal, once you have added and authorised a VAT Registration Number (VRN), you can review obligations, liabilities and payments as well as submit your return directly with HMRC again using secure HTTPS and their own API.

Why is your solution in the cloud?

HMRC have made it clear that further requirements will be forthcoming so a single solution in the cloud rather than hundreds of individual on-premise solutions, allows us to respond more flexibly to changing requirements and it also provides a secure, scalable environment to support a large number of transactions.

Is your software endorsed by HMRC?

While HMRC don't endorse any particular suppliers' solution, all solutions must be demonstrated to work to the current government requirements and Cooper Software MTD has been 'recognised' as just such a solution and can be found on the HMRC's list of approved bridging software.

Why do I need IFS tax?

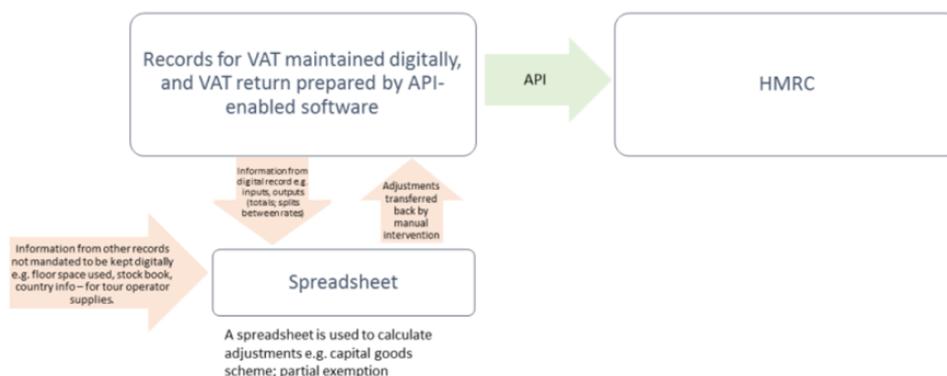
A key part of MTD is the Digital Record which is derived from the transaction within IFS. The IFS Tax Ledger provides a comprehensive solution to get the VAT return completed fully within IFS which reduces the complexity needed in our solution to manage all the VAT rules. The added benefit is that by using the Tax Ledger fully it will ensure that VAT is fully accounted for within IFS.

Can I calculate adjustments outside of the software?

HMRC recognises that there may be points during preparation of your VAT Return when calculations will have to be made outside of any software you use to keep the digital records, or there may be a need to enter data into your software from particular sources.

For example, a capital goods scheme adjustment calculation done in a separate spreadsheet may need some form of input by hand into the software that will send your VAT Return information to HMRC.

Adjustments, journeys and transfers outside of software



Can I adjust the VAT return in MTD?

Part of the regulations state that manual changes to the figures in a VAT return should not happen, our consultants can work with you so that adjustments can be properly completed in IFS either at source or by use of VAT journals.

Is it secure?

TrAX Digital for IFS is a cloud-based solution, however there is one component that needs to reside on your server infrastructure if you are not running the latest IFS Applications version 10. The IFS MTD Agent is a small Windows application that needs to be installed on a server that can access both IFS and the internet. The agent communicates over HTTPS with SSL encryption to the Cooper Software Cloud end-point – this is a secure web API that will allow the data to be transferred from IFS.

Once in the TrAX Digital for IFS application, the data can only be viewed by an authenticated user. We use OAUTH2.0 to ensure a secure authentication with a secure token. This token contains unique identifier to ensure only relevant data can be accessed.

How is my data submitted to HMRC?

We use the HMRC RESTful APIs provided for the VAT MTD platform. These allow VAT obligations, returns, liabilities and payments to be retrieved for your VAT registered organisations. This also provides an endpoint to submit the 9 figure VAT return. You must authorise TrAX Digital for IFS to be able to submit to these APIs on behalf of your organisation.

What is your data security policy?

All Company or personal data held by the us shall be held within the six Principles of GDPR.

- Lawful, fair and transparent
- For purpose intended only
- Data minimisation
- Accuracy
- Storage Limitation
- Integrity and confidentiality

Any data collected under the shall not be retained for any longer than is necessary to fulfil the requirement of the task and where it is necessary to retain by Law.

What versions of IFS are you compatible with?

Our solution will support all versions of IFS and we have already delivered to many IFS customers in the UK. From IFS2003 right up to the latest IFS Applications version 10 whether on-premise or in the cloud. Over the years, the IFS tax ledger functionality has progressed and our specialist consultants can work with you to ensure the correct setup based on the specific version of IFS in place.

Does your solution support multiple currencies?

VAT needs to be submitted in GBP however we have found that, historically, customers have not always setup their IFS Companies to operate in that currency. Therefore, a conversion needs to take place. We have technical specialists who can provide a best-fit solution for ensuring the conversion takes place as part of the tax reporting and submission process.

Where can I find more information?

You can find more information at the following links:

Latest HMRC MTD overview - <https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>

Latest VAT for MTD notice - <https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat>