

Making Tax Digital for Vat

From April 2019, it will be mandatory for all accounting software systems to be able to automatically upload VAT return information to HMRC directly from the transactions processed in the quarter. From April 2019, you will no longer be submitting VAT return information via the manual portal. Whilst HMRC has stated that there will be a “soft landing” period between April 2019 and April 2020, it is advisable that systems are put in place as soon as possible to ensure that we are ready for the changes.

Each transaction entered in Taskmaster will need to be identifiable under its appropriate vat code, which will determine whether the transaction is EU related, zero rated, standard, exempt etc. For the most part, sales and purchase ledger transactions will be already automatically set to pick up the correct vat code. This can be determined by whether the customer or supplier is UK based or has an EU vat number and also by the setting of the default vat code to be used for that customer or supplier.

Nominal Ledger transactions will need to be scrutinised and any transactions with a vat element will have to be posted using the transaction type PAY or RCT and allocating it to the correct vat code. Your organisation may already be using this process and little change will be required. However, please see the end of this document which shows details of the correct way of posting Nominal Ledger PAY and RCT transactions where there is a vat element, even if the vat amount is zero.

Please note that any transactions posted as type JNL will NOT be automatically picked up in the vat analysis process and should only be used for transactions which are outside the scope of VAT.

We advise that all organisations consider adding new codes **where necessary** and reviewing posting procedures asap, to determine what, if any, changes are required. As a first step prior to April 2019, we will then provide a vat summary report similar to the screen shown overleaf which will be automatically populated as per boxes 1 to 9 of the HMRC Vat Return. This screen can be used in the lead up to April 2019 to populate the vat return through the current HMRC portal. Further software development is ongoing to provide the automated transfer link required.

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AccuTerm 7 - [Task (F10 startfax)]
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07 Aug 18 NOMINAL - File VAT Return TM18

Upto Period (YYYY-MM) 2018-03

VAT Due on Sales and Outputs	1)	100000.00
VAT Due on EC Acquistions	2)	50000.00
Total VAT	3)	150000.00
VAT Reclamed on Purchases and Inputs	4)	80000.00
Net VAT	5)	70000.00
Net Sales and Outputs	6)	500000.00
Net Purchases and Inputs	7)	400000.00
Net EC Supplies	8)	0.00
Net EC Acquistions	9)	0.00

Field number File record Quit record

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The table overleaf gives examples of the types of vat codes you may need to use going forward in order to assist the automation of the Vat return process. You may have all the codes you need already in place, in which case all we need from you is a list of the codes you are using.

Although many of the codes have the same percentage – eg 0% - in terms of the calculation, it is important to differentiate between them as the goods amount will update a different box on the vat return depending on whether it is zero rated, exempt , reverse charge, EU related etc.

The number of codes you will need will depend on the types of transactions you process. For example, if your business trades wholly within the UK, no sales or purchases to/from EU or overseas, you won't require those codes which relate to such transactions.

The actual code name in the left column can be whatever you want it to be , there is no need to change existing codes that you use, but you may have to add new ones using the **Maintain Vat Rates** option in the Nominal Ledger. We are happy to help with setting this up. The codes need to be consistently used and attention paid to the type of transaction that is being processed . Once you do decide to make this change , and before initiating any new process, please advise us so that we can ensure that your Taskmaster system is updated to take this into account. Also please note that if you do decide to change vat codes currently in use, ensure that you do it at the beginning of a quarter so that all the transactions can be identified correctly.

The list below isn't exhaustive and your organisation should take care to ensure that all types of transactions used are covered.

It should also be noted that rules and regulations relating to EU transactions may change considerably next year depending on the outcome of the Brexit negotiations.

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VAT Code examples

Code	Income	Expenditure	Vat percentage
0	Supplies of goods to overseas customers (exports)	Purchases of goods from overseas customers (imports) Purchases of VAT zero-rated goods and services from UK suppliers	zero rated - 0% Goods amount appear on your vat return but no vat is paid.
5	Supplies of VAT standard-rated goods and services to UK customers	Purchases of VAT standard-rated goods and services from UK suppliers	Standard rate – currently 20%
2	eg Rent (no Vat)	eg Insurance, Bank charges Subscriptions (no VAT) Royal Mail postage, Rent Bank Interest, Pension Life Assurance	Exempt from Vat – 0% The goods amounts of these items appear on your vat return but no vat is paid
4	Sales of goods to EU customers		Notional 20% Actual 0 Income will be included in boxes 6 & 8 of the VAT return and should also feed to the EC Sales list
3	Supplies of VAT reduced-rate goods and services to UK customers	Purchases of VAT reduced-rate goods and services from UK suppliers	Reduced rate – currently 5%

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7		Purchases of zero-rated goods from EU suppliers	0% - expenditure will be included in boxes 7 & 9 of the VAT return
8		Purchases of standard-rated goods from EU suppliers	Notional 20% Actual 0 Acquisition VAT is due on this expenditure and so will be included in boxes 2, 4, 7 & 9 of the VAT return
9	Eg - Bank interest	Bank penalty charges MOT / DVLA charges Fines, salaries , Rates Charitable Donations	0% - Outside the scope of vat. Amounts in this code do not appear on your vat return
1		Purchases of zero-rated services from EU suppliers	0% Expenditure will be included in boxes 7 & 9 of the vat return
6		Purchases of standard-rated services from EU suppliers	20% notional , 0% actual reverse charge vat is due on this expenditure, Will be included in boxes 1, 4 & 7 of the vat return

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Posting Nominal PAY & RCT Transactions

The following transaction types are available within the nominal ledger:

PAY - Bank Payments
RCT - Bank Receipts
JNL - For all Journals,

Any nominal transaction which has a vat element, ie exempt, zero rated etc even where the percentage is zero, must be posted using a PAY or RCT transaction to ensure that it is correctly identified in the automated vat analysis process. Only if a nominal transaction relates to items which are outside the scope of vat, eg salaries should you use a JNL transaction.

Expenses

Most transactions will be expense items and therefore a PAY transaction.

An example given below is for a Bank Payment **PAY** transaction totalling £337.20 made up of:

£100.00 Postage
£50.00 Bank Charges
£187.20 Car Service of which £31.20 is vat

1. Create a PAY batch

2. Press return to accept the default bank account that the payment is coming out of or change it if the payment is coming from a different account.

Please note that for PAY transactions, the system automatically posts the total amount to be paid out of the nominated bank account, eg in this example -337.20 – **There is no need to include this amount again on the nominal code analysis below.**

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3. Enter the date, description & ref nos
4. You can enter each line individually or determine the different totals for each vat code within this payment. In this example , we would enter
either £150.00 at vat code 2 Exempt , percentage is 0 or two lines - £100 at exempt code, £50 at exempt
£156.00 at vat code 5 standard , percentage 20% value £31.20
The payment total (Nett & vat) field displays 337.20 which is the amount which will be deducted from the nominated bank account.
5. The bottom right hand of the screen will display the value to be allocated across the various nominal codes, in this case £306.00 , which is split between codes:
3250 – 100.00 Postage
3301 – 50.00 Bank Charges
3210 – 156.00 Car repairs & renewals

The balance at the bottom right of the screen will now be zero. See the image overleaf

6. File the transaction and Update the batch. The following updates will automatically be processed:

-337.20 to the nominated bank account
+100.00 to 3250
+50.00 to 3301
+156.00 to 3210

Regarding Vat – the system will have allocated the amounts as follows:
£150 goods and £0 vat under exempt code (postage & bank charges)
£156 goods and £31.20 vat under standard rate code (Car service)

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AccuTerm 7 - [Task (F10 startfax)]

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07 Aug 18 NOMINAL - Bank Payments TM18

Batch : Exp Value : Actual Value : Total :
 BANK ACCOUNT : 5013 ROYAL BANK 770206

<<< VAT DETAILS >>>

Payment Date	1)07 Aug 18	Nett Goods	Code	Rate	Amount
Description	2) 1:various exps	5) 1:	3	EXEMP	0.00
		2:	5	20%	31.20
Reference No	3)12345	Payment Total (Nett + Vat)			337.20
Their Ref	4)12345				

	Nominal	Code & Description	Line Description	Line	Amount
6)	1:3250	POSTAGE			100.00
	2:3301	BANK CHARGES			50.00
	3:3210	CAR REPAIRS & RENEWA			156.00
					0.00

Balance 0.00

Add Move Delete Line to amend

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Income

Where income is being posted through the Nominal Ledger, you would post a **RCT** transaction showing money coming in to the Bank.

This example is for an exempt rental income totalling £500.00

1. Create a RCT batch

2. Press return to accept the default bank account that the receipt is coming in to or change it if the receipt is coming into a different account.

Please note that for RCT transactions, the system automatically posts the total amount to be paid into the nominated bank account, eg in this example 500.00 – **there is no need to include this amount again on the nominal code analysis below.**

3. Enter the date, description & ref nos

4. Determine the different totals for each vat code within this payment. In this example , we would enter £500.00 at vat code 2 Exempt , percentage is 0

5. The receipt total (Nett & vat) field displays 500.00 which is the amount which will be added to the nominated bank account.

6. The bottom right hand of the screen will display the value to be allocated across the various nominal codes, in this case £500.00 , which is allocated to one code: 1200 – Rental Income
The balance at the bottom right of the screen will now be zero.

7. File the transaction and Update the batch. The following updates will automatically be processed:
+500.00 to the nominated bank account -500.00 to 1200 rental income

Regarding Vat – the system will have allocated the amounts as follows:
£500 income goods , 0 vat at exempt code