

Report on	Making Tax Digital
Date of Meeting	6 June 2019
Reporting Officer	Director of Finance
Contact Officer	Director of Finance

Is this report restricted for confidential business?	Yes	
If 'Yes', confirm below the exempt information category relied upon	No	X

1.0	Purpose of Report
1.1	To update Members in relation to HMRC's Making Tax Digital Initiative
2.0	Background
2.1	Members may be aware that since 1 April 2019 HMRC has required VAT registered businesses within certain business sectors to comply with the new Making Tax Digital regime.
2.2	District councils, although originally scheduled to comply from 1 April 2019, were rescheduled to comply from 1 October 2019.
3.0	Main Report
3.1	As well as showing that the tax regime is moving with the times, HMRC envisage that Making Tax Digital (MTD) will have a positive impact on the tax gap, i.e. the difference between the amount that HMRC believe should be payable and the amount that they actually receive from taxpayers, as it should remove the mistakes that arise when VAT figures are wrongly entered because of manual intervention in the return submission process.
3.2	According to HMRC, VAT errors and mistakes by taxpayers account for around £3 billion of the tax gap (this is about a third of the total for taxpayer errors/mistakes) and HMRC consider that most of these are likely to be made by smaller businesses. Therefore, MTD will apply from the outset to all VAT registered businesses that are over the threshold, and not to just the larger ones first. The threshold has been set at £85,000 per annum.
3.3	Making Tax Digital involves two things: <ul style="list-style-type: none"> 1. Maintaining digital records in digitally linked functional compatible software that can create a VAT return from the digital records and which can

	<p>connect to HMRC systems via an Application Programming Interface (API); and</p> <p>2. Submitting the VAT returns from that functional compatible software rather than, as present, via the online portal.</p>
3.4	<p>The officers understand that VAT is only the beginning in HMRC's MTD Strategy. We anticipate that what is being asked of businesses under MTD will evolve over time in line with wider trends in Europe and across the world, with corporation tax and income tax expected soon.</p>
3.5	<p>The MTD timeline requires that district councils will submit their VAT Returns from functionally compatible software for all VAT Return periods ending after 1 October 2019. The second requirement to maintain digital records becomes operative 12 months later.</p>
3.6	<p>Achieving the first milestone of submitting VAT Returns via functionally compatible software can be achieved at little cost to Council as there are a range of accredited (by HMRC) providers who can provide API enabled software that will satisfy HMRC's requirements.</p>
3.7	<p>The officers recommend that Council procure an accredited product from PriceWaterhouse Coopers (PWC) at an approximate cost of £90 per annum.</p>
3.8	<p>Failure to submit VAT Returns in the requisite way would expose Council to fines, which have yet to be communicated to the officers.</p>
3.9	<p>It is not yet clear whether the PWC (or equivalent software) will be required post the implementation of the recently procured Financial Management Information System (FMIS). The officers have been advised that the new system will be MTD compliant but are awaiting confirmation of the functionality when implemented. However, as the cost of the PWC solution is a negligible amount, the officers are relaxed about the potential for the PWC product to be required post system implementation.</p>
3.10	<p>The issue of ensuring that Council maintains digital records is, however, more complex. Effectively this means that once financial data is processed/captured it should not be rekeyed. All eleven district councils will experience challenges in ensuring that their financial 'feeder' systems, e.g. XN Leisure at leisure facilities and Ticket Solve at The Burnavon, etc. are electronically linked to their FMIS.</p>
3.11	<p>Although the officers are satisfied that the new FMIS will be capable of integrating with the various feeder systems, they believe that it may prove difficult to get the feeder systems to generate the necessary electronic file to enable integration to take place. This issue continues to be advanced as part of the implementation of the new FMIS.</p>

4.0	Other Considerations
4.1	Financial, Human Resources & Risk Implications
	<p>Financial:</p> <p>Approx. £90 per annum will avoid VAT fines and ensure that Council's VAT repayments are not delated due to failure to comply with HMRC's MTD Strategy</p>
	<p>Human:</p> <p>N/A</p>
	<p>Risk Management:</p> <p>N/A</p>
4.2	Screening & Impact Assessments
	<p>Equality & Good Relations Implications:</p> <p>N/A</p>
	<p>Rural Needs Implications:</p> <p>N/A</p>
5.0	Recommendation(s)
5.1	That Members note the above and authorise the officers to address the first requirement of Making Tax Digital by procuring the HMRC accredited PWC product (or other equivalent product in the unlikely event that PWC withdraw their product from the market).
6.0	Documents Attached & References
	N/A