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Making Tax Digital & IFS Applications:

How to cost effectively comply with HMRC requirements for VAT.

by John Keith of Muzulu Ltd

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Why are HMRC rolling out Making Tax Digital?

Making Tax Digital (MTD) is an HMRC initiative to make it easier for businesses to stay on top of their tax affairs. The part most businesses have been focusing on is MTD for VAT.at a technical level and also at a data level.

Most businesses are already required to be compliant as of April 2021, but you may have been granted an extension to this deadline, micro businesses have until April next year to be ready.

The initiative's main purpose is to get VAT registered businesses to use accounting software systems to maintain their VAT Records, a lot of smaller companies still use paper solutions apparently. It is also a requirement to submit your return electronically.

Simple really, yet the HMRC requirements were tricky to work out what this meant for software when it was announced. If this meant collecting all the individual transactions and submitting these via an interface directly to HMRC from your accounting software, requiring significant development work, then as I'm sure some businesses have discovered this could be an expensive.

In reality, the solutions are already at your fingertips at a very effective cost.

What does that mean for businesses using IFS?

The good news is by using IFS, you are already most of the way there to being compliant. IFS has always had a Tax Ledger that collects your VAT transactions and records them digitally in its tables, so you tick that first box HMRC are trying to fill. You will have been reporting them from there manually and submitting these by keystroke into the HMRC Website.

If you have implemented IFS since Applications 9 then it's likely you've been using the UK Tax template which helpfully gets you the figures you need into the 9 boxes HMRC wants you to fill in. So far so good. All we need to do is submit these 9 figures digitally to HMRC and we are home and dry.

Now if I was about to tell you that the solution is to send these figures from IFS to HMRC directly then this is where this starts to become an expensive conversation, because to develop the delivery process and interface in the HMRC format and accept the handshake message back and interpret that back into IFS is a complex and expensive development effort that we'd need to recoup from our customers and thus would be reflective in the cost charged.

However, the good news is that we don't have to do that to meet HMRC's requirements.

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HMRC says I need a Digital Link though...

They do state that you need a digital link between you accounting record system and your VAT submission solution, but it doesn't need to be a direct link.

HMRC is keen to ensure there is an end-to-end digital trail, or digital links, from source system to submission of VAT returns. This is regardless of whether the information is prepared using tax compliance software or even a spreadsheet.

The digital links requirements include the following conditions:

No copying and pasting data between sources of data. VAT returns preparation should be automated as far as possible, which could be by spreadsheet formulas and macros, but may be complicated if you are managing a sizeable number of data sources.

No manual re-keying of data during the VAT returns preparation process. Businesses will be required to demonstrate digital trail of information from submission back to source systems.

VAT return adjustments will be allowed provided they are recorded and there is a digital trail of changes. So no manual inputting or copying and pasting of hard data is present within workings e.g., inserting partial exemption adjustments.

There is a marketplace full of existing VAT submission tools that are really good value when it comes to a software investment, and you can really choose any of them and be able to meet the above criteria.

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How can you achieve this digital link out of IFS?

At Muzulu we partner with Xelix, they have a product called Abratax that has the following 3 steps required to submit your VAT return.

1. Download the AbraTax excel template and add it to your excel VAT working file.

2. Use our template to digitally link to your 9 boxes.

3. Upload the excel template to the AbraTax platform and file your return.

So, with these steps, I can do the following:

Take the AbraTax template and use it create an IFS embedded Excel template that will auto-populate using the out of the box IFS Excel reporting plugin.

When you process this report, you can automatically send the Excel file to a location, or have it emailed to you so you can take it and put it into AbraTax without any further intervention or re-keying. Corrections should ideally be done within IFS using new transactions, you can use manual vouchers to create these, but you could incorporate a corrections tab to you Excel Template to adjust the figures submitted, you would still have the full digital audit trail that HMRC are looking for.

Then simply submit to AbraTax and that's you done for another month or quarter.

You don't have to use AbraTax, any of the alternative bridging software could have an Excel template in IFS (or csv), so if you have one of the solutions already from "The Big 4" or any of the 187 options HMRC list on their website give us a call and we'll review how much effort is required.

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Why do I need Muzulu?

You don't really, you can do all this yourselves, but we can use our experience to deliver it to you quickly and efficiently to save you time on working out how to configure the IFS technology. We will also review your VAT setup to make sure it's working how it should post the Brexit changes on January 1st, 2021, requiring Northern Ireland to be treated as if it were still in the EU for tax reporting purposes as part of our service.

At Muzulu we are committed to finding our customers the most effective solutions, balanced in terms of functionality and cost, and with our approach to MTD, we have done just that.

About the Author

John Keith is one of the managing Partners at Muzulu, he has devoted a career to the implementation of IFS Applications. After featuring IFS in his University dissertation, he went on to become their 1st Graduate Consultant in 2004, working firstly in the technical disciplines, before becoming a Chartered Management Accountant and making IFS Finance his new speciality.

He has also spent 7 years working for IFS clients directly, so understands the dynamics of IFS Projects from all angles.

About Muzulu

Muzulu are an IFS Silver Reseller and Authorized Services Partner, based in Oxford. We provide industry leading IFS Consultancy interwoven with best of breed additional products, ensuring high satisfaction rates for both our customers and IFS.

Our founding partners are all ex-colleagues from their time at IFS, but more importantly are good friends. The result is an excellent cohesive team who help businesses maximise their investment in IFS Applications, enabling growth, reducing cost and mitigating risk.

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