

PREPARING THE SMALLER FARM FOR MAKING TAX DIGITAL

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Smaller farms with taxable turnover of less than £85,000 will be required to keep digital VAT business records and send returns using MTD-compatible software from April 2022.

MTD has applied to businesses with taxable turnover in excess of the VAT registration threshold (currently £85,000) since April 2019 and it is now time for smaller VAT-registered farms to prepare for the new regime.

It is important to remember that this does not require you to keep additional records for VAT, but to record them digitally. Whilst some farms will have to make only minor adjustments to their existing processes, others will need to make more significant changes depending on how they currently maintain their business records.



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If it is not reasonable or practical for you to use computers, software or the internet to follow the rules for Making Tax Digital for VAT, you can apply for an exemption. However, the bar for an exemption is set high, with HMRC considering each application on a case by case basis. You will need to demonstrate that you have exhausted 'reasonable and practical' options. For example, if an exemption is applied for on the basis of age, this is unlikely to succeed if there is a younger partner in the partnership. In practice, nearly all farms will be brought into MTD.

If you currently use software such as Sage, Xero or QuickBooks the good news is that these packages will already be MTD-compliant, or these companies also offer versions of their software that are compatible. We would suggest checking with your software provider that your version is sufficient for MTD ahead of the deadline and in advance of the requirement to sign up for MTD with HMRC.

If you maintain records using Excel spreadsheets, this is acceptable under MTD but you will need to use bridging software to submit the VAT return to HMRC. Bridging software has been developed by a number of providers and your accountants should be able to direct you to a suitable solution.

We have found many of our clients have used MTD as a prompt to move from manual records or Excel to accounting software packages such as QuickBooks or Xero. One of the advantages of using such software is that it can store your business receipts and invoices digitally, so you don't have to store them physically. As your farm grows, the software can also help you to track and control the farm finances and cash flow, helping you to plan for the unexpected and for the future.

If you operate a manual cashbook this will not be compliant with MTD and you will need to carefully consider how best to meet the new requirements. For many of our clients, the best option has been for us to undertake the bookkeeping on their behalf, receiving source documentation from the farm by post, email or using phone apps, such as Receipt Bank. We have been able to take the hassle out of the farm's finances and provide peace of mind for many of our clients who are thrilled to be able to focus on running the farm and developing their business.

MTD for VAT can be viewed as an opportunity to plan and budget if it is considered now, with plenty of time before mandatory changes, rather than just another compliance hurdle to burden business owners. We have helped others transition to using digital software such as QuickBooks or Xero themselves by providing onboarding training sessions and ongoing support.

We also operate a 'tandem' arrangement for some farms where we regularly review their bookkeeping to ensure they are on the right track. Your accountants should be able to advise you of your options and work with you to find the best solution for your farm.



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