

Making Tax Digital - getting ready for the next stage



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This is our sixth issue edition of our Making Tax Digital newsletter and what could be the most revolutionary stage of Making Tax Digital - MTD for Income Tax Self-Assessment (MTD for ITSA) for self-employed businesses and landlords.

As we have stated previously HMRC wants the UK to be one of the most digitally advanced tax administrations in the world, improving efficiency, effectiveness, ease of compliance, and expansion to other taxes, the next stages are on the horizon.

From April 2022 ALL VAT registered businesses have to follow the MTD rules by keeping digital records and using software to submit their VAT returns.

From April 2024
ALL self-employed

businesses and landlords with annual business or property income above £10,000 will also need to follow the rules for MTD but for Income Tax from their next accounting period starting on or after 6th April 2024.

Our advice for self-employed businesses and landlords is act early, ahead of the time recommended, selecting the right software often Cloud software, improving efficiencies and making use of the software for you and your business.

We understand that the rules will apply from April 2025 to general partnerships with business or property income that only have individuals as partners. The joining date for LLPs or partnerships with corporate partners is still to be confirmed. Our advice to our VAT registered businesses was to act early, they did, and we did.

Preparation starts now with our help and support; so we can help to make the transition painless.



16,203+
7,410+
4,991+
2,007+



Landlords and Sole Traders - What will I need to do?



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Making Tax Digital for Income Tax Self-Assessment (MTD for ITSA for short) will apply to all individuals whose total property and/or business income is in excess of £10,000 per year.

What will I need to do?

Affected individuals will need to:

- Keep accounting records in a digital format
- File quarterly returns to HMRC to include details of their income and expenditure, and
- Submit an end of period statement (EOPS) after the tax year, plus a final declaration, to finalise their affairs.

Separate quarterly updates and EOPS will be required for each trade or property business carried on, which could prove onerous if you have more than one source to consider. However, don't panic as Whitings will be here to support you every step of the way!

How long have I got to prepare?

HMRC have confirmed that MTD for ITSA will be introduced from April 2024, for sole traders and landlords with gross income in excess of £10,000. All businesses in existence immediately before 6 April 2023 will be required to join MTD for ITSA with effect from 6 April 2024, regardless of their accounting period end date.

How does the £10,000 income threshold work?

The threshold of £10,000 applies to gross turnover, rather than profit. It applies to the total gross income if there is more than one trade or property business. For example, if the individual has £5,000 of gross rental income and £6,000 of sole trade turnover, they will be in the scope of MTD as the combined total exceeds £10,000.

Are there any exclusions?

Individuals should not have to follow the MTD for Income tax rules if any of the following apply:

- The business is run entirely by practising members of a religious society or order whose beliefs are incompatible with keeping electronic records or using electronic communications.
- If they are "Digitally Excluded". Broadly speaking, this means it is not reasonably practicable for these individuals to keep their business records or submit quarterly returns using digital tools to due to age, disability, remoteness of location etc.
- They are subject to an insolvency procedure.

The above points are in line with the exemptions for MTD for VAT. Where any of these apply, you would need to apply to HMRC to claim an exemption and HMRC then have 28 days to either grant or deny your application.

When will I need to make submissions to HMRC?

If you fall within MTD for ITSA then you will need to provide quarterly updates of your income and expenses in respect of the following periods, using MTD compatible software, by the deadlines mentioned below:

	PERIOD COVERED	FILING DEADLINE
Quarterly update 1	6 April to 5 July	5 August
Quarterly update 2	6 July to 5 October	5 November
Quarterly update 3	6 October to 5 January	5 February
Quarterly update 4	6 January to 5 April	5 May

The first quarterly updates under MTD for ITSA will therefore be due for filing by 5 August 2024. At Whitings we are starting the ball rolling early, to make sure that each of our affected clients is ready for a smooth transition into MTD for ITSA.

What is the End of Period Statement (EOPS) and the Final declaration?

After submitting the four quarterly returns, further submissions are needed to finalise your tax position. These are as follows:

EOPS: this will allow you to make the required tax and accounting adjustments (as these are not part of the quarterly updates) before finalising the tax position.

A separate EOPS will be required for each trade or property business carried on by an individual.

Final declaration: this will pull together all business and personal information needed to calculate the final tax liability, therefore incorporating information from the EOPS, together with information on non-MTD sources of income such as bank interest, employment income or dividends.

One final declaration will be required for each taxpayer with the usual 31 January deadline.



What do I need to do next?

Our recommendations are as follows:

- It is good practice to have a separate bank account for your sole trade and/or rental business to assist with the MTD process, so consider setting one up if you have not already done so.
- If you do not already keep your records digitally, then we would recommend speaking to your usual Whittings contact to get those first steps in place.
- Get started early! Preparation is key, particularly if your records consist of a supermarket carrier bag full of receipts or similar, as there will be more work to do in order to digitise your records!

Basis Period Reform



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With MTD for ITSA coming into play from April 2024, it's crucial for businesses to get ready now and avoid any pressures later down the line. Part of those decisions will also be considering the business year end date.

From the 2024/25 tax year, HMRC are looking to tax profits of unincorporated businesses on a tax year basis, rather than on the accounting year (or period) basis, effectively removing the current basis period rules. Therefore, any unincorporated businesses without a 31 March or 5 April year end will be affected by these changes. HMRC estimates that this is around 7% of sole traders and 33% of partnerships.

HMRC have introduced a 'transitional year' to help with the change, as well as some reliefs. The main two reliefs available are:

1. Relief for any overlap profits that may have arisen within the first few years of trading
2. Spreading - this is where any extra months profit that arises as a result of these changes can be spread over five years to ease the tax burden.

We will therefore be considering each unincorporated client with a non 31 March or 5 April year end individually to determine what will be the best course of action.

Regardless of your current business year end date, you will be required to comply with the fixed quarterly reporting periods specified below. Where appropriate to do so, Whittings will be making contact with their clients to discuss the prospect of changing their accounting period end date to be 31 March in readiness for MTD for ITSA.

QUARTER END DATE	SUBMISSION DEADLINE
31 March/5 April	5 May
30 June/5 July	5 August
30 September/5 October	5 November
31 December/5 January	5 February

Cloud accounting



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Cloud accounting software has now been around for several years and gained huge popularity when Making Tax Digital for VAT was introduced in April 2019. The cloud accounts software vendors like Xero, Quickbooks Online and Sage have again been at the forefront of developing additional solutions to assist individuals and businesses to comply with MTD for Income tax regulations.

The software companies have in the last few weeks been releasing their solutions ready for the HMRC pilot which has just opened.

Currently the software vendors are suggesting that a basic package will cost around £3 to £5 plus VAT a month, this package will give you the minimum you need to be compliant.

This new software is aimed at landlords and non-vat registered businesses where the financial affairs tend to be less complicated.

Depending on the complexity of your financial affairs it may be more prudent to have more than the minimum requirement, for instance if you have a separate bank account then it would make sense to have a package that can be linked to your bank account via a direct bank feed as this makes keeping your records easier as the bank transactions will flow into the accounting software automatically each day.

For a landlord with a property portfolio a software package will be able to produce reports to enable the landlord to review profitability and cost per property.

Please speak to your usual contact at Whitings and they will be able to review your requirements and recommend the most appropriate solution.

MTD for ITSA Timeline

April 2022 MTD for all VAT registered businesses regardless of turnover

April 2024 MTD for Income Tax and Self-Assessment. Any sole trader business and landlords with income above £10,000 must sign up to MTD for ITSA

April 2025 MTD for general partnerships with income over £10,000

April 2026 Expected date to introduce MTD for Corporation Tax

Are you ready? It's time to decide how you will digitalise your records in order to meet the HMRC requirements. Whitings will, of course, be able to assist you and guide you through all of the above. Over the coming months we'll be in touch with updates, MTD guides and our suggested action plan, but do contact your usual Whitings adviser with any immediate queries.



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