

MAKING TAX DIGITAL FOR INCOME TAX (“MTD ITSA”)



Background

Some years ago, the government announced plans to 'Make Tax Digital', with more transactions to be reported in real time, and our tax returns ultimately to be auto populated by third parties. Coupled with this was an ambition for business records to be kept digitally and in real time, with the aim that this, in HMRC's view, would reduce the 'tax gap' by taxpayers recording transactions whilst fresh in their mind.

Whilst HMRC argued this was to inform taxpayers more quickly of what their liabilities might be and to make those calculations more accurate, commentators argued that ultimately the reason for digital reporting had to be to push tax payments forward, and more regularly. This proposal has not been made, but perhaps cannot be discounted.

It is fair to say that the MTD ambition has been slow to be realized and although transactions such as payments to staff have been reported in real time for many years now, these do not then auto populate our tax returns. However, some progress has been made, and the VAT aspect of MTD went live this April.

It is fair to say that HMRC urgently want to improve their coffers and are insisting that the next stage, MTD for income tax (MTD ITSA for self assessment,) will now go ahead, having already been delayed due to Covid.

But what does this mean, who will be affected and when is this all happening?

Will this affect me?

MTD for ITSA will only apply to you from 6 April 2024 if you fall under any of the following:

- You are a sole trader with annual turnover exceeding £10,000;
- You are a landlord with gross rental income exceeding £10,000. If you are a joint owner, the gross annual income limit applies to each owner;
- If you have a combination of sole trade turnover and rental income that, when added together exceeds, £10,000.

The turnover test will be based on the income reported in your 2022/23 tax return, which will prompt HMRC to automatically set those up who are required to file under the new rules with a quarterly filing obligation. Different rules will apply to new businesses.

If your income reduces post April 2024, you will still need to file the new returns for that and each successive tax year until you have three successive tax years of less than £10,000 of reportable turnover, unless your source has ceased and you have notified HMRC.

MTD for general partnerships with 20 or fewer partners will follow from April 2025, with companies, LLPs and partnerships with corporate partners or more than 20 partners following from April 2026.

What will this mean for me?

Taxpayers currently only need to file an annual tax return – this is a once-a-year event, and all income, gains and deductible expenses are reported at the same time, with the return having to be filed by 31 January after the end of the tax year. Tax payments are typically made in two instalments, with a balancing payment due at the same time as the filing deadline.



However, if you fall into one of the above criteria, you will need to send HMRC a quarterly, digitally generated report for income and expenses, with a separate report being made for each sole trade or rental business within one month of the quarter end. For example, if you have one sole trade, your first quarterly report will be for the three months 6 April 2024 to 5 July 2024, and must be filed by 5 August 2024. A similar filing will be needed if you also have a rental property.

Once you have filed the report, HMRC will send you an estimated tax calculation based on the information you have provided. The estimate will not be a request for payment – it is an indication only of what your tax bill might look like for the year if this was your only income source. This is not going to be very meaningful for many taxpayers, as many are likely to have other income sources as well, such as savings or pension income.

In addition to the quarterly reports, you will also need to make an end-of-period statement ("EOPS") for each sole trade and/or rental business, which will combine the four quarterly reports with any annual adjustments needed, as well as providing certain other information, such as which properties are included. It is expected that this might look similar to the current tax return rental or sole trader pages, but will be for your rental business only, or for each sole trade that you have, only.

In addition to the EOPS, you will also need to file a 'Year End Finalisation' in which you will have to report details of any other income or gains (e.g. employment or pension income, savings or dividends, or gains on asset disposal) that you have, as well as making claims for pension payments or gift aid donations.

The YEF submission will replace the need to file a normal self assessment tax return and the filing deadline for this will still be the 31 January following the year end, as it is now, i.e at the same time as the EOPS is made. To be clear, the tax payment dates are not changing.

What information will I need to report each quarter?

At the moment, we expect that information required on the quarterly returns will be similar to that reported under the current self assessment system, being turnover/gross rents less expenses, using similar categories to the current tax return.

Adjustments for stock, depreciation, prepayments and accruals will be made on the EOPS, and all other income will be brought into the YEF submission.

However, this information will need to be provided digitally.

What do you mean by 'digitally' and can I be excluded from this?

The requirement to keep digital records does not mean that you will have to scan and store invoices and receipts digitally. Businesses can continue to keep documents in paper form if they prefer, but each individual transaction (not summaries) has to be recorded and stored digitally.

HMRC would like to encourage records to be kept in as near to real time as possible, but it is still possible to create the digital records at quarterly intervals, using a bookkeeper or other agent if required, provided the information is entered into a digital record keeping system prior to the quarterly update being submitted.

Practical difficulties will exist if you jointly own property, or a furnished holiday let, and clarification has been sought from HMRC. If it's not practical for you to use software to keep or submit digital records due to your age, disability, location or other reason, it may be possible to apply for an exclusion and if you think this might be appropriate, please do get in touch, although HMRC have yet to tell us how an exemption might be applied for.

What if I file my returns late?

There will be a new points based system for penalties if your submissions are late, although the first year will see a light touch approach to this.



How can Albert Goodman help me?

We are used to dealing with digital records and we are working in partnership with our preferred software provider, Xero, to provide a solution that works for you. The details are still vague from HMRC, but we have direct access to all new announcements and will keep you informed as MTD ITSA begins to take shape. HMRC will not be providing the public with software, and so you will need to find a digital solution, which we can help you with, and that does not have to be Xero – we will help you find the solution that works for you.

We understand that the changes may be worrying, particularly if you are not used to keeping records on a more formal basis, but we will be offering different levels of support depending on your needs, from helping just with your Final Declaration, right through to a full bookkeeping service and filing all quarterly returns and EOPS. We will also be able to offer, in partnership with our software providers, training programs for you if you want to use a software solution to undertake the record keeping yourself and we will provide more details in due course.

HMRC are currently running a pilot, although very few individuals satisfy the restricted criteria. Once the scope of the pilot is widened, we hope to work with clients to test HMRC's systems before the reporting becomes mandatory.

Won't this be more expensive for me?

Possibly, as there will be at least six filings each year, compared with the current one, but ultimately, this will depend on what services you need from us. You will also need to consider software costs. This is being imposed on us all by HMRC, but we will work with you to try and minimise costs wherever possible.

Do I need to do anything now?

In short, no, but whilst the deadline may seem like it's a long way off, we would be pleased to speak with you now, to see how this may affect you, and to make the transition for you as smooth as possible. Details are still being released and our accounting profession is working closely with HMRC to address the many difficulties and impracticalities that are being identified by tax advisers and accountants, and we will be keeping you up to date as we learn more.

We are, of course, here to support you in making this momentous shift in how your tax records are filed with HMRC as smooth as possible.

CONTRIBUTING TO YOUR SUCCESS

Please do not hesitate to contact your usual Albert Goodman contact or our Tax Team to discuss any of the above in more detail.

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