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Your guide
to understanding

Making Tax Digital for Income Tax Self Assessment

Staying on top of changes to tax regulations is crucial. Getting the right software in place and preparing ahead of time makes filing your returns and paying your taxes quick and easy, helping to manage your finances so your cash flow isn't impacted. You can also avoid potentially costly penalties for non-compliance.

By now you know about Making Tax Digital (MTD). It's HMRC's biggest change to the tax system in decades, aiming to take the whole operation into the digital sphere in the next few years.

MTD for VAT rolled out for businesses with annual turnover above £85,000 from April 2019, and extended to all VAT-registered businesses, regardless of turnover, from April 2022.

So, what's next? MTD for Income Tax. It's set to make significant changes to how some of those registered for Self Assessment file their taxes. If this includes you, consider yourself sorted. This handy guide covers everything you need to know…

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What is MTD for ITSA?

If you're eligible, Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) will replace the current requirement to file an annual Self Assessment tax return. Instead, you'll use software, like QuickBooks, to keep digital records and file updates at least every quarter through MTD-compatible software to HMRC.

MTD for Income Tax is set to roll out from April 2024 and will cover all unincorporated business and landlords for Self Assessment with annual business/rental income over £10,000.

If your income is £10,000 or below, you can continue using the existing Self Assessment system. The government aims to increase the accuracy of the returns with this new system, making it easier to get taxes right and saving time and money - for both HMRC and you.

Under MTD, you'll need to:

- Keep digital records and use compatible software to submit quarterly information to HMRC, or use bridging software to connect spreadsheets
- Report your financial data to HMRC at least every quarter
- Finalise your taxes at the end of your accounting period and submit a final declaration

Speak to your accountant or bookkeeper to find out more about MTD for ITSA.

When and how do I sign up?

If you're eligible for MTD for ITSA, it's best to get yourself signed up with HMRC before the scheme becomes mandated on 6 April 2024. In many cases, your accountant or bookkeeper may be able to sign you up.

If your accountant or bookkeeper signs you up, they will need some details from you, including:

- Your business name and start date (or the date you started collecting property income)
- Your email address
- Your accounting period and accounting type (eg. cash or standard accounting)
- Your National Insurance number
- The Government Gateway user ID and password that you use to file Self Assessment tax returns

Speak to your accountant or bookkeeper on the steps and information needed to get you signed up.

Who does it affect?

You'll need to get signed up for MTD for ITSA if:

- **You're an unincorporated business or a landlord**
- **Your total gross income is more than £10,000 a year from your self-employed income and/or rental properties**

For example, if you owned and operated three businesses, each with an income of £4,000, you will be eligible for Making Tax Digital and will need to register for MTD for ITSA.

Similarly, if you owned and operated a single business with an income of £7,000 and then had an extra income of £4,000 from a property you let, you will need to use MTD for ITSA.

At present, you'll be exempt if you:

- Are in a partnership with any partners which are not individuals
- Are in an LP or LLP
- Make your Self Assessment money from trusts or deceased estates
- Earn less than £10,000 taxable income

These exemptions are temporary, and HMRC aims to roll out Making Tax Digital to cover all areas of the tax system. There are provisions for being considered digitally exempt, but these only apply in very limited circumstances. You will need to apply for exemption to HMRC, which is only granted in certain cases. Each application is reviewed on an individual basis. Your accountant or bookkeeper may be able to provide more information about exemptions.

What's the MTD ITSA threshold?

The scheme will only cover you if you're an unincorporated business or a landlord with a qualifying income of £10,000 or more. You can use the gov.uk guide to see if you qualify.

Not everyone who currently uses Self Assessment will be included in MTD for ITSA from April 2024. For reference - under the current rules, one must sign up for Self Assessment if you're a partner in a business partnership, a landlord or a self-employed sole trader. While all partners must complete a return, sole traders and/or landlords only need to if their annual turnover is higher than £10,000. Others who may need to sign up to complete a Self Assessment are those with other untaxed income, such as:

- Those with income from tips and commissions
- Those with income from savings, investments and dividends
- Those with untaxed foreign income

Note: The £10,000 threshold refers to your gross income from all businesses and/or rental properties. You will still be eligible MTD for ITSA even if none of your individual sources of gross income generates you £10,000 or more in any given year.

Quarterly reports

Over the course of the tax year, you must submit summary reports to HMRC at least every quarter.

Under the current Self Assessment system, you only have to complete a single return before the end of the tax year. You enter your income and expenses manually, and HMRC will then calculate how much you owe.

Under MTD for ITSA, this process will change significantly. The manual reporting process will be replaced and, instead, businesses must use MTD-compatible software, like QuickBooks, to submit their financial information, or convert their records into digital form, which will then be regularly sent to HMRC.

This software will also be able to keep digital records, which is a requirement MTD for ITSA. Over the course of the tax year, you must submit summary reports to HMRC at least every quarter. These reports don't need to include accounting or tax adjustments, although you're free to include these if you wish to. This means the quarterly submission does not have to be 100% up-to-date.

Each quarterly report is due within one month and seven days after the quarter ends. The reasoning behind this change is to make it easier to spot and rectify errors in as close to real time as possible, rather than waiting for issues to show up at the end of the tax year, which could leave you feeling stressed while you find a solution.

Note: You must record and submit quarterly reports for each separate trade and/or property business you manage. The £10,000 threshold applies to you as an individual taxpayer, but the reporting requirements apply to each business separately.

End of period statements

In addition to quarterly reports, Making Tax Digital requires you to make an end-of-period statement (EOPS) at the end of each year. This must include all relevant accounting and tax adjustments, and will finalise your position for the end of the year.

This is when you must make any accounting adjustments and claim any reliefs that you didn't include in your quarterly reports. You'll also need to confirm the accuracy of any earlier reports.

While this may seem like a lot to remember, in most cases your accountant or bookkeeper will be able to guide you and provide support with MTD for ITSA.

What is the final declaration?

The final reporting requirement under MTD for ITSA is, fittingly, known as the 'final declaration'. This is when you report any additional income and expenses that you would previously have included in your Self Assessment return.

The final declaration is used to finalise your position for the end of the year and calculate your overall tax liability. This basically replaces your annual Self Assessment return.

While you must submit quarterly reports and an EOPS for each of your businesses, the final declaration is a summary of your overall personal position.

Completing quarterly reports, EOPS and final declarations

The process is complicated and there is a lot to keep track of but as a business owner or self employed you can seek the expertise of your accountant or bookkeeper who can help you navigate through the change.

In many cases, they can sign you up for MTD for ITSA - and ensure your reports are filed correctly and on time. Speak to your accountant or bookkeeper about the best solution for your business, and how they can support you with MTD for ITSA.

When do I pay tax under MTD for ITSA

All eligible businesses must comply with MTD regulations for the first tax year beginning on or after 6 April 2024. This is good news for business owners, as it gives you more time to get your head around the new system and get set up with the right software.

You should know, however, that the different reporting requirements mean you won't be able to wait until the end of the 2024-25 tax year to fulfil your Making Tax Digital obligations. Remember, you must submit at least quarterly reports every three months throughout the tax year, before submitting your EOPS and final declaration at the end of the tax year. You'll also need to keep digital records.

For an accounting period that matches the 2024-25 tax year, your deadlines would be as follows:

- 1st quarter (6 Apr to 5 Jul) is due 5 August 2024
- 2nd quarter (6 Jul to 5 Oct) is due 5 November 2024
- 3rd quarter (6 Oct to 5 Jan) is due 5 February 2025
- 4th quarter (6 Jan to 5 Apr) is due 5 May 2025
- 31 January 2026: End of Period statement (EPOS) and final declaration due

The deadline for payment of the previous year's tax is the same as it is under the current Self Assessment system: **31 January**.

You may also need to make a payment on account toward the current year's tax. This will be due by **31 July**.

The difference between Self Assessment and MTD for ITSA

The core differences between the two systems concern record-keeping and reporting requirements.

To summarise, MTD requires you to:

- Keep records in digital form
- SSubmit quarterly reports and EOPS for each business
- Submit a final declaration at the end of the year

As noted under **What is the final declaration?** the final declaration is functionally very similar to the current Self Assessment return.

Will MTD for ITSA replace Self Assessment

Self Assessment is not being scrapped entirely. If your income is below £10,000 you will not yet be covered by MTD for ITSA.

The government's stated aim with Making Tax Digital is to roll the scheme out to cover nearly all of the UK tax system. Essentially, MTD for ITSA will replace Self Assessment for most who currently use the Self Assessment scheme, but not those with income below £10,000 just yet. Other groups, such as partnerships with non-individuals or income from trusts or deceased estates, will not be mandated from April 2024.

You should also note that if you're registered for Self Assessment before making the switch to MTD, you will still need to complete a Self Assessment return for the tax year before you sign up for MTD.

How long do I need to keep old accounting records?

You must keep your MTD for ITSA accounting records for at least five years.

QuickBooks' accounting software is especially useful in this respect, as it can use cloud storage to ensure QuickBooks subscribers' data won't be wiped out if their hardware is corrupted, lost or stolen.

Note: There are different requirements for very late returns. If you send your records more than four years after the deadline, you must keep them for another 15 months after you send off your return.

Using Software for MTD for ITSA

To comply with MTD, businesses have to keep digital records. This must be done using what HMRC calls 'functional compatible software'.

'Functional compatible software' is HMRC's term for software that is compatible with Making Tax Digital. In other words, it must be able to connect directly to HMRC and send your details to them using digital links.

Using functional compatible software like QuickBooks is the easier and safer way to comply with MTD regulations. It also means you get to keep your income and expenses in HMRC-approved digital form.

> **Speak to your accountant or bookkeeper to find out more about MTD ITSA, and using compatible software like QuickBooks for your business.**

There you have it

Making Tax Digital for Income Tax marks a major change to how and how often you file your taxes. It covers both how you keep your records and how you submit your return, with significant implications for the way you submit returns and keep digital records.

At the same time, it can offer you opportunities, letting you streamline your business by closely linking your bookkeeping and taxes.

The quarterly reporting requirements can also help give you a clearer picture of your finances across the whole year, which lets you be better prepared when tax time rolls around.

Disclaimer: *The information in this guide is provided free of charge and is intended to be helpful to a wide range of businesses. Because of its general nature, the information cannot be taken as comprehensive and does not constitute - and should never be used as a substitute - for legal or professional advice. We cannot guarantee that the information applies to the individual circumstances of your business. Despite our best efforts, it is possible that some information may be out of date.*

We're here to help you every step of the way

Speak to your accountant or bookkeeper
to find out more about Making Tax Digital.