

Making Tax Digital

What is MTD?

Making Tax Digital is a government initiative to bring HMRC up to speed with the ever-changing world of technology by requiring taxpayers to go digital with their information. Where UK Businesses and individuals are increasingly turning to digital tools even more so since the pandemic, it is vital that the UK's tax administration system keeps pace.

MTD is therefore designed to eliminate paper-based or manual processes using software and an integrated approach to business administration and tax. The idea behind it is greater accuracy in tax returns, reducing the time businesses spend on administration and provide businesses with more time to maximise business opportunities.

It also aims to help tackle the part of the tax gap caused by error and failure to take reasonable care, by removing opportunities to make certain types of mistakes in preparing and submitting tax returns.

MTD has been designed to deliver a wide range of benefits including making it easier for businesses to keep on top of their tax affairs, enabling them to see real time data on the health of their finances and by offering HMRC a more accurate picture of taxpayer's financial position, supporting enhanced resilience against any future economic shock such as Covid.

The government successfully introduced MTD for VAT registered businesses with taxable turnover over the VAT threshold back in April 2019. This is now being extended to income tax.

So how will this affect people who complete income tax self-assessments?

MTD ITSA will apply to self-employed taxpayers and/or landlords with turnover above £10,000. Please note this is combined turnover so if you are a landlord and self-employed it will be your total turnover for both elements combined.

For example, if you have a turnover of £4,000 for self employed income and £7,000 rental income then you would need to comply with MTD as your total turnover would be £11,000. Please note these are not profit figure, turnover is the amount you charge for your services or rental income prior to any expenses being deducted.

Non-UK residents or domiciled individuals will have to follow MTD where they have UK self-employments and/or UK property and meet the turnover threshold.

When is this coming into place?

Originally it was due to come into place in April 2023 but due to the pandemic HMRC have extended this and the new start date is 6th April 2024.

Will I need to purchase software?

All taxpayers making an MTD ITSA submission will need to use a recognised third-party software. This will either be in the form of an online software or if you chose to use spreadsheets still then you will need to find a specialised software allowing for this.

Another reason for the delay in implementation of MTD ITSA could be due to the lack of third-party software's available at present. HMRC do have a list on their website, and this is updated regularly when a new software is approved. Currently there are only 7 ready with 5 more in development stages. I am sure as we get closer to the implementation date more and more will become available. We use Freeagent, Xero and Quickbooks for MTD VAT and would expect to see these 3 added to that list as the date approaches.

HMRC have also strongly advised all developers that there should be free software available for taxpayers with basic tax affairs.

Eligibility for free software will apply where the business meets all these conditions:

- it is unincorporated (for example self-employed persons or landlords)
- it has turnover within the scope of Income Tax below £85,000
- it has no employees
- it uses cash basis accounting

For the avoidance of any doubt, there is no expectation that a free product will include VAT, Corporation Tax or PAYE functionality. So, if your unincorporated business requires any of these, the basic software is not for you.

If you meet the criteria what is expected of the taxpayer?

Under MTD it is proposed that the self-assessment tax return will be replaced by 5 new reporting obligations made during and after the tax year.

There will be quarterly updates required and a year end final declaration.

The submissions will provide HMRC with a summary-level information of their business income and expenses (transactional information to be kept digitally by tax payer)

As you can see from the slides the quarterly updates will be submitted as follows with everyone adhering to the following dates.

Quarter	Period	Deadline
1	6 April - 5 July	5th August
2	6 July - 5 October	5th November
3	6 October - 5 January	5th February
4	6 January - 5 April	5th May

With the final submission end of year submission being due by 31st January the following year.

We are aware an election can be made to change calendar quarters if necessary so you can report 1st April to 30th June and would be due by the same date 5th August. A calendar quarters election must be made to HMRC no later than the quarterly deadline for quarterly period 1, for the tax year in respect of which the election is to be made.

Another thing to note once a business has reached its digital start date, it is in MTD ITSA for the long haul, and will be required to stay within MTD ITSA for as long as the business exists, even if its turnover drops below £10,000. Although don't panic it's not quite a once you're in your stuck forever. To come out of MTD you will need to meet in true HMRC style a set criteria.

You can claim an exemption from the MTD ITSA digital requirements from the fourth year if your qualifying income for each of the previous three years was below £10,000:

Tax Payments

- The tax liability will need to be paid by 31 January of the next year (as is currently the case).
- You will be allowed to voluntarily pay your taxes as you go: the detail is still being decided.
- Eventually, it is possible that you will be required to make four payments per year on account of tax.

Penalties

- There will be no late filing penalties for at least a year while the new system beds in. After that, you will suffer penalties if you file your returns late.
- Penalties already apply for errors in returns or documents.
- Late payment interest already applies.