

FREQUENTLY ASKED QUESTIONS

Making Tax Digital for Income Tax and Self-Assessment (MTD for ITSA)

Do I fit the criteria of MTD for ITSA?

You will be mandated to report your income and expenses via MTD for ITSA if you are self-employed or a property landlord with total combined turnover from all businesses exceeding £10,000 per year.

HMRC will look at your income from tax years ending 5 April 2022 and 5 April 2023 to determine whether you fall into MTD for ITSA. If either of these years show business profits exceeding £10,000, you will fall into the scope of MTD for ITSA and will need to start reporting your income digitally from 6 April 2024.

At the minute general partnerships and companies have been delayed to 2025 and 2026 respectively, and we will be in touch again at that time.

What will I have to do to comply with MTD for ITSA?

If you fit this criteria, you will have to:

- Keep digital records on HMRC compatible software.
- Submit quarterly updates to HMRC for each qualifying business.
- Submit an end of period statement for each qualifying business.
- Submit a final declaration that includes all other taxable income by the usual 31 January deadline.
- Pay your tax by the same deadline, as usual.

What information is required on the quarterly submissions?

For each business, you will be required to submit a summary of the income and expenses for the following quarters:

- The first quarter covering 6 April to 5 July will have a filing deadline of 5 August.
- The second quarter covering 6 July to 5 October will have a filing deadline of 5 November
- The third quarter covering 6 October to 5 January will have a filing deadline of 5 February
- The final quarter covering 6 January to 5 April will have a filing deadline of 5 May

All businesses will have to report for these quarters regardless of their accounting period end.

You can make a “calendar quarter election” which will slightly change the period end dates to 30 June, 30 September, 31 December and 31 March. The filing deadline with this election in place remains unchanged.

You do not need to provide any narrative, balance sheet figures, or make any tax or accounting adjustments for these submissions.

What information is required on the End of Period Statement (EOPS)?

An EOPS will include the usual accounting and tax adjustments required to finalise the tax position for each trade or property business. This will be due by the normal self-assessment deadline of 31 January. This is not enough to finalise your affairs as it only covers one element of your income.

What information is required on the Final Declaration?

A final declaration will crystallise your tax position for the year. Only at this stage do you provide details of all other factors which will determine your tax liability for the tax year.

Unlike the quarterly submissions and the EOPS, there is **one Final Declaration per taxpayer**, not per business and this replaces the usual self-assessment tax return.

I am a sole trader and I have a rental property, how will I be affected?

Your self-employed income will be classed as one business, and your rental income will be classed as another business. If either of these business (or both combined) exceed the £10,000 turnover threshold, both businesses will be within MTD for ITSA.

Therefore, HMRC will be expecting 8 quarterly submission (4 for each business), 2 End of Period Statements and 1 Final Declaration.

I own a rental property jointly and the gross rent is more than £10,000 a year, but my share is below £10,000, how will this impact me?

Only your share of the gross rental income is considered when looking at whether you need to start reporting by MTD for ITSA. As an example, if you hold a property jointly 50/50 with another person and charge £1,000 a month (gross rental income of £12,000 a year), only your £6,000 share counts towards the threshold.

I am not UK resident or domiciled, do I still need to comply?

If you are domiciled or resident outside of the UK, you are not exempt from MTD for ITSA, but you only need to comply with MTD for ITSA rules for your **UK based** property and/or self-employment income. Which means that you do not have to report any of your income from outside of the UK.

When will I have to start complying with these rules?

MTD for ITSA comes into effect from 6 April 2024. Each quarterly return will be due a month after the quarter ends. So the first update needs to be submitted by 5 August 2024 and the final declaration for this period by 31 January 2026. Although it still feels a while away, it might help you to start getting into the habit of digital record keeping before MTD comes in.

Businesses are only allowed to leave MTD for ITSA if the relevant income falls below the threshold for three successive years.

Are there any exemptions from MTD for ITSA?

It is possible to apply to HMRC directly for an exemption if you can show that it's not reasonable or practical for you to use computers or the internet. This may be because:

- of your age;
- of a disability;
- you are running your business from a remote geographical location;
- you object to using computers on religious grounds; or
- any other reason why it's not reasonable or practical.

Each application is considered on a case by case basis.

Businesses that are already exempt from engaging with HMRC through other mandatory digital channels will be exempted from the MTD requirements.

Are there any penalties for missing the MTD for ITSA deadlines?

Despite our best efforts, late submissions do happen, especially when we are expected to report our income more frequently. So HMRC has announced a slightly more lenient, points based penalty system for late submission of MTD for ITSA reporting instead of the flat rate automatic penalty regime. This way it aims to penalise those who repeated fail to comply with HMRC's requirements.

HMRC has also indicated that there will not be penalties charged for inaccuracies on the quarterly submissions, as it is likely there are going to be adjustments made to these figures in the EOPS.

I am already registered for MTD for VAT, will those submissions be sufficient for MTD for ITSA?

Unfortunately no, HMRC will require you to still make MTD for VAT submissions outside of the MTD for ITSA obligations. It may be worth thinking about aligning your VAT quarters to the MTD for ITSA quarters to alleviate the administrative burden of quarterly report to different dates. Each has a separate legal obligation, and so also both will attract penalties.

Do I need to purchase software? If so, which is the best for me?

HMRC has suggested that software is optimal for MTD for ITSA, as there is less room for error and data deletion, and it may prove difficult to submit the required EOPS or the final declaration without appropriate software to support you.

The aim of MTD for ITSA is to streamline the income tax system, and make it easier and faster to get your tax right. Keeping your business records digitally also makes it easier for you to share information with us, which will save time during the accounts preparation process.

We do have a wide range of software partners that we trust and would recommend, however it is not a one size fits all and we would recommend that you have a chat with our Systems Advisory team to see what we can find that will fit your specific needs.

Will Knill James offer support and training for these softwares?

We will be running a variety of training days online and in person this year and next year for a low fee. The details of these sessions will come out once we are aware of the demand for them. **If you believe you will benefit from this, please let us know by filling in our survey.** We will also continually be adding more information to our website to assist you.

How do I sign up for MTD for ITSA, or is it an automatic process?

HMRC will review your self-assessment tax return and tell you if you must sign up for MTD for ITSA. Your team at Knill James will also be notifying you if we believe you will fall into the criteria of MTD for ITSA between now and 6 April 2024.

To sign up, you must be registered to file self-assessment tax returns and have a government gateway ID and password. You will need your:

- Business name
- Start date
- Email address
- National Insurance number
- Accounting period
- Accounting type such as cash or standard accounting.

You can currently only sign up through a recognised provider offering software that is compatible for MTD for ITSA. As agents, we can do this procedure for you through our agent services account.

HMRC is currently running a pilot for MTD for ITSA, so if you'd like to get started now, please let us know.

If you fall below the qualifying income level of £10,000, you can choose to sign up voluntarily at any time.

As an agent and my accountant, can you do the submissions for me?

We will of course be able to make all of these submissions for you.

However, as the quarterly submissions are only a basic summary of your income and expenses, and is not expected to be absolutely accurate, over time you may prefer to make these submissions yourself to minimise our time costs and ultimately our fees charged.

We will of course review your income and expenses, make the appropriate accounting and tax adjustments to submit the End of Period Statements and the Final Declaration, and we will be able to do that through our agent software.