

TAX

Making Tax Digital For Income Tax Self Assessment

BACKGROUND

Making Tax Digital (MTD) is HMRC's initiative to digitise the UK tax system through the phasing of new digital tax recording and reporting requirements.

Under MTD, businesses and other taxpayers need to use HMRC - compliant software and processes to submit information digitally every quarter.

MAKING TAX DIGITAL FOR VAT

Since the 1st April 2022, all VAT - registered businesses were required to comply with the MTD regime for their VAT accounting.

This impacted around 1.1m UK businesses that were registered for VAT with taxable turnover above the threshold at the time of £85,000. The registration threshold has now risen to £90,000.

MAKING TAX DIGITAL FOR INCOME TAX (MTD FOR ITSA)

This is the next important phase of MTD and, like the requirements for VAT, it will require those affected to use compliant software in order to report quarterly figures to HMRC.

Self - employed businesses and landlords with combined annual business or property income above £50,000 will need to follow the rules for MTD for Income Tax from April 2026.

Self employed businesses and landlords with combined annual business or property income between £30,000 and £50,000 will need to follow the rules for MTD for Income Tax from April 2027. From April 2028, this threshold will lower again to include combined income from these sources of £20,000 and above.



MTD FOR ITSA TIMELINE

- April 2025: This is the date from which it is anticipated most clients will start signing up for MTD ITSA. It is also the start of the transition year for businesses having to undertake basis period reform.
- April 2026: MTD ITSA becomes a legal requirement for self-employed traders and landlords with gross income over £50,000 per annum
- April 2027: MTD ITSA becomes a legal requirement for self-employed traders and landlords with gross income between £30,000 and £50,000 per annum.
- April 2028: MTD ITSA becomes a legal requirement for self-employed traders and landlords with gross income above £20,000 per annum.

MTD FOR ITSA - WHAT WILL I HAVE TO DO UNDER THE NEW RULES?

If you are a self-employed business owner and/or landlord and you're affected by MTD for Income Tax, you will have to take the following actions from 6th April 2024:

- Keep records of your business income and expenses in a digital format
- For each type of revenue (Self-employment, UK property, or Foreign property), send quarterly updates of your business income and expenses to HMRC using compatible software
- Complete a BSAS (business source adjustable summary) to adjust and finalise the figures for each income source at the end of the year

- Submit your end of year tax return through software (HMRC's current paper and online self-assessment tax returns will not be accessible to those in MTD ITSA).

KEEPING DIGITAL RECORDS

Under MTD for Income Tax, you will need to keep digital records of each individual income and expenses transaction (not summaries).

This does not mean you need to scan and store invoices/receipt digitally. You can still keep these in paper form if you prefer.

You are able to keep digital records using accounting software such as: FreeAgent, Quickbooks, Xero, Sage, etc.

Spreadsheets are also permissible for keeping records, but the spreadsheet must either be API enabled or used in conjunction with MTD compatible software in order to submit information to HMRC.

SEND QUARTERLY UPDATES

Once you are signed up to MTD for Income Tax, you'll need to send a summary of your business income and expenses to HMRC every three months using MTD- compatible software.

The key deadlines for submitting updates will be the same for everyone who has to follow the MTD for Income Tax rules. These deadlines are:

- 7th August
- 7th November
- 7th February
- 7th May

FINALISE YOUR BUSINESS INCOME

At the end of the tax year, you will need to complete a BSAS (business source adjustable summary) for each source of MTD-reported income.

This process retrieves your previously submitted quarterly updates and allows you to make any necessary accounting or tax adjustments to finalise the figures for the tax year.

The information for each finalised MTD income source is then brought together with any additional income (such as dividends) and relevant claims to complete your Self-Assessment tax return.

In some cases you will be able to do all of this from one software, but in others it may be necessary or preferable to use separate tax software for the full Self-Assessment tax return. The current HMRC online self-assessment portal, as well as paper forms, will not be available to tax payers mandated to MTD ITSA.

Following the same deadlines as the current Self-Assessment process, you will have to submit the BSAS along with your full tax return and pay the tax you owe by 31st January of the following tax year.

HOW WE CAN HELP

Although 2026 may seem like it is currently along time away it will soon come around. There are many things that you will need to consider, therefore early planning is recommended. It is important to speak with an accountant when looking to choose an MTD compatible software.

Working with Moore (South) we can give you access to our cloud accounting specialists who are there to guide and train you on cloud accounting software best suited to you and your business.

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