Making Tax Digital for Income Tax

HMRC's Making Tax Digital for Income Tax becomes law in April 2024.

Who is affected?

People affected by the new legislation include self-employed businesses and landlords with annual business or property income above £10,000.

Certain types of partnership, such as those including a corporate partner, don't yet have to sign up. Other exemptions include trusts and estates.

When does it take effect?

People affected will need to follow the rules for MTD for Income Tax from the accounting period starting on or after 6 April 2024.

There's no additional time awarded if your accounting period runs to 31 March; for tax purposes, the period ending 31 March 2024 will be assumed to have ended 5 April 2024, meaning everyone affected joins MTD on 6 April 2024.

What will change?

Making Tax Digital requires you to use approved software for your accounting that can report information direct to HMRC.

There are four main activities:

Personal Tax Account

HMRC will set up a Personal Tax Account (PTA) for each individual, which will act as a digital central record for income, expenses, tax claims and tax affairs. (If you currently file Self Assessment tax returns, you'll already have a PTA.)

The submissions

There are three types of submission to be made over the course of the tax year: quarterly updates, an annual End of Period Statement (EOPS); and a Final Declaration, which replaces the current Self Assessment tax return.

Quarterly updates

The quarterly submission is effectively a rough profit and loss account. It shows the totals for the quarter of: sales income for each income source and purchases/ expenses, in defined categories, for each income source.

End of Period Statement

Any accounting adjustments will be made on the EOPS, which must be submitted by 31 January following the end of the tax year. A separate EOPS will be required for each trade or property business.

Final Declaration

The Final Declaration pulls everything together. This is where you tell HMRC about any sources of income not reported via the quarterly submissions or EOPS, and claim any reliefs due.

It is this that effectively replaces the Self Assessment tax return and is used to calculate the definitive tax liability for the year. (Prior to this, you will have seen estimates based on the quarterly submissions.)

Impact on reporting

The minimum impact this will have on reporting is an increase from one submission per year to six – that would be a single source of income, resulting in four quarterly submissions, an EOPS, and a Final Declaration. The maximum could be many more. For example, if you are a sole trader and a landlord, then you will have to submit a quarterly return and an EOPS for each source of income, plus a Final Declaration, meaning your number of submissions per year will go from one to eleven.

Make sure you're on top of MTD

Making Tax Digital for Income Tax is more complex than can be comprehensively covered here, but this should give you a reasonable overview of what to expect. It might seem like April 2024 is far enough away not to have to worry about things just yet. However, it's not that long a time to make sure you have everything in place.

Get In Touch

We'll keep you informed as the deadline comes ever closer to help you be prepared for the changes. If you want to talk things over in the meantime, feel free to get in touch.

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Steps to take now to help prepare for MTD

Software: Start to investigate accounting software options. We work exclusively with Xero and highly recommend this product for all business owners. We're Xero Certified Advisors and are expertly place to support you using Xero throughout MTD. www.xero.com

Bank account: Sole traders or partnerships: make sure all your business income and expenses flow through one bank account.

Landlords: make sure all your property income and expenses flow through one bank account.

Have a separate bank account per income source. For example, if you have sole trader and property income ensure that they both run through separate bank accounts.

Expenses: **Personal expenses:** keep these in your personal bank account and out of any business bank account(s).

Business expenses: pay these out of the business bank account that they relate to.

Property expenses: pay these out of the property bank account that they relate to.

Receipts: obtain and retain receipts for all business and property expenses.

Cash in and out: **Drawings for self:** ideally take one monthly (or weekly) amount.

Capital introduced: if your business account is short of money don't pay business expenses from elsewhere; instead, introduce money into the business or property account from a private account and then pay the expenses from the business bank account. Ensure your records note this or write on the bank statement where the funds came from.