

DIGITAL ACCOUNTING

MTD ITSA - legislation has finally landed

Are your current records compatible?

Handy 5 step guide to compliance



Forrester Boyd

CHARTERED ACCOUNTANTS

What are the changes?

The introduction of MTD Income Tax Self Assessment (ITSA) will see many sole traders and individuals having to change the way, and frequency in which they update their records.

From 6 April 2024 it will be mandatory for businesses to update their records on at least a quarterly basis. This is due to HMRC requiring quarterly submissions of business totals for income and expenditure.

With this in mind, we would recommend that you start to assess your current systems and software to make sure that any necessary changes are identified and implemented before 6 April 2024 to ensure you are compliant with HMRC's compulsory start date.

HMRC will require that all income and expenditure associated with each type of trade must be identified and recorded separately within your software and this will apply to everyone with a turnover above the VAT registration threshold.

Draft legislation released in July 2022 has confirmed that those with a turnover under the VAT threshold, will be asked to submit just two figures to HMRC under the scheme's new quarterly update requirements.

“
From 6 April 2024 individuals and businesses that meet the MTD ITSA criteria must keep their accounting records in a digital format.
”

Example 1

- Mark is self-employed and owns a vehicle recovery business, as well as owning rental properties.
- Mark will need digital software that is compatible with MTD to record his accounting records and submit his quarterly returns to HMRC.
- When posting his business transactions he will need to make sure that his income and expenses for his recovery business are posted under accounts for recovery.
- As well as then posting his rental income and expenses under separate codes.



Chart of Accounts

Income

01	Rental Income
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02	Vehicle Recovery
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Expenses

10	Fuel (Recovery) - £5000
20	Insurance (Rental)
21	Insurance (Recovery)
22	Telephone and Internet

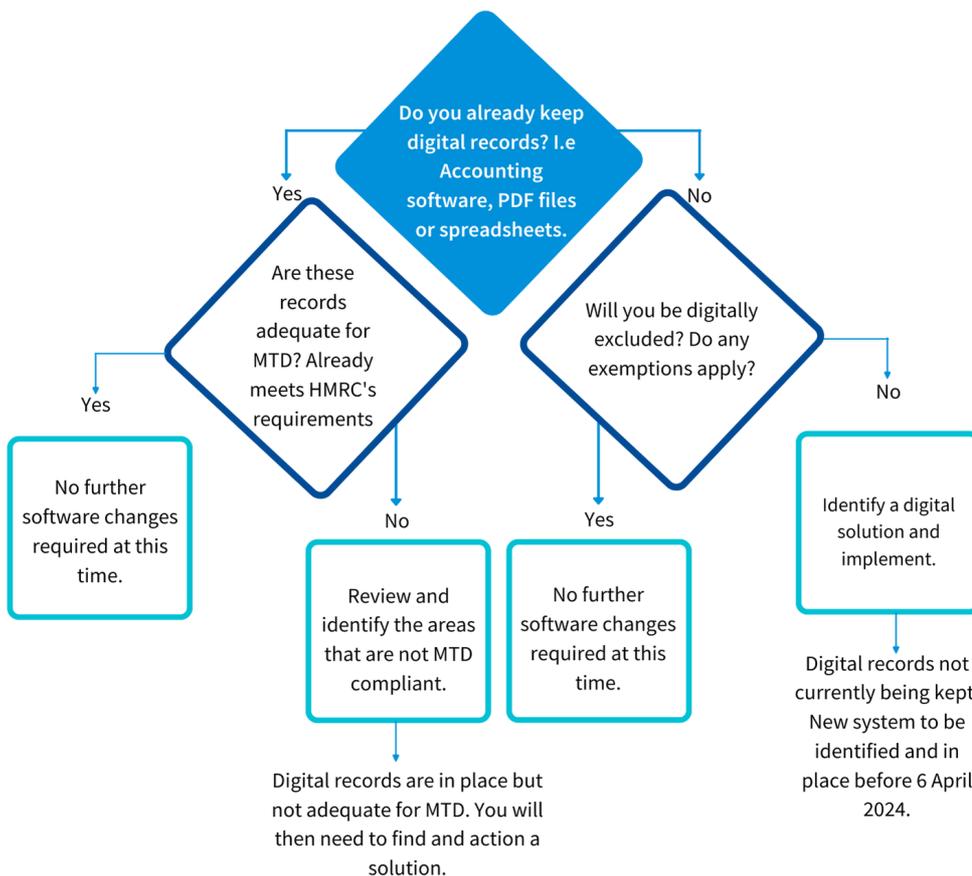
23	Motor Expenses (Recovery)
24	Motor Expenses (Rental)
25	Repair and Renewals (Recovery)
26	Repair and Renewals (Rental)

It is worth considering expenses that are used for both trades, such as telephone and internet as it may be that these have to be separated between both trades. We are still awaiting further guidance from HMRC and will provide updates in the near future.

For those who fall below the threshold (£85,000 frozen until 31/3/24), you may choose to “provide the total of all income and all expenses, instead of the totals falling within each category”.

If you use a personal bank account for both your business and personal transactions, then it is worth considering the impact this will have on posting your records. It may be more beneficial to have a separate account for business transactions, to make bank reconciling easier.

To help decide if your records are already compliant or what needs to be done before April 2024, please refer to the chart below.



If you are required to find and implement a new solution to become MTD compliant, then there are options already available to you.

As your accounts we are able to advise you in more detail on the options and how we can help, as well as offering competitive prices.

5 steps to compliance

1 Sign up



If you're a business (sole trader) or individual that falls within the MTD ITSA scope, then you must sign up prior to the start of your first accounting period post 5 April 2024.

Agents can also sign up if they are authorised to act on your behalf for tax services.

2 Maintain digital records

MTD ITSA requires that you keep all records of business transactions in a digital format. This means keeping paper records only will no longer be acceptable.

Spreadsheets are an acceptable form of digital records, although software will be required to send the updates to HMRC. Date, amount, and tax category must be captured in your records as a minimum.

Over the VAT threshold?



If you're over the VAT Registration threshold you will be required to distinguish all transactions (income and expenses) for each individual trade.

If you are below the £85,000 threshold you may choose to only “provide the total of all income and expenses, instead of the totals falling within each category”.

3 Periodic Updates

All businesses within MTD ITSA will be required to submit periodic updates to HMRC, at least quarterly.

HMRC defines this as “an electronic submission of summary totals for specified categories from the digital records of each business on a periodic basis (obligation period) from the software to HMRC”.

Your first submission should include “designatory data” about you as the taxpayer and the business i.e. Name, address Unique Tax Reference, and account period start and end date.

For more information on the deadline dates, please refer to the table.



Quarter Period	Deadline
April/May/June	5th August
July/August/September	5th November
October/November/December	5th February
January/February/March	5th May

Deadline dates will always be 5th of the month, regardless if period end is 6th to 5th or 1st to end of the month.



4 End of Period Statement (EPOS)

At the end of the tax year, you will need to finalise your taxable profit and loss for your business, including making adjustments for allowances and reliefs.

This can be completed and submitted at any point after the end of the tax year but no later than 31 January.

Once submitted, HMRC will complete and return a tax calculation for the year.

5 Final Declaration

This process is designed to bring together all the data that is required to finalise the tax position so that the final tax liability can be reached.

This will take into account all forms of income, gains, and losses. It effectively replaces the SA100 Tax Return.

Remember that tax liability will still need to be paid by 31 January.

If any information that needs to be included can't be submitted via supported software, then a self-assessment tax return will also be required.

MTD pilot expanded

HMRC has expanded the criteria for the MTD ITSA pilot, which may allow more taxpayers to take part, but only from 6 July 2022.

Currently the MTD ITSA pilot is limited to taxpayers who have income from just one self-employment source, or property income from only UK properties, excluding furnished holiday lettings. They must not have income to report from under any other sources or have non-business tax relief to claim, such as under Gift Aid.

To participate in the pilot the taxpayer must use an accounting year end that exactly matches to the tax year (not to 31 March), be a UK resident and have their SA tax returns and all tax payments up to date.

In addition, the taxpayer must not be subject to any income tax charges such as HICBC or charges on paying excess pension contributions.

From 6 July 2022 taxpayers with income in the following categories will be able to sign-up for the pilot:

- Multiple self-employments
- Non-UK properties
- Employment and pensions taxed under PAYE
- UK interest
- UK dividends

This is still a very restrictive list and the other criteria mentioned above still apply, although the taxpayer can now claim Gift Aid relief. Strangely those taxpayers with a tax liability coded out in their PAYE code can't join the pilot.

HMRC has also made it clear that the following taxpayers are also ineligible for the pilot:

- partners in a partnership
- those who are bankrupt or insolvent
- Ministers of religion
- Lloyds underwriters
- Foster carers

To participate in the MTD ITSA pilot the taxpayer (or you as the agent) must first choose some MTD ITSA compatible software from the approved list of software products currently available. There is a grand total of three products on this list, of which only two are suitable for use by tax agents. The software provider has to contact HMRC to see if their new customer is eligible to join the pilot.

The taxpayer is required to keep their business records in a digital format under MTD ITSA, and this condition must be met for those taking part in the MTD ITSA pilot. However, the taxpayer is only required to have a digital record of their transactions by the time they have to submit their quarterly update. Thus, all the digital records can be created once per quarter, just before the quarterly filing date, not in real time.

Taxpayers who join the MTD ITSA pilot from 6 July 2022 will have to report a full year of income and expenses under MTD ITSA for 2022/23. The filing date for the first quarterly report is 5 August 2022. If the taxpayer joins the pilot after 5 August they will still have to submit an update report for quarter 1, but there will be no penalties applied for such late submissions.

Further guidance is available by visiting:

<https://www.gov.uk/guidance/using-making-tax-digital-for-income-tax>

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Information in this section is taken from the weekly Tax Tips, published by the Tax Advice Network, for which you can subscribe at www.TaxAdviceNetwork.co.uk



If you wish to know more about how this will affect you and the software options available then please get in touch. We have a dedicated team on hand to review and advise on any necessary changes needed.

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info@forrester-boyd.co.uk
www.forrester-boyd.co.uk

Grimsby : 01472 350601
Louth : 01507 606111
Scunthorpe : 01724 863105
Skegness : 01754 761777
Beverley : 01482 889400
Hull : 01482 889400