

ACTIVE PRACTICE UPDATES

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MAKING TAX DIGITAL FOR INCOME TAX

Everything you need to know before April 2024.

Making Tax Digital for income tax (MTD for ITSA) looks certain to affect sole traders and landlords from April 2024, following the recent news of a one-year delay.

This was the latest in a long line of delays and deferrals in the rollout of MTD, which was first proposed by then-Chancellor George Osborne in late 2015.

Small businesses were originally due to be the first to go through MTD in April 2018, at which point the focus switched to MTD for VAT. MTD for ITSA was to be delayed until lessons had been learnt from the VAT rollout.

MTD for VAT started on time for most of the UK's VAT-registered firms with VAT periods starting on or after 1 April 2019, although "complex" entities had a deferred start date to 1 October 2019.

A similar deferral is in place for general business partnerships, with these "ordinary partnerships" due to enter MTD for ITSA from April 2025.

At the time of writing, there's no indication of when other more complex partnerships will have to join MTD, and we don't know if MTD for corporation tax will start as planned from April 2026.

SOLE TRADERS & LANDLORDS

Shortly after MTD for ITSA was delayed on 23 September 2021, legislation was publicised to confirm the regime will come into effect from April 2024.

Specifically, this will affect sole traders and unincorporated landlords with business or property income of £10,000 or more starting in the 2024/25 tax year.

The £10,000 threshold applies to gross income or turnover, not profit. Where the individual or entity has more than one trade or property business, the figures are combined in determining if the threshold has been breached.

For example, if a taxpayer has £9,000 of rental income and £9,000 of sales from a sole trader or partnership business, their gross income will be £18,000 – £8,000 over the threshold – and they will be in scope of MTD for ITSA.

GENERAL PARTNERSHIPS

For general partnerships with income above £10,000, MTD for ITSA now starts in the tax year beginning 6 April 2025.

Previously, it had been expected to start at the same time as the general MTD for ITSA scheme in April 2023.

Other types of more complex partnerships, such as limited liability partnerships, mixed or corporate partnerships, will follow at an as yet undisclosed time.

The requirements and filing deadlines which will apply to general business partnerships will be the same as those that are mandatory for sole traders and landlords a year earlier.

EXEMPTIONS

The same exemption criteria that applies to MTD for VAT will apply to MTD for ITSA. That means the following are all exempt:

- non-resident companies
- trustees, executors and administrators
- businesses that are subject to an insolvency procedure
- foreign businesses of non-UK domiciled individuals.

Businesses that are run entirely by practising members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records are also exempt.

As are instances where it's not practicable for sole traders or partners to use digital tools to keep their business records or submit quarterly returns due to age, disability, or remoteness of location.

If any of the above apply, you must apply to HMRC in writing or over the phone to claim an exemption. You can do this now if you wish, and the tax authority will either grant or deny the application within 28 days.

SOFTWARE & FILING DEADLINES

From 6 April 2024, those affected must use MTD-compliant digital software to submit quarterly summaries of their business's income and expenses.

The software you use will generate updates and statements for you, while the Treasury hopes to offer free software products to businesses with straightforward tax affairs.

The quarterly deadlines for most unincorporated businesses filing under MTD for ITSA will be on or before:

- 5 August (for period 6 April – 5 July)
- 5 November (for period 6 July – 5 October)
- 5 February (for period 6 October – 5 January)
- 5 May (for period 6 January – 5 April).

In return, unincorporated businesses will receive a tax estimate from HMRC based on the details provided in the quarterly summaries. This should provide a more real-time picture of a business's tax liability.

The 31 January income tax payment deadline will remain in place, and this will also be the deadline to send an end-of-period statement following the relevant tax year.

This will mean the self-assessment tax return will become a thing of the past. As it stands, 2022/23 tax returns will be the last to be filed through self-assessment on or before midnight on 31 January 2024.

PENALTIES REGIME

A new late-submission penalties regime will come into effect for MTD for ITSA from April 2024. This will be the same points-based regime that's being introduced to MTD for VAT from 1 April 2022. Unlike the late Bruce Forysth's *The Price is Right*, these points definitely do not "earn prizes".

From 6 April 2024, a sole trader or landlord will receive one point for each submission deadline they miss. When the business reaches a certain points threshold, a £200 fixed penalty will apply for that return and any subsequent late returns.

The penalty thresholds are as follows:

Submission frequency	Points threshold
Annually	2
Quarterly	4

The points expire two years after the month in which the fine was issued if you file annually, as long as you meet all your obligations and have made all the submissions due within the last 24 months. If you file quarterly, a compliance period of 12 months applies instead.

WHAT YOU CAN DO TO PREPARE

So, sole traders and landlords have little more than two years to implement MTD-approved software within their business and the good news is there are plenty of options on the market to get started now.

Broadly speaking, there are three different types of software to help your business comply with MTD for ITSA, including the most popular option – software packages. These include, but are not limited to, Xero, QuickBooks and Sage.

Then there's API-enabled spreadsheets, which have an in-built function that enables them to file returns via HMRC's API server, and bridging software which takes information from an existing spreadsheet and submits it to HMRC.

Given that MTD is here to stay, we recommend that businesses go for a software package that suits their long-term needs and offers multiple benefits.

Taking a digital approach to manage your business's finances will give you a real-time cashflow position, which enables you to make better-informed decisions.

Using cloud accounting software also promotes collaboration with us as your accountant, reducing chances for errors and keeping you on the right side of HMRC.

Software products let you access your business accounting anytime you want, meaning you can spot problems like late payments and take action to resolve it.

Useful reports and dashboards also give you insights into your business, such as why your business seems to do well at a certain time of the year or how certain customers provide most of your income.

[!\[\]\(b78e2d0769ad682766c36e077fde3d60_img.jpg\) Speak to us about MTD for income tax.](#)
