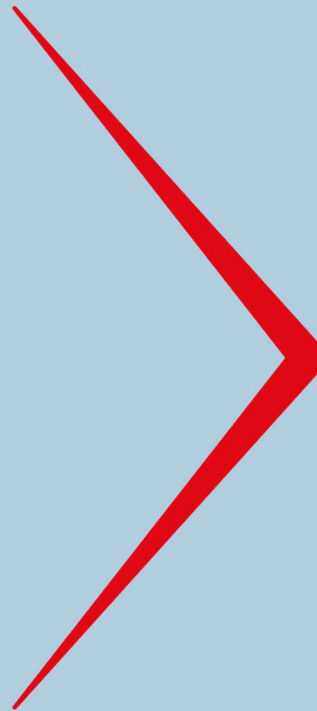


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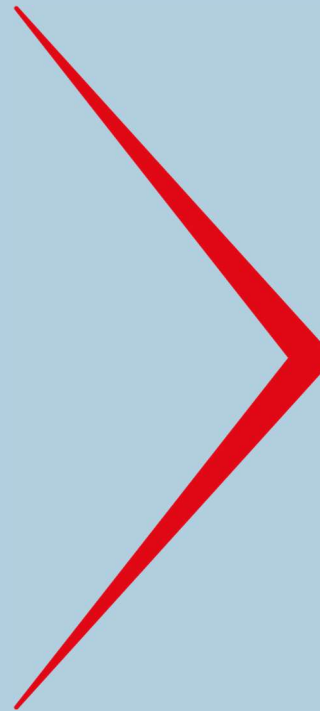
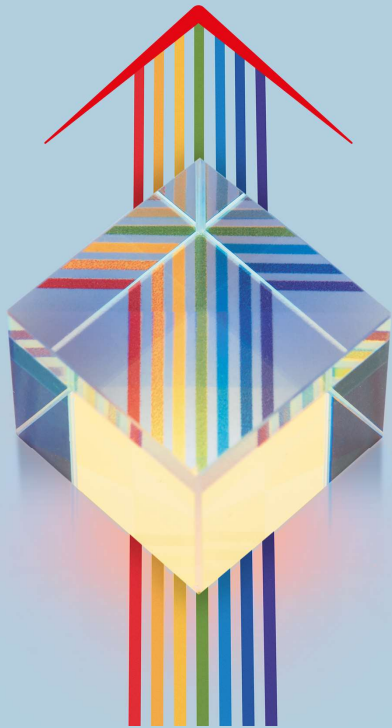


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# *MTD for income tax – where are we now?*

11 February 2021

PRESENTED BY:

**ANITA MONTEITH and  
CAROLINE MISKIN**

# *Presenters*

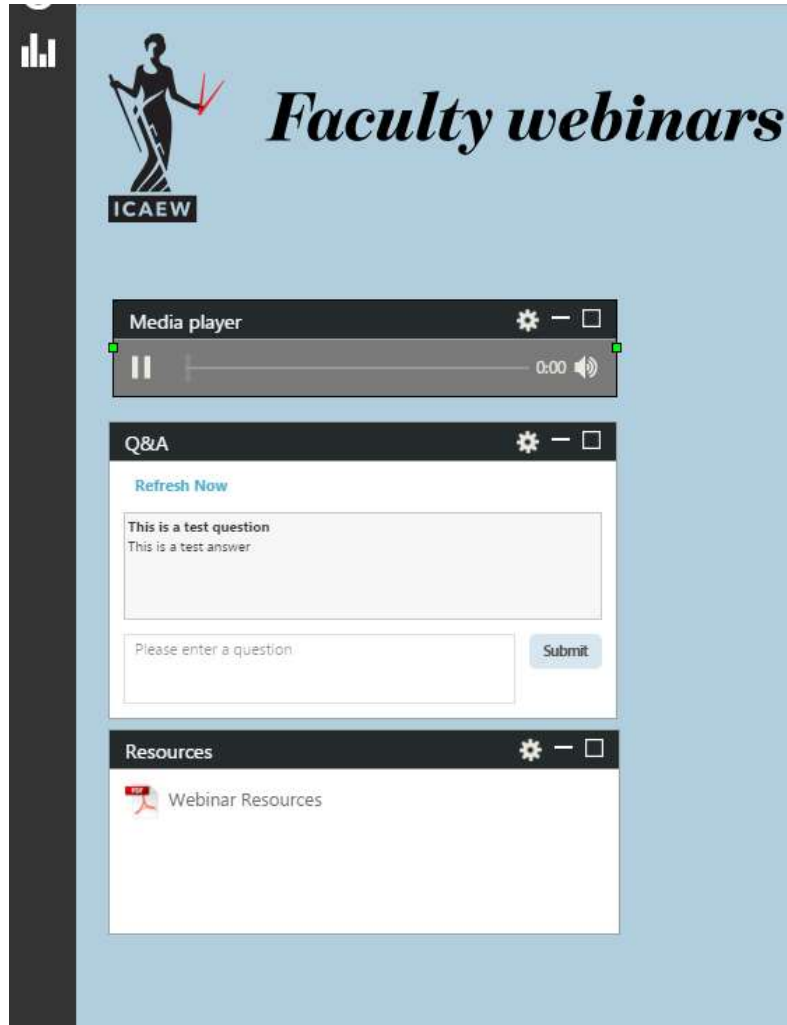


Today's speaker  
Anita Monteith  
Technical Lead  
ICAEW Tax Faculty



Today's speaker  
Caroline Miskin  
Practitioner Tax Manager  
ICAEW Tax Faculty

# Ask a question or download resources



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Audio problems?

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# *Purpose of today's webinar*

To update members with the latest information on MTD for Income Tax Self Assessment

- Context and background
- Timeline
- Requirements per draft regulations
- Software and pilots
- What preparatory steps can be taken now?

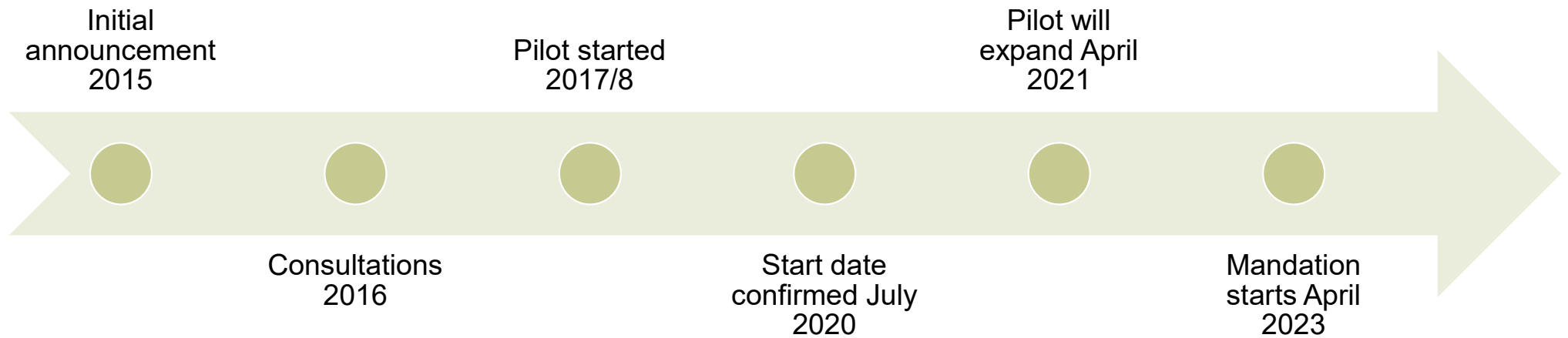
# *MTD where are we now?*

- **MTD for VAT** for businesses compulsory registered for VAT since 2019
  - Digital links easement ceases from 1 April 2021
  - Extension to all VAT registered businesses below the VAT threshold from 1 April 2022
- **MTD for income tax self assessment** from April 2023
- **MTD for corporation tax** not before 2026
- Underlying theme is digital record keeping
- Quarterly reporting
- Direction of travel is towards accounting software
  - Spreadsheets still acceptable

# *Context*

- MTD extension is one element of HMRC's 10-year strategy  
Building a trusted, modern, tax administration system
- HMRC secured the necessary funding in Spending Review 2020
- Primary legislation was passed in Finance (No 2) Act 2017
- Secondary legislation (regulations) to be laid soon  
**NB: this presentation is based on draft regulations which may change**
- Tertiary legislation (notice) will follow
- It is happening!

# *Timeline*





# *Who is in scope?*

- Sole traders
- Landlords – UK and overseas property income
- Partnerships
- Residents and non-residents

Above the income threshold

# *Exemptions*

- Exempt for now
  - LLPs
  - Partnerships with a corporate partner
- Exempt indefinitely
  - Digitally excluded
  - Trusts
  - Estates
  - Trustees of registered pension schemes
  - Non-resident companies

# *Are further exemptions needed?*

- Year of death
- Year of bankruptcy
- Public Department 1 cases (MPs etc)
- Remittance basis taxpayers
- Self assessment exclusion and special cases lists
- Foster and other qualifying carers

## *Income types in scope*

- Income from self employment (separating out trades)
- Income from partnership (reported at partnership level)
- Income from UK property (split into Furnished Holiday Lettings and other)
- Income from overseas property

**If** total gross income from these sources combined is > £10,000

NB: separate legal obligation for each source (multiple quarterly updates and penalties?)

# *How will other income be reported?*

Other income will be reported annually via

- MTD enabled software
  - Accounting software used to submit quarterly updates **or**
  - Personal tax software or
- New HMRC user interface

The implications...

- Will all MTD software providers offer functionality for all income types?
- Commercial personal tax software will need to be upgraded/replaced
- New HMRC user interface will replace Self Assessment Online

# *When does it start*

## **Existing sources at 5 April 2023**

- Trading income – start of first accounting period starting on or after 6 April 2023
- Property income – 6 April 2023

## **New sources starting on or after 6 April 2023**

- Trading income – start of accounting period in tax year 3
- Property income – 6 April following the start date

## *Examples of start dates*

- Ongoing trade - 5 April year end – MTD start date 6 April 2023
- Ongoing trade - 30 April year end – MTD start date 1 May 2023
- Ongoing trade - 31 March year end – MTD start date 1 April 2024
- Ongoing property income – MTD start date 6 April 2023
- New trade starting 1 September 2023 (2023/24 tax year) – MTD start date 1 September 2025 (2025/6 tax year)
- New property income starting 1 September 2023 - MTD start date 6 April 2024

# *Applying the £10,000 threshold*

- Gross income from all MTD sources above £10,000
- Breaching the threshold for the first time:  
Look back two basis periods  
eg, basis period 6 April 2027 – 5 April 2028 is in MTD if  
basis period 6 April 2025 – 5 April 2026 > £10,000
- Falling below the threshold:  
Policy still under consideration, intention is to minimise moving in and out of  
MTD but to allow exit in specified circumstances



## *Once you are in*

- Maintain digital records at transaction level
- Digital links from transaction records through to submissions
- Submit summary information to HMRC – quarterly updates
- Submit end of period statement to HMRC – EOPS
- Finalise liability for tax year
- Submissions to HMRC via API\* enabled software

\*Application programming interface

# *Digital records*

- Amount, date and category for each transaction
- Date – relevant date for income tax, may be different from VAT tax point
- Category – expected to be the categories in the self-employment and property sections of the current SA return
- HMRC will encourage real time recording of transactions but legislation says by the date that the quarterly update is submitted
- Easement for retailers – probably daily gross takings
- Further details and easements expected in tertiary legislation (employee expenses, letting and supplier statements, petty cash etc)
- **Not summaries of paper records**

## *Digital links*

- MTD 'functional compatible software' may include a suite of software and spreadsheets
- Once transaction entered into software all subsequent transfers must be digital
- Think books of prime entry and a digital audit trail
- Journals and adjustments are transactions but need to be made in the software
- Similar to VAT rules – HMRC has been asked to publish better guidance

## *Quarterly updates*

- HMRC will issue an 'update notice'
- Submit designatory information and
- Summary of three months information in specified categories
- Accounting adjustments and claims are **optional**
- Deadline 1 month following quarter end (not 1 month plus 7 days)
- Can submit up to 10 days early if no further transactions expected
- HMRC will play back estimated liability
- No declaration or inaccuracy penalty

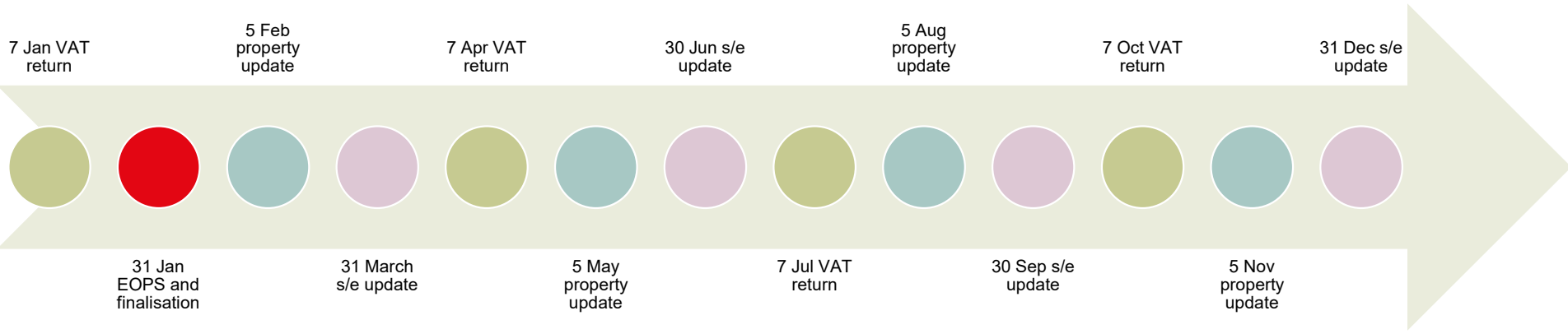
## *Quarterly updates – the tricky bit*

- Separate updates for each MTD income source
- The easy one – single MTD source, 12 month accounting/basis period, divides neatly into four quarterly update periods
- Multiple MTD sources with different accounting/basis periods
  - May include UK property income plus Overseas property income (with mandatory tax year accounting) and
  - MTD for VAT submissions
- Makes for a lot of submissions, not necessarily all from the same software
- HMRC intend to give flexibility to align but still debating – need to be able to match quarterly updates to accounting/basis periods

## *Example*

- VAT registered taxpayer Feb/May/Aug/Nov stagger
- Self-employment – 28 Feb year end
- UK property income – 5 April year end

Month	VAT returns (Feb/May/Aug/Nov stagger)	Property quarterly updates 5 Apr y/end	Self-employment quarterly updates 28 Feb y/end	EOPS x 2 plus year end finalisation
January	7 Jan			31 Jan
February		5 Feb		
March			31 Mar	
April	7 Apr			
May		5 May		
June			30 Jun	
July	7 Jul			
August		5 Aug		
September			30 Sep	
October	7 Oct			
November		5 Nov		
December			31 Dec	

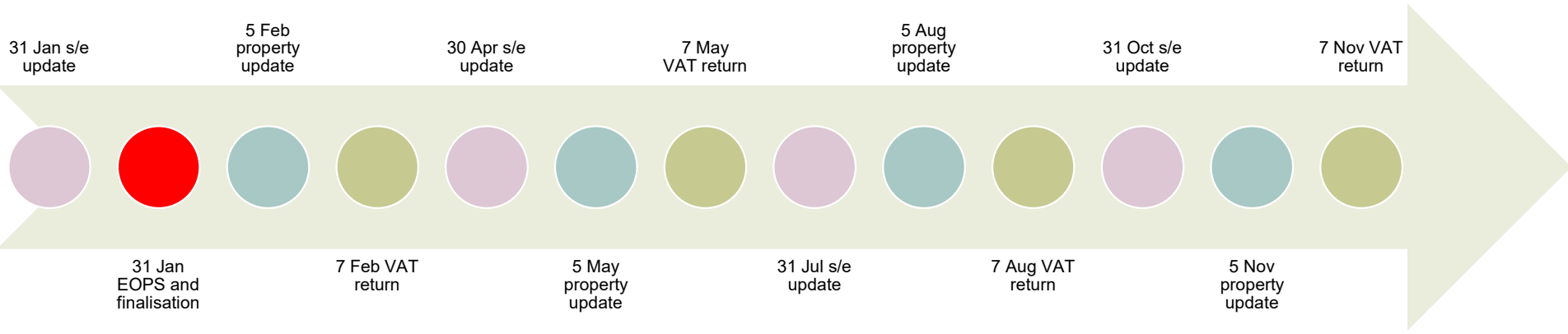




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- VAT registered taxpayer Mar/Jun/Sep/Dec stagger
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Month	VAT returns (Mar/Ju/Sep/ Dec) stagger	Property quarterly updates 5 Apr y/end	Self- employment quarterly updates 31 Mar y/end	EOPS x 2 plus year end finalisation
January			31 Jan	31 Jan
February	7 Feb	5 Feb		
March				
April			30 Apr	
May	7 May	5 May		
June				
July			31 Jul	
August	7 Aug	5 Aug		
September				
October			31 Oct	
November	7 Nov	5 Nov		
December				



# *End of period statement*

- HMRC will issue an 'End Of Period Statement' notice
- EOPS finalises the figures – one for each MTD income source
- Report missing transactions, corrections and accounting adjustments (the fifth update)
- Claim reliefs, allowances, losses etc
- EOPS for partnership is full partnership return
- Includes a declaration
- Deadline (almost) the same as the self assessment deadline

# *Tax year finalisation*

- Finalise/crystallise the liability for the individual for the tax year
- Bring together all MTD income sources and other income

# *Software and pilots (1)*

Pilot currently limited to UK residents who:

- Are registered for SA with returns and payments up to date
- Are sole traders with income from **one** business or a landlord who lets UK property (or both)
- Have no reportable income from any other sources
- Have not claimed any of the following COVID-19 support grants:
  - Self-employment income support scheme
  - Coronavirus job retention scheme
  - Eat out to help out scheme

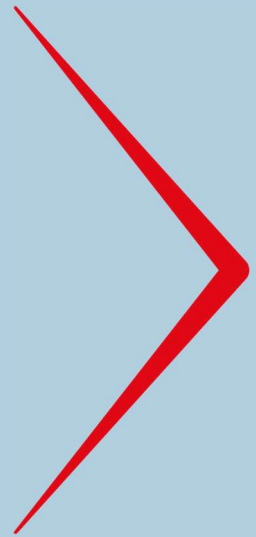
## *Software and pilots (2)*

- Seven software products available, four in development  
<https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax>
- Major functionality release by HMRC in December 2020 and more to come by April 2021 – will cover 85%+ of taxpayers
- HMRC expects to widen the criteria for who can join and for more products to be available by April 2021
- Limited opportunity to test a full cycle before April 2023 so need people to join the pilot but can you?

# *What can businesses and agents do now?*

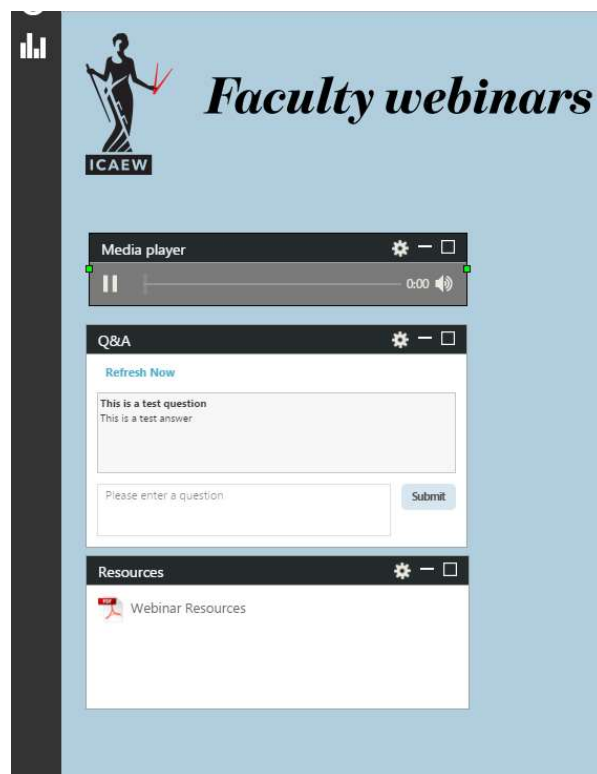
- Talk to each other - start mapping current processes and developing an implementation plan and likely future division of responsibilities for record keeping and quarterly updates
- Talk to current software providers about their plans
- Take great care if planning investment in new software
- Weigh up full feature software vs spreadsheets plus bridging product
- Consider starting small with digital sales invoicing/bank feeds/receipt capture
- Agents: categorise clients into groups and identify a small number of potential candidates for the pilot and a staging plan
- Agents: consider impact on own firm (staffing needs, financial forecasts)





*Any  
questions?*

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# *Future webinars*

- Tax Faculty webinars
  - 15 February – IR35 and employee status
  - 23 February – Getting Research and Development claims right
  - 5 March – Tax Faculty Budget update
  - 15 April – MTD and tax system transformation with HMRC director general

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# *Thank you for attending*



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