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**MTD for Income tax self assessment webinar will begin shortly.....**

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# ***MTD for income tax self assessment***

30 NOVEMBER 2021

PRESENTED BY:

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and

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## Presenters



Today's speaker  
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## Ask a question and download resources

The screenshot shows a Q&A window with the following content:

<b>You asked:</b> What happens when I raise my hand?	18:03
<b>Molly Parker answered:</b> I can take you off of mute.	18:04

Below the Q&A history is a text input field with the placeholder text "Please input your question". At the bottom left of the input area is a checkbox labeled "Send Anonymously" with an arrow pointing to it from the text on the right. At the bottom right is a "Send" button.

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## ***Purpose of today's webinar***

- Background and context
- The latest timeline – VAT, ITSA and CT
- Focus on MTD ITSA requirements
  - Interaction with basis period reform
- Penalties
- Software and pilots
- What preparations can be made now?

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## ***This is not a surprise....***

- Broader context
  - UK as a digital environment
    - Mobile phones
    - Bank feeds and open banking
  - The COVID accelerator
- It is about
  - Digital record keeping
  - As near to real time as possible
  - Digital links from transaction record to return
  - Reducing rekeying errors and miscalculation

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## **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 Reviews 2020 and 2021
  - Primary legislation for MTD ITSA in Finance(No 2) Act 2017
  - Secondary legislation (regulations) SI 2021/1076 laid 23 September 2021
  - Tertiary legislation (the Notice) will follow
- It is happening!

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## **MTD where are we now?**

- MTD VAT for businesses above VAT threshold since 2019
  - Digital links easement ceased on 1 April 2021
  - Extension to all VAT registered businesses below the VAT threshold from 1 April 2022
- MTD ITSA from April 2024
- Basis period reform from 2024/25
  - Transitional year 2023/24
- MTD CT 2026 at the earliest – likely later
- What is it:
  - Underlying theme is digital record keeping
  - Quarterly reporting
  - Direction of travel is towards accounting software (spreadsheets still acceptable)

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## ***MTD ITSA who is in scope?***

From 2024:

- Sole traders
- Landlords – UK and overseas property income

From 2025:

- General partnerships

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## ***Income types in scope***

- Income from self-employment (separating out trades)
- Income from UK property (split into Furnished Holiday Lettings UK, FHL EEA and other)
- Income from overseas property

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

- Separate legal obligation for each source
  - Possibility of multiple quarterly updates and penalty points

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## ***Applying the £10,000 threshold***

- **Gross** income from all MTD sources above £10,000
- Who might be caught unawares
  - Side-hustlers (eg, E-bay traders)
  - Ad-hoc rental income (Airbnb, letting driveway)
- TBC £10,000 test applied to tax return figure
  - Would take income not reported on tax return out of calculation
  - Trading and property allowances, rent a room

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## ***Moving in and out of MTD around the £10,000 exemption***

- When MTD starts in 2024, look at 2022/23 SA tax return
- Breaching the threshold for the first time (incl new businesses):  
Look back two tax years  
eg, tax year 2029/30 is in MTD if qualifying income 2027/28 > £10,000
- Falling below the threshold:  
Exemption applies where the person was in MTD for 3 years and in each of those years had income below £10,000
- Can elect to be in MTD if below threshold

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## ***Other exemptions***

- Exempt for now
  - LLPs and partnerships with a corporate partner
- Exempt indefinitely
  - Digitally excluded
  - Foreign income of non-UK domiciled and/or individuals
  - Trusts and estates
  - Trustees of charitable trusts, registered pension schemes and exempt unauthorised unit trusts
  - Non-resident companies
  - Underwriting business of members of Lloyds, distributions to shareholders in real estate investment trusts or distributions to participants in open ended investment companies
- Are more exemptions needed?

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## ***Digital start date***

- If carrying on a business before 6 April 2023
  - Digital start date for that business is 6 April 2024
- For new businesses going forward
  - 6 April in year 3 of the new business, provided the notice to file a return was issued before 31 October, otherwise
  - 6 April in year 4 of the new business, where the notice to file was issued after 31 October

Illustration: Tim started to trade on 7 August 2030

15 April 2031 he notified HMRC

20 May 2031 notice to file a return for 2030-31 was issued

His digital start date will be 6 April in the 3<sup>rd</sup> year of his trade, ie 6 April 2032

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## ***What has to happen at the digital start date***

- Must start keeping digital records for that particular business
  - Note that we tackle this business by business
- Must keep digital records through to the date on which that business ceases
- Be prepared to start filing quarterly MTD ITSA reports

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## ***Digital records: when***

- How promptly does digital record need to be created? By earlier of:
  - Deadline for the relevant quarterly update and
  - Submission of that quarterly update
- Eg Sue makes a sale on 23 January 2030. She files the MTD ITSA return for that quarter on 10 April 2030. She must have created the digital record for that sale by 10 April 2030 (just before she files)
- Eg Tim makes a sale on 23 January 2030. He files the MTD ITSA return for that quarter on 10 May 2030. He must have created the digital record for that sale by midnight on 5 May 2030 (because he was late filing)

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## ***Digital records: what***

- 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
- 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**
- **No requirement to keep digital copies of documents**

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## ***Digital records: property***

- Joint owners record and report their share
  - Practical issues with multiple owners and different shares – digital links?
- How many property businesses?
  - Split into UK, UK FHL, EEA FHL, Overseas but
  - Maximum two legal obligations - UK and overseas – TBC
- No requirement to report property by property but
  - Requirement to provide details of properties in designatory information
- Accounting for property to 31 March to be permitted

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## ***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 MTD VAT requirement

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## ***Quarterly periods***

The quarters	Date quarterly update is due
6 April to 5 July	5 August
6 July to 5 October	5 November
6 October to 5 January	5 February
6 January to 5 April	5 May

Update information for a business must be provided to HMRC for quarterly periods by the quarterly deadline

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## ***The calendar quarters election***

- ITSA is for tax years, based on 6 April to 5 April
  - Basis period reform allows accounting to 31 March
- VAT is for calendar months, eg 31 March
- Administratively annoying to have non matched submission quarters
  - Change the tax year end to coincide with a calendar month end too?
  - Somehow find a pragmatic solution
    - The MTD ITSA pragmatic solution is to make a calendar quarters election

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## ***Quarterly periods – the calendar quarters election***

The quarters	Date quarterly update is due
1* April to 30 June	5 August
1 July to 30 September	5 November
1 October to 31 December	5 February
1 January to 31 March	5 May

1. The submission deadlines are the same with/without the cqe (for VAT quarters it remains the 7<sup>th</sup>)
2. The election can be made for each business independently
3. The election must be made by the earlier of the due date for qtr 1 ¼ly update and the date the period 1 submission is made
4. In the first year the cqe is made, the first quarter of the year will be 6\* April
5. The election stands for future years until it is withdrawn (time limit applies here too)
6. After the cqe is withdrawn, the first quarter of the next year will start on 1 April

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## ***Choose to start MTD 5 days early?***

- Legal start date for MTD ITSA always 6 April
  - 6 April 2024 for existing businesses
- Calendar quarter election (cqe) – first update is 6 April to 30 June
- If accounting to month end and making cqe, consider joining on 1 April
- Quarterly updates then align with month end accounting
- 1-5 April is effectively voluntary

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## ***Quarterly updates***

- Quarterly updates just totals plus designatory information
  - A total for each income and expense category\*\*\*\*\* per the Notice (still draft)
  - Transactional level details not submitted
  - No accounting adjustments required for accruals/prepayments/errors/sales or purchase returns/opening and closing stock etc
  - No tax adjustments required eg, for capital allowances
- No declaration and no inaccuracy penalties
- HMRC will play back a tax estimate
- So what is the point of quarterly updates?

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## ***End of period statement (EOPS)***

- EOPS are required for each tax year (subject to 1-5 April wrinkle)
- Finalises reporting for each business
- Now decoupled from quarterly reports
- For a simple cash business  $Q1+Q2+Q3+Q4=$  EOPS total
- For 31 March or 5 April accounting periods differences will be tax and accounting adjustments
- For other year ends, estimates and apportionment required – can software handle?
- Will HMRC require quarterly updates and EOPS to be reconciled?

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## ***Illustration quarterly updates to EOPS***

Quarterly updates	Sales	Purchases	Expenses	Net profit before tax accounting adjustments	Cumulative quarterly updates for tax year
Apr-Jun 2030	100,000	20,000	5,000	75,000	
Jul-Sep 2030	110,000	20,000	5,000	85,000	
Oct-Dec 2030	120,000	20,000	5,000	95,000	
Jan-Mar 2031	90,000	20,000	5,000	65,000	320,000
	420,000	80,000	20,000	320,000	320,000
Accounting periods	Per above	Other net tax and accounting adjustments (say)	Capital allowances	Taxable profits	
Accounting period 31 March 2031	320,000	2,000	15,000	303,000	
EOPS	EOPS	Cumulative quarterly updates for tax year			
Tax year 2030/31	303,000	320,000			

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## ***Finalisation: how will other income be reported?***

- Quarterly updates and EOPS do not establish liability
- Separate finalisation and declaration process (aka tax return)
- Other income still reported annually via
  - Accounting software used to submit quarterly updates and EOPS **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

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## ***To summarise – it starts***

- **Existing sources as at 5 April 2023**
  - Trading income – 6 April 2024, regardless of accounting date
  - Property income – 6 April 2024
- **New sources starting on or after 6 April 2023**
  - Trading income – 6 April at start of year 3 of the business (or year 4 – see previously)
  - Property income – 6 April at start of year 3 of the business (or year 4 – see previously)
- Consider calendar quarter election and starting on 1 April where appropriate

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## ***Once you are in***

- For each business of the taxpayer:
  - 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

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## ***Penalties***

- Current £3,000 record keeping penalty may apply (Enquiry Manual EM4645)
- New points based submission penalties to apply to late quarterly updates, EOPS and tax year finalisation – future webinar
- Inaccuracy penalties will not apply to quarterly updates

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## ***Software and pilots (1)***

- Submissions to HMRC via Application Programming Interface (API) enabled software
- Either commercial accounting/tax software or bridging product
- Seven software products available, five in development  
<https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax>
- HMRC expects to widen the criteria for who can join and more products to be available by April 2022
- Limited opportunity to test a full cycle before April 2024 so need people to join the pilot, but can you? <https://www.gov.uk/government/collections/making-tax-digital-for-income-tax>

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## ***Software and pilots (2)***

- Public beta 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 or more businesses or a landlord who lets UK property (or both)
  - Use 5 April accounting date for all trading and property income
    - No reportable income from any other sources or additional claims
    - Have not claimed any COVID support SEISS or CJRS grants
- Private beta pilot slightly wider, contact software supplier

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## ***What preparations can be made now (1)?***

- Start mapping current processes and developing an implementation/staging plan.
- Consider whether to change accounting date and, if so, when
- Digital records are the key – focus on who will be keeping these – business, bookkeeper or agent
- Consider starting small with digital sales invoicing/bank feeds/receipt capture
- Could digital records be used to accelerate the current self assessment return process (or at least the self-employment and property sections)?
- Consider who will be responsible for the quarterly updates?

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## ***What preparations can be made now (2)?***

- Consider software options:
  - Talk to current software providers
  - Weigh up full feature accounting software, spreadsheets, personal tax software, bridging software and combinations
  - Take care if investing in new software - ensure will be MTD compatible
  - Government still committed to providing free products
- Consider when to join - during pilot?
- Agents - consider impact on own firm
  - Staffing needs
  - Fees and financial forecasts

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*Any  
questions?*

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## ***Future webinars***

- Tax Faculty webinars
  - MTDtalk series
  - TAXtalk with Rebecca Benneyworth
  - Recording of National Minimum Wage
  - Tech fair 22 March 2022

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## *Thank you for attending*



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