



MTD for ITSA Back to basics and myth busting: your questions answered

The following questions were raised by delegates who attended the ICAEW Tax Faculty webinar, **MTD for ITSA Back to basics and myth busting**, broadcast on 30 November 2021. Answers (*in italics*) have been provided by ICAEW Tax Faculty staff on the basis of information available at that time.

1. Regarding the spreading allowed in the transitional period (re basis period changes) is it for the tax or the additional profit?
It is for the additional profit subject to possible rules around protecting certain reliefs and allowances. The Tax Faculty will cover this on a basis periods webinar in February.
2. House of Parliament staff must submit paper tax returns. Will they be exempted from MTD, even if they have freelance income or rental income?
We don't yet know whether the same security considerations would continue to apply.
3. Will Community Amateur Sports Clubs be subject to MTD or are they treated as corporate bodies?
CASCs are not subject to MTD ITSA. Presumably they will be considered for inclusion in MTD CT in a few years' time.
4. Is it because the VAT clients are moving over to the Agent Services Account that the email reminder notifications have stopped?
Probably. HMRC no longer sends VAT return email reminders to those in MTD VAT and this may also be the case for traders whose records have been moved to the new ETMP VAT database and the agent services account, even if they are not yet in MTD VAT.
5. Previously VAT businesses were required to do MTD ITSA from April 22. Has that now been put back to April 23 or is everyone now 6 April 24 please?
The start date for MTD ITSA is April 2024, irrespective of whether a business is required to comply with MTD VAT. All VAT registered businesses are required to comply with MTD VAT requirements from April 2022 unless they have agreed a digital exclusion exemption with HMRC.

6. I have had several bad experiences with MTD for VAT. I have had client trying to complete VAT via MTD but HMRC had switched off the possibility of linking to see the open returns. Several hours of my life were lost trying to sort this out! Is HMRC really ready for this?
We do not understand this question. If this an ongoing issue, please contact taxfac@icaew.com.
7. When do LLPs come in scope?
There is no expected date for when LLPs or partnerships with a corporate or 'non-natural' partners will come into scope for MTD ITSA, though they are expected to be brought in at some stage. April 2025 is the expected start date for general partnerships only.
8. It has been suggested that because HMRC is having difficulties regarding jointly held let properties, the start date for these persons will be deferred until a later date. How realistic is this suggestion?
Too early to say. As it stands the start date is April 2024 and HMRC will be reluctant to introduce a deferral. This is being discussed; the difficulties are for taxpayers, agents and software developers rather than HMRC systems. A time-limited exemption from the digital link requirements for income from jointly held properties might be a more realistic potential solution.
9. Does rent a room income count within the £10k threshold?
Yes, but we currently understand only if included on the tax return (ie, not if the income is under the rent a room relief threshold and the only tax return entry is the tick in the rent a room relief box).
10. Notes gross income from noted sources. Webinar mentioned employment income as taking you over gross income, is that correct? So, you include employees, who may also have one rental property even if gross rental income less than £10,000.
No, employment income is not included in gross income for the £10,000 threshold test. The test applies to income from self-employment and property only.
11. What tax return is used to assess eligibility by HMRC (do we look back two years from that date)?
See slide on 'Moving in and out of MTD around the £10,000 exemption'.
12. Little old lady renting out a property, total gross income £15k - how much will she expect to pay for software as a result of these changes? Any ballpark idea?
If the free software which has been promised by government materialises, then we would hope it would be available in such property income cases, not just for low-income trades, but we don't know for certain. Applying for a digital exclusion exemption may be worth considering.
13. The joint ownership of property is not partnership. So, each member of a property syndicate will have their own MTD obligation. Has HMRC addressed the complexity for someone (like many of my clients) who owns property (1) on their own, (2) jointly with spouse and (3) jointly with others in syndicates - perhaps 10 or more syndicates - all with different memberships?
The Tax Faculty has made HMRC aware of this problem and it is being considered.

14. If a couple jointly own a rental property with say £14k total gross rents, and so each shows £7k gross on their tax returns, am I correct in thinking they are not caught by this?
Correct, so long as neither also has income from self-employment or another property.
15. My wife is currently 77 years of age and will be 80 by 2024. She is not computer literate and won't be by 2024! She files paper tax returns as cannot use online filing. She has two let properties grossing c£25k rental income which is her retirement income. What is she meant to do about MTD as employing professional help will reduce her income? Will HMRC give exemption for elderly taxpayers who are not computer literate?
Age on its own is not a reason for exemption, but it will frequently indicate that the individual is likely to be digitally excluded.
16. Is the >£10K for individuals only? If, for example, rental income is £20k but split between three persons, would they be exempt from MTD?
If each person is a separate taxable entity, (eg, three siblings) who have no other self-employment or property income, yes, they would all be exempt. However, if any of them has income from self-employment or another property that individual would be required to comply if the gross income from all their self-employment and property sources, including their share of the joint property income, exceeds the threshold. The test is applied separately to each individual based on their circumstances.
17. Supposing you start a business, breach the threshold but in the next two years before you have to join MTD, you fall below the threshold?
Yes, you would have to join, see SI 2021 No 1076 The Income Tax (Digital Requirements) Regulations 2021, Reg 21(3) and could only exit once you have fallen below the turnover threshold for three successive years.
18. For those persons who do not have a self-employment or let property is HMRC going to retain the existing SA Tax Return?
In the short term yes but in the medium term (probably 2025/26 to coincide with the new late submission penalty points rules being extended to these taxpayers) there will be something similar to SA for such taxpayers to report and finalise their taxable income for the year, but no longer called a self assessment return and on a different HMRC system and database.
19. To clarify the £10k income is only gross rent and trading? Not employment, dividends etc?
Correct.
20. If data is submitted quarterly does that mean that tax payments will also become quarterly?
*Quarterly payment is not currently part of the MTD ITSA project plan. We will see **consultation** on possible earlier payment in the near future, but this is not imminent and the government has given an undertaking that no changes will be made during the current parliament.*

21. Is the threshold £10k test to enable you to now enter MTD if lower than £10k, or just an exemption for obligation to split out each source?
The £10,000 limit is the threshold for making MTD ITSA compulsory. It is applied to all gross income of a taxpayer from self-employment and property in total. Taxpayers below the threshold will be able to join voluntarily. Income sources must always be split for MTD submissions, as they are on the current self assessment return.
22. If we are transforming things why don't we get rid of this 5 April nonsense and just make it 31 March or if we are wedded to traditions why not the proper quarter days?
ICAEW has led the debate on this needing to be addressed and the Office of Tax Simplification was instructed by the Government to investigate. Unfortunately, there is not enough time to make this change before 2024. The UK's financial system uses the 5 April date extensively beyond just ITSA.
23. Would a window cleaner need to record each and every house he cleans each day, or is daily takings sufficient?
The Notice will confirm the level of detail required, but it is likely that daily takings would be permitted. Not all window cleaners operate on the same basis however, so it may be that not all are the same.
24. Where property is owned jointly, does each individual need to record their share of the rental income in separate software, or can it all be recorded as one business and the profits split subsequently into their individual SA records?
Each taxpayer must keep separate records unless it is somehow possible to keep records as one business and maintain digital links from the software product in which the transactions are recorded through to the submissions to HMRC. That would require a sophisticated software solution and it is not yet clear whether that would be an option in practice. The key requirement to remember is digital flow of data from transaction to submission.
25. Why not place an obligation on the property manager to make returns (like partnership)?
Third party data submission is being considered separately as a possibility. We do not think it likely that it will be possible by 2024, but this will depend on necessary software and security.
26. What will happen with submitting furnished holiday letting (FHL) reports if the property doesn't actually meet the FHL rules when reviewed at the end of the year?
Really good question, we don't know the answer at this stage. We don't think it will be possible to amend quarterly updates; it is likely that this situation would be handled by reflecting the final position in the end of period statement (EOPS) (which is independent of the quarterly updates). There will be a facility to amend EOPS in the period up to the finalisation process; after that the current rules for amending a tax return will apply.
27. So, could I enter data from monthly rental statements into a spreadsheet and use that as my source document?
Probably, if that spreadsheet is your 'sales day book' equivalent. We expect HMRC to allow totals from statements, such as from letting agents, to be entered into the digital records but this is subject to confirmation as the current Regulations require a digital record of each transaction.

28. What digital links will be needed where a tenant just pays monthly rent by Direct Debit or author just receives commission statements. Neither have ever issued any paperwork for their income.
Consider using a download from the online bank statement. Download the data and save as a spreadsheet. You would then need either that spreadsheet, or a second linked one which is API enabled, to be able to upload the quarterly update.
29. If you keep your original accounts year end (eg, to 31 July) will you need to then submit quarterly for VAT (quarters to July/Oct/Jan/April) - and then completely separate calculations for quarterly income tax?
Yes, though the quarterly updates are transaction summaries and not full income tax returns or calculations.
30. How do you make calendar quarterly elections?
We haven't yet seen the form this election will take. Work in progress we presume.
31. Apart from the confirmation that you are using digital software is the data going to be used for any other purpose. If not what's the point? Is MTD for VAT registered people sufficient to cover ITSA as well? Do you have to transition when you register for VAT after you are already doing MTD for ITSA?
We presume data will be used to provide general information to HMRC's risk assessment engine and for government financial estimates. For many taxpayers with simple affairs, it will lead to an accurate tax estimate for that quarter. ICAEW chartered accountants will of course also deal with many more complicated taxpayer affairs. For them it will be less helpful or even unhelpful and we have had conversations with HMRC about this. MTD VAT software may also have the functionality required for MTD ITSA but check with your software provider. If an MTD ITSA business is likely to need to register for VAT, then it would be worth checking out software which can handle both.
32. When will EOPS be due? What are proposed deadlines?
The 31 January deadline as for ITSA now.
33. I have clients with other year ends May, December etc - how will they fit in with start dates and what year goes on the EOPS. Would it be advisable to change all sole trader and property income clients to the 31 March at the end of this tax year, so to 31 March 2022?
For many simpler businesses which do not currently have a year end of 31 March or 5 April, it will probably be worth changing their accounting date. The next question is when to make this change and that will need to be assessed with the new basis period rules in mind. We will cover this on a basis periods webinar in February. Note that property income is currently reported on an actual tax year basis to 5 April, though HMRC is aware that in practice some taxpayers do report property income to 31 March. Quarterly updates and EOPS/finalisation are independent of each other. Where a business has a non-31 March/5 April accounting date, the requirements are not yet clear to us. It could decide to submit more than 4 'quarterly' reports, so probably 5, if it wanted to have the reports fit neatly into an accounting period, or it could continue to just submit once per quarter and accept that none would coincide with the year end. Adjustments (including estimating and apportioning profits) will need to be made to arrive at the EOPS figures which are for a tax year in any case (subject to the choice over which tax year the 1-5 April period is included in) and the figures will not be easily reconciled with the quarterly updates. Clearly more guidance will be needed from HMRC in this area.

34. HMRC said free software will be available but are expecting software houses to provide a free basic version. I heard this was only going to be provided for the first year. Is this correct?
This may be the case with some software suppliers so it would be sensible to ask if they can give any assurances before committing to a product.
35. Will the EOPS have to be submitted from the same software as the quarterly updates, or can the agent import into separate software to undertake the accounting adjustments?
As long as the information is moved from one software product to another using a digital link, that would be possible. The use of different products as you suggest is likely to be common where an agent is involved.
36. Is it likely that the 31 January deadline for SA will now be different?
There is no suggestion that this will change in the near future.
37. With regards to quarterly updates - if an individual has submitted Q1, Q2, Q3, Q4 updates to HMRC but there's a late transaction which is posted later. What happens in that scenario? Would that submission be accepted by HMRC? Also, will there be a late transaction fee charged?
We understand that it will be possible to submit an additional update with the additional transaction(s). Adjustments may also need to be made to arrive at the correct EOPS figures and it may be sufficient to include additional transactions in the EOPS alone; that still needs to be clarified. HMRC would not charge a penalty or penalty point in this scenario.
38. On another course, I understood that quarterly updates would require cumulative figures - was that incorrect?
Quarterly updates submitted to HMRC will be the transaction totals for that quarter, not cumulative figures. Some software products might display cumulative figures which some taxpayers and agents might find helpful.
39. If there is no declaration on the quarterly reports, do we need to get clients to agree the quarterly update or would we just get them to agree the final update/return for the year?
Good question from a practice perspective. As with any work for clients, it will depend on what your practice has agreed to do. As long as it is clearly understood who is responsible for recording transactions and the accuracy of the raw data in the software or spreadsheet, and what checks or otherwise will be made pre filing, then the practitioner will just do what is agreed in the engagement letter. It is likely to be good practice to have specific agreement from the client before submitting an update.
40. If digital records kept on accruals basis, with (eg, monthly adjustments), will those figures be OK for quarterly updates?
Yes.
41. Does anyone have an idea about how many people are in the pilot currently?
We understand that the numbers are still very small (probably in the hundreds) because the entry requirements have been so very restrictive. It is unattractive for taxpayers to join the pilot mid-year which, together with the limited number of software products available, has limited uptake.

42. Can I please clarify my understanding about pilot requirements? Is the requirement from HMRC purely submitting quarterly updates? Does that also constitute EOPS and Finalisation?
Yes, the pilot includes the full cycle through to EOPS and finalisation.
43. Can you expand on what is “digitally excluded” and if there is an age over which the Revenue will accept exemption to MTD?
See [gov.uk/guidance/apply-for-an-exemption-from-making-tax-digital-for-vat](https://www.gov.uk/guidance/apply-for-an-exemption-from-making-tax-digital-for-vat) for who is eligible to be excluded from MTD VAT and how to apply. It is likely that similar criteria will be used for MTD ITSA. There is no specific age over which HMRC will automatically grant a digital exclusion exemption. HMRC will not start accepting applications for digital exclusion exemption until much closer to the April 2024 start date.
44. Are we understanding this correctly that in 2024, we will need to file the 2022/23 tax year as normal as well as starting MTD digital returns? Ergo we will be filing some digital returns BEFORE we file the annual return for the prior year?
Right idea but wrong year. There will be quarterly updates required for transactions from 6 April 2024 onwards. You are correct that the tax returns for 2022/23 will be due as normal on 31 January 2024, but that is before MTD begins. Tax returns due for 2023/24 will be due on 31 January 2025. Tax returns for 2024/25 will be the first to have had quarterly updates for all the trading and property income in them, (let's call them 'NEW tax returns') and their finalisation (including the EOPS for any quarterly reported income) will be due on 31 January 2026.
45. What is the deadline for the EOPS submission? Is it the following 31 January like the SA deadline?
Yes.
46. Does the electronic transfer of data apply to entry into the final declaration?
Yes.
47. Where are the dates for the ICAEW Software Fair shown?
22 March 2022, arrangements are still being made, not yet open for bookings.
48. Accounting and tax adjustments are not required in the quarterly submissions. Are you allowed to post them if you wish?
Accounting adjustments can be made if wished; it is not yet clear whether it will be possible to make certain tax adjustments such as claiming capital allowances in quarterly updates.
49. Will the SA tax return as we know it still exist for other individuals, (eg, company directors receiving dividends)? If a taxpayer's income trading income is less than £10,000, will the self assessment process still be there?
In the short term yes but in the medium term (probably 2025/26 to coincide with the new late submission penalty points rules being extended to these taxpayers) there will be something similar to SA for such taxpayers to report and finalise their taxable income for the year, but no longer called a self assessment return and on a different HMRC system and database.

50. Are the quarterly updates on a cash basis?
They can be raw data, unadjusted for accruals, or can be adjusted for accruals if the business prefers. So this might mean just use the cash book if the business uses its cash book as its book of prime entry. Or use totals from sales and purchases day books, plus cash sales and purchases, if the business uses accruals accounting.
51. What are the amending rules for quarterly reports - if any?
The quarterly updates are additive rather than cumulative. There may not be a facility to amend the quarterly updates themselves, but it will be possible to send an additional update with any corrections. The Regulations refer to quarterly updates but do not stipulate a maximum number of updates for a quarter. The business can therefore send one each month/week or day if it wants to, just so long as they are sent directly from the digital records. This might be rather an overkill! HMRC's expectation is that most corrections will be made in the next quarterly update.
52. If you draw your expenses from different sources cash and several bank accounts, how do you get that on to one digital source?
We would expect more sophisticated software to be able to accept multiple feeds from different sources. Some transactions may need to be directly entered into software (this is fine so long as it is done on at a transaction level). Using excel (or similar) spreadsheets which can be linked, together with a bridging product to submit to HMRC, would be a possible solution. ICAEW has an Excel community for people interested in upgrading their Excel skills, see [icaew.com/technical/technology/excel/excel-community](https://www.icaew.com/technical/technology/excel/excel-community).
53. Are you giving thought to the price points for software?
We won't be allowed to recommend software as we aren't qualified to do so, but we are considering how to help our members choose for themselves. One option will be to attend the ICAEW software fair due to be held live at Chartered Accountants Hall on 22 March 2022. The government has committed to providing free software for the simplest businesses, but we have yet to see how the software market will respond. HMRC does not intend to develop a product itself and free products may not be suitable for agents.