MTD FOR INCOME TAX SELF ASSESSMENT (ITSA)

.ıIRIS

How your accountant can guide you through Making Tax Digital for Income Tax Self Assessment

✓ **Making Tax Digital ready**

Making Tax Digital (MTD) is a complete overhaul of the UK tax system, requiring businesses and individuals to switch to an entirely digital system for the storage and submission of tax data.

The new system is being rolled out in phases, so you may be affected by MTD for ITSA (effective from April 2024) and your business may also need to change how it files returns and stores tax records when MTD for Income Tax Self-Assessment (ITSA) or MTD for Corporation Tax become law.

What is MTD for ITSA?

MTD for ITSA is the rollout of MTD for people who use Self-Assessment to file and submit tax returns. It applies to landlords and the self-employed from April 6th 2024, giving you plenty of time to prepare for the new system, although you can sign up voluntarily before the launch date if you want a head start – over 10 million businesses are already using MTD.

Who is affected by MTD for ITSA?

- Unincorporated businesses, landlords and the self-employed earning over £10,000 from business or property

- Members of a partnership that isn't incorporated (e.g. an LLP) or including a limited company as one of the partners (after April 2025)

Who is exempt from this phase of MTD for ITSA?

- Trusts
- Estates
- Trustees of registered pension schemes
- Non-resident companies
- Some complex partnerships

Be aware that the £10,000 figure is for combined income: if your business earnings and property income combine to a total of £10,000 or more, you'll need to join MTD for ITSA.

What is changing?

How you submit your tax return

From the next accounting period starting on or after 6 April 2024, all affected individuals must send quarterly updates of their business and or property income and expenses to HMRC using MTD-compatible software. This system will replace annual Self-Assessment tax returns.

You'll then receive an estimated tax calculation based on that summary from HMRC, so you can budget for your tax. At the end of the year, simply add any non-business information and finalise your return using your MTD-compliant software.

The deadlines for finalising tax affairs and making payments are not changing.

How you retain digital records

Under MTD, ledger books, handwritten invoices and printed receipts can no longer be used; all relevant account information must be transferred to and stored in digital software before you submit your tax return.

If you rely on manual filing and paper documents, entering your figures into your end-of-year tax return, you'll now need to switch to MTD-compliant software.

What is MTD-compliant software?

MTD-compliant or MTD-compatible software means any digital record keeping software that is HMRC-approved and allows you to submit and store tax data in compliance with the new requirements of MTD.

As well as being compliant with MTD, the software you choose should offer the functionality and features that suit your needs. Whether it's a rapid implementation speed that results in limited down time, cloud-based files that the whole team can collaborate on or a product supported by accountancy experts, it's essential to choose your MTD software carefully.

Digital links

If you're using more than one piece of software, or use spreadsheets for data entry, you must use a digital link to transfer that data electronically, rather than manually. Some examples of digital links accepted by HMRC include:

- Data transferred electronically between software
  (this includes linked cells in a spreadsheet, such as a formula)

- An automated transfer that doesn't require manual intervention
  (other than clicking a button)

- Emailing a spreadsheet or using a
  memory stick or pen drive

- API technology

How your accountant can help you

Your accountant, if you use one, is on hand to support you through the transition to MTD, whether you submit tax returns yourself or outsource the entire process.

✓ Plan ahead

However you plan to transition to MTD, your accountant will keep you up to date with new developments and legislation as it comes in. While the finer details of MTD are confirmed by the UK Government, your accountant should keep you informed.

✓ Set targets

Setting targets with an effective way to monitor the transition to MTD, for example suggesting to have a set number of clients switched over within a year.
It keeps both you and your clients accountable and will highlight where you can provide additional support.

✓ Keep in touch

Communication is key to the successful implementation of MTD, from regular updates about transitioning to offering additional advisory services such as training, webinars or even face-to-face discussions about the impact of MTD on your business.

For further information about Making Tax Digital and to find out more about how to get your business MTD ready visit: **iris.co.uk/perspectives/making-tax-digital**

✓ **Making Tax Digital ready**