



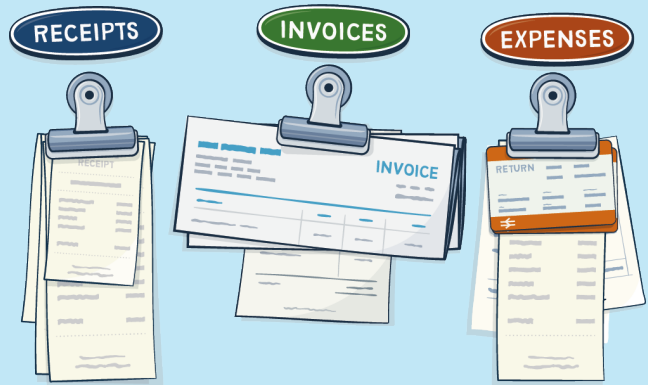
Making Tax Digital for Income Tax Self Assessment **What does it mean for you?**

Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) will change the way millions of business owners and landlords report their earnings to HMRC. If you're wondering how this might affect you, here's a simple guide to the new rules.

Making Tax Digital: the story so far

Making Tax Digital (MTD) is a government initiative that sets out a bold vision for the UK to have “one of the most digitally advanced tax administrations in the world”. It promises to “transform tax administration so that it is easier for taxpayers to get their tax right”.

- **The first stage of Making Tax Digital, MTD for VAT, was introduced in 2019.** It requires owners of VAT-registered businesses with VATable sales above the VAT threshold (currently £85,000) to keep digital records and use MTD-compatible software to submit their VAT returns electronically. These rules will be extended in April 2022 to include all VAT-registered businesses.
- **MTD for Income Tax Self Assessment (MTD for ITSA), also referred to as ‘MTD for Income Tax’, is the second stage of Making Tax Digital** and will replace the current system of annual Self Assessment tax returns. MTD for ITSA will come into effect in April 2024 for self-employed business owners and landlords, and in April 2025 for partnerships with individual partners. Other types of partnership will join at a future date.
- **MTD for Corporation Tax is expected to be the next stage in the initiative**, although HMRC has advised that this won't come into effect until 2026 at the earliest.



What is changing under MTD for ITSA?

The most significant change under the MTD for ITSA rules is that instead of sending a Self Assessment tax return to HMRC once a year, those affected will have to submit four quarterly updates about their business income and expenses. At the end of the tax year, they will also have to send an end of period statement (EOPS) and a final declaration.



Who will MTD for ITSA affect?

Initially, MTD for ITSA will affect self-employed business owners and landlords with a total business and/or property income above £10,000 per year. These individuals will have to follow MTD for ITSA rules from 6th April 2024.

Partnerships with individuals as partners will have to follow the rules from 6th April 2025. HMRC has advised that limited liability partnerships (LLPs) and partnerships with corporate partners will be required to join at a future date yet to be confirmed.



What will I have to do under the new rules?

If you're a self-employed business owner and/or landlord and you're affected by MTD for ITSA, you'll have to take the following actions from 6th April 2024:

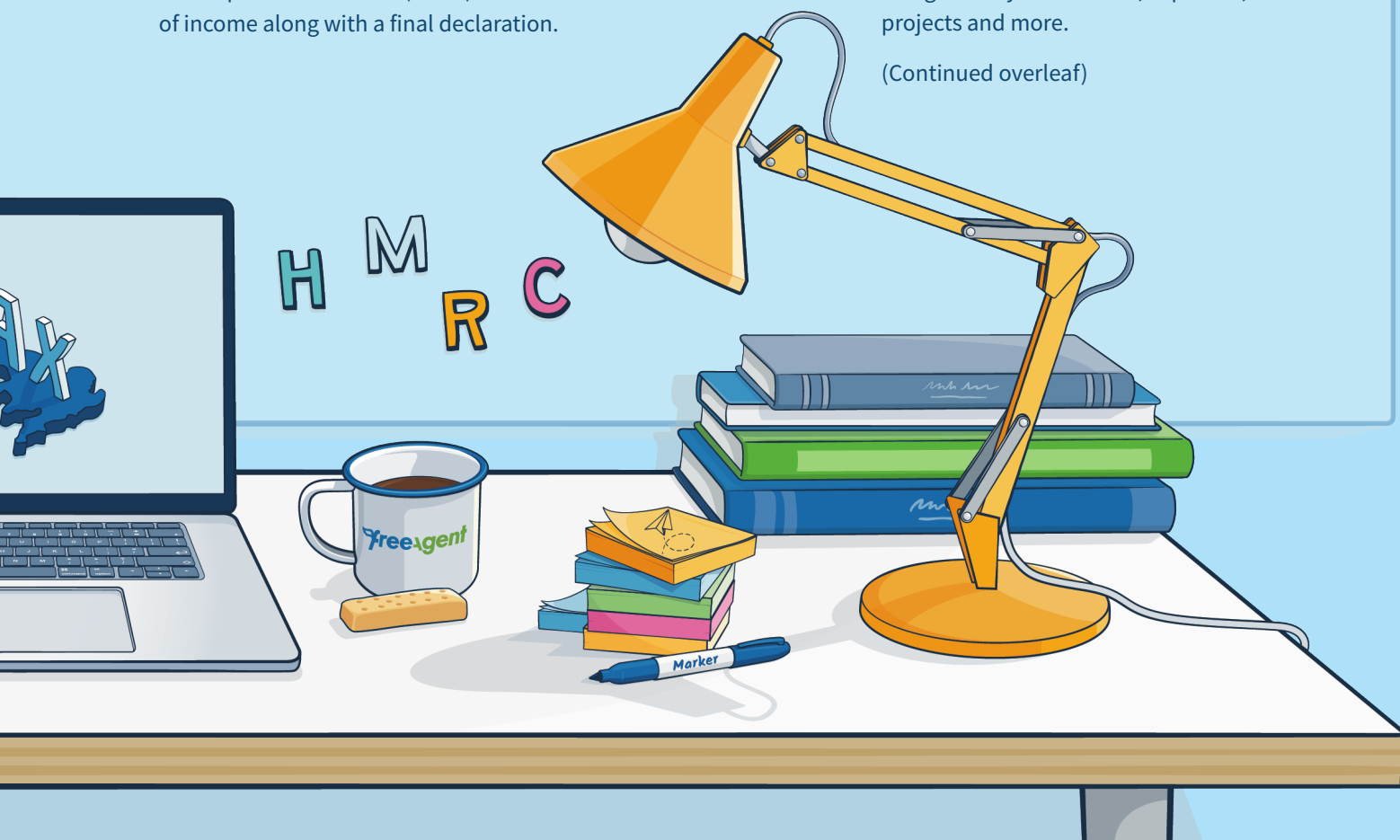
- Keep records of your business income and expenses in a digital format.
- For each type of revenue (self-employed business or property), send quarterly updates of your business income and expenses to HMRC.
- Finalise your business income by submitting an end of period statement (EOPS) for each source of income along with a final declaration.

1. Keep digital records

Under MTD for ITSA, you'll need to keep digital records of all your business income and expenses, including all your income from self-employment or property. It's a good idea to start doing this as soon as possible so that you have plenty of time to prepare.

You can keep digital records using accounting software such as FreeAgent. You can pull your bank transactions directly into FreeAgent by setting up a bank feed, and the software offers powerful tools to manage all of your invoices, expenses, projects and more.

(Continued overleaf)



What will I have to do under the new rules? (cont.)

2. Send quarterly updates

Once you're signed up to MTD for ITSA, **you'll need to send a summary of your business income and expenses to HMRC every three months** using MTD-compatible software. FreeAgent is working with HMRC to ensure that our software will support MTD for ITSA submissions ahead of the expansion of the pilot scheme in the 2022-23 tax year.

The deadlines for submitting quarterly updates will be the same for everyone who has to follow the MTD for ITSA rules. From the start of the tax year on 6th April, these deadlines are:

- 5th August
- 5th November
- 5th February
- 5th May



3. Finalise your business income

At the end of the tax year, **you'll need to finalise your business income by completing an end of period statement (EOPS)** for each source of income, along with a final declaration that replaces the current Self Assessment tax return.

This process lets you confirm that the updates you've sent are correct, and to add any details about personal income or reliefs or make any other necessary adjustments. As with the current Self Assessment process, you'll have to submit the EOPS and final declaration and pay the tax you owe by 31st January of the following tax year.

How do I sign up to MTD for ITSA?

An MTD for ITSA pilot scheme has been running since 2018, and certain eligible businesses and landlords can already choose to sign up and follow the rules voluntarily. The pilot scheme will be gradually expanded during the 2022 to 2023 tax year, ready for larger-scale testing in the 2023 to 2024 tax year.

If your accountant or bookkeeper is signing up on your behalf, HMRC has outlined a separate process for them to follow.

How can I learn more?

To find out more about MTD for ITSA and how it will affect you, please speak to your accountant or bookkeeper.

