



AIMS ACCOUNTANTS

MAKING TAX DIGITAL (MTD)

All about the new digital way
to do your tax

 **AIMS**

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WHAT IS MTD?

Making Tax Digital (MTD) is, as the name suggests, the HMRC move to digitise the tax system for VAT, Income Tax Self-Assessment and Corporation Tax for both businesses and individuals – the idea is to put all your tax information into one place. The main purpose behind the government's campaign is to simplify the way we make tax returns and to make it more efficient. Businesses and individuals will no longer need spreadsheets or paper records as it's all moving to the new MTD system that requires HMRC compliant software.

THE THREE MTD SCHEMES

MTD for VAT (April 2022)

Although this was introduced in 2019 for VAT-registered businesses above the turnover threshold (currently £85,000), as of April 2022 it is extended to all VAT-registered businesses. This includes businesses below the threshold that voluntarily registered for VAT.

1

MTD for Income Tax Self-Assessment (April 2024)

This will affect sole traders and landlords with a turnover above £10,000.

2

MTD for Corporation Tax (April 2026)

This may affect incorporated companies. There is no certainty about MTD for corporation tax yet. April 2026 is the earliest possible implementation date.

3

WHO NEEDS TO COMPLY WITH MTD INCOME TAX?

- You are considered to be running a business if you are either carrying on a trade (you are a sole trader) or you are a landlord (really in any capacity). That being the case you will need to tell HMRC how much you have earned, which you currently do in your self-assessment every January.
- Whilst your basic accounting requirements aren't changing, the way you keep your records and how you make submissions to HMRC is what is going to change.
- MTD will change the way that sole traders deal with their taxes, as well as landlords.
- But remember, it is only for those who have a personal income of more than £10,000 from either property rental or their sole trade.
- Sole traders and landlords who are below the income threshold will continue reporting their income by filling a self-assessment tax return.

WHY WAS IT INTRODUCED?

MTD has been introduced by the HMRC to optimise the tax system and digitise its process to reduce human error risk and to make more accurate taxable income through digital tax accounts. **There are three key reasons:**



More frequent reporting should reduce errors

By getting more real time data HMRC hope the information holds about you should be 100% correct, and should mean a reduction in human error.



Easier to talk to

Using secure online messages, web chats and other easier forms of communication which have not been available to date.



Knowing how much tax you owe

You don't have to wait until the end of the year to have an indication of how much tax you owe; you should have better oversight of this as you go along.

WHEN WILL MTD AFFECT ME?

Since April 2019, Making Tax Digital (MTD) has been introduced for the majority of VAT-registered businesses with a taxable turnover above £85,000. From April 2022, this has been extended to all VAT-registered businesses in the UK.

APRIL 2022 MTD FOR VAT

VAT-registered businesses must use compatible software to keep digital records and submit their VAT to HMRC.

APRIL 2024 MTD FOR INCOME TAX SELF-ASSESSMENT

MTD for income tax will be mandatory for the self-employed and those with income from property. It will only apply to those with turnover from self-employment plus gross rental income over £10,000.

APRIL 2025 MTD FOR INCOME TAX SELF-ASSESSMENT

MTD for Income Tax Self-Assessment will apply for partnerships that have a turnover of over £10,000 per year.

APRIL 2026 MTD FOR CORPORATION TAX

The digitisation may expand to other tax services such as Corporation Tax (CT). This date has not been confirmed yet.

WHAT DO I NEED TO DO?

The main change required for MTD Income Tax is that your annual self-assessment tax return which has always been submitted by 31 January, will be replaced by more frequent reporting for businesses and landlords who have a turnover or rental income above £10,000 per year.

On top of that you will need to file an annual reconciliation, effectively a final account for the four quarters. The annual reconciliation needs to be submitted alongside a final declaration at end of your accounting period, by 31 January following the end of the tax year.

To be compliant with the Making Tax Digital for VAT, businesses have to keep digital records and it must be done by using compatible software approved by HMRC.

NEXT STEPS

- 1** Keep records digitally – what you need to keep hasn't changed, but it needs to be kept on HMRC approved software, so no more spreadsheets.
- 2** Submit quarterly updates – you will need to update HMRC every three months.
- 3** Submit an End of Period Statement – at the end of the accounting period you will need to finalise how much profit you have made and how much tax you owe. Your accountant can also make any adjustments for allowances or reliefs that you are entitled to. This is due by 31 January.
- 4** Final declaration – you need to make a single final declaration no later than the 31 January following the end of the tax year. This will bring together all the information in your individual submissions.
- 5** Pay your tax – this is still due by 31 January each year. The requirement to provide a payment on account has also not changed.

HOW CAN WE HELP?

If you are a sole trader or landlord earning over £10,000 per year, your local AIMS Accountant will be able to help by using the compliant software to submit all the required reports from your business directly to the government. Before April 2024, your business should be accustomed to the new digital way of doing your tax submissions, but we will still need all your paperwork in digital format to complete the process on your behalf.

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