



BUSINESS & PERSONAL TAX SUPPORT

Making Tax Digital – The Transition to Quarterly Tax Returns

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Making Tax Digital (MTD) is the Government's digital tax programme which requires taxpayers to maintain digital records and to send tax information to HMRC digitally using approved software.

MTD for VAT

The MTD programme started with MTD for VAT. If you are a VAT-registered business and your turnover for VAT purposes is above the VAT registration threshold of £85,000, you will already be within MTD for VAT. If your turnover for VAT purposes is below £85,000, you may have decided to join MTD voluntarily. However, if you have not done so, you will need to comply with MTD for VAT from the start of your first VAT accounting period to begin on or after 1 April 2022, as MTD for VAT is compulsory for all VAT-registered businesses from that date.

Under MTD for VAT you must keep your VAT records digitally, using either a compatible software package or other software, such as spreadsheets that connect to HMRC's systems. If you use more than one software package, or spreadsheets and software packages, you will need to link them electronically – you can't simply input data manually from a spreadsheet into a software package.

You must also file digital VAT returns.

If your turnover is below the VAT registration threshold, you may wish to assess whether it remains beneficial to remain registered for VAT.

MTD for Income Tax Self-Assessment

MTD for Income Tax Self-Assessment (MTD for ITSA) is being introduced in stages. MTD for ITSA replaces the current requirement to file a self-assessment tax return with a requirement to make periodic digital submissions.

Under MTD for ITSA, instead of filing an annual self-assessment tax return, you will need to use MTD-compatible software to keep digital records and file:

- quarterly updates for business income and expenses.
- an end of period statement; and
- a final declaration.

The date by which you will need to comply with MTD for ITSA depends on your circumstances.

MTD for ITSA will apply initially to self-employed individuals and landlords who have business and/or property income of more than £10,000. If you have both property and business income, MTD applies if the total is over £10,000. Individuals to whom this applies will need to comply with MTD for ITSA from the start of the 2024/25 tax year (i.e., from 6 April 2024).

All other individuals within Income Tax Self-Assessment will be required to comply with MTD for ITSA from the start of the 2025/26 tax year (i.e., from 6 April 2025).

Quarterly updates are required for each business and each property business. This may mean that you need to make multiple submissions. Quarter end dates are set at 5 July, 5 October, 5 January, and 5 April. However, you will be able to elect to use calendar quarters instead and submit information to 30 June, 30 September, 31 December and 31 March.

The quarterly updates will be used to send income and expenses data to HMRC. However, this will need to be adjusted for any accounting adjustments and to claim any reliefs. This is done by means of an end of period statement. This will also be used to confirm that the information that has been submitted is correct.

You will need to submit the end of period statement by 31 January following the end of the tax year.

You will also need to submit a final declaration. This replaces the current self-assessment tax return. The final declaration must also be submitted by 31 January after the end of the tax year, and any tax due must be paid by that date.

Under MTD for ITSA, HMRC will produce on-going tax calculations based on information submitted on the quarterly returns. However, as

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these do not consider adjustments and reliefs, these should be seen as a guide only – the eventual liability may be very different.

The start date is not that far ahead, particularly for businesses and landlords with income in excess of £10,000. It is important that you plan ahead and that you understand what MTD for ITSA will mean for you.

MTD for Corporation Tax

Corporation Tax will also be brought within MTD. The start date has not yet been set; however, this will not be before 6 April 2026.

As with MTD for VAT and MTD for ITSA, under MTD for corporation tax, companies will be required to maintain digital records and to send data digitally to HMRC.

HMRC have consulted on what MTD for corporation tax may look like.

Planning for this change

Without a doubt MTD for all taxes will mean a significant change as we move all significant reporting to HMRC from annual to quarterly returns.

The days of manual record keeping are coming to an end, and we recommend that all taxpayers who are required to submit a self-assessment tax return make a change to digital, cloud-based software sooner rather than later.

Aside from the benefits of having real-time data at your fingertips, you will have the means to link your software to HMRC's servers and comply with all the MTD requirements.

We can help you understand your obligations under MTD and what you need to do to prepare.

We can also help you find appropriate MTD software for your business and assist you in keeping your records digitally.

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