



A guide to Making Tax Digital (MTD)

What MTD for Self Assessment Means for Your
Business and How Exchange Accountants Will Help

E-book

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What is Making Tax Digital?

Making Tax Digital, or 'MTD' is HMRC's plan to digitize the tax system for VAT, Income Tax Self-Assessment (ITSA) and Corporation Tax for both businesses and individuals.

Its purpose is to make tax returns simpler and more efficient for everyone. These changes have been described as the most significant changes to our tax system in its history and a significant change to how accountants and their clients work together.

MTD for VAT is already in effect, but rules will be extended to income tax from 6 April 2024. This is known as Making Tax Digital for Income Tax Self-Assessment, or 'MTD for ITSA'.

We will be working with our clients to make this transition as easy, and stress free as possible.

Who will be affected by MTD?

Under MTD for ITSA rules, self-employed people and landlords earning above £10,000 will need to use MTD-compatible software to keep digital records and submit updates to HMRC.

What happens next?

You might already use HMRC's online services to complete tasks such as submitting tax returns, but MTD goes further than that. It requires the use of software for your accounting. In some cases, it even seeks an end to the need to submit tax returns.

The good news is that we have done the research and already use digital software packages in conjunction with many of our clients, so we're well-placed to advise

and help you choose the right solution for you. We have achieved Platinum Partner status with market-leading cloud accountancy software provider Xero, and therefore we know our clients are in good hands.

There are an incredible number of benefits for businesses and individuals when it comes to digitalising taxes. For example, cash flow is improved because you have a good idea throughout the year of how much tax you owe. And using software for accounting means you simply spend much less time on admin, and more time doing what you love. That is where we come in.

As accountants, we're following the advice from HMRC and we are planning and setting up in readiness now. Your systems will need to be in place well before April 2024, not after. By getting you set up in advance we can help you get used to the new software before you are officially mandated and need to comply.

If you are a client of Exchange, we will be preparing you for this change in early 2023. We will be appointing each client with an 'MTD hero' who will guide you through this process, as well as offering MTD clinics during which we will get you set up on Xero and on the road to MTD.

In the meantime, we recommend that if you are using a personal account for a mixture of business and personal, that you should open one bank account for each in order to streamline your accounts. This is the first step on the road to MTD.

The scale of MTD for ITSA

2.6 million

self-employed businesses

1 million

landlords

0.2 million

ordinary partnerships

Plus 380,000 businesses with income from different or multiple sources.

MTD for Income Tax

Year 1 and 2 timeline

Single business sole trader with an accounting period aligned to tax year (6 April - 5 April)

	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2024	Tax year 2024/25 →								
Quarterly updates					FY24/25 5 Aug ¹			FY24/25 5 Nov ²	
End of period statement									
Final declaration									
Tax / Nat Ins payment				31 Jul					

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb
2025				Tax year 2025/26 →										
Quarterly updates		FY24/25 5 Feb ³			FY24/25 5 May ⁴			FY25/26 5 Aug			FY25/26 5 Nov			FY25/26 5 Feb
End of period statement													31 Jan	
Final declaration													31 Jan	
Tax / Nat Ins payment	31 Jan						31 Jul						31 Jan	

MTD for ITSA: changes

Before

- 1 annual submission
- Paper filings by 31 October
- Online filings by 31 January
- Fine to keep your paper records

After

- 4 quarterly submissions per business
- 1 annual End of Period Statement per business
- 1 annual "Final Declaration submission per individual
- Filing via MTD-compliant software
- Keeping digital records

MTD for ITSA will impact sole traders & landlords, fundamentally changing the format and frequency of reporting to MHRC.

Keep Digital Records of all business income and expenses

Many of our clients are already practicing digital accounting, but there are still some clients keeping records predominantly on paper - we will work with you to make your accounts digital so you are ready for MTD.

Quarterly updates to MTD

Annual Self Assessments will become a thing of the past, and quarterly submissions will take their place.

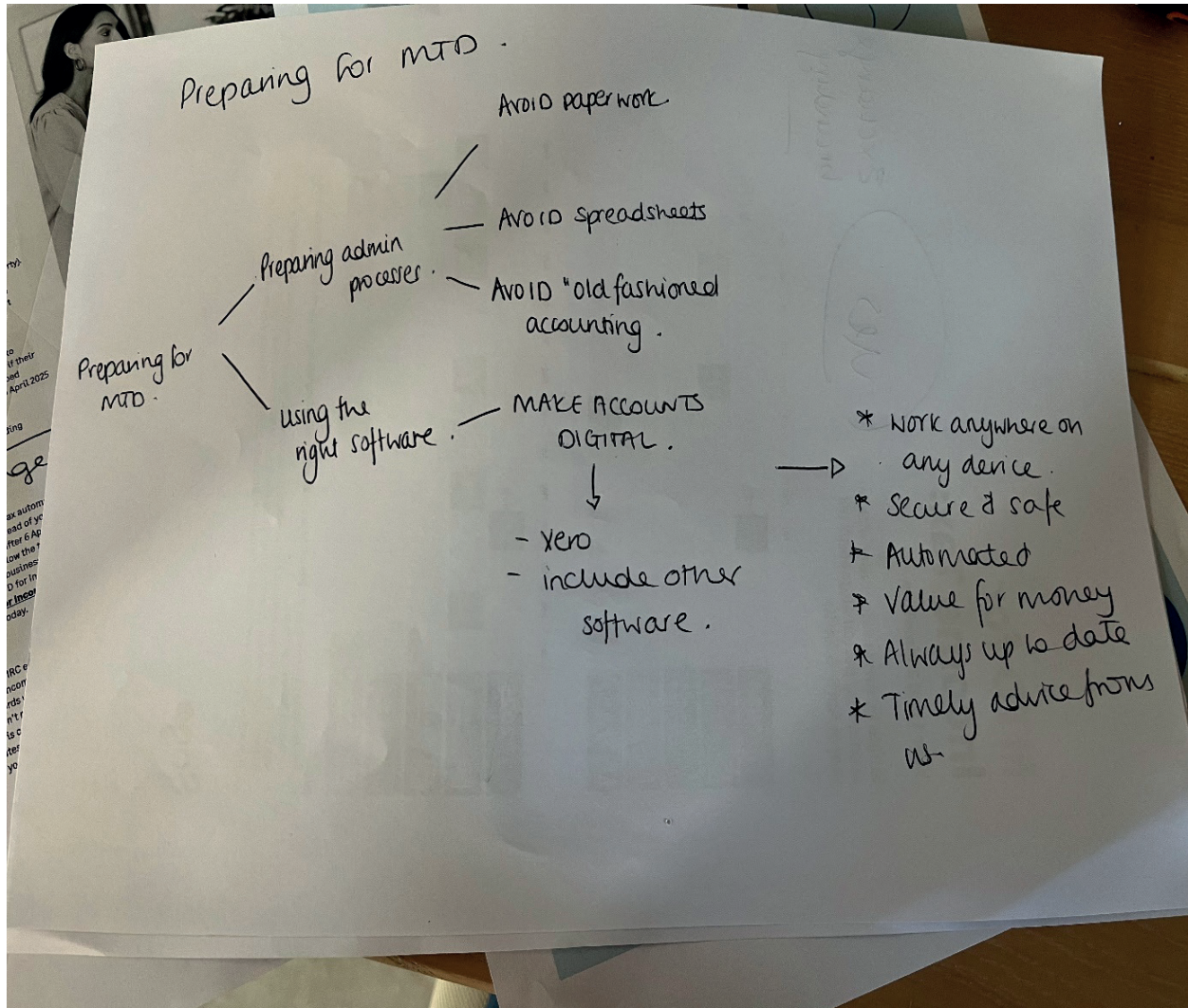
MTD-compatible software to send updates

The good news is that we have done the research and already use digital software packages in conjunction with many of our clients. We have achieved Platinum Partner status with market-leading cloud accountancy software provider Xero, and there are many other options available.

We will work with you to find the right software for you and your business.

Preparing for MTD

Preparing for MTD – IS THERE A WAY WE COULD SOMEHOW PUT THIS INFO IN TO A NICE GRAPHIC? Using pages 8,9 and 10 on sage booklet





What Exchange will do for you

We're following the advice from HMRC and we are planning and setting up in readiness now. We will be appointing each client with an 'MTD hero' who will guide you through this process, as well as offering MTD clinics during which we will get you set up on Xero, or other compatible software, and on the road to MTD.

Email communications from us, and clinic dates relevant to you and your business will be sent out in early 2023. At these clinics you will meet your MTD hero from the Exchange team and we will do the transition on to MTD compatible software for you. There will be several dates and times for you to choose from, and once this step is completed, we can do the rest for you, allowing you to focus on what matters most, running your business.

In the meantime, we recommend that if you are using a personal account for a mixture of business and personal, that you should open one bank account for each to streamline your accounts. This is the first step on the road to MTD.

Here is a summary of the requirements surrounding MTD for income tax;

Sign Up

You won't be switched to MTD for Income Tax automatically. We will ensure you are signed up ahead of your first full accounting period that begins on or after 6 April 2024 (or April 2025 for partnerships). If you follow the tax year for your accounting period, as many small businesses do, then you'll need to get signed up in advance of MTD for Income Tax's start date.

Maintain Digital Records

You've got to keep digital records of all business income and expenses in line with existing tax record keeping requirements. As is currently the case for Self Assessment, you might need to keep records relating to savings, investments and pensions too, as well as details of certain kinds of grants. You will need to keep all these records digitally for at least five years after the 31 January final declaration date for each tax year (see below). We are here to help you with this.

What Exchange will do for you

Quarterly updates

At a minimum, you must update HMRC every three months with a summary of your business income and expenses for each business you run. Landlords will need to provide updates on rental income but don't need to split it out by individual properties. There is currently no legal requirement for quarterly updates to be accurate, but it's a good idea because it will help you know your tax position. We will manage this process to enable you to get on with running your business.

End of period statement (EOPS)

At the end of the accounting period of any business you operate, we will need to finalise the taxable profit or loss via an EOPS. If you operate several businesses, then each requires its own EOPS following the end of its accounting period. Landlords also need to make an EOPS for all their property rental income. Within the EOPS, we can make adjustments for allowances and reliefs.

Final declaration

By no later than 31 January following the end of the tax year, a single final declaration will need to be made. That means bringing together all the data including business and non-business income needed to finalise your tax position and reach your final tax liability.

Pay your tax

Along with making the final declaration, outstanding tax will need to be paid by 31 January each year. As with the existing Self Assessment scheme, you may also need to provide a payment on account by the following 31 July.

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(MTD)**

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