MAKING TAX DIGITAL - FACTSHEET

# Overview

Announced back in 2015, “Making Tax Digital” (MTD) is part of HMRC’s initiative to become one of the most advanced tax administrations in the world. It encompasses modernising the tax process, allowing for data to be both accessible and submitted digitally. Ultimately, it will replace the current Self- assessment process, which has been in place for over twenty years, and is based on a paper tax form.

HMRC believe that a substantial part of the tax gap is due to errors in recordkeeping and re-keying of information for submission. MTD is driven by the need to reduce errors by the use of efficient recordkeeping, linked to the data ultimately submitted to HMRC, with no re-keying of data.

# Timeline of changes

The first phase of MTD was for VAT submissions and went live in April 2019.

You need to follow the requirements for Making Tax Digital for Income Tax if you are self-employed or a landlord from:

* 6 April 2026 if you have an annual business or property income of more than £50,000
* April 2027 if you have an annual business or property income of more than £30,000

# Periodic Updates

The main thrust of MTD is periodic (quarterly) digital updates of information to HMRC.

Initially focused on VAT, any business with turnover over the registration threshold was required to provide the VAT return data via software, rather than either by paper or by typing data into HMRC’s gateway.

For MTD for Business, business owners and property landlords will be required to submit quarterly information in respect of recorded income and expenses. These submissions are not replacing the need for annual profit calculation but are an additional step to provide an indication to HMRC that records are being maintained, and an indicative level of net income currently being received.

# Recordkeeping

Part of MTD is the requirement to keep records digitally. This does not necessarily mean the use of expensive software – for some businesses, the use of simple spreadsheets will be perfectly adequate.

However, software that allows submission directly to HMRC will offer efficiency for most business

owners. Importantly, there is not a “one size fits all” approach – the appropriate software for a private landlord is likely to be different to the software requirements of a large business with detailed stock control and invoicing requirements.

# Comparison to current process

Currently, there is an annual tax compliance process, built around the self-assessment tax return. The process is to collate all trading and other income and submit the data to HMRC before the 31 January following the end of the tax year.

The MTD process has additional requirements, that need to be considered. As mentioned above, traders and landlords have a quarterly update process, and the deadline for that process is one month. After the tax year end, there will still be an annual process, of adjusting trading income, and submitting that to HMRC together with non-trading income. In the future, HMRC will be able to obtain data directly from third parties (e.g. HMRC will obtain your bank interest figures directly from your bank), so the annual submission process will be more straight forward.