A Guide to Making Tax Digital for Income Tax

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What is Making Tax Digital for ITSA?

[Making Tax Digital for Income Tax Self Assessment](#) (MTD for ITSA) is a new way of reporting earnings to HMRC. You'll need to use compatible software to keep digital records and send Income Tax updates to HMRC, instead of filing a Self Assessment tax return. This becomes mandatory from April 2024 for sole traders and landlords with turnover above £10,000 per year.

From 6 April 2024, you'll need to submit quarterly updates to HMRC, as well as an End of Period Statement (EOPS) at the end of your fourth quarter, and a Final Declaration that includes all other taxable income by 31 January every year.

VAT-registered sole traders and landlords will already be familiar with MTD rules. From April 2019, MTD rules became mandatory for all VAT-registered businesses earning above £85,000. And from April 2022, all VAT registered businesses now need to keep digital records and submit VAT returns with MTD software.

Current Self Assessment rules	MTD for ITSA from April 2024
• 1 annual submission • Paper filings by 31 Oct • Online filings by 31 Jan • Fine to keep paper records	• 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

What happens after you've signed up to MTD for ITSA?

When you sign up, you'll be required by HMRC to follow the **MTD for ITSA rules**. This means keeping digital records of all your business income and expenses. You, or your accountant or bookkeeper, will need to:

- Send quarterly updates to HMRC
- Submit an End of Period Statement when you finalise business income and expenses for the tax year
- Submit your Final Declaration and pay the tax owed by 31 January of the following year

Your accountant or bookkeeper will let you know if they'll manage some or all of the above obligations for you.

FAQ

Can an accountant sign a sole trader up for MTD for ITSA?

Yes. Speak to your accountant about signing up for MTD for ITSA early, so you have plenty of time to familiarise yourself with the system.

Your accountant can also submit your quarterly updates, EOPS and Final Declarations using your **cloud-based accounting software**.

Do the self-employed need to sign up for MTD for VAT and MTD for ITSA separately?

Yes. The systems are separate, so you may need to sign up for both. Some sole traders will need to sign up for MTD for VAT and MTD for ITSA, whereas others will only need to sign up for MTD for ITSA.

If you're not sure if MTD for VAT applies to you, **read this guide**.

How to keep digital records using software

As part of MTD for ITSA you'll need to use compatible software (**like Xero**) to keep digital records of all your business income and expenses.

You, or your accountant or bookkeeper, will then send quarterly updates to HMRC.

To ensure accurate data is sent to HMRC, you should:

- Maintain your records as close to the date of the transaction as possible
- Do this before your accountant or bookkeeper submits the quarterly update for that period

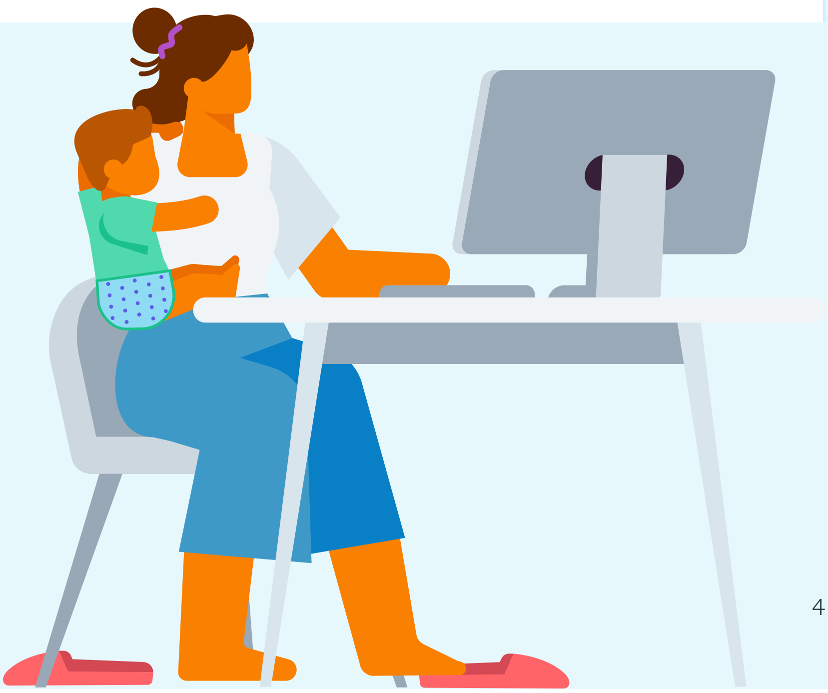
FAQ

Can the self-employed use spreadsheets for MTD?

You might have heard about **bridging software**. It was popular during the first phase of MTD for VAT because it allowed businesses to continue using their spreadsheets for VAT returns.

With MTD for ITSA, **the self-employed** will need to submit quarterly statements, EOPS and a Final Declaration, not just a single yearly return. This makes keeping all of the relevant records in a spreadsheet more difficult. And you'll also need to keep to the **digital linking rules**.

There's no risk of losing, deleting, or corrupting spreadsheet cells in cloud-based accounting software. **HMRC recognised software** acts as safe storage for all your financial records and will also help ensure compliance with MTD.

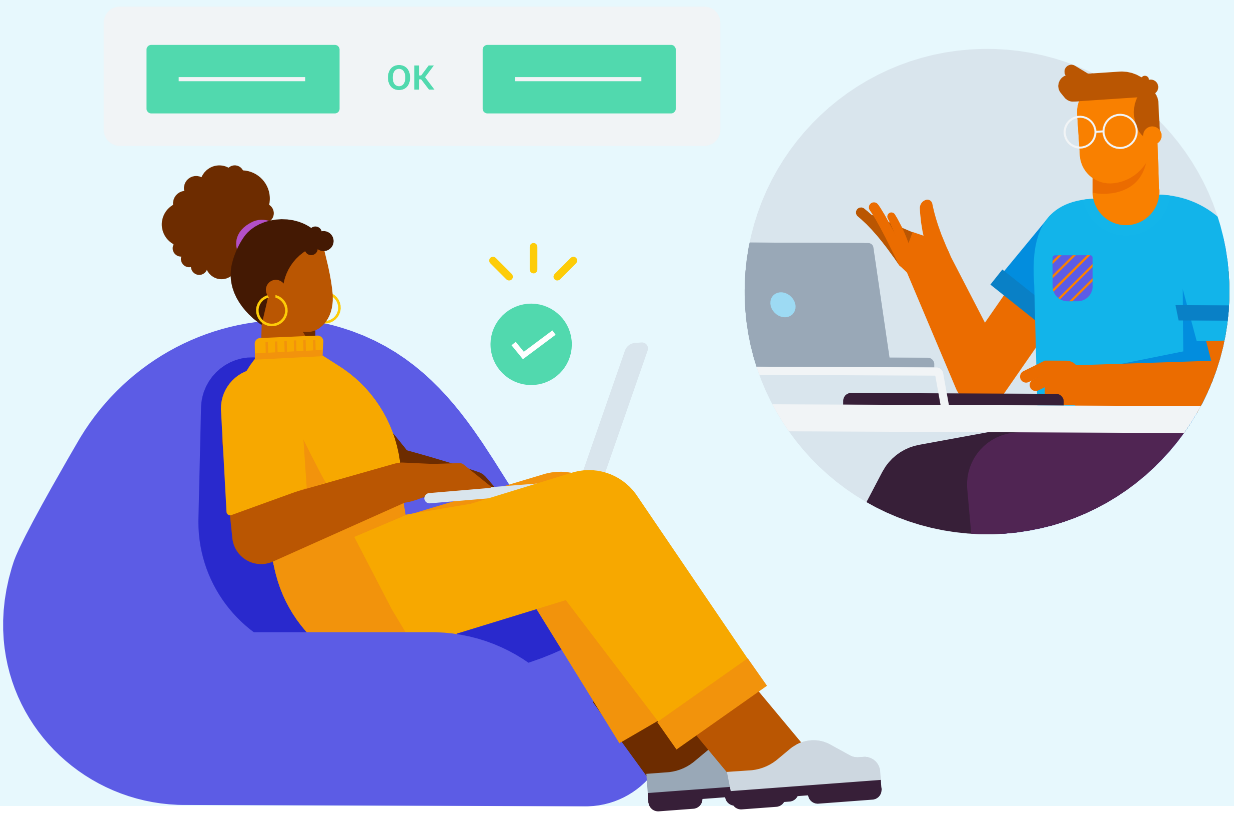


How to authorise a tax agent for MTD

You'll need to authorise your tax agent (i.e. your accountant or bookkeeper) to deal with HMRC on your behalf for Making Tax Digital.

Once authorised, an agent can **sign up your business** and use MTD compliant software (i.e Xero) to create, view, edit and send your data to HMRC. Your agent may also keep and maintain digital records on your behalf.

If you've previously authorised an agent to act on your behalf for Self Assessment, you won't need to re-authorise them again for Making Tax Digital for Income Tax.



Keeping an eye on MTD for ITSA obligations

We'd recommend that both you as the business owner and your accountant or bookkeeper connect your compatible software to your HMRC accounts and authorise it to interact with HMRC on your behalf.

To do this, you'll need your Government Gateway user ID and password. For example, in Xero software this will mean that both you and your advisor will have access to the MTD for ITSA dashboard, and see the obligations and tax estimate.

Sending HMRC quarterly updates using compatible software

After your compatible software is connected, you or your accountant or bookkeeper will send updates for your income source to HMRC every three months. These updates are summaries of your business income and expenses. Your software will tell you when and how to send the updates.

Your accountant or bookkeeper will speak to you about who will send quarterly updates, as they may do this on your behalf.

FAQ

How do I calculate income for MTD for ITSA?

All property and business income contributes to the £10,000 threshold. For example, if you're a freelancer earning £8,000 per year from your business, and £3,000 per year from property, you'll be above the threshold and will therefore need to comply with MTD for ITSA.

If you have multiple businesses or sources of property income, you need to add up the income from all of them to work out whether you're above the threshold.

The standard quarterly period dates and deadlines each tax year are:

Quarterly period	Quarterly deadline
6 April to 5 July	5 August
6 July to 5 October	5 November
6 October to 5 January	5 February
6 January to 5 April	5 May

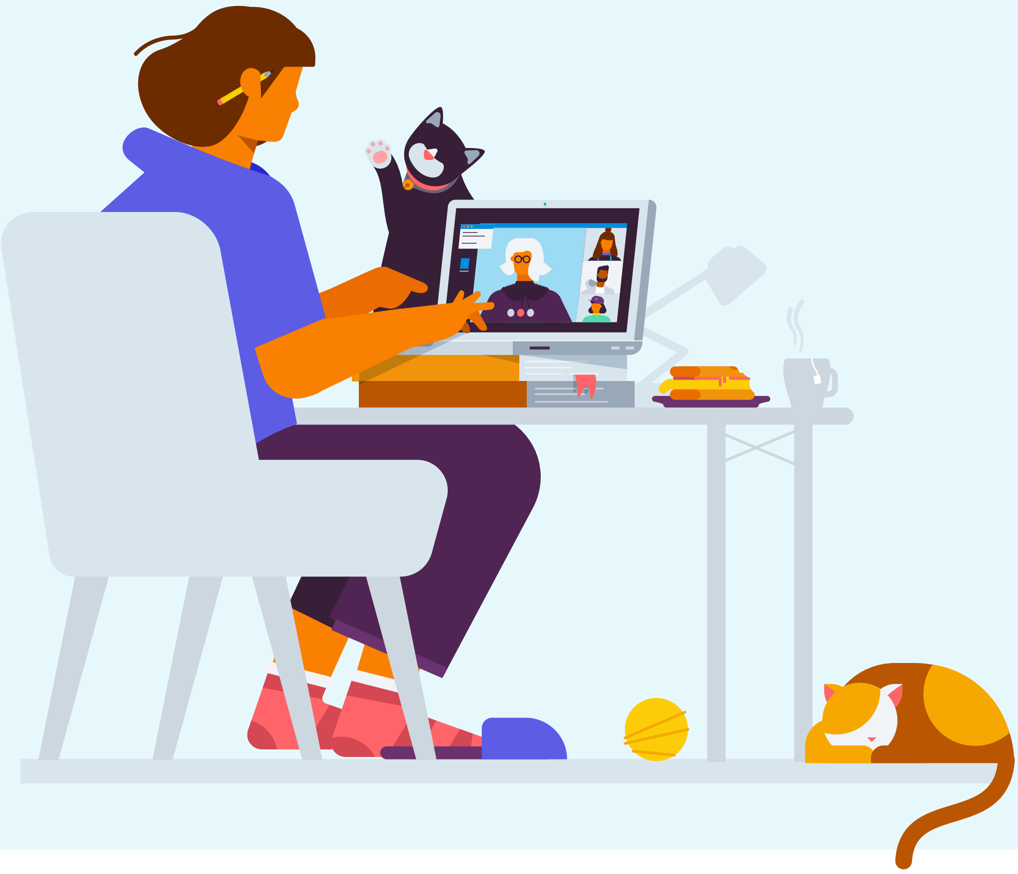
Submitting an End of Period Statement (EOPS) to HMRC

At the end of the tax year you need to finalise your business income. Your accountant or bookkeeper will submit an End of Period Statement for each income source.

This is where they:

- Make any accounting adjustments
- Claim any reliefs or allowances
- Confirm that the information you've sent is correct and complete

The deadline for submitting End of Period Statements is 31 January after the tax year.



Submitting a Final Declaration and paying tax to HMRC

The Final Declaration brings together all the information, including personal income, that you need to provide to HMRC to reach your final tax liability for the year. It effectively replaces your Self Assessment tax return.

Once your accountant or bookkeeper has finalised your business income via the End of Period Statement, they'll need to:

- Tell HMRC about any personal income or gains you have
- Make claims for reliefs, allowances and deductions
- Tell HMRC how they want to deal with any losses
- Confirm that the information sent is correct and complete

You must submit your Final Declaration and pay the tax you owe by **31 January** the following tax year.

MTD for ITSA exemptions

You are exempt from MTD for ITSA if your qualifying income is £10,000 or less.

In addition, the following groups are not eligible to sign up for Making Tax Digital for Income Tax and do not need to follow the requirements:

- Trusts
- Estates
- Trustees of registered pension schemes
- Non-resident companies

There are also exemptions for the “digitally excluded.” Please **see HMRC’s guide** for more information.

Please note, if you already have an **exemption for MTD for VAT** you won’t need to apply for an exemption for MTD for ITSA.

How to prepare for MTD for ITSA

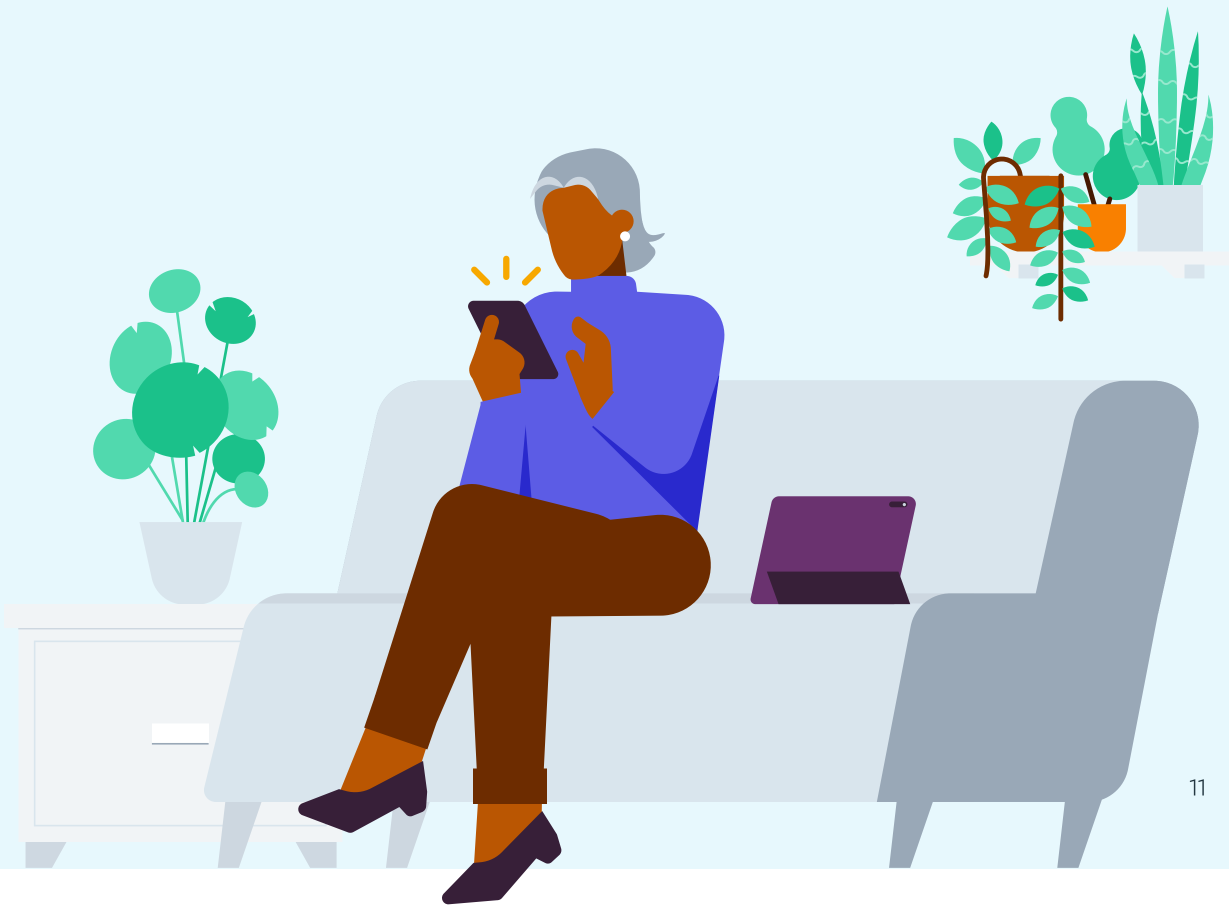
Make sure you have **MTD for Income Tax compatible software** in place, and you're signed up to MTD for ITSA before 6 April 2024.

Sign up early if you can, or talk to your accountant about how to prepare for MTD for ITSA. The more time you spend getting used to new digital tools, the easier you'll find the transition to Making Tax Digital.

Want more information on Making Tax Digital? You can keep up to date with the latest on MTD by bookmarking our **Making Tax Digital resource hub** and **MTD for ITSA page.**

Fancy giving Xero a shot?

Sign up for a free 30-day trial



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