



Making Tax Digital

finova.
accountancy

Making Tax Digital for Income Tax (MTD for ITSA): What You Need to Know Before April 2024

Making Tax Digital for Income Tax Self-Assessment (MTD for ITSA) is set to impact sole traders and landlords starting in April 2024, following a recent one-year delay. This change is the latest in a series of deferrals since the initiative was first announced by then-Chancellor George Osborne in 2015.

Initially, the rollout of MTD focused on VAT rather than income tax. MTD for VAT launched successfully on 1 April 2019 for most VAT-registered businesses, with exceptions for more complex entities until 1 October 2019. The rollout of MTD for ITSA has now been scheduled to start from April 2024, with general partnerships joining from April 2025. The start date for more complex partnerships and MTD for Corporation Tax is still to be confirmed.

Who Will Be Affected?

From April 2024, MTD for ITSA will apply to sole traders and unincorporated landlords with business or property income of £10,000 or more per tax year. This threshold is based on gross income or turnover rather than profit. If you have multiple sources of income, such as both rental income and income from a sole trader business, these figures will be combined to determine if you meet the threshold. For example, if you earn £9,000 from rental income and £9,000 from a business, your total gross income of £18,000 exceeds the £10,000 threshold, making you subject to MTD requirements.

General Partnerships

For general partnerships with income exceeding £10,000, MTD for ITSA will start from April 2025. More complex partnerships, such as limited liability partnerships or mixed partnerships, will have to comply at a later, as-yet-unspecified date. The rules and deadlines for general partnerships will align with those that sole traders and landlords face in 2024.

Exemptions from MTD for ITSA

The same exemption rules for MTD for VAT will apply to MTD for ITSA. This includes:

- Non-resident companies
- Trustees, executors, and administrators
- Businesses undergoing insolvency procedures

- Foreign businesses owned by non-UK domiciled individuals

Businesses run by members of religious societies who cannot use digital tools due to their beliefs, or those facing significant practical challenges (due to age, disability, or remote location) may also be exempt. To claim an exemption, you must apply to HMRC, who will respond within 28 days.

MTD-Approved Software & Filing Requirements

From 6 April 2024, all affected businesses must use MTD-compliant digital software to submit quarterly summaries of their income and expenses. The software will send updates and generate financial statements, with the government promising free software options for simpler cases. Common software choices include Xero, QuickBooks, and Sage, but there are also API-enabled spreadsheets and bridging software to file returns.

Quarterly Deadlines for MTD for ITSA

For most unincorporated businesses, the submission deadlines will be:

- **5 August:** For the period from 6 April to 5 July
- **5 November:** For the period from 6 July to 5 October
- **5 February:** For the period from 6 October to 5 January
- **5 May:** For the period from 6 January to 5 April

In return, HMRC will provide a tax estimate based on these quarterly summaries to help businesses understand their tax liability in real-time. However, the 31 January deadline for final payments and end-of-period statements remains.

New Penalties Regime

Starting from April 2024, MTD for ITSA will introduce a points-based penalty system similar to MTD for VAT. Businesses will receive a penalty point for each missed submission, and a £200 fine will be imposed once the points threshold is reached:

- **Annual submissions:** 2 points
- **Quarterly submissions:** 4 points

Points expire after two years of compliance. Annual submissions require 24 months of on-time filing,

while quarterly submissions require a 12-month compliance period.

How to Prepare for MTD for ITSA

Sole traders and landlords should adopt MTD-approved software well ahead of the April 2024 deadline. Finova Accountancy recommends exploring software packages like Xero, QuickBooks, or Sage, which simplify digital record-keeping and provide valuable business insights. These platforms enable real-time tracking of cash flow, better decision-making, and collaborative work with your accountant to minimize errors.

Cloud-based accounting software also helps you monitor key business metrics, spot issues like overdue payments, and generate detailed reports. With MTD here to stay, using robust software can streamline your tax obligations and keep your business compliant.

Contact Finova Accountancy for Help

If you have questions or need guidance on implementing MTD for ITSA, Finova Accountancy is here to assist. We can help you choose the right software, understand your obligations, and ensure you are well-prepared for the transition. Get in touch with us today!