



# Nowhere to hide: What MTD for ITSA really means for your clients

**A need to know briefing on MTD for accountants who  
want to get ahead of the game**



# Foreword

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If the clouds of 2020 had any silver lining at all, it might be the nudge they gave the UK government to get Making Tax Digital back on track after half a decade of delays and dithering.

In spring 2020, the Chancellor scrambled to deliver support packages for businesses suddenly forced to cease or drastically reduce trading, and for individuals unable to work. And that's when it became clear how useful a fully digital tax system could have been in administering those new schemes fairly.

So, in the relative calm that followed Jesse Norman, Financial Secretary to the Treasury, announced new MTD milestones, talking about the need for “more up-to-date information on businesses and their finances” to enable “easier identification and better targeting of taxpayer support”.

The extension of the VAT scheme we were all expecting, but the roll-out of MTD for income tax self-assessment from April 2023 was the one that caused a sharp intake of breath.

It took a minute for people to realise what was really being said, I think, because the announcement talked about “self-employed businesses and landlords with annual business or property income above £10,000”. Which, of course, means almost every one of your clients with income outside PAYE.

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At Capium, we've always known this would come and we welcome it. That's why we've always taken steps to keep Capium's practice suite ahead of the curve when it comes to MTD, building in the necessary features before the need becomes pressing.

For this paper, the Capium team got our heads together to provide insight into what MTD for ITSA really means for your clients and for how your firm will need to work in the next decade.



**Tushir Patel**  
co-founder of Capium



# The MTD story

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It's been about six years now since the original plans for MTD were first set out. In December 2015, HMRC published its strategy for a new programme that aimed to get most businesses, self-employed people and landlords set up on a fully digital tax system by 2020.

Under those plans, taxpayers would have been required to send HMRC quarterly updates for income tax and national insurance through their accounting software from 2018 onwards, with VAT reporting brought into the scheme from 2019 and corporation tax from 2020.

Since then, political upheaval in various forms meant that slightly optimistic timeline was no longer possible. First it was the release of the Panama Papers in 2016 that delayed long-awaited MTD consultation documents, then it was the Brexit referendum and 2017 general election, which both diverted civil service resources away from implementing the plans.

Meanwhile, commentators and industry groups had started raising concerns about the scheme being brought in so soon, and about its impact on smaller firms.

A report by the Treasury Committee, published in January 2017, called the April 2018 start date "wholly unrealistic", and said the cost of implementing MTD was "likely to be significant" for small businesses.

The first tranche of legislation to put MTD into law was originally included in the 2017 Finance Bill, but these clauses were removed so that the bill could be passed ahead of the election, with the intention of legislating for them at the start of a new Parliament.

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But responding to continued representations from the Treasury Committee, businesses and professional bodies, Treasury Minister Mel Stride announced an amended plan in July 2017, in which the first compulsory stage of MTD would focus on VAT. As most taxpayers were already filing their VAT returns quarterly and doing so online, this promised a lower compliance burden.

Only VAT-registered businesses with a turnover above the VAT threshold were required to take part in this phase, which went live from 1 April 2019.

In the months leading up to that date, MTD attracted a lot of attention as accountants and small business owners prepared for the change, but it wasn't until around three months later that accountants really had to get to grips with the new system, as the first MTD returns were filed.

Things carried on relatively smoothly after that point, with around 1.4 million businesses signing up to the scheme by 9 March 2020, 95% of which were able to file their first return on time.

But when the COVID-19 pandemic broke out and the Government responded with financial support schemes for businesses and the self-employed, the lack of available data on self-employment income was thrown into sharp relief.

In July, HMRC and the Treasury published a report on MTD, which noted the “hard edges” in coronavirus support schemes, arguing they were the result of the tax system's limitations:

“With more timely data HMRC would have had greater flexibility in designing the support schemes, enabling a more flexible, inclusive and if needed, a more precise targeting of policy responses to a future crisis.

“More broadly, COVID-19 has highlighted the need for a more flexible, resilient and responsive tax system.”

### **The MTD timeline now stands as follows:**

- All VAT-registered businesses – not just those with a turnover above the VAT threshold – will be brought into MTD for VAT from April 2022.
- From April 2023, the new MTD for ITSA scheme will be implemented, applying to sole traders and landlords.
- From April 2015, the MTD for ITSA scheme will apply to general partnerships.

The next stage of the scheme, MTD for corporation tax, should be implemented by 2026 at the earliest.

So that's at least another five years of MTD changes ahead, and it's likely we'll see more information emerging on corporation tax and the rules for complex partnerships in the months to come.

In the meantime, the 2024 deadline to get your clients compliant with MTD for ITSA really isn't that far away. If you haven't done so already, now is the time to prepare.





# Making Tax Digital is good news for accountants

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At Capium, we don't see MTD as a burden. We see it as a natural, inevitable part of a wider technological shift that's seeing more businesses adopt digitalisation, automation and the advantages of the cloud. These aren't just for the largest or most forward-thinking businesses anymore. They're advancements everyone can and should benefit from.

Smart firms have been trying to get their clients to embrace digital for years, because they know the difference it could make to their efficiency and productivity. Research by Lloyds Bank, for example, shows the UK's most digitally-engaged businesses are able to save as much as a day's work per week through technology.

And according to the Enterprise Research Centre, micro-businesses that start using online accounting software could see their productivity levels increase by 11.8%.

Even those who can see the benefits of going digital might have been putting it off until now, getting by with temporary fixes and substandard systems – but the decision to introduce this next phase of MTD could act as a much-needed catalyst for change.

As MTD extends to more taxpayers, HMRC has said it envisions a system based on real-time reporting and easy, one-touch tax returns. Businesses should be able to spend less time calculating tax liabilities or dealing with errors, and should have access to higher-quality data that they can use to measure their performance.

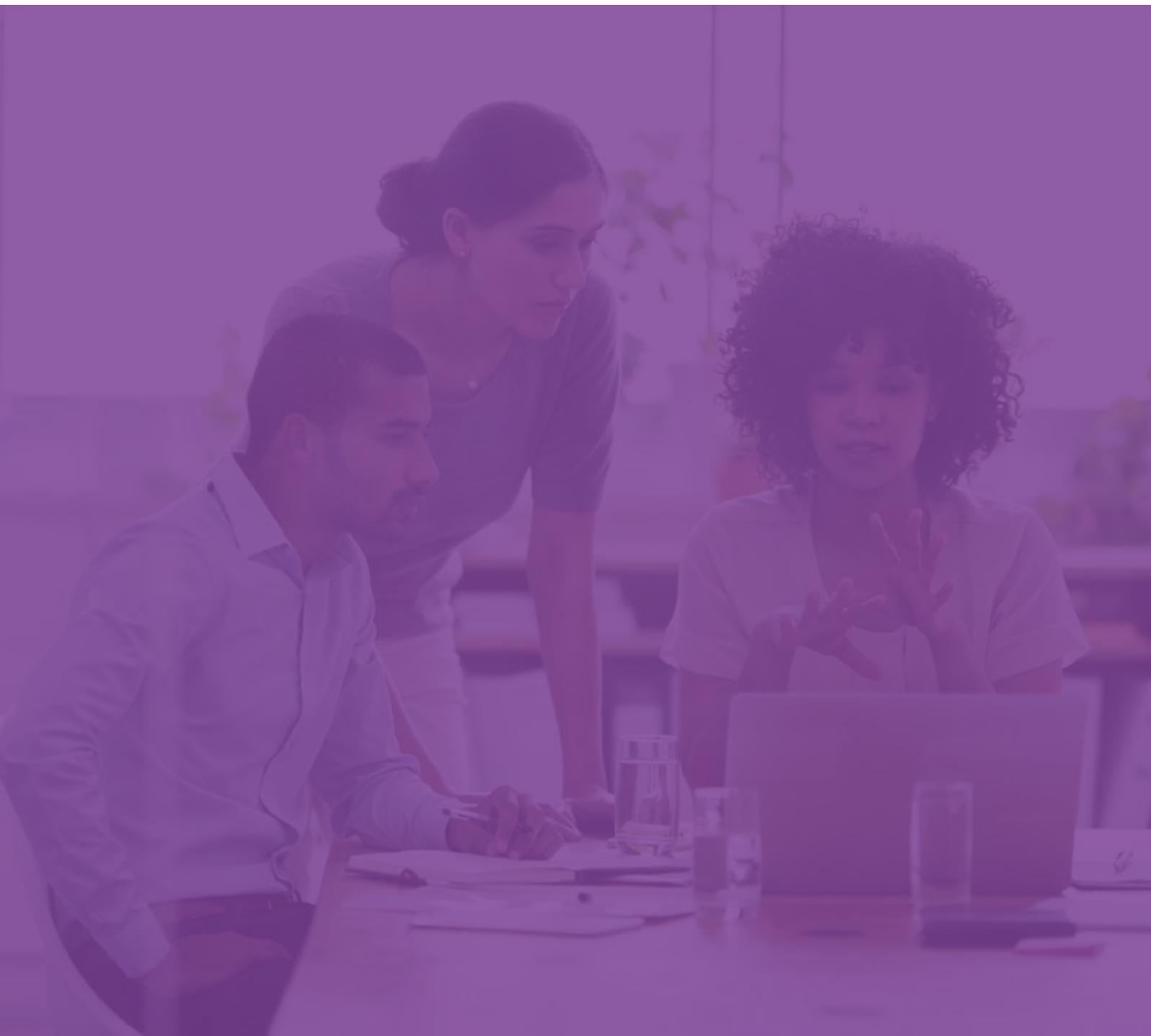
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There are downsides, of course. A more direct transfer of data to HMRC means less room for interpretation and tax strategy. But with the recent Government focus on closing loopholes and simplifying the system, tax returns aren't a sustainable source of income for accountants anyway.

By getting compliance automated and embracing the digital tax system, accountants now have an exciting opportunity to free up their time for more interesting, more lucrative business and personal advisory work.



# What the next phase of MTD means for your clients

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The biggest question, for now, is what does the extension of Making Tax Digital to cover income tax from April 2024 actually mean for UK taxpayers?

Right now, we only have draft regulations to go on, so there are a few areas of the scheme that could be subject to change.

The official word from HMRC is that from 6 April 2024 onwards, all self-employed businesses and landlords with annual business or property income above £10,000 will be required to complete their affairs by MTD.

That £10,000 mark is a combined total, so if you have a client with a business turnover of £8,000 and property turnover of £3,000, for example, they'll be included in the scheme.

## **Anyone included in MTD for ITSA will be required to:**

- keep digital records of all their business or property income and expenses
- send four quarterly updates of their income and expenses to HMRC
- submit a final declaration of their business income at the end of the year.

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## Choosing compatible software

To comply with MTD, your clients must use “functional compatible software” to keep their records and submit updates.

The software must be able to keep digital records, and provide HMRC with information and returns from that data, using an application programming interface (API) platform. It must also be able to receive information from HMRC using the API.

Under this system, HMRC will not accept any manual data entry or copying and pasting between software. This means spreadsheets can only be used for record-keeping if they're connected to HMRC systems using bridging software or an inbuilt function that connects to the API.

But rather than muddling through with a makeshift solution to the new rules, we'd always recommend getting a fully MTD-compliant software package.

## Setting up

To provide MTD updates on the part of your clients, you'll first need to create an agent services account. You may have one of these already if you've set your clients up for MTD for VAT.

You can then add your self-assessment clients to your agent services account, and sign them up for MTD for ITSA. Alternatively, you can ask your clients to sign their own business up and authorise you to manage MTD for them.

You'll also need to prepare your software, including authorising it to interact with HMRC's API on your behalf.

## Annual final declaration

You'll need to finalise your client's income and expenses at the end of your accounting period, as well as submitting any other personal income they have or reliefs they claim.

This final declaration will effectively replace the usual self-assessment tax return, so for most people it will be due by the current deadline of 31 January after the end of the tax year.

You'll still need to submit a self-assessment tax return for the tax year before you signed your client up to the scheme, however.

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## Are there any exemptions from MTD for ITSA?

Aside from the £10,000 threshold, two main exemptions have been set out in the MTD for ITSA draft legislation.

### These are:

- Trusts, estates, trustees of registered pension schemes and non-resident companies.
- All partnerships other than general partnerships that only have individuals as partners: for example, limited partnerships, limited liability partnerships, and those with corporate partners.

These more complex partnerships will be required to join the scheme at an unconfirmed later date.

HMRC has also said it expects to carry over existing exemptions from MTD for VAT to ITSA and all future iterations of MTD.

This means anyone who has already been granted an exemption from MTD for VAT should automatically be exempt from MTD for ITSA too, so you shouldn't need to apply again for those clients.

Under MTD for VAT's exemption rules, taxpayers can apply for an exemption if it's not 'reasonably practicable' for them to use digital tools due to age, disability, remoteness of location, or any other reason.

They can also do so if they or their business are subject to an insolvency procedure.

Finally, they can apply if their business is run entirely by members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records.

In the case of partnerships, all of the partners need to be excluded under these rules for the partnership to qualify for an exemption.

HMRC considers each application on a case by case basis.

## Joining the pilot

HMRC has been running a small MTD for income tax pilot scheme since 2017, which moved into a public beta trial in March 2018.

If you choose to, you can already sign your clients up to start submitting quarterly updates and annual declarations using compatible software.

The pilot scheme has fairly limited eligibility at the moment, however, as it's only open to people who have one source of self-employed income and/or income from UK property over the threshold of £10,000.

Someone with income from employment who also runs a business would not be able to sign up for the pilot, for example. It also excludes people who only have overseas rental income.

Taxpayers have to be registered for self-assessment to join the trial, and their returns and payments must be up to date.

HMRC says it expects to announce an increase in eligibility for the pilot soon, and that it will support the "vast majority" of sole traders and landlords by April 2021.

Another thing to be aware of is that anyone who has received COVID-19 support payments other than statutory sick pay is currently not eligible to join the pilot.

This includes anyone who received a grant under the self-employment support scheme, the coronavirus job retention scheme, or the eat out to help out scheme.

Even if your clients can't join the trial yet, the most important thing you can do to get them ready for MTD for ITSA is to make sure they're all using compatible software to keep digital records.

The image shows a purple-tinted photograph of a sign for HM Revenue & Customs. The sign is white with the text "HM REVENUE & CUSTOMS" in a bold, sans-serif font. The sign is mounted on a wall, and the background is a solid purple color.

# Is your firm ready for the extension of MTD?

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As MTD expands to more business owners and landlords, your clients will rely on you to be the experts and guide them through the upcoming changes.

This means it's essential to invest in staff training, so everyone on your team is familiar with the new rules, and with the systems they'll need to use to follow them.

You'll also need to stay on top of the latest developments as more information emerges about the way the scheme will work. Like Kremlin-watching during the Cold War, it's about picking up every crumb of information you can get from HMRC. Every tweak to the timetable, and every clarification of legislation will be relevant to your clients.

You can stay up to date by using email alerts that notify you when MTD is mentioned in the news or in Government press releases. We'd recommend setting up an information dashboard – a dedicated MTD newsfeed – using a service such as Feedly to subscribe to Government comms, the accounting trade press and your accounting institute's briefing channels.

Then, when news does emerge, be ready to tell your clients about it through prompt communications that answer their questions before they need to ask. Consider offering MTD training to your clients, too, or webinars and briefing videos to educate them on the scheme.

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It might seem like a challenge to become your clients' go-to source of MTD expertise and manage their transition to a new way of working, but the reality is it all comes down to having the right software, systems and processes in place.

If you're not sure where to start, look at your current software setup. Does it meet all your firm's requirements when it comes to implementing MTD for ITSA and managing all your clients' different needs? Does it allow you to process all their data digitally, without having to import, export, or manually transfer it at any stage? And is it keeping up with changes to legislation as they happen?

Capium is MTD-compliant and we aim to stay one step ahead at all times, constantly updating our software to meet accounting practices' needs.



# The MTD timeline 2015-26

<b>March 2015</b>	MTD announced	Then Chancellor George Osborne, set out the Government's vision of a fully-online UK tax system in his Budget speech.
<b>April 2019</b>	MTD for VAT, phase one	VAT-registered businesses with a taxable turnover of £85,000 or more are obliged to keep digital records and submit VAT returns using MTD-compatible software.
<b>April 2021</b>	Digital links requirement introduced	Businesses participating in MTD for VAT must ensure all software is connected through digital links. The manual transfer of data, including cut and paste or copy and paste, is no longer accepted.
<b>April 2022</b>	MTD for VAT, phase two	From April 2022, all VAT-registered businesses, regardless of turnover, will be expected to comply with MTD for VAT returns.
<b>April 2024</b>	MTD for income tax self-assessment (ITSA)	Self-employed individuals and landlords with business or property income of £10,000 or more per year will come into the MTD fold.
<b>April 2026 to be confirmed</b>	MTD for corporation tax	The final major hurdle for MTD is getting incorporated businesses to record and report tax digitally.

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# Capium is the one-stop solution to your MTD needs

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Capium's award-winning software is designed specifically with accountants in mind, offering an integrated system for practice management and cloud accounting.

It's recognised by Companies House and HMRC as MTD-compatible, and we're committed to providing a seamless experience for our clients as new stages of the scheme are phased in.

That means staying ahead of the game at all times, letting you know about changes as they happen, and updating our software to meet the latest compliance measures.

We also offer free onboarding for your new software, helping you get set up and importing your data into our platform from your old system. So you and your team will be ready to go in no time. As an ongoing benefit, you can rely on free training and support throughout the lifetime of your Capium subscription.

With a customisable set of plans, starting from just £0.69 per client per month, our software is built to support you at every stage of your practice's growth.

**Call us on [0203 322 5578](tel:02033225578) or find out more about  
our MTD-ready software at [Capium.com](https://capium.com).**