

ABSOLUTE TAX FILERS



GETTING READY FOR MAKING TAX DIGITAL FOR INCOME TAX

The new approach to Self Assessment



Updated with HMRC's changes announced in December 2022

MAKING TAX DIGITAL - CHANGE IS COMING TO THE WAY YOU FILE INCOME TAX RETURNS

Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) will be the biggest change to the way income tax returns are filed since Self Assessment was introduced in 1996.

Many income taxpayers will have to make substantial changes to the way they record their income and expenses and how they notify HMRC of their tax liabilities.

This guide sets out who will be affected, the changes that will be made to how income tax returns are filed and when these changes will come into force.

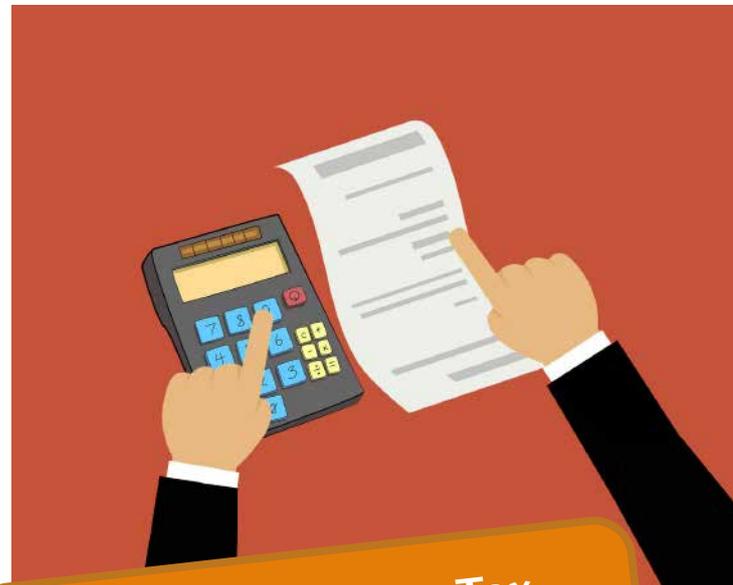
The information provided in this document is correct as of December 2022 but could be subject to change if HMRC issues further updates about MTD for ITSA over the coming months.

WHAT IS MAKING TAX DIGITAL?

MTD is the Government's strategy for digitising the UK tax system. It aims to create a more efficient and accurate way of calculating and paying tax.

The MTD scheme was first introduced in 2019 for VAT registered businesses whose annual turnover was above £85,000 (the VAT threshold). It was subsequently extended in 2022 to all VAT registered businesses, regardless of their turnover.

It is HMRC's intention to roll out the scheme to cover Income Tax (see below), Partnerships and Corporation Tax.



MTD for Income Tax
Individual taxpayers will find it much easier (and cheaper) to use bridging software to comply with the regulations



THE KEY FACTS ABOUT MTD FOR ITSA

The information below is correct as of December 2022 but could be subject to change if HMRC issues further updates.

MTD for ITSA is the next phase of the Government's MTD rollout. Below we set out a brief snapshot of the information HMRC has issued to date.

Having previously stated that MTD for ITSA would come into effect from 2024, in December 2022 HMRC announced it was delaying the implementation until April 2026. The eligibility criteria were also changed.

WHAT ARE THE LATEST RULES?

- Self-employed individuals and property landlords who have an annual income of £50,000 or more must comply with MTD for ITSA from April 2026.
- Taxpayers with an annual income between £30,000 - £50,000 will join the scheme from April 2027.
- HMRC are currently reviewing the situation with regards to how partnerships and those with turnover of less than £30,000 a year will need to comply with MTD for ITSA.

WHAT COUNTS AS 'QUALIFYING INCOME'?

- Gross income/turnover received during the tax year from self-employment and/or income from UK or overseas property.
- Income should be calculated before any expenses are deducted.
- Other income, such as PAYE employment, dividend income or savings are not included in the qualifying income calculations but should be declared on the final declaration.

CLARIFICATION OF ELIGIBILITY

- Any individual registered for Self Assessment.
- Self-employed individuals who are VAT registered and are already complying with MTD for VAT will also need to comply with MTD for ITSA.
- Property landlords who receive UK or overseas rental income, whether from private, commercial or holiday lettings.
- Individuals with more than one business, eg a florist who also rents out a property, will need to make separate submissions for each business.

WHO DOESN'T HAVE TO COMPLY WITH MTD FOR ITSA?

- Individuals whose annual qualifying income is below £30,000, although HMRC are reviewing how the rules will apply to these individuals.
- Trustees.
- Personal representatives of a deceased's estate.
- Lloyd's members.
- Non-resident companies.

Mandatory aspects of MTD for ITSA

- Income and expenses information to be recorded digitally.
- Submit quarterly digital updates to HMRC.
- File any accounting adjustments and allowances.
- Submit an annual End of Period Statement.
- Submit a Final Declaration to confirm all income declarations and receive a final tax calculation.

MTD FOR ITSA VS THE CURRENT SELF ASSESSMENT METHOD

The move to MTD for ITSA will bring about some significant changes to how HMRC collects taxes but also help taxpayers to have better visibility, sooner, on how much tax they need to pay.

Rather than individual taxpayers submitting one Self Assessment tax return each year, which is currently done by filing either a paper based return or online return, from 6 April 2026 it will be mandatory for relevant individuals to:

- keep digital records of their self-employed and/or property rental income and expenditure;
- use HMRC approved MTD compatible software;
- submit quarterly (not annual) income and expenditure updates to HMRC;
- report any relevant accounting adjustments and allowances;
- file an End of Period Statement (EOPS) which is required to be filed for each business source;
- submit the Final Declaration and pay any tax owing to HMRC by 31 January.

WHAT IS MTD COMPATIBLE SOFTWARE?

In order to comply with the requirements of MTD, taxpayers must use software which digitally links their accounts or income and expenses to HMRC's MTD for ITSA website portal.

Taxpayers will not be able to copy and paste their relevant figures onto the MTD for ITSA portal, or submit paper based income tax information.

Failure to use MTD compatible software may lead to taxpayers incurring penalties from HMRC.

MTD compatible software can take the form of:

- a cloud based accounting package;
- bridging software which enables Excel spreadsheets or desktop accounts packages to digitally link data direct to HMRC.

WHAT IS BRIDGING SOFTWARE?

MTD compatible bridging software allows taxpayers and/or their agents to digitally file relevant income and expenses data from Excel spreadsheets directly to HMRC's MTD for VAT portal and the future MTD for ITSA portal.

Only MTD software which has been approved by HMRC and uses their Application Programming Interfaces (APIs) can be used to transfer financial data through this digital link.

For many income taxpayers who will be required to file their financial data under MTD for ITSA, bridging software will provide the simplest and most cost effective solution. Its main advantage is that users can use Excel to log their financial data, a software package most people are familiar with. Bridging software is also much simpler to install and use than complicated accounting and bookkeeping packages and is significantly cheaper than such packages.

[To find out more about MTD Bridging Software, please read our factsheet here.](#)

HMRC's list of recognised MTD for ITSA software providers can be found here:

www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax

WHAT INFORMATION IS REQUIRED WHEN MAKING THE QUARTERLY SUBMISSIONS?

Every quarter, relevant taxpayers will be required to make a digital submission of their income and expenditure from the past three months.

For income taxpayers whose annual income is likely to be less than the VAT threshold (currently £85,000), they will only need to provide a single figure which is the combined total of their expenses.

However, income taxpayers with an annual income that is likely to be equal to or above the VAT threshold will have to provide categorised expense totals.

Taxpayers who have more than one source of qualifying income, for example a self-employed plumber who also receives income from a holiday let, will be required to make MTD submissions and declarations for each business/income stream.

NB Taxpayers who receive income from both unfurnished and furnished property rentals will be required to submit separate data pertaining to each property business under MTD for ITSA. Separate data submissions will also need to be made if the taxpayer has a mix of UK and overseas property.

After each quarterly submission, HMRC will issue an up to date tax calculation to individuals based on the information provided. This will enable taxpayers to budget for their future tax bill.

WHAT IS THE END OF PERIOD STATEMENT?

The End of Period Statement (EOPS) can only be made once all the quarterly income and expenditure submissions have been made. An EOPS must be completed for each business/source of income.

Taxpayers must then review their full income and expense data for the year and use the EOPS to;

- make any accounting adjustments;
- make any tax adjustments;
- claim relevant reliefs and allowances.

The EOPS has to be submitted by 31 January after the end of the tax year. Once this data has been confirmed and submitted to HMRC, taxpayers will be issued with an estimated tax bill.

MTD for ITSA

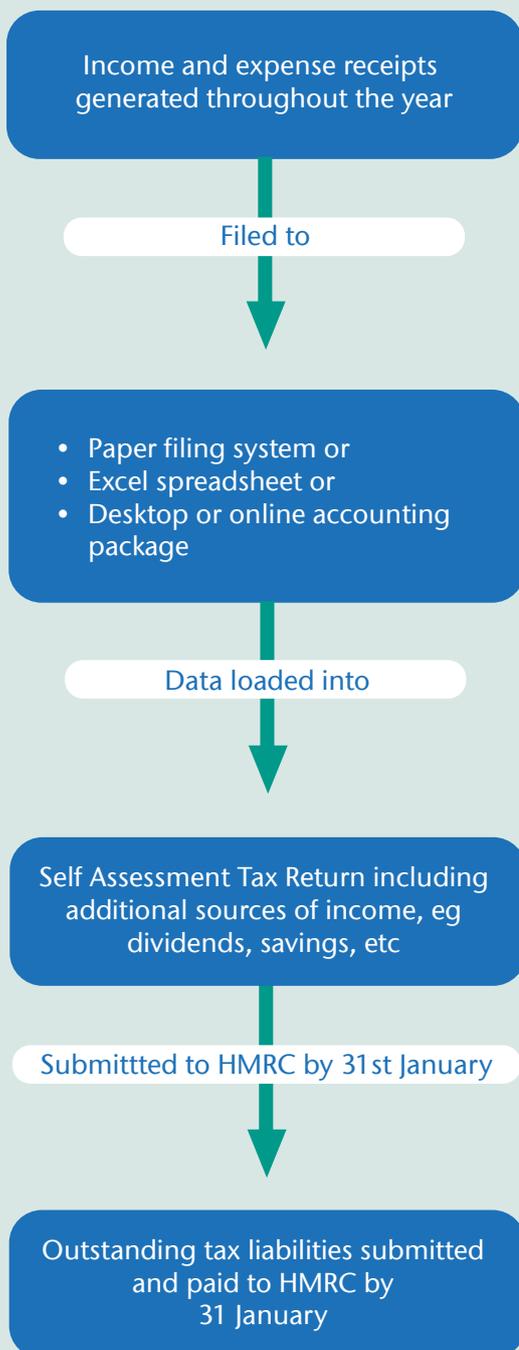
Taxpayers and their agents will find it much easier (and cheaper) to use bridging software to comply with MTD, rather than purchasing expensive and overly complicated accounting and bookkeeping software packages.

WHAT IS THE FINAL DECLARATION?

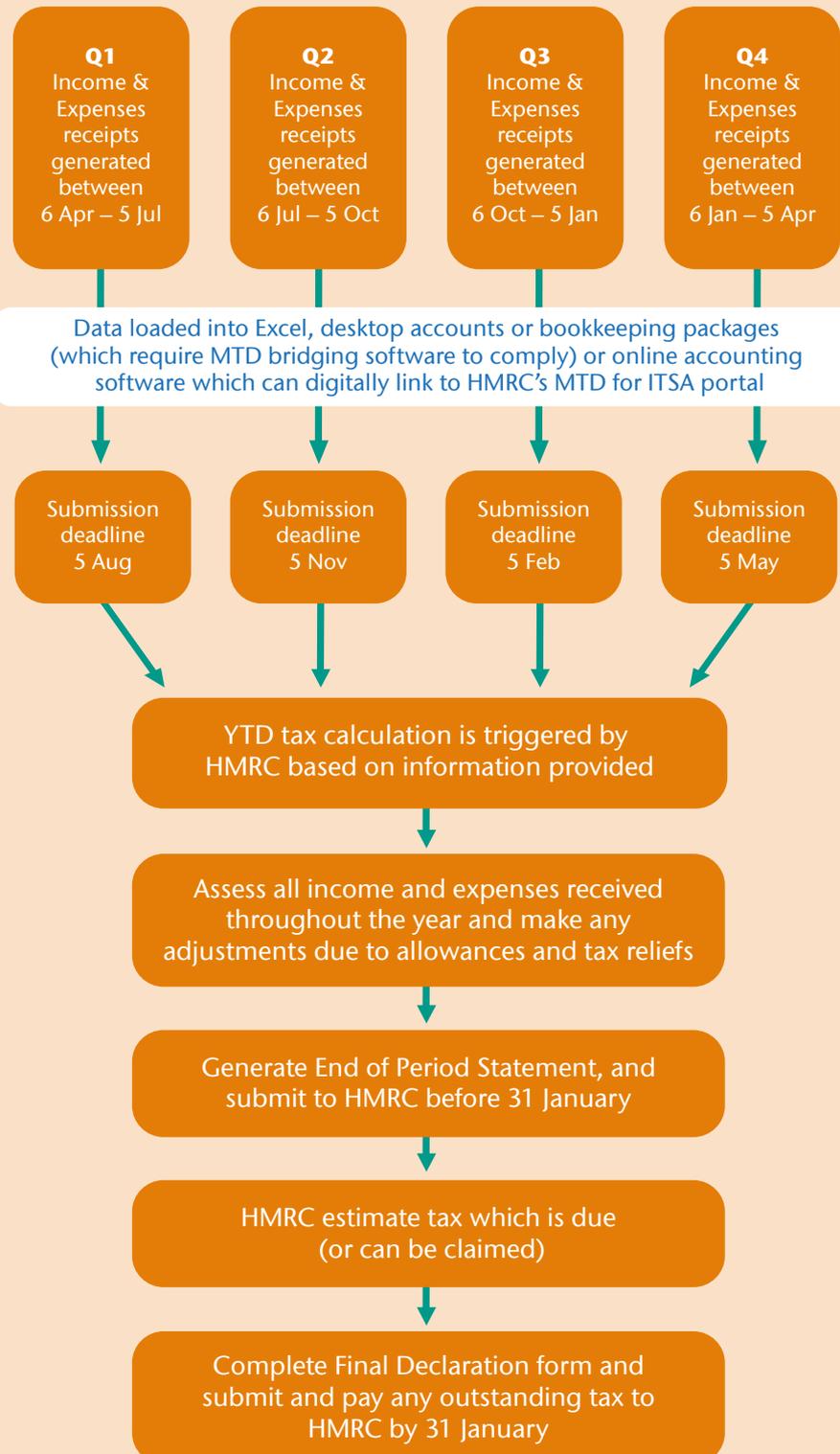
After submitting the EOPS, taxpayers will be required to complete the Final Declaration form. This part of the process replaces the Self Assessment aspect of submitting a tax return and requires that all other forms of income received during the tax year, such as dividends, savings etc, be declared by the taxpayer.

The deadline for submitting the Final Declaration and paying any tax liabilities is 31 January after the end of the tax year. This process will enable taxpayers to identify how much tax they owe or if they are due a refund.

CURRENT SELF ASSESSMENT PROCESS



NEW MAKING TAX DIGITAL FOR INCOME TAX SELF ASSESSMENT PROCESS



ABSOLUTE ACCOUNTING SOFTWARE'S SOLUTION TO COMPLYING WITH MTD FOR ITSA

Following on from our hugely successful [Absolute Excel VAT Filer bridging software](#) which has helped tens of thousands of VAT registered businesses to comply with MTD for VAT, we are currently developing a similar product that will offer income taxpayers a simple to use, low cost option to comply with MTD for ITSA.

To receive updates about our MTD for ITSA bridging software or to register to get involved in the pilot scheme, please contact Dave Frost at Absolute Accounting Software by email at dave@absolutetax.co.uk or call **0330 0579651**.

REMINDER!

Phase 1 of MTD for ITSA comes into effect from 6 April 2026

COMPLYING WITH MTD FOR VAT

It is now mandatory for all VAT registered businesses in the UK to comply with MTD for VAT.

For self-employed individuals who are also VAT registered, they will need to submit MTD for ITSA and MTD for VAT information on a quarterly basis.

Our Excel VAT Filer bridging software is one of the simplest, most cost effective products on the market to ensure MTD for VAT compliance.

Further information, including video demonstrations of our Excel VAT Filer software can be found here: www.absoluteexcelvatfiler.co.uk

Absolute Excel
VAT Filer
Making Tax Digital



ABSOLUTE TAX FILERS



GET IN TOUCH

We hope that our Guide to Making Tax Digital for Income Tax has helped to explain what the new process will be from 6 April 2026.

In addition to this guide we have also created an MTD Bridging Software Factsheet which presents you with the facts surrounding this type of software and its long term viability for keeping taxpayers compliant with MTD.

[You can access the MTD Bridging Software Factsheet here.](#)

To find out more about our MTD for ITSA bridging software:

Call: 0330 0579651

Email: sales@absolutetax.co.uk

Visit: www.absoluteexcelvatfiler.co.uk/pages/mtd-for-income-tax

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