

Responses to questions raised during the CIOT/ATT webinar on Making Tax Digital for Income Tax Self-Assessment on 22 September 2022

Question	Response
General	
MTD ITSA has been kicked down the road a number of times, is it likely to go ahead in 2024? Think I may have read CIOT/ATT have raised this point?	We are aware that the recent Governmental changes have increased speculation that there may be a further delay, but have not seen any specific indication that MTD for ITSA will not go ahead in 2024. In the absence of this, we should assume that it will and prepare accordingly. CIOT and ATT are in frequent discussion with HMRC regarding the feasibility of their proposed timeline, and we are keeping the situation under review.
What has happened to the review of the tax year e.g. change to 31 March or 31 December? This could impact on quarterly report timing.	This review was carried out by the Office of Tax Simplification (OTS) and concluded in September 2021 (see report here). Overall, although it was felt that there were clear benefits in adopting either a 31 March or 31 December tax year end, there were also considerable costs associated with any such change. Overall the OTS did not consider such a change should take place in the immediate future. We are not aware of any plans to revisit this area.
Will VAT quarters be brought into line with the ITSA quarters	Under MTD for ITSA, all businesses will file quarterly updates aligned with the tax year (though can elect to use calendar quarters). VAT quarters will not be changed automatically. It will however, as now, be possible to change your VAT stagger to better align with the quarters reported under MTD for ITSA.
Scope of MTD and exemptions	
Are foster carers still required to submit MTD IT quarterly Updates? I have seen conflicting reports on this.	For foster carers, whether they will be in scope of MTD will depend on whether their income from caring exceeds their allowance for Qualifying Care Relief (QCR), as well as the MTD for ITSA qualifying income threshold. If a carers income is greater than their QCR allowance and their qualifying income is more than £10,000, they will need to comply with MTD. If their income is less than their QCR allowance or less than £10,000, they will not need to comply with MTD. There will be no impact on the tax relief available to qualifying carers through QCR for those carers that are mandated for MTD. There are still ongoing discussions between HMRC and foster carer groups/ representatives on the challenges of MTD ITSA faced by their members.
Exemptions - are you saying that eg Discretionary Trusts are exempt too, even if they have eg rental income of over £10k?	Yes, currently all trustees and executors are exempt from ITSA MTD.
At what point does one need to register if threshold is exceeded (ie not a new business but turnover usually below 10k). The following tax year or immediately?	It's the following tax year after the submission deadline for the return in which the threshold is breached. For example, if you declare on your 2024/25 tax return, due to be filed by 31 January

	2026, that turnover is more than £10,000, you will be informed by HMRC that you are subject to MTD from 6 April 2026.
You mentioned UK domiciled individuals need to consider worldwide income. Are you saying residence is ignored?	Customers that are resident and domiciled in the UK will need to meet the MTD requirements in relation to their relevant worldwide income. Customers that are resident in the UK but not-UK domiciled will only need to meet the MTD requirements in relation to their relevant UK income. They can continue to report any foreign income on an annual basis, as they do now. As with ITSA, non-resident customers are subject to UK tax in relation to the income that they earn in the UK. If a non-resident customer has relevant UK income and are mandated for MTD, then they will need to meet the MTD requirements for that income only.
How will this work for clients who are under a corporate Deputyship or Attorneyship? Do you think they will qualify as digitally excluded for MTD?	As far as we are aware there is no automatic exclusion under this scenario; but you could certainly make a case for exclusion if the circumstances mean it would not be reasonably practicable to comply.
What is qualified as a complex partnership?	'General partnerships', which come into scope for MTD ITSA in 2025, are those whereby all partners are individuals. Those with at least one corporate/non-natural partner, and LLPs, are therefore excluded from MTD for now.
If a Partner has a letting business as well, will he have to complete the letting return in 2024 when the business partnership won't join MTD until 2025?	If an individual has qualifying income over £10,000 then they will be within the scope of MTD for Income Tax, in relation to that income. From 2025, partnerships will be mandated in relation to the qualifying income that the partnership receives; individual partners will not be mandated in relation to the partnership income that they receive.
If partners of an LLP have a share of property income from the LLP trade, are these caught under MTD or does this fall under the "complex partnership" deferral?	LLPs come under this heading of 'complex partnerships' (i.e. those not classified as 'general partnerships') – so are currently excluded from MTD. We have no details yet when they will be within the scope, though it may be at the same time companies are included in 2026 at the earliest.
What about clients who can currently not file SA online (PD1 taxpayers for example) are they automatically excluded?	We understand that If clients are currently outside the scope of online submission for ITSA, then they will remain outside the scope of MTD.
Digital records	
How often must a taxpayer actually record their transactions on their digital records? ie Could they do this once quarterly, for example?	The MTD for ITSA regulations (SI 2021/1076) state that digital records must be completed by the earlier of - the deadline for filing the quarterly return for that period, and - the time the quarterly return is actually filed. It is therefore possible for a taxpayer to record their transactions once a quarter, though HMRC's view is that recording closer to real time is likely to lead to more complete and accurate records.

So do you need to keep two separate MTD records for letting income and for self-employment? If so how will you be able to link them together when making final declaration?	You will need to keep separate digital records, and file separate quarterly updates and end of period statements, for letting income and self-employment, as customers do now under ITSA. Customers will need to submit and EOPS for each income source and these will then be brought together as part of their final declaration for the tax year.
Reporting	
Will this work for those currently required to file through commercial software due to complexity, such as NR landlords? How do you report those elements?	We are still awaiting details from HMRC as to how MTD for ITSA will operate alongside the non-resident landlord scheme.
Will individuals under MTD have to submit a tax return and final declaration or just the final declaration?	Individuals in MTD will have to submit a final declaration, which takes the place of the current SA return. There will be no requirement to submit both a final declaration and an SA return for any one tax year. The final SA return for individuals in MTD will be for tax year 2023/24, which will be due for filing by 31 January 2025. There will therefore, for a short period, be a time when the two systems overlap.
How do you make the calendar quarter election?	The calendar quarter election is included in Part 3 of the MTD for ITSA regulations (SI 2021/1076). This states that the election must be made to HMRC no later than: <ul style="list-style-type: none"> - the deadline for filing the first quarterly update for the tax year in question, or - the actual filing date for that quarterly update (if earlier). Once made, the election applies for all subsequent tax years as well, though it can be withdrawn. We do not yet know how the election will be made in practice.
Change of account year end to 05.04 is better to align with quarterly reporting rather than to 31.03?	Changing to either a 31 March or 5 April accounting year end should be fine, as both will be deemed to be equivalent to the tax year for the purposes of basis period reform. If 31 March is chosen, then it may be beneficial to make a calendar quarters election so that your quarterly updates under MTD for ITSA align exactly with your accounting period.
Keep a 31 July year end: How – final declaration 4/12 of one year and 8/12 in your final declaration? VAT for a quarter to 31 July – 8 sets of records?	Following basis period reform, from April 2024, all trading income will be taxed on a tax year basis. Under MTD for ITSA, quarterly updates will be aligned with the tax year, and the end of period statement (EOPS) will also require the taxable profits arising in the tax year to be reported. Where the business draws up accounts to something other than 31 March or 5 April, as you identify this will require an apportionment from two separate sets of accounts. We are still awaiting details from HMRC as to how this will work in practice. Businesses whose accounts are not aligned with the tax year are not currently able to join the pilot.
If a client submits own details via bridging software, how can Accountant access the details submitted – via client’s account on the Agent Services account??	Our understanding is that, in this scenario, the agent’s software should draw down the client’s submitted quarterly update figures from HMRC when the EOPS is being prepared.

For clients with service contracts spanning an accounting date, will they now have to work out their revenue on these at each quarter date?	No – there is no requirement for tax or accounting adjustments (such as prepayments or accruals) to be included in quarterly updates. The income will be recorded in accordance with the existing basis of accounting (ie cash or accruals basis).
How do you claim the £1000 allowance rather than actual expenses?	The trading and property allowances are currently claimed in the SA return. Under MTD, we expect that they will need to be claimed in the end of period statement, but the practicalities of this are yet to be confirmed.
Property	
What about situations where you don't know in year if it will qualify as FHL?	In most cases customers will be aware if a property will qualify as an FHL in the coming year, based on previous years and taking into account averaging elections and period of grace elections. If the customer is unsure they will need to create digital records on the basis that the property will be either an FHL or non-FHL and then adjust accordingly at the end of the tax year through the end of period statement process. I
If you have two rental properties, would you need to prepare a quarterly submission for each property or a joint submission?	It depends on their status – 'UK' or 'overseas' properties. If both properties are within the same category, then only one set of quarterly updates and EOPS is needed.
If a property is owned jointly by 2 individuals can 1 set of records be kept but 2 quarterly filings be made based on these records?	Individuals need to meet to personally meet the MTD requirements, including keeping digital records of their business transaction. However, there is nothing preventing customers keeping shared digital records, from which they then make their own individual submissions. HMRC also expect that software developers will create specific products for joint-property owners that allow them to create shared digital records and make submissions for each owner.
For clients who only fall into MTD due to rental income, will there be a facility for rental agents/managers to prepare and file the quarterly updates?	Yes, a third party (whether they be accountants or rental agents) can file the quarterly updates. However, HMRC are yet to confirm how multiple agents will be authorised to act for the same client if one agent does the quarterly updates and another does the EOPS/final declaration.
If rental accounts are prepared by another accountant as joint owner has a different accountant, how will this work?	Each owner is responsible for their own record keeping and submissions – so their accountants will represent their shares separately.
If I get a monthly rental statement from a letting agent as a pdf. What do I do with it? Do I manually type into the software the rent, less expenses etc?	Yes, you will need to create digital records of your income and expenses using MTD compatible software. There are different ways you can meet this requirement, depending on the software you choose and whether you use an agent or not. There is no requirement to digitally capture the invoice, though this can be done if desired.
Will MTD also apply to landlords that hold properties through a Ltd Co?	Limited companies are not subject to MTD until at least 2026, so MTD will not apply to such a landlord until then.
What about other income from landholdings, eg wayleave? Should this be included in the quarterly returns or only at the year end?	Yes, any income from land should be included in the quarterly updates.

If a husband and wife share one property in one bank account and the digital links are in one system. Can you then do both their returns from that one system?	Yes, this is fine – both parties need to file their own quarterly updates and EOPS, but the figures can come from a single source, provided that the one system is capable of producing separate sets of quarterly updates and EOPS.
Software and pilot	
What is the likelihood that the current bridging software used for MTD4VAT will still be able to be used for MTDITSA? Has HMRC opined on this?	From a recent meeting with HMRC on software, it does seem that the ultimate intention is for VAT software to be used for ITSA too, but you'll need to check HMRC's software choices page as not all VAT software will automatically do so. HMRC is updating this page so that you can check whether the software has MTD for VAT functionality, too.
So does it still need to be 5/4 year ends that can only take part in the pilot?	At the moment, yes.
Errors	
If clients do quarterly submissions can we not just do any corrections on the EOPS or do we have to resubmit the quarterly updates?	The MTD regulations 2021/1076 , regulation 17 state that correct information should be given to HMRC at the time of the next quarterly update or the EOPS. However, HMRC have separately stated that they interpret this to mean any errors on the quarterly updates should be corrected and resubmitted immediately.
If clients reported incorrect figures in their EOPS but we are now about to complete final declaration for them, do they still need to re-submit EOPS?	Yes, the final declaration brings together all EOPS and other data to produce a final tax position, so an incorrect EOPS will need correcting and re-submitting before the final declaration is made.
Re digital links - once the submission has been made, what happens if the source data is changed? Does the new data flow through to a new submission?	It should do yes, but you'll need to refresh to activate the resubmission. You should check the functionality of your software.
Penalties and compliance	
What are the penalties for having to redo an earlier 1/4?	There are no penalties for errors in quarterly updates, or for resubmission. The only penalties directly applicable to quarterly updates will be for late submission.
Are there likely to be penalties for inaccurate quarterly returns - and, if not, do you even need to worry about being accurate as long as the year end is OK?	As above, there are no specific penalties for inaccuracies or errors in quarterly updates. However, failure to file information, or filing something which is known to be highly inaccurate, would arguably be against PCRT , and could indicate that digital records are not being kept which would contravene the MTD requirements.
Do we have any details of enquiry procedures into MTD filings?	No details are available yet.
Do we know what the penalties will be for late submission?	The new penalty regime being introduced for VAT from 1 January 2023 will also apply to filings under MTD for ITSA. This has a points-based system for late filing. Missing a deadline will lead to a taxpayer receiving a penalty point. When their penalty points total reaches a certain threshold, a fixed £200 penalty

	<p>will arise. For quarterly updates, the relevant points threshold will be 4 points. Points can however expire.</p> <p>More information can be found at https://www.gov.uk/guidance/prepare-for-upcoming-changes-to-vat-penalties-and-vat-interest-charges.</p>
Other	
What do you do with overseas partnerships where you could currently use calendar years figures eg K1 figures for USA?	Following basis period reform, from April 2024, all trading income (including that of partnerships) will be taxed on a tax year basis. Where the business draws up accounts to something other than 31 March or 5 April, this will require an apportionment from two sets of accounts. We are still awaiting details from HMRC as to how this will work in practice.
Will CIOT / ATT issue suggested Engagement letters to cover the QU input requirements?	Our professional standards team are currently looking into this. Specific engagement letter schedules for MTD for VAT are already available in the professional standards sections our websites.
Can you see them adding the CGT reporting now required to the MTD reporting?	We believe it is unlikely that CGT reporting will be brought within MTD, at least in the near future. However, once MTD for ITSA has bedded in, we may see more integration of the different in year reporting systems.