

## **MTD ITSA – Overview of the Regulations (Lecture B1277 – 15.34 minutes)**

The digital obligations which relate to MTD for income tax encompass:

- The requirement to keep digital records;
- The requirement to provide 'periodic' (quarterly) updates and;
- The requirement to provide an end of period statement.

The broad basis of these obligations was legislated for in 2017 in Finance Act 2017 s60, which inserted Schedule A1 into TMA 1970. The Regulations are made under Sch A1, setting out more detail on the requirements. They will be supplemented by tertiary legislation setting out the precise content and requirements of the elements of the legislation set out below.

### *Digital record keeping*

The requirement for businesses to keep digital records encompasses the use of 'functional compatible software'. This term was also used in the VAT Regulations, and covers one or more software products but also includes spreadsheets, which when used together provide the following functions:

- The creation of a digital record of transactions;
- The retention of that record for the requisite period required by tax law;
- The submission of quarterly updates and end of period statements to HMRC using API architecture;
- The receipt of information from HMRC relevant to compliance with these processes using API architecture.

The precise content of the digital records in terms of the analysis of transactions will be provided by an 'update notice' which is to be issued under the Regulations, but it is safe to assume that it will not be much different to the present analysis on the relevant Self Assessment supplementary pages – that is SA103 for the self-employed and SA105 for property businesses.

### *Digital records – specific content*

Regulation 6 provides the skeleton of what information needs to be captured digitally, and it is similar to the VAT rules in providing only a requirement for brief data items as follows :

For each transaction :

- The amount of the transaction;
- The date of the transaction (according to the basis used for reporting for income tax purposes – cash accounting or full GAAP accounting under ITTOIA 2005);
- The category into which the transaction falls – this is to be specified in an 'Update notice' which is due before the end of 2021.

### *Timing of digital record keeping*

Regulation 5 requires that transactions are entered into the digital records at the earlier of:

- The deadline for submission of the quarterly update; or
- The point at which the quarterly submission is about to be submitted

So, in practice, this allows record keeping to be done at a minimum on a quarterly basis, although many advisers will probably decide that real – time record keeping (or as near to it as possible) will be their preferred solution.

### *Quarterly updates*

The primary legislation sets out the requirement for quarterly updates which stands alone and separate from the requirement to file information under s8 TMA 1970 – so this requirement is imposed whether or not a business has received a s8 notice.

The regulations provide us with a lot more detail about quarterly updates.

### *Period during which quarterly updates required*

The start date for quarterly updates is the digital start date, unless the person is exempt under the income exemption rules.

Quarterly updates must then be filed **for each business** for each quarter shown by the Table below until the quarter including the cessation date for the business. If the person becomes exempt under the income limit rules the last quarterly update will be filed for the final quarter of the tax year before the exemption applied.

### *Quarter dates*

The Regulations (Reg 7) specify the following quarter dates:

<b>Quarterly period</b>	<b>Start date</b>	<b>End date</b>	<b>Filing deadline</b>
1	6 April	5 July	5 August
2	6 July	5 October	5 November
3	6 October	5 January	5 February
4	6 January	5 April	5 May

So every business and every person within MTD will file to the same dates and have the same due dates. This has significant implications for workflow patterns within firms.

### *Calendar quarter election*

Regulation 7(6) allows a person to make an election (on a business by business basis) for the filing intervals to be calendar quarters – that is ending on the last day of the preceding month compared to the months in the table above.

The election must be made by the due date for the first quarter's return in any tax year and will remain in force for the whole tax year and all subsequent years until it is withdrawn. Do note that the election applies on a business by business basis, so you will need to make the election for all businesses where a client has more than one trade or property business. In the first year of the election, the Quarter 1 period starts on 6 April; thereafter it will start on 1 April.

Withdrawing the election will take effect for the current tax year if made before the deadline for the Quarter 1 update, and from the following year if made after that date.

Obviously, firms will wish to consider what is most appropriate for them and their clients, and the basis period reform may also affect these decisions, but the extra five days filing window is useful here.

### *Content of quarterly updates*

The specific detailed content is awaited and will be provided by the issue of an 'update notice'. Reg 8 specifies the content of an update notice which will include (but is not limited to):

- Designatory information (Name, address, trading name are likely);
- Totals of the amounts falling within the specified categories of transaction, derived from the digital records; and
- Details of the properties forming part of the property business.

The regulations allow this to vary for different types of business, and this is likely to be the case in particular for property businesses. (See above regarding the analysis and categories of transactions in the records).

For a quarterly update for the final period of the business, the update must include the date that the business ceased and a statement that because of the cessation this is the final update for that business.

Note that there is no declaration about 'correct and complete' for the quarterly updates, and there will be no compliance effort directed at the content of quarterly updates provided it reflects the transactions and these are recorded in compliance with the digital record keeping requirements.

### *End of period statements (EOPS)*

It is crucial to note that the requirement for the end of period statement applies to each business and is quite distinct from the quarterly updates. The EOPS relates to the **basis period** for the tax year under consideration, which means that if the chosen accounting date is not 31 March or 5 April the EOPS for a tax year will be significantly different from the quarterly updates provided in respect of that year.

The EOPS includes all of the year-end adjustments, capital allowance claims and other reliefs relevant to the business and a declaration that the statement is correct and complete to the best of the taxpayer's knowledge.

We, as agents, will therefore follow the same procedure for authorising an EOPS before submission as we now follow for a Self Assessment return. A broad parallel to the EOPS is the SA 103 or SA 105 part of the current Self Assessment return.

The EOPS due date is set by the primary legislation as 31 January after the fiscal year in which the accounting period ends (using the normal basis period rules for a continuing business). So there is no difference in timing between submission of an EOPS and the old requirement to file a Self Assessment return.

### *Content of the EOPS*

An 'end of period notice' will be issued by HMRC to specify exactly what the EOPS must include, but it will include at least the following : (Reg 13).

- Designatory Information;
- Details of the relevant period to which the statement refers (that is the dates of the accounting period or basis period if different);
- The totals of the amounts falling within the specified categories of transactions for the relevant period;
- Details of the properties forming part of the property business;
- Information on:
  - Adjustments, allowances, balancing charges or costs
  - Losses or exemptions, and
  - Reliefs and allowances

Once again, the end of period notice may specify different information for different types of business.

There are a few parts of the existing SA103 which may or may not form part of the EOPS – in particular averaging claims by farmers, market gardeners and creative artists, and also loss relief where the loss is set against non-trading income. It is likely that your software will deal with this routinely when the time comes.

### *Period during which EOPS are required*

In principle, a business will submit an EOPS for each basis period from commencement until cessation, but of course the requirements do not commence until 2024. Businesses are not required to submit an EOPS for any period which started before the digital start date for the business, so for example, a business with a 30 September accounting date will not submit an EOPS for the year ended 30 September 2024 as that period commenced before the universal digital start date of 6 April 2024.

The Self Assessment return for 2024/25 will show the profits for the year ended 30 September 2024, and the business will file an EOPS for the year ended 30 September 2025.

*Contributed by Rebecca Benneyworth*