

## MTD – Which clients and when? (Lecture P1468 – 11.11 minutes)

### *Overview – the bare bones of MTD*

Taxpayers with mandated income types which are not exempt from the requirements will be required to keep digital records

Taxpayers with mandated income types will be required to update HMRC at least quarterly with details of their transactions, using MTD compatible software: these are known as quarterly updates.

Taxpayers will then make a final submission showing their non MTD income and other relevant data such as pension contributions.

This will trigger the final tax calculation for the year and is variously known as ‘Finalisation’.

The tax computation will be undertaken by HMRC’s systems rather than software used for submission.

This element of the obligations is not covered by the Regulations, as it replicates the existing requirements in Taxes Management Act 1970 to ‘submit a (Self Assessment) return’, which have been modified with effect from 2024 to require the taxpayer to ‘submit information’ rather than a return.

As part of finalisation, the income reported on quarterly submissions will be adjusted for tax purposes (and to include accounting adjustments as required) and capital allowances claims made.

### *Digital start date*

The digital start date for MTD determines when a taxpayer must comply with their digital obligations.

The digital start date will be set according to the phasing of the commencement of MTD.

### *Phasing the commencement of MTD*

The start of MTD is to be phased as follows:

- From 6 April 2026 taxpayers with mandated income totalling £50,000 will be required to meet their digital obligations
- From 6 April 2027 taxpayers with mandated income of £30,000 will be required to meet their digital obligations
- From a date yet to be decided (either 6 April 2028 or 2029) taxpayers with mandated income of at least £20,000 will be required to meet their digital obligations.

Although the limit set out in statute is £10,000 HMRC announced in December 2022 that the further reduction in the income limit would be kept under review over the next couple of years and an announcement will be made later about any further changes.

The Autumn Budget in 2024 included an announcement that the threshold would reduce to £20,000 ‘before the end of this Parliament’.

This would mean that additional businesses will come within MTD in either 2028 or 2029.

### *Mandated income*

The following are the mandated income types:

- Income from self-employment (but not partnership income);
- Income from property (including foreign property income).

### *Calculating income for the income thresholds*

The income exemption refers to the “amount of the person’s qualifying income”. This is defined as the sum of the amounts of income before any deductions for each business carried on by the person in the tax year, and for which the amounts are included in the Self Assessment (or equivalent) for that year. Given that income from a property is regarded as a ‘property business’ this means

- Turnover from all trading activities plus ‘other business income’ reported on SA103;
- Gross rents and other income received from property reported on SA105;
- Gross rents and other income received from overseas property reported on SA106.

Regulation 21(6) requires the amount used to be annualised if the period included on the return (or equivalent) is a period of other than 12 months. This may produce an upward adjustment for short periods, or a downward adjustment for long periods, for example when a trade has a long period of account to cover a change of accounting date.

### *The tax year to consider*

When the calculation is done for a specific start year, the tax return due to be filed in the January before the start of the tax year should be used to calculate the income levels.

So, for April 2026 start date, we look at the tax return which is due to be filed on 31 January 2026 will provide the date for the income calculation. This is the 2024/25 tax return.

### *Income calculation for the thresholds*

HMRC will issue notices to taxpayers in February 2026 notifying them that they are required to comply with MTD. The income assessment will be carried out on the information in the 2025 tax return, which should be filed by 31 January 2026. As the test is based on the amounts showing on the Self Assessment return, there are some complexities to bear in mind:

The income test is based on the gross income from mandated sources, so will include gross income (i.e. turnover |) from self-employment (but not partnership) and all gross property income receipts, including furnished holiday letting income and income from abroad.

Where the taxpayer benefits from the trading income allowance or the property income allowance of £1,000 so that the income is not entered on to the tax return that income will not be included in the total for the income threshold. Where the income from that source exceeds the limit, the full amount is entered on the return and the deduction given (if the taxpayer so chooses). The deduction does NOT reduce the income for the purposes of the income threshold.

Where the taxpayer benefits from rent a room relief, so that no income is shown from this source on the tax return, again this income will not be included in the total for the income threshold.

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