

MTD – Digital obligations (Lecture P1469 – 8.59 minutes)

Digital start date

The digital start date indicates the requirement to meet the digital obligations. It is determined by the gross income from mandated sources for the taxpayer for the relevant year. The limits are:

- For 2026 - £50,000;
- For 2027 - £30,000;
- At some point in the future, but by 2029 - £20,000.

The limit applies to the gross income from mandated sources – that is income from self-employment and income from property.

Digital obligations

In relation to mandated income types, the digital obligations imposed by the legislation are:

- Create and maintain digital records in relation to each mandated income type (where there are multiple trades these will require the records to be separated so that submissions can be made in respect of each trade separately);
- Submit periodic updates – at least quarterly.

In addition, taxpayers will be obliged to submit all other income and claims that would normally go on the Self Assessment return and confirm that the information provided is correct and complete. This is known as finalisation.

Digital records

The requirement to keep digital records applies to trades and businesses in the same way. However, the requirement is there to enable quarterly updates to be made, and therefore does not apply to transactions which do not affect the profit for tax purposes.

This means that balance sheet transactions do not need to be recorded in the digital records. However, it is likely that for businesses using a bookkeeper or accountant they will probably record all of the transactions using double entry so that they have confidence in the records.

It is open to practices and taxpayers to choose the method of digital record keeping most suited to them, but the following rules must be followed:

- Transactions for each quarter must be recorded by the submission date for the quarterly update – this means keeping digital records up to date at least 4 times a year;
- The record must include the date and amount of the transaction and the category to which it relates. The categories are those set out in an Update notice (currently outstanding) but will follow the relevant boxes on the Self Assessment return. (That is SA103 for self-employment and SA105 for property income);

- Where there is more than one obligation per quarter these must be submitted separately, although it is acceptable to use different digital record keeping methods for each separate obligation;
- You must submit all of the information for an obligation in one go. This means that if you have some property income transactions on a spreadsheet and some from an agent in separate software, these will have to be combined before submitting the update;
- Where data is transferred between different record keeping / submission products this must be by the use of digital links. Re-typing totals of transactions is not permitted, nor is cut and paste or copy and paste. It would be acceptable to re-type individual transactions if necessary;
- Retail businesses may record daily takings rather than each individual sale in their digital records.

Functional compatible software

The legislation requires taxpayers to use functional compatible software to submit the updates.

That is software capable of:

- Keeping a record of the transactions
- Submitting the update to HMRC using API's
- Receiving the tax calculation and displaying it for the taxpayer

Where a taxpayer is not using a full function accounting software product, the functional compatible software will comprise the spreadsheet or other record keeping method, plus bridging software allowing the submission.

Quarterly filing

Quarterly updates must then be filed for each business for each tax quarter 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.

The amending Regulations laid in late February 2024 specify the following quarter dates:

6 April – 5 July	Due by 7 August
6 July – 5 October	Due by 7 November
6 October – 5 January	Due by 7 February
6 January – 5 April	Due by 7 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 set out 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 basis period reform may also affect these decisions, but the extra seven days filing window is useful here.

Note that a mismatch between accounting dates and the selected quarters can in some cases cause difficulty – so a taxpayer drawing up accounts to 5 April who makes a calendar quarter election will have to make adjustments to prepare their accounts, so it would be wise to align these.

Digital links

It is clear that, as for VAT, digital links will be required to transfer data from the accounting records to the submission software.

This is likely to be relevant where the digital records are maintained on spreadsheets and bridging software is used to make the submissions, or where accounting records are kept in two separate applications.

Analysis of transactions

Draft notices were released some time ago which specified the headings to be used for transactions.

These were not finalised but followed the analysis on SA103 and SA105 very closely.

We await the final version, but part of your preparation (and work with your software provider) will be to make sure that the account headings you currently use are mapped to the correct analysis headings for the quarterly submissions.

Most full function software will automate the mapping process according to the account types but allow you to amend that if desired.

Three-line account

The current relaxation allowing taxpayers to complete only the income and total expenses boxes is to me retained under MTD so it is possible to submit the quarterly updates on this basis.

However, this is likely to lead to a lack of proper record keeping and non-business expenses being overlooked and included in the updates.

Finalisation

Once the four quarters have been filed (by 7 May following the end of the tax year) the finalisation of the client's tax position must be done by 31 January, meaning that the deadline is the same as for Self Assessment.

Other income sources can be added throughout the tax year – HMRC does not see this as similar to tax return submission, but more of a real time exercise.

That said, there is no obligation for this to be done in year.

Once all of the income is entered, HMRC will perform the tax calculation (it is presently done by software) and the taxpayer will confirm that everything is final.

It is not yet clear how the integration of professional tax software with record keeping software will work, nor exactly how the approval of our clients will work under the new regime.

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