Changes to Making Tax Digital for income tax

General Features

19 January 2024

Further amendments, announced through draft Regulations released last year, are being made to Making Tax Digital for income tax selfassessment to implement the simplifications announced following HMRC’s Small Business Review.

On 22 November 2023, HMRC published the outcome of their ‘Small Business Review’, which was to consider whether the remit of Making Tax Digital (MTD) for income tax self-assessment (ITSA) should include those traders and landlords with turnover below £30,000. This is the threshold that takes effect in April 2027; this follows the stage for those with turnover above £50,000, which applies with effect from April 2026.

CIOT, ATT and LITRG have raised concerns about the burden of completing quarterly returns along with an end of period statement (EOPS) for each income source: those not registered for VAT will be unfamiliar with the concept, let alone the actual mechanism, of undertaking quarterly reporting. Errors or omissions made on quarterly returns would have meant going back and amending them, rather than treating the returns as cumulative and thus making amendments in the following quarter. We are also concerned about how joint owners of property report their shares of rental income, and how multiple agents of a taxpayer can interact with MTD for ITSA.

The outcome of the Small Business Review was largely positive. Quarterly returns will now be prepared on a cumulative basis, the EOPS will be removed altogether, and easements will be available to joint property owners (allowing for expenses to be excluded from each quarter, and for less detailed records to be kept). In addition, foster carers’ qualifying care income and those without national insurance numbers will be excluded from the process altogether. More significantly, the £30,000 threshold will not be lowered – for now. HMRC said that this will be kept under review, so the position may well change. The view of CIOT, ATT and LITRG remains that the original £10,000 mandation threshold is too low, bringing people into MTD for ITSA with insufficient support, no free software and lack of awareness amongst those on lower incomes, especially as they may be non-taxpayers anyway. The prospect of those earning below £30,000 still being brought within scope remains a possibility. The government is committed to developing a solution allowing multiple agents to act on a customer's behalf in support of MTD mandation.

The full outcome of the Small Business Review can be found at: tinyurl.com/3jhkfnxt.

Uncertainty continues about how owners of furnished holiday lets – which are recorded under a separate heading to ordinary lets – will know whether to record their properties as such during the year, given the occupation criteria for furnished holiday lets qualification. It is also unclear how adjustments and claims will be made in the absence of EOPS. For those businesses whose year-ends are not aligned with the tax year, the submission of quarterly reports anchored on a 6 April start date will be problematic. The CIOT, ATT and LITRG will continue to engage with HMRC regarding these matters and, have responded to HMRC's consultation on the draft Regulations.

Prior to the Autumn Statement, and hence before the outcome of the Small Business Review had been announced, the CIOT and ATT jointly wrote to the Financial Secretary to the Treasury about MTD for ITSA. The joint letter, and the minister's response, can be found on the CIOT (tinyurl.com/yc34x6cx) and ATT (tinyurl.com/6y9dbvmh) websites. We will be following up on the minister's suggestion of a meeting.

The CIOT's comments on the draft Regulations can be found here: www.tax.org.uk/ref1259

The ATT's comments on the draft Regulations can be found here: www.att.org.uk/ref448

LITRG's comments on the draft Regulations can be found on the LITRG website at: www.litrg.org.uk

Chris Thorpe *cthorpe@ciot.org.uk*

David Wright *dwright@att.org.uk*

Sharron West*swest@litrg.org.uk*