

Making Tax Digital for Income Tax Self Assessment



Introduction

Making Tax Digital (MTD) for Income Tax Self-Assessment (ITSA) is set to revolutionise the way tax is reported and processed in the UK. With a phased approach beginning in 2026, this initiative aims to make tax administration more efficient, effective, and easier for taxpayers to manage their obligations accurately.

Who is Affected?

- From April 2026: Self-employed individuals and landlords with annual business or property income over £50,000.
- From April 2027: The threshold extends to those with annual income over £30,000.

What Does This Mean for You?

Taxpayers within these thresholds will need to:

- Maintain digital records of their income and expenses using HMRC-compatible software.
- Submit income and expenses summaries to HMRC every quarter through this software, effectively replacing the annual self-assessment tax return.

Benefits of MTD for ITSA

HMRC has cited the following benefits:

- Real-Time Tracking: Enables better cash flow management and financial planning with up-to-date information.
- Less Paperwork: Digital record-keeping simplifies the process, reducing the burden of manual record maintenance and storage.
- Increased Transparency: Provides ongoing visibility into your tax estimates and liabilities.

Preparing for MTD for ITSA

Selecting the Right Software:

Choose software that is compatible with MTD and fits your business operations. Popular choices include Xero, QuickBooks, and Sage, which offer comprehensive features that comply with HMRC's requirements.

Transitioning to Digital Records:

Begin transferring your current financial records into the chosen digital format. This might involve scanning physical receipts and logging them into your software.

Understanding the Software:

Familiarise yourself with the software's functionality, perhaps through tutorials or training sessions offered by the provider.

Challenges and Considerations

- Cost Implications: Be aware of the costs associated with purchasing and maintaining software.
- Adaptation Period: Allow time for you and your staff to adapt to the new system.
- Technical Support: Ensure that you have access to technical support during the transition and beyond.
- Tips for a Smooth Transition
- Early Adoption: Start using the software before the mandate kicks in to get comfortable with the system.
- Professional Guidance: Engage with an accountant or a tax advisor who is well-versed in MTD to get tailored advice.
- Regular Review: Set aside time each month to review your digital records, ensuring everything is accurate and up-to-date

Parry & Parry provides comprehensive support to clients impacted by MTD ITSA, including provision and training of compliant software. Contact us at hello@parryandparry.co.uk if you'd like to discuss how we can help you.