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GOVERNMENT DELAYS MTD FOR INCOME TAX

The Treasury has confirmed that Making Tax Digital for Income Tax Self-Assessment ("MTD for ITSA") will be delayed by a further two years until April 2026. It will now be introduced in phases from 6 April 2026, rather than 6 April 2024. The original start date for MTD for ITSA was planned for April 2018 and this is the fifth deferral of the start date.

According to the First Secretary to the Treasury, this delayed phased approach will give businesses more time to prepare and adapt to new ways of working.

HM Revenue & Customs (HMRC) stated that the UK Government understands businesses and self-employed individuals are currently facing a challenging economic environment, and that the transition to MTD for ITSA for the self-employed and small landlords represents a significant change for taxpayers, agents, and for HMRC itself.

Not only is the start date being deferred but as mentioned above, it will now be introduced in phases. The minimum reporting level for self-employed individuals and landlords will be increased from £10,000 to £50,000, meaning that those self-employed individuals and landlords with turnover/gross rental income over £50,000 will be mandated to join first, from April 2026. HMRC estimates this will apply to 700,000 taxpayers.

Those with turnover/rental income over £30,000 will be mandated to join MTD for ITSA from April 2027. HMRC estimates this will apply to a further 900,000 taxpayers.

The Government is now reviewing whether smaller businesses/landlords with an income below £30,000 will be mandated to join MTD for ITSA. It is estimated that 2.6m taxpayers are within this group.

Partnerships will not be brought into MTD for ITSA in 2025 as previously planned and while no date has been set for extending MTD for ITSA to partnerships, the Government has stated that it remains committed to introducing MTD for ITSA to partnerships at a future date.

Furthermore, a points-based system aimed at making penalties fairer and simpler will come into effect for taxpayers when they join MTD for ITSA.

Over the last few months there had been increasing speculation that a deferral was inevitable, given the very small numbers of taxpayers in the restricted pilot scheme and a long list of problems with digitalising tax reporting of trading and property income. These problems include the following:

- A lack of awareness of the MTD for ITSA requirements among taxpayers – particularly those with a single source of property income.
- The lack of functionality to allow taxpayers to appoint more than one agent (e.g. a bookkeeper to handle quarterly updates and an agent that completes the year-end processes).
- The lack of adequate solutions for the complexity associated with jointly-held property.
- The lack of a design solution for non-tax year accounting periods.
- The design around amendments and corrections and how they are made.
- Taxpayers being resistant to using commercial software. This is partly due to its cost, but also because many taxpayers use their mobile phone for their simple record keeping.
- The capacity of HMRC, software developers, agents and taxpayers to deliver the change.

In the light of these fundamental issues, our Institute (the ICAEW) is urging HMRC and the Government to reconsider some of the key policy and design decisions and return the focus to businesses keeping good quality digital accounting records. Otherwise, they say, there is a risk that this further deferral will not be the final one and it will be difficult to persuade taxpayers to prepare.

The above is for general guidance only and no action should be taken without obtaining specific advice.

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