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PERSONAL TAX NEWSLETTER

March 2025

We hope you enjoy reading this newsletter and find it useful. Please contact us if you would like to discuss any matters further.

What is Making Tax Digital? Making Tax Digital (MTD) is a government initiative to modernise HMRC's tax system by making the process of administering tax simpler, more efficient, and easier for taxpayers to get their tax right. Put simply, MTD involves using compatible software to manage your tax affairs with HMRC.

MTD for income tax - what's new?

Sole traders and landlords will soon need to get to grips with MTD for Income Tax Self-Assessment (MTD ITSA). What's the latest on who must use MTD ITSA and the reporting requirements?

Mandatory MTD

You may already know that starting from April 2026 MTD ITSA will be phased in for sole traders and landlords, requiring digital records to be kept and prescribed quarterly online reports to be made to HMRC. You'll be in the first group if your turnover from trading and property income exceeds £50,000 in the 2024/25 personal tax year.

From April 2027 you must use MTD ITSA if your turnover exceeds £30,000. The threshold is set to fall to just £20,000 the following year. An example illustration of the filing requirements for a self-employed individual with income in excess of £50,000 for the 2025/26 and 2026/27 tax years is provided below.

Tip. For the purposes of the threshold, exempt income, e.g. rent qualifying for full rent-a-room relief, is ignored.

This example demonstrates the filing requirements for a self-employed individual with income in excess of £50,000 with a 5th April year-end

Tax year 2025/26 - Self-assessment non MTD

6 Apr 25 - 5 Apr 26	6 Apr 26 - 31 Jan 27
Tax year 2025/26	File 2025/26 tax return

Tax year 2026/27 - Self-assessment under MTD for Income Tax

Tax year 2025/26	Tax year 2026/27				
6 Apr 25 - 5 Apr 26	6 Apr 26 - 5 Jul 26	6 Jul 26 - 5 Oct 26	6 Oct 26 - 5 Jan 27	6 Jan 27 - 5 Apr 27	6 Apr 27- 31 Jan 28
Sign up to MTD	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Final declaration 2026/27*

Key

Submissions to HMRC

Quarterly submissions are due one month following the quarter end

* All income sources are brought together in the final declaration to arrive at a final liability for the tax year.

What are the requirements under MTD for Income Tax Self-Assessment?

There are three main changes under MTD for ITSA:

1. You will be required to keep digital business records of all your business income and expenses, including income from self-employment or property, at a transaction level. You will then need to use MTD compatible software to send updates to HMRC on a quarterly basis.
2. There will be at least five 'returns' each year instead of one. From April 2026, summary information will have to be reported to HMRC on a quarterly basis for each source of income, within one month of the relevant quarter end for taxpayers. At the end of the tax year there will then be an end-of-period statement to report any accounting adjustments. In addition, you will also have to submit a final

declaration to HMRC which includes details of all other income, as well as pay the tax you owe by 31 January of the following tax year.

3. The quarterly updates will be for standard quarters to 5 April, July, October and January. There will be an option to elect to report to 31 March, 30 June, 30 September and 31 December. A summary table of these quarterly dates and deadlines is below:

	Quarterly Period	Deadline	Period under calendar quarter election
Period one	6th April - 5th July	5th August	1st April - 30th June *(6th April - 30th June for the first year)*
Period two	6th July - 5th October	5th November	1st July - 30th September
Period three	6th October - 5th January	5th February	1st October - 31st December
Period four	6th January - 5th April	5th May	1st January - 31st March

VAT and the MTD ITSA threshold

You need to take care when checking if your turnover exceeds the MTD ITSA threshold if you're registered for VAT and prepare your accounts using the cash basis, i.e. money received and money spent, rather than sales you've invoiced and bills received.

Tip. If you prepare accounts on the cash basis they may show sales etc. income including VAT. You must deduct the VAT element from your turnover when checking if it exceeds the MTD ITSA threshold.

A similar issue applies if you use the VAT flat rate scheme (FRS). HMRC says that when preparing accounts you can choose whether to deduct the FRS VAT from turnover or include it as part of your turnover and deduct it as an expense

Tip. Deducting the VAT FRS amount reduces your turnover for comparison to the MTD ITSA threshold.

Income below £90,000

If you are using MTD ITSA HMRC will allow you to make simplified quarterly reports if your combined income from business and property is below the VAT registration threshold, currently £90,000 per year. In this case your quarterly reports need only show total income and total expenses, and no other details. However, if your property income is from a residential let, you must also report any related interest and other finance charges you pay

Jointly owned property

Reporting income from jointly owned property under MTD ITSA remains a bone of contention. HMRC has relaxed the rules insofar as joint landlords need only report their share of the property's income and expenses rather than those for the property as a whole. But there's still no guidance on how to comply if you are simply paid your net share of the income without details of any expenses deducted. The upshot seems to be that you must report your share of total income in your quarterly reports, but full details and expenses when you complete your MTD ITSA year-end declaration.

Tax payment dates remain unchanged

MTD is only changing the record-keeping and the frequency of updates sent to HMRC; tax payment dates remain unchanged for now. For those with payments on account, these will remain at 31 January and 31 July, with the balancing payment due on 31 January following the end of the tax year-end. For others, the tax payment date will remain at 31 January following the end of the tax year

What are my options?

- Move to digital record keeping using compatible software If you are not already using digital software, you should consider moving to digital record keeping using compatible software now. This will ensure you have all your accounting data on hand, and you will be all set for quarterly reporting from April 2026. Our team can help advise on options available for compatible software.
- Use spreadsheets in combination with bridging software You can summarize your accounting transactions on an Excel spreadsheet and file directly to HMRC using bridging software. Bridging software is a digital tool which is used to connect accounting software, including spreadsheets, to HMRC, meaning the required information can be reported digitally.
- Continue with manual records We are aware that not everyone will want, or be able, to move to digital record keeping. In this situation you can continue to provide us with your accounting records in the usual manual format. We will then convert your transactions into a digital format and submit these to HMRC quarterly on your behalf.

What can I do now to prepare?

Use a business bank account for business transactions

If you are using your private bank account for business transactions, we strongly recommend opening a separate business bank account in preparation for MTD. This will ensure that private transactions are excluded from your business transactions.

What if I am already using compatible software?

If you are already using digital software to record your business income and expenses at a transaction level, then there is nothing further you need to do at this stage to prepare for MTD for Income Tax Self-Assessment. We will be in contact with you in due course as more information is released by HMRC regarding the MTD registration process.

Would a limited company structure be beneficial?

The increased filing requirements of these changes does reduce one of the benefits of being a sole trader rather than trading as part of a limited company structure. Assessing the overall impact of trading under a limited company structure is subjective to both personal needs and anticipated income levels. However these changes may present an opportunity to incorporate your sole trade into a limited company. If you have a rental property trade and are considering transferring this into a limited company structure, there would be significant tax considerations to review.

If you would like to discuss the various options available, please reach out to your usual OCL contact or contact the practice; our team are happy to help.