

Should businesses be digitally prepared?

The first phase of Making Tax Digital (MTD) was mandated in 2019 for VAT registered businesses with a turnover above the VAT registration threshold (£85,000), followed by all VAT registered businesses (regardless of turnover) from April 2022.



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Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) is HMRC's next phase. This was due to launch in April 2024, but due to the pressure on businesses because of the Covid-19 pandemic and the associated restrictions, the government decided to postpone the start date to April 2026.

This next phase will affect self-employed individuals and landlords with an annual trade or property income (turnover) of more than £50,000. They will be required to keep digital records and provide HMRC with quarterly updates on their income and expenditure through HMRC approved compatible software. In some limited circumstances, individuals may meet the criteria for exemption from MTD for ITSA but where this is not the case non-compliance will result in penalties.

There are many MTD-ready software packages available such as Xero, QuickBooks and Sage, which can help prepare and enable a business to submit their returns digitally. Unfortunately, excel spreadsheets are not compatible with the MTD system without a specific bridging software.

Despite the potential challenges presented by the upcoming changes, there are benefits to keeping and uploading your records digitally. There may be less paperwork, easier bookkeeping enabling a business to keep track of tax dates, repayments and upcoming bills and potential cash flow advantages. This will enable more time to focus on running a business and could eventually save time, money and effort in the future.

It is essential that affected individuals consider digital record keeping as soon as possible. This will allow business owners time to ensure a smooth transition, have a comprehensive understanding of the process and find a suitable accountant who can help navigate through the complexities before the 2026 implementation.

If you require any further advice please call **01424 730345** or visit **www.honeybarrett.co.uk**



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