

Making Tax Digital for the Self Employed

The way that most self-employed taxpayers report their business profits to HMRC is set to change in April 2023 under the Making Tax Digital (MTD) for business regime. The changes to date have applied only to businesses that are VAT registered.

The new changes apply to all unincorporated businesses (Companies and LLP's have a different timeline) **with a turnover of £10,000** or more so whether you are a landlord, taxi driver or mobile hairdresser you will have to upgrade your bookkeeping to a digital record, and we are here to help you meet this new requirement. However:

- It will increase our fees – there is simply more work to do.
- We do not know by how much yet as the details are still sketchy and depends on how much work you do and the quality of it.
- You will have to use accounting software which you will have to pay for (through us).
- We will train you and also offer a support service to help you with transactions and filing if you wish to file yourself.
- To reduce time spent and thus costs incurred– open a business bank account – Starling Bank is free and easy to open www.starlingbank.com
- No more one-page notes of income and expenses, every transaction needs to be recorded. Landlords – read the section below.
- No more bags of books dropped off at the eleventh hour – you must do this every 3 months – like a VAT return.
- You will have to do more work maintaining your books, and on a regular basis. We can help or do it for you but this clearly has a cost implication to you.
- We will have to review each “3 months set of accounts” so your profits are not overstated leading to questions asked and eventual overpayment of tax.

Self-Assessment

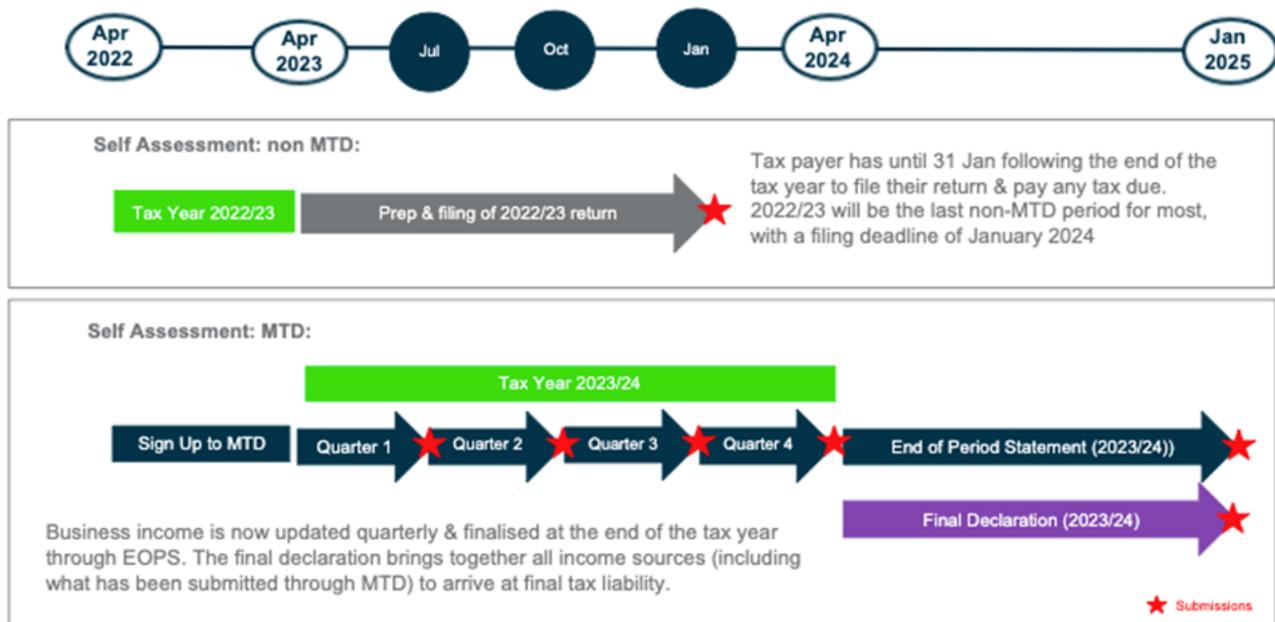
- Under MTD the Self-Assessment tax return will be replaced by six new reporting obligations made during and after the tax year.
- This measure is due to commence on 6 April 2023 for **self-employed businesses and landlords** with turnover above £10,000.
- Your first tax return under the system is due in the fourth month of your accounting period, you will then have to file with HMRC every three months.
- If you are not already using software for your record-keeping/accounting, you will need to learn how to use some type of accounting software or App.
- You will need a reliable internet connection and a facility to store your electronic data.
- **YOU WILL NEED TO STOP USING PERSONAL BANK ACCOUNTS AND USE A BUSINESS ONE.**

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Six tax returns per year from 2023-24

What It Means In Year 1



For each of their businesses, individuals will need to submit at least quarterly updates, and an end of period statement (EOPS) then a Final Declaration confirming all is correct.

Each red star is a submission to HMRC. For MTD this submission is per income source. I.e., you are a taxi driver with a holiday let and a residential rental property then that is 3 income sources. Potentially 12 sets of quarterly accounts, 3 EOPS and a Final Declaration.

Tax payments

- You will be allowed to voluntarily pay your taxes as you go: the detail is still being decided.
- Eventually, you will be **required** to make four payments per year on account of tax.
- There will be no late filing penalties for at least a year while the new system beds in. After that, you will suffer penalties if you file your returns late.

What we, as your accountants, need to do now

- We have decided on one common accounting package to use across all our clients – Xero
- We are to start contacting you to train you to use the software over the next 2 years so that when the new system is live, we can file your tax return every quarter. This is a mammoth task – it is like filing your annual tax return every 3 months – for all our clients!

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- We have already negotiated a package for you where you will have Xero Cashbook Ledger free for the first year to help get you started. You will need to pay for the bigger versions should you wish to start billing/ storing your purchase invoices electronically yourself.
- We have a training package under development to roll out over the next year.
- Our aim is to trial run the new system in 2022-2023 so we have a year to iron out the demands this will place on us and you.

What you need to do now

- Open a business bank account – Starling Bank offer free bank accounts– click [here](#) to open yours.
- If you already have a business bank account, stop using it for personal expenditure if you do, it will massively reduce the workload for preparing the quarterly returns.
- If you have a business account, make sure you have online access to it – you need this to link it to the software. Personal bank accounts do not link to accounting software.
- Move all your business receipts and payments to a dedicated bank account so that only your business transactions are recorded on the software to report to HMRC quarterly – reducing the work to be done
- Simplify your payments, fill your car up once, instead of putting in £20 every 2 days. Move money to your personal account in lump sums rather than £50 here and there. Get credit account with your suppliers and make one payment a month rather than 3 a day.
- If you have a bespoke accounts package, we will work with you as it will need to adapt to file online itself. If you have Sage, QuickBooks etc we will ask you to move to Xero unless there is a feature you require.
- Whilst spreadsheets “are allowed” they need linking software to file them with HMRC each quarter. Our experience is that spreadsheets change between quarters and are not reliable so we will not be dealing with them. They are cumbersome and tend to have several versions exist with different changes on them and it will add too much time double checking if they have the correct cumulative figures on them each quarter.
- We will be moving you onto Xero, our chosen platform, and will be in touch to arrange this over this year. This will need you to pay a monthly subscription for it and we will discuss what level you need, it ranges from £5pm (where we do the work for small landlords and small self-employed businesses to £24pm +vat, where you can do the work. XERO must be through our agency with them to allow is to connect the tax return systems to process the filing so please do not take it out in your own name. We simply recharge their cost to you. It is possible for you to transfer your subscription to us. www.xero.com/uk
- We will provide free of charge an invoice scanning platform – Dext – to accompany this so you no longer need to keep invoices & receipts. www.dext.com/uk
- We will need to submit QUARTERLY accounts to HMRC for you, the first being due by the 31 July 2023. You are allowed to submit your own returns should you wish to do so, but the ultimate aim of this is to pay your tax quarterly so the figures need to be right and not drastically change at the end of year.
- In total there will be a minimum of 6 “tax return” submissions each year for you and we will be billing you for two tax years in 2023/24 as the reporting requirements overlap (arrears for 5 April 2023 and the current tax year for 5 April 2024). We offer monthly payment plans to smooth this out over a few yearsA few clients have industry specific software, and we will work with them to integrate the reporting systems into ours with Xero
- If you are already on Xero, QuickBooks or Sage (the main 3) you will get updates which will allow this to happen so just wait for us to contact you as and when they are available.

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Landlords

Typically, landlords have ignored the requirement to keep books. Due to their simple nature (12 receipts, 12 mortgage payments etc and a few expenses) we often see details presented on a one-page document.

However, this belittles what is one of the biggest capital spends people make in their lives, buying houses, and the tax legislation (and now legal obligations) of landlords have been tightened and made more complex over the last few years.

Now the bookkeeping requirements are tightening – you will have to record the transactions electronically and in one place to allow you to submit the quarterly reports.

Worse still, if you have a mixture of types of rental properties it looks likely that you will file quarterly for each type of property. So, if you have 1 furnished residential let, 1 unfurnished residential let and 1 holiday let, and you are a taxi driver you will have to submit 4 different sets of quarterly tax returns as they are all treated differently for tax purposes. There is no guidance on whether that will require 4 different bank accounts and software packages yet.

It gets worse if you co-own some of the properties.

This will be the largest shake up for bookkeeping of all the self-employed people as most landlords just do not keep books.

Just a reminder that people should declare the furnished or unfurnished rental income in the proportion that they own a property. So for a husband and wife this is deemed 50/50 if both names are on the title deed/mortgage. Regardless of who does the work. Holiday lets can be split in whatever proportion you wish.

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