

# Your guide to MTD compliance



# Introduction

Making Tax Digital (MTD) is the UK government's plan to fully digitise the tax system. The rollout has been phased and somewhat delayed. The current timeline is:

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**2019**

MTD for VAT was launched in April 2019.

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**2022**

In April 2022, MTD for VAT was extended to all VAT registered businesses. This means all businesses registered for VAT must now comply (*whether you are trading below the VAT threshold or not*).

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**2024**

MTD for Income Tax and Self Assessment (ITSA) will start in April 2024 for the self-employed and people with income from a property or properties.

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**2025**

In April 2025, MTD ITSA will be extended for most partnerships, i.e. you have signed a partnership agreement. Typical examples of partnerships are GP or dental practices.

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**2026**

Finally, MTD corporation tax is slated for April 2026 (*but might be pushed back*).

## How does this affect my business?

All VAT-registered companies — not just those trading above the £90,000 — must now file their VAT returns digitally on a quarterly basis.

But here's the kicker: *digitally* does not mean via HMRC's website

Instead, you must use software. Your accountant can still submit VAT returns on your behalf, but it all must be done through MTD-compliant software.

In addition, you have to keep your VAT accounting records digitally. It can't be paper-based anymore. You have to keep your VAT accounting records for at least six years.

## What do I need to do now?

If you are VAT-registered (*whether you're trading below the £90,000 VAT threshold or not*), you need to register for MTD for VAT on [HMRC's MTD registration page](#).

To register, HMRC will ask for the following information:

- Your Government Gateway ID and password
- Your business's postcode
- Your VAT number (*it'll be on your VAT registration certificate*)
- The amount of your last VAT Return (*found in box 5 of your last VAT return*)
- The date you became VAT registered (*also on your VAT registration certificate*)
- When you submitted your most recent VAT Return



Simplify your MTD for VAT registration process with Osome. We'll get you set up quickly and effortlessly. [Find out more >](#)

MTD means that you'll have to keep a digital record of everything your business spends and receives in revenue. As each milestone on the MTD timeline happens, paper records will no longer meet HMRC's requirements for that area of tax.

Instead, businesses have to use an MTD compatible software product to submit updates and returns to HMRC. Spreadsheets can still be used – but require special software known as bridging software. Bridging software connects your spreadsheets to HMRC. Think of it as a link that lets your spreadsheet 'chat' with HMRC's systems.

Critically, HMRC's online tax return services will be closed down in a phased manner. Over time, you will not be able to use the government gateway. Your accounting software will be how you meet your tax obligations.

## What happened in April '22?

April 2022 was a watershed MTD moment for small businesses and entrepreneurs. Until now, MTD requirements have fallen on large businesses. But with the extension of MTD for VAT, all VAT registered businesses in the UK come into the scheme.

If you're reading this, the key takeaways are that:

01

You lose the ability to file VAT returns the old way since April 2022.

03

You update HMRC quarterly (*to 'update' doesn't mean filing your taxes quarterly! More on that later*).

02

Record-keeping and VAT submissions must be done digitally since April 2022.

04

You need a software partner that is MTD compliant.

# MTD FAQs

As MTD's scope continues to widen, business owners will have quite a few questions about how this all works. Here, we address a few of the most common ones we've been asked at Osome.



Don't see your question answered? An Osome expert adviser can answer your [questions in person >](#)

## What does MTD compliant software mean?

When it comes to MTD compliant software, you have two choices:

- 01** An MTD compatible software package
- 02** Bridging software to connect non-compatible software (like spreadsheets) to HMRC

The simplest and most popular approach is to use MTD compatible software. According to Government research, just under [three-quarters of all businesses \(74%\)](#) make VAT returns using fully compatible software.

According to this same research, businesses surveyed noted numerous benefits of MTD compliant software. Namely, the research found MTD software:



Made preparing and submitting VAT returns faster



Made businesses feel more confident they are getting tax right



Instilled greater confidence using technology

## What type of software do I need?

MTD requires you to keep electronic records of your accounts. You update HMRC on your records every quarter and then file your VAT return once a year. You do this via your MTD compliant software. Think of this software as your portal to HMRC. Your software facilitates continual communication with HMRC.

That's what MTD compliant means. In essence, it means your software can 'speak' with HMRC's systems using a software called an application programming interface (API).

But software being MTD compliant is not the only thing to consider. Different software is designed for different users. For instance, some accounting software is aimed at large enterprises.

Just because software is MTD compliant does not mean it's automatically suited to your needs. For small businesses, many accounting software packages are overly intricate and complex. Indeed, most aren't designed for small businesses. They are made for accountants.

Yes, your accounting software must be MTD compliant — but it should also work well and suit your particular business and purposes.



Osome is MTD compliant financial management software and accountant rolled into one affordable package. And it's designed around you, not your accountant. [Find out more >](#)

## Do I have to file VAT quarterly?

A source of concern, throughout this process for small businesses, is that MTD increases admin. But this concern is perhaps a little misplaced. The anxiety largely hinges on the quarterly updates aspect of MTD.

An update is not the same as filing your tax. There won't be four separate tax returns. Instead, MTD requires businesses to avoid delaying their tax preparation. Every quarter, you (or your accountant) simply review your data and tell HMRC it's correct.

At the same time, digital recordkeeping means no more scrabbling around with a tax deadline looming. The process is now more gradual, involving you, your accountant and your software.



Do your quarterly VAT updates easily with Osome. [Find out more >](#)

## Where do accountants factor in MTD?

It's possible to complete your MTD obligations without an accountant. But it will be significantly harder and more burdensome. A skilled accountant will make the process much smoother and more efficient.

If you're inexperienced with conventional accounting software (designed for finance professionals), your accountant will walk you through the process. You'll quickly get the hang of what's required of you.

MTD also creates an opportunity for you to deepen your relationship with your accountant. Because digital recordkeeping is more frequent and planned out, things like tax planning will become simpler, too.

Your accountant is now much more proactively involved in your day-to-day. It's less historical and more continual. This allows your accountant to add value proactively.



Combine your accountant and MTD compliant [software in one with Osome >](#)

## Ecommerce and MTD

The VAT picture for ecommerce businesses is often complex. For instance, many ecommerce sellers use a third party agent — like Amazon — to supply goods and services on their behalf.

This would make recording every single supply (*that's the technical term for providing something*) very tricky. Luckily, HMRC has accepted this reality.

[In its guidance](#), (paragraph 3.3.2.1) it states that:

*Where a third party agent makes supplies on your behalf, those supplies do not fall within the digital record keeping requirements until you receive the information from the agent. Where the information is received as a summary document, you can treat this document as one invoice issued by you to create your digital record.*

In short, this means if you receive your invoices as a summary document from Amazon (*for example*), you don't need to painstakingly pick them apart. Treat it as one invoice and HMRC will accept it.

Note, however, that this relaxation only varies record-keeping requirements. It does not eliminate them. If you are VAT registered, you still need to track these supplies in an MTD compatible software package.



## MTD and HMRC compliance

Osome offers a uniquely simple solution to MTD compliance. We offer both the software and the accountant. When you work with us, MTD is ticked off your list.

Your digital records and your accountant are protective layers against HMRC compliance action. Your software should streamline record-keeping with thoughtful automation and your accountant ensures no detail is being missed.

By having your accountant and software in one package, you get co-ordinated, full spectrum security around your tax affairs.

MTD gives HMRC greater visibility than ever. And since returns and record-keeping will be done digitally, it's easier to automate compliance checks and to audit your records. MTD has its upsides (efficiency, for instance) – but it creates risks, too.

MTD is the cornerstone of HMRC's more risk-based compliance approach. As the consulting firm Menzies has noted, the number of [VAT inspections has decreased](#) in the last five or so years.

This decrease is because HMRC's compliance is now more targeted. MTD will make this targeting much simpler. The data available to tax inspectors will be richer and more up-to-date. Errors are more likely to be picked up on.

MTD doesn't have to be a headache. But the risk of getting caught out will ramp up as the Treasury places more pressure on [HMRC to close the UK's £35bn](#) tax gap. The easiest way to get ready is to work with an MTD compliant partner.

## The perfect MTD partner

A well-designed software and an accountant are a vital intermediary layer between you and HMRC. Your software should do automated checks of common errors – and an experienced accountant oversees everything.

Osome offers both of these layers in one package. We're MTD-compliant software and an accountant in one. This combination insulates you from MTD risk. Everything is handled in one place.

MTD doesn't stop with VAT. Over the next few years (2026, at the earliest), the scheme will extend to include corporation tax and income tax. Osome will adapt to each of these changes as they occur.

You will not need to jump through any hoops. Your Osome accountant will keep on top of everything for you. And your software – designed for you, not your accountant – will make it easier than ever to remain compliant.

With Osome, your MTD journey is made simple. Comply with deadlines, manage the admin and make the most of the new digital tax system with software designed for entrepreneurs.