

Making Tax Digital for Income Tax (MTD IT) – How will it affect you?

When do the Making Tax Digital for Income Tax rules start?

MTD IT will apply from April 2026 for those who receive income from self-employment and/or property where turnover/gross income from these sources combined is above a threshold of £50,000. Those with turnover from these sources combined above a threshold of £30,000 are mandated to join MTD IT from April 2027. Those with turnover from these sources combined above a threshold of £20,000 will be mandated to join MTD IT from April 2028.

If a business is trading at 5 April 2025, it will be required to comply with MTD IT from 6 April 2026 if it exceeds the £50,000 turnover threshold in the 2024/25 tax year (ie, the decision will be based on the 2024/25 tax return due to be filed on 31 January 2026).

New businesses and those that exceed the turnover threshold for the first time will be required to comply with MTD IT from the start of the third tax year (ie, if a business first exceeds the turnover threshold in 2026/27, they will be required to comply with MTD IT from 6 April 2028).

Where a taxpayer elects for calendar rather than tax year quarters, they will need to join from the relevant 1 April rather than 6 April.

When MTD IT becomes mandatory, taxpayers within scope will be required to:

- maintain digital accounting records in a software product or spreadsheet. Maintaining paper records will no longer meet the legislative requirements; and
- submit quarterly updates to HMRC. The submissions must be made using a functional compatible software product that can access HMRC's application program interfaces (API) platform.

The first phase of MTD IT starts on 6 April 2026 (or 1 April 2026). The first quarterly updates, for the quarter 6 April to 5 July 2026 (or 1 April to 30 June), will be due on 7 August 2026. The first final declaration for the tax year 2026/27, will be due on 31 January 2028.

MTD IT will not change:

- the underlying income tax rules (other than in relation to record keeping);
- the amount of detail submitted to HMRC, which remains the same as the current SA tax return (although more detailed records will need to be kept and updates will need to be submitted quarterly);
- the current filing and payment deadlines for income tax.

Who is not affected:

MTD IT requirements will not apply to:

- Partnerships (expected start date has not been announced);
- Trusts, estates, trustees of registered pension schemes and non-resident companies;
- Taxpayers with a Power of Attorney;
- Non-UK resident foreign entertainers and sportspeople who have no other income sources that count as qualifying income for MTD income tax;
- Taxpayers who do not have a UK national insurance number (NINO);
- Trustees of charitable trusts or the trustees of exempt unauthorised unit trusts;
- Taxpayers claiming qualifying care relief (eg, foster carers) for that source of income only;
- Lloyds underwriters, ministers of religion, distributions to shareholders in real estate investment trusts or distributions to participants in open-ended investment companies;
- Taxpayers who claim Married Couples Allowance or Blind Persons Allowance.

Some of these groups may be brought into MTD IT at a later date, but not before the end of this parliament. Some of these exemptions may need to be claimed.

Digital exclusion exemption:

- An exemption for the digitally excluded is included in the regulations and mirrors the current exemption for MTD VAT. The exemption covers those that do not use computers for religious reasons and those that are unable to comply because of age, disability or location (or for any another reason).
- Difficult cases will arise, particularly where an individual has some basic digital skills such as being able to send emails but would not be able to cope with accounting software or a spreadsheet. There is no specific age at which the exemption applies; each case will be taken on its merits. Location covers those who cannot obtain access to broadband because of where they are located. The exemption will not apply to those who could sign up for broadband but have not done so.
- HMRC is expected to issue further guidance on how to apply for exemption, in advance of MTD IT becoming mandatory in 2026. It will probably not be possible to apply until quite close to the start date.

How to work out your qualifying income

HMRC will calculate your qualifying income for 2024/25 (to see if it is over £50,000 for those who have to join from 1st April 2026) by adding up the following boxes from your 2025 Self-assessment return:

- Self-Employment Turnover (excluding qualifying carer income) - either SA103F - Box 15 or SA103S - Box 9 or SA200 box 3.6
- Self-Employment Other Income - either SA103F - Box 16 or SA103S - Box 10
- UK Property Income - either SA105 Box 20 or SA200 box 6.1
- Other UK Property Income (grant of lease) - SA105 Box 22
- Other UK Property Income (reverse premiums) - SA105 Box 23
- Other UK Property Income (Furnished Holiday Let (FHL)) - SA105 Box 5
- Foreign Property gross Income - SA106 Box 14
- Foreign Property Income (premiums) - SA106 Box 16

Income that is not declared on your SA return will not be taken into account. This means that, for example, rent a room receipts below the £7,500 threshold, or trading or property income below £1,000 where the trading / property allowance is claimed, will not count towards the threshold (provided they are not included on your SA return).

For example, if you have £49,000 of trading income and £5,000 of rent a room income, you will not be mandated into MTD, as the rent a room receipts are not reported on your tax return and therefore ignored for the purposes of the threshold test.

However, if you are mandated into MTD anyway (ie because you have other income which takes you above the threshold) you will be required to account for all of your property and trading income under MTD. This means that, for example, if you have trading turnover of £56,000 and rent a room receipts of £5,000 you will have to meet the MTD requirements for both your trade and your property income.

If your accounting period is longer or shorter than 12 months, HMRC will use your figures to calculate your annual qualifying income on a pro rata basis

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Filing deadlines

Quarterly submissions are sent to HMRC. If you are VAT registered these are in addition to your VAT MTD submissions. You can use your VAT MTD records to complete your MTD for IT quarterly updates (provided they contain all the required information)

The quarters are the same for everyone and may not be the same as your current VAT quarters. VAT registered businesses should consider changing their VAT quarters to be the same as the MTD IT quarters. To ensure your final VAT submission before MTD It runs to 31 March, you need to change the quarter end dates (in your VAT online account or we can do this for you if we submit your VAT) between 1 November 2025 and 31 January 2026 (for 30 April quarters) and between 1 September 2025 and 30 November 2025 (for 31 May quarters)

The standard quarters are:

- 6 April to 5 July (Deadline 7 August)
- 6 July to 5 October (Deadline 7 November)
- 6 October to 5 January (Deadline 7 February)
- 6 January to 5 April (Deadline 7 May)

Businesses will be able to elect to report for calendar quarters:

- 1 April to 30 June (Deadline 7 August)
- 1 July to 30 September (Deadline 7 November)
- 1 October to 31 December (Deadline 7 February)
- 1 January to 31 March (Deadline 7 May)

Updates can be submitted up to 10 days early where the information for the quarter is known to be complete.

The quarterly updates are cumulative year to date figures and, in most cases, corrections will be made automatically when the next update is submitted. For example, quarter 1 will be 6 April to 5 July (1 April to 30 June), quarter 2 will be 6 April to 5 October (1 April to 30 September).

Separate quarterly updates will be required for each business. For example, an individual operating as a sole trader who also has a UK property business would need to submit eight quarterly updates a year. Income from UK property and income from overseas property are each treated as a single business. If a taxpayer has more than one self-employed trade a separate update is required for each trade.

The quarterly updates are a simple summary of transactions; there is no requirement to make tax and accounting adjustments as if they were full tax returns, or any expectation that such adjustments would be made. Quarterly updates do not include a declaration from the taxpayer and inaccuracy penalties do not apply.

The final declaration – Annual Tax Return

The self-assessment filing deadline remains as 31st January following the end of the tax year

The annual tax return must be submitted to HMRC using MTD IT software (HMRC's online filing software cannot be used) – either the same software that has been used for the quarterly updates or the quarterly updates are imported into other software

Adjustments self-employment and property income:

- After sending the fourth quarterly update, the software will show the self-employment and property income and expenses for the whole of the tax year, for each business.
- This data may need adjusting, before finalising the Income Tax position and submitting the tax return.
- This could include:
 - making tax adjustments, such as removing disallowable expenses
 - making accounting adjustments, such as for prepayments or accruals
 - adjusting income and expenses, if the accounting period is not aligned to the tax year (for example, 1 April to 31 March)
 - claiming reliefs or allowances, such as capital allowances, Rent a Room relief or using the trading or property income allowances

All other sources of taxable income or gains for the year must be included the return

If HMRC already has information about other sources of income and gains, HMRC will add this into the tax return software.

This includes:

- employment (PAYE) income
- student loan repayments
- income from state, private and occupational pensions
- other taxable state benefits
- Construction Industry Scheme (CIS) —subcontractor deductions
- Capital Gains Tax residential property disposals
- Marriage Allowance claims

This information needs to be added before submitting the tax return.

Leaving MTD income tax

The MTD IT regulations will allow taxpayers to stop complying with the requirements where their relevant turnover/gross income falls below the threshold or when the business ceases permanently. To avoid the possibility of taxpayers joining, exiting, and re-joining on a frequent basis as their turnover fluctuates, the requirements will cease to apply only when turnover/gross income falls below the threshold for three successive years.

For example, if a taxpayer is required to comply with MTD IT for 2027/28 and their turnover/gross income falls below £20,000 in the tax years 2028/29, 2029/30 and 2030/31 they can opt out of MTD IT requirements as soon as they submit the fourth quarterly update for 2030/31 (due 7 May 2031) and before the first quarterly obligation for 2031/32 falls due.