

## Making Tax Digital for Income Tax

The government launched the Making Tax Digital (MTD) programme on 1st April 2019. The programme aims to usher in a new era of a fully digital tax system, which will allow taxpayers to report their tax liabilities and keep digital records more efficiently.

HM Revenue and Customs (HMRC) states that the move will minimise taxpayer errors and increase the amount of information available to the tax collector.

Following concerted feedback from stakeholders, the government announced on 19th December that the scheduled introduction of MTD for income tax in April 2023 will be pushed to April 2026. In addition to the deferral of the start date, the government have announced that it will now also be introduced in stages.

We will keep you updated as HMRC update us about the changes; keep reading for what we already know.

### Changes to the MTD ITSA timeline

- Under the original proposals the start date for MTD ITSA was April 2018.
- In July 2017 the start date was deferred to “not before 2020”.
- In March 2019 the start date was deferred to “not before 2021”.
- In July 2020 the start date was deferred to April 2023.
- In September 2021 the start date was deferred to April 2024.
- In December 2022 that start date was deferred to April 2026 for everyone, and later for some taxpayers.

[Update] – We have updated this article to reflect the recent changes to the start date by The Financial Secretary to The Treasury. Making tax digital for income tax self-assessment (MTD ITSA) will be mandatory from 6th April 2026 rather than 2024.

## What is MTD for Income Tax Self-Assessment (MTD for ITSA)

The Making Tax Digital (MTD) programme intends to launch a fully digital tax service in the UK. The programme is expected to allow taxpayers to report their tax payments and liabilities in real-time and easily maintain digital records.

HMRC announced that from 6th April 2026, self-employed business owners (ie. sole traders) and landlords with trading and/or rental income above £50,000 per year (previously to be set at £10,000

per year) will have to comply with MTD and make quarterly updates to HMRC, providing a summary of their income and expenditure. From April 2027, this will be reduced to those with a turnover of above £30,000. In addition, after the fourth quarter, they will need to make an End of Period Statement for each income source and a final declaration declaring other sources of taxable income.

Some general partnerships were previously required to adhere to the rules from April 2025, however this has now been deferred to an as yet unknown future date. Other types of partnerships, such as Limited liability partnerships (LLPs), are expected to join MTD for ITSA at a future date that is also yet to be announced.

Non-UK residents or domiciled individuals will have to follow MTD where they have UK self-employment and/or UK property and meet the turnover threshold. UK residents will have to follow MTD if they have foreign property income that meets the threshold (may be combined with other self-employment or UK property turnovers).

Eligible individuals have been able to register for MTD for ITSA since 2018 as part of the pilot scheme. Once we reach the digital start date, you will be required to keep digital records for as long as your business exists.

## What Are the Requirements for MTD for ITSA

You will be allowed to keep your underlying records (receipts and invoices etc.) in paper format if it best suits you. However, HMRC will now require accompanying digital records for every transaction.

HMRC have confirmed that digital records can be kept on either HMRC compatible cloud-based accounting software or on a specifically formatted spreadsheet. The spreadsheet can be used to report to HMRC through HMRC compatible bridging software. The best option for you will depend on the complexity of your self-employed business or rental accounts and what you are most comfortable with.

The government aim for taxpayers to record their transactions as close to real-time as possible, but the only timing requirement, so far, is that you should create the quarterly digital records before the deadline.

You will be expected to submit a summary of your expenses and income to HMRC quarterly. You are not required to make accounting or tax adjustments in your quarterly figures, but you can make these adjustments if you prefer to do so. You will be given an allowance of one month from the end of every quarter to submit your quarterly update.

The set quarterly periods in each financial year are:

- 6th April to 5th July

- 6th July to 5th October
- 6th October to 5th January
- 6th January to 5th April

The MTD for ITSA Timetable

- April 2026: Individuals making over £50,000 of annual income from self-employed businesses or rental properties will report under the MTD for ITSA.
- April 2027: This changes to individuals making over £30,000 of annual income from self-employed businesses or rental properties will report under the MTD for ITSA.

MTD for corporation tax is scheduled until 2026, but there have been no updates yet.

## HMRC Compatible Cloud-Based Accounting Software

If you're wondering what solutions are available already and compatible with HMRC, examples include:

- Xero
- Quickbooks
- Freeagent
- Kashflow

If a spreadsheet is more suitable for you than these software options, we will be supporting you through this change too. Utilising TaxCalc's Business Filer as our bridging software that will allow those spreadsheets to be submitted to the HMRC system and meet your filing requirements.

## Exemptions for MTD for Income Tax Self-Assessment

### 1. Income threshold

If the gross revenues from all businesses (trade and property) DO NOT exceed £10,000 for the three consecutive years in which you were required to comply with the MTD regime, then you will be exempt from MTD from year 4.

## 2. Digital exclusions

HMRC acknowledges that there is a minority of people who cannot use digital tools. This minority, known as the 'digitally excluded', are defined as individuals who cannot use accounting software or apps for the following reasons:

- Religion
- Age
- Remote location
- Disability

HMRC has accepted to legislate for an exemption for these digitally excluded people. Individuals or businesses seeking digital exclusion need to apply to HMRC for exemption. HMRC has 28 days to respond to the application.

## 3. Other exemptions

HMRC also offers exclusions to the following:

- Non-resident companies
- Trustees, administrators and executors
- Foreign businesses owned by non-UK domiciled individuals

# Impact on Self-Assessment Tax Returns

Self-assessment tax returns have the following impact:

### **Fewer Errors**

Using accounting software means that you can catch errors as they happen. It increases the accuracy of your accounts and saves you the time and labour of going through all your paper receipts by hand.

### **Real-Time View of Your Tax Liabilities**

Your digital tax account allows you to view your tax liabilities whenever, so you don't have to wait until the end of the year to discover how much you owe.

### **An Easier and More Convenient Process**

The real-time nature of MTD for ITSA eliminates annual tax returns meaning that you don't have to handle 12 months' worth of data reporting at the end of the financial year.

All of your financial information is stored in a single system, so it's easy to access.

## What Are The Penalties Of Failing Making Tax Digital Filings?

The UK has introduced a point system for penalising individuals or businesses that fail to file MTD for Income Tax. Each late report will be given points. As soon as the points pass a threshold, a penalty will be charged for all missed deadlines.

## Preparing for the MTD for Income Tax Changes

Following the introduction of MTD, you will need to keep digital records on either HMRC compatible cloud-based accounting software or on a specifically formatted spreadsheet.

We're here to help with all aspects of Making Tax Digital. We offer a complete range of accountancy services to help companies and private individuals get on top of their finances and help handle the stress of dealing with HMRC on your behalf.

Get in touch today to learn more about our self assessment tax return service or get personal tax advice on your individual situation.