

Making Tax Digital for Income Tax (MTD IT)

HMRC has a vision and ultimately that vision is to digitalise the tax system covering VAT, Income Tax and Corporation Tax. With MTD VAT already in motion, HMRC's next plan is to focus on MTD IT which will apply from April 2026.

MTD IT will affect self-employed/landlords who have income from self-employment or property (or both) which exceeds £50,000. The income threshold will then be reduced to £30,000 from April 2027 and then to £20,000 from April 2028. Anyone below these limits are not required to sign up to MTD IT but can do so voluntarily.

What counts as qualifying income?

Qualifying income is deemed as your turnover/rental income before deducting expenses and does not include income such as employment, dividends or savings. You may have income from more than one source such as both self-employment and rental income so you should combine the turnover and rental income to calculate your combined qualifying income. Individuals with foreign self-employment or properties will need to consider residency and domicile rules to determine the qualifying income.

What is MTD IT and if my qualifying income exceeds the limits how will that affect me?

MTD IT requires an individual to record their business transactions using digital records, with the most convenient method being online accounting software - a list of HMRC approved software providers is on the HMRC website to ensure compatibility - <https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax>.

HMRC requires MTD compatible reports to be submitted every 3 months (however you can do this more frequently if you wish)- the accounting software will generate figures based on the information you have entered to record your daily business activity and create an MTD IT report. You will be able to submit the report using the online software and HMRC will provide an estimate for your tax liability. The figures will be approximate figures as they will not include any year-end or tax adjustments. Tax payments are not required after each quarterly submission and will be due the same time as the current self-assessment scheme.

The quarters in which the returns are prepared and due are the same for all individuals per the table below.

Period	Due Date
6 April to 5 July	5 August
6 July to 5 October	5 November
6 October to 5 January	5 February
6 January to 5 April	5 May

If you prefer you can opt for calendar months however this will need to be selected before the first quarterly update is submitted. The deadlines will remain the same as above for the standard update periods.

Online accounting software is not the only solution- it is possible to use spreadsheets however it will be necessary to use MTD IT compatible bridging software to ensure the figures are reported in the correct format and contain digital links to satisfy MTD compatibility. Again a list of HMRC approved software providers are available on the HMRC website and includes those providing bridging software.

Should you have both self-employment and rental income to include then separate MTD IT submissions will be required and so you will need to submit two quarterly submissions. If you have more than one property then only one submission will be required quarterly for all properties.

Once the 4 quarters have been completed the last submission is your final declaration- this replaces the self-assessment tax return (which will still be available for those not affected by MTD IT) - here you include any final year-end adjustments to your self-employment/rental income and you also declare any other reportable income or reliefs you normally declare on your self-assessment return. The final declaration is still required when there is no other income or reliefs to report. The deadline for this is 31st January after the end of the tax year and this is when any tax will be due for payment to HMRC.

Late filing and late payment penalties

Late filing and late payment penalties are expected to follow the same as for MTD for VAT however HMRC have confirmed there will be no penalties issued within the public beta testing stage but it will commence from when it is mandatory for you to submit the quarterly updates.

HMRC have also confirmed there are no penalties for any inaccuracies of the data being submitted on the quarterly updates.

MTD IT is not for a while- what can I do now to make sure I am ready?

April 2026 is soon going to be upon us- HMRC encourage testing prior to the mandate deadline next year via the public beta testing which is available from April 2025. It's so important to act now to avoid any last minute problems or delays. Reading this guide should be the start if you are not already familiar with MTD IT. Early adoption of any changes to software will be key so you are comfortable with how to process and record the transactions in a timely manner. Being able to practice now will ensure a successful transition when you are mandated to make your MTD IT submissions next year.

Currently there is no date set for MTD to be applied to partnerships or limited companies but HMRC do have this in their long term plan.

At AMR Bookkeeping Solutions we can provide advice and help you make these changes. Please get in contact with us on 01892 559480 or info@amrbs.co.uk to discuss your MTD IT requirements or if you have any questions related to this guide.