



Making Tax Digital for income tax

Making Tax Digital (MTD) was first announced by the UK Government in March 2015 when it was hailed as being “the end of the tax return” but there have been numerous delays since then.

It has been described as the biggest change to UK tax since self-assessment was introduced in 1995/96.

Although MTD already applies for VAT, from April 2026 it is being introduced for individuals with rental income and/or self-employment income liable to UK tax, above certain thresholds.

Who will this apply to?

MTD for income tax is being introduced in phases, for individual sole traders and landlords with gross qualifying income (before expenses) above the relevant threshold. The date from which MTD applies depends on the level of the individual's combined gross income from trading and property which is liable to UK tax, measured before expenses:

- From 6 April 2026 with gross income of over £50,000
- From 6 April 2027 with gross income of between £30,000 to £50,000
- From 6 April 2028 with gross income of between £20,000 and £30,000

If an individual's gross income from self-employment and rent is more than £50,000 on their 2024/25 tax return, they will be within MTD from 6 April 2026. If the self-employment or rental business income began during 2024/25, the income figure needs to be adjusted proportionately in order to compare 12 months' worth of income against the MTD threshold.

For those with both self-employment income and property income, the gross annual income figure applies to total gross income from both sources.

HMRC will not register taxpayers within scope automatically, they need to sign up to use MTD once they reach the threshold. Taxpayers with trading and property income below the threshold can opt into MTD voluntarily.

The sign-up facility is expected to open to all taxpayers well in advance of April 2026. At present a voluntary sign up for testing purposes is available to some taxpayers.

Once within the scope of MTD an individual may only de-register for MTD if their income is below the threshold for three consecutive tax years or if the trade and/or rental business ceases.

Whilst currently there are no plans for HMRC to extend MTD to partnerships, LLPs, trusts or companies, this may happen at a future date.

Who is exempt?

- Individuals without a UK National Insurance number on 31 January will be exempt from MTD for the folloing UK tax year.
- Foster carers where their only income is qualifying care income.

- Those subject to an insolvency procedure.
- Those who are digitally excluded – you can apply for an exemption from MTD if:
 - You are a practicing member of a religious society or order whose beliefs are incompatible with using electronic communications; or
 - It is not reasonably practical to file using compatible software due to disability, age, remoteness of location or other reason.

What are the new requirements?

There are three key components for affected individuals:

1) Digital record keeping

- Using specific MTD compatible software to record business transactions or spreadsheets and MTD compatible “bridging software”.
- HMRC will not be providing any record-keeping software, so this will need to be purchased from commercial providers, although some free options are available.
- There is a list of compatible software on the HMRC website.

2) Quarterly updates

- Information needs to be reported quarterly to HMRC, to declare business and property income and expenses for the period covered by the update. Reports should be generated by the software. These are not ‘mini tax returns’ as accounting and tax adjustments are optional.
- The records should be on a transaction by transaction basis (including dates, values and category of transaction) although individuals with income under £90,000 can use the simplified expense scheme whereby gross income and expenses only need to be reported. There is also a simplified scheme available to retailers, which will apply by election.
- A separate quarterly update will be needed for each trade or property business, so an individual who is liable to UK tax on their self-employment and UK rental income will have 8 quarterly submissions to make each year, or 12 quarterly submissions if they also have overseas rental income liable to UK tax (as this needs to be reported separately to UK rental income received).
- The periods are cumulative, the default periods are to 5 July and each quarter thereafter, but it is possible to elect for the update periods to be the month end if more convenient:

Quarter	Default period	Month end period (by election)	Filing date
1	6 April to 5 July	1 April to 30 June	7 August
2	6 April to 5 October	1 April to 30 September	7 November
3	6 April to 5 January	1 April to 31 December	7 February
4	6 April to 5 April	1 April to 31 March	7 May

- Note that the filing deadlines don’t change, so there are effectively 5 more days to submit the quarterly return if you elect for the different period.
- Each submission effectively supersedes the previous one, so any previous errors can be corrected.

3) Year-end declaration

- After the fourth and final quarterly update has been filed, the taxpayer then needs to submit a ‘digital tax return’, which is similar to the current self-assessment return, but it will be pre-populated with the income and expenses from the quarterly updates.
- Adjustments will need to be included for accounting and tax purposes.
- Non-MTD income and any capital gains which are liable to UK tax will need to be added and any relevant reliefs claimed, as normal.

MTD does not change the current deadlines for self-assessment annual returns and income tax payments.

There will be increased cost and extra administrative work required to make more frequent submissions.

There will be specific MTD late filing penalties if the quarterly updates are not filed on time.

What is happening now?

HMRC are writing to taxpayers who they consider may be in scope.

If you have a UK National Insurance number and you have rental

income and/or self-employment income that is liable to UK tax, you will need to consider if your gross income exceeds the above thresholds:

- If your 2024/25 UK tax return shows gross income from these sources of over £50,000, MTD will apply to you from April 2026.
- If your 2025/26 tax return shows gross income from these sources of over £30,000, MTD will apply to you from April 2027.
- As announced in the UK Chancellor’s Spring Statement, the threshold is expected to reduce to £20,000 from April 2028.

Action will need to be taken before MTD applies to you, including registering for MTD with HMRC and ensuring timely record keeping is undertaken using appropriate digital software to enable the quarterly submissions to be made. Whilst it is possible to use two separate commercial software packages (one for the bookkeeping and quarterly submissions, and one for the annual tax return), these need to be digitally linked.

How can we help?

We can support you at every step of the process, including the maintaining of digital records, the submission of quarterly updates and the end of year finalisation process.



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