



# Understanding Making Tax Digital for Income Tax

Your practical guide to being digitally ready



**ABS Accountancy Ltd**

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**Making Tax Digital (MTD) is the biggest overhaul of the tax system by the UK government in decades, digitising how the nation's businesses submit tax returns and store records. If you're wondering how this might affect you, here's a simple guide to the new rules.**

## Making Tax Digital for Income Tax:

Making Tax Digital (MTD) was first announced in 2015 as part of the Government's long-term strategy to modernise the UK tax system. The programme began with MTD for VAT, which became mandatory for most VAT-registered businesses from 2019. Following consultation, pilot schemes and delays – including those arising from the COVID-19 pandemic – the next phase is the introduction of MTD for Income Tax.

The objective of the wider MTD programme is to:

- Improve accuracy and reduce errors.
- Provide more timely tax information.
- Simplify record-keeping for businesses and individuals.

## Who Will Be Required to Comply?

Making Tax Digital for Income Tax will apply to sole traders and landlords from April 2026, with phased commencement dates based on qualifying income:

- April 2026: £50,000 and above
- April 2027: £30,000 and above
- April 2028: £20,000 and above

The income thresholds are determined by reported income on the 2024/25 Self-Assessment tax return.

Where a business commenced during 2024/25, income will be annualised to determine whether the relevant threshold for MTD for Income Tax is met.

Partnerships (including LLPs) are not yet included in the confirmed timetable, and a commencement date has not yet been announced.

The income threshold applies to total gross income (before expenses) from self-employment and property combined.

Where you operate more than one sole trade and/or property business, the total combined gross income from all sources is used to determine whether the threshold is met. The thresholds apply to gross income, not profit.



# What MTD for Income Tax means for you

The most significant change is that the current annual Self-Assessment tax return will be replaced with a system of:

- Quarterly income and expenditure summaries must be submitted for each business or property source.
- A final declaration follows, including other income and reliefs.
- All submissions must be made via compatible software.
- Paper returns will not be accepted.



## What will I have to do under the new rules?

If your gross income from qualifying self-employment or property exceeds the threshold in a tax year, you must comply from the relevant start date. Those with employment income only are unaffected unless they also exceed it.

### (1) Keep Digital Records

You must keep digital records of your business and/or property income and expenses using MTD-compatible software such as QuickBooks or Xero. This includes maintaining records of:

- Income received
- Business expenses
- Property income and related costs

Spreadsheets may be used if they are linked to bridging software that enables digital submission to HMRC.

### (2) Submit Quarterly Updates

You will need to submit summary updates of income and expenses to HMRC every quarter for each business or property source.

Quarterly update deadlines (if using standard tax year quarters) are expected to be:

- 7 August - 6th April to 5th July
- 7 November - 6th July to 5th October
- 7 February - 6th October to 5th January
- 7 May - 6th January to 5th April

These updates are cumulative for the tax year and provide HMRC with a summary of income and expenses to date. They are not tax calculations.



### (3) Submit an End of Period Statement (EOPS)

After the end of the tax year, you must finalise each business or property source by submitting an End of Period Statement. This confirms that accounting adjustments (such as capital allowances or accruals) have been made.

### (4) Submit a Final Declaration

The Final Declaration replaces the current Self-Assessment tax return. It will:

- Confirm all income sources (including employment, dividends, interest, etc.)
- Claim reliefs and allowances
- Confirm the overall tax liability

The deadline for submission and payment will remain 31 January, following the end of the tax year, in line with the current Self-Assessment system.

### (5) How do I sign up to MTD for ITSA?

An MTD for Income Tax pilot scheme has been running since 22nd April 2024 and continues to be expanded ahead of mandatory implementation. Certain eligible businesses and landlords may join voluntarily, subject to published qualifying criteria. Those who sign up early must continue to file Self-Assessment tax returns alongside their MTD submissions.

**Would you like to discuss MTD for Income Tax? We offer a free initial consultation, together with practical advice and in-person support to help prepare your business for MTD compliance.**

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