Making tax digital for income tax

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SPOTLIGHT ON:

MTD for income tax

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WHAT SOLE TRADERS AND LANDLORDS MUST DO BEFORE APRIL 2026

Making Tax Digital for income tax (MTD IT) will become mandatory for many sole traders and landlords from 6 April 2026. It will change how you keep records and report income, and it will affect the way you plan your cashflow and manage deadlines. The timetable and thresholds are now confirmed, and Autumn Budget 2025 has added some easements to the penalty regime rather than delaying the start date.

This guide explains who must join in April 2026, what MTD IT actually involves, and the practical steps to take now so you are ready before the 2025/26 tax year ends.

MTD IT IN A NUTSHELL

MTD IT is a new way for sole traders and landlords to report self-employment and property income to HMRC. Instead of keeping paper records and filing one self assessment tax return each year, you will:

- keep digital records of income and expenses
- send quarterly summary updates to HMRC from compatible software
- make end-of-year adjustments and send a final declaration through that software.

HMRC defines "qualifying income" for MTD as your total gross income in a tax year from self-employment and property, before expenses or tax, and uses that figure to decide your start date.

Official business population statistics show there were about 7m individuals in self assessment with self-employment or landlord income in 2023/24. Around 2.9m of these, roughly 42%, have qualifying income above £20,000 and are expected to join MTD IT in phases between 2026 and 2028.

MTD does not mean five full tax returns a year. Quarterly updates are short summaries of income and expenses pulled from your software, followed by an annual finalisation instead of today's single self assessment return.

WHO MUST JOIN AND WHEN

MTD IT applies to individuals who file self assessment returns and have qualifying income from self-employment and/or property letting above certain thresholds.

The current rules are as follows.

- **From 6 April 2026**
  You must use MTD-compatible software if your qualifying income from self-employment and property exceeds **£50,000** in the 2024/25 tax year.
- **From 6 April 2027**
  The requirement extends to those with qualifying income above **£30,000** in the 2025/26 tax year.
- **From 6 April 2028**
  It is planned to extend to those with qualifying income above **£20,000** in the 2026/27 tax year.

HMRC will look at your latest self assessment return, add up your total turnover from self-employment and property, and use that to decide when you must join MTD. Other income, such as employment, pensions or savings interest, does not count towards the MTD thresholds.

Based on 2023/24 data:

- about **864,000** individuals have qualifying income over £50,000 and are expected to join from April 2026
- another **1,077,000** are in the £30,000–£50,000 band and are expected to join from April 2027
- a further **975,000** fall between £20,000 and £30,000 and are due to join from April 2028.

If your qualifying income drops below £30,000 after you have joined, current guidance suggests you remain within MTD unless HMRC confirms otherwise. It is therefore worth treating MTD as a long-term change.

WHAT CHANGES FOR SOLE TRADERS

If you are a sole trader with qualifying income above the relevant threshold, MTD will change how you track and report your business income.

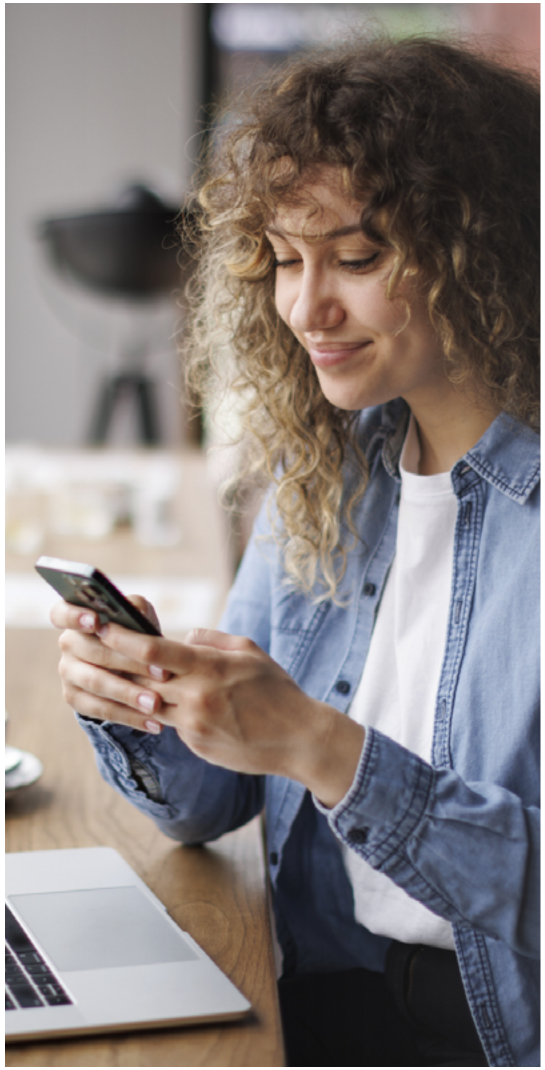
You will need to:

- keep digital records of all business income and expenses in MTD-compatible software
- send four quarterly updates each tax year for each sole-trader business
- make any accounting and tax adjustments in an end of period statement
- finalise your overall tax position through a final declaration by the normal 31 January deadline.

You will still be responsible for:

- registering for self assessment when you start trading
- paying income tax and Class 2/4 national insurance under current rules for the 2025/26 tax year
- managing payments on account and balancing payments.

If you run more than one sole-trader business, you must keep separate digital records and send separate quarterly updates for each business.



WHAT CHANGES FOR LANDLORDS

Landlords with qualifying property income above the MTD thresholds will also have to move to digital record-keeping and quarterly updates. HMRC treats UK and overseas property income, and any joint lets, within the scope of MTD where it is taxed through income tax.

Key points for landlords

- You must keep digital records of rental income and allowable expenses for each property business.
- If you also trade as a sole trader, you must send separate quarterly updates for your rental business and your sole trader business.
- If you jointly let a property, you can choose to include either all income and expenses for those properties or only your share of the income in quarterly updates, but you must bring all expenses into the end-of-year calculations.
- Type of property does not affect MTD; it is driven by the level of taxable rental income, not by whether the property is a flat, house, furnished or unfurnished.

Surveys suggest many smaller landlords still keep manual records. One recent estimate found nearly 70% of landlords with one or two properties still use spreadsheets or paper. For those affected in April 2026, the next few months are an important time to move onto suitable software.

KEY DATES UP TO AND AFTER APRIL 2026

The first mandatory MTD year for the more than £50,000 group will be the **2026/27 tax year**, but preparation starts before that. The main dates to bear in mind are the following.

- **31 January 2026**
  Deadline to file the 2024/25 self assessment tax return in the usual way.
- **6 April 2026**
  Start of the 2026/27 tax year. If your qualifying income for 2024/25 was over £50,000, you must begin using MTD-compatible software from this date.
- **7 August 2026**
  Deadline to send your first quarterly update for 6 April to 5 July 2026 (or 1 April to 30 June if you choose calendar quarters).
- **7 November 2026, 7 February 2027, 7 May 2027**
  Deadlines for the remaining three quarterly updates for 2026/27.
- **31 January 2027**
  You still file a “traditional” self assessment return for the 2025/26 tax year, even if you have started MTD for 2026/27.

From 2027/28, once MTD is fully bedded in, the aim is for you to finalise your tax position for each year directly from your software by the 31 January deadline, using your quarterly updates plus end-of-year adjustments.

WHAT THE AUTUMN BUDGET CHANGED

Autumn Budget 2025 confirmed that MTD IT will start in April 2026 as planned. It did not change the thresholds or timetable but introduced easements and clarified how the penalty system will apply.

The main changes are as follows.

- **Soft landing for penalties**
  If you are required to use MTD IT from 6 April 2026, HMRC will not apply penalty points for late quarterly updates for the first 12 months, although late annual returns can still attract points.

- **Extra time before late payment penalties**
  All taxpayers in the new regime will have an additional 15 days before a late payment penalty is issued in their first year under the new system, creating a 30-day window to pay tax before penalties apply.

- **Further deferrals and exemptions**
  Some groups, such as those who receive trust and estates income, individuals who use averaging (for example, some farmers), those eligible for qualifying care relief and certain non-UK resident entertainers, will remain in standard self assessment until at least April 2027, with deputyship cases permanently exempt.

These measures aim to ease the transition without changing the core requirement for affected sole traders and landlords to be ready by April 2026.

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SIX PRACTICAL STEPS TO TAKE BEFORE APRIL 2026

If your qualifying income is above £50,000, or close to that level, the period between now and 6 April 2026 is the time to prepare. The following steps are a useful checklist.

1. **Work out whether you are in scope**
   Use your latest self assessment figures to:

   - total your gross self-employment income
   - total your gross rental income (UK and foreign)
   - add the two figures together.

If this combined figure for 2024/25 is above £50,000, you are in the April 2026 group. If it is between £30,000 and £50,000, you are likely to join in April 2027, and if it is between £20,000 and £30,000, you are expected to join in April 2028.

HMRC provides an online tool to check if and when you must use MTD IT.

2. **Review your record-keeping**
   If you still keep paper records or basic spreadsheets, plan to move to digital bookkeeping software that:

   - can capture income and expenses in real time
   - is recognised by HMRC as MTD-compatible
   - can handle more than one business if you trade and let property.

If you already use software, check with the provider that it will support MTD IT and how the quarterly update process will look in practice.

3. **Decide how you want to structure your quarters**
   HMRC allows you to choose between standard update periods aligned with the tax year and calendar quarters, as long as you meet the same deadlines.

   - **Standard:** 6 April–5 July, 6 July–5 October, 6 October–5 January, 6 January–5 April
   - **Calendar:** 1 April–30 June, 1 July–30 September, 1 October–31 December, 1 January–31 March

Speak to whoever supports your bookkeeping about which option fits your accounting year and internal processes.

4. **Clean up existing data**
   Use the remainder of 2025/26 to:

   - reconcile bank accounts, debtor and creditor balances
   - check that property income and expenses are complete and correctly categorised
   - clear out duplicate or obsolete entries in spreadsheets or old systems.

Starting MTD with tidy opening data will make quarterly updates simpler and reduce the risk of avoidable errors.

5. **Plan for cashflow and tax payments**
   Quarterly updates will give you more regular estimates of your tax bill, based on up-to-date records. HMRC expects this to reduce errors and the overall tax gap.

   Use these estimates to:

   - set aside tax more regularly
   - adjust payments on account where appropriate
   - identify profitable or loss-making activities earlier in the year.

Autumn Budget 2025 also confirmed an extended freeze on income tax thresholds, which will bring more taxpayers into higher bands over time, so keeping a close eye on estimated liabilities is sensible.

6. **Consider voluntary early sign-up**
   You can choose to sign up early to MTD IT and join the pilot before you are mandated.

   Early sign-up may help you:

   - get used to the software and new processes with more support
   - identify any issues before quarterly updates become mandatory
   - test how quickly you can produce reliable data after each quarter end.

Take into account that, so far, only a small proportion of those expected to join in 2026 have taken part in the pilot, so software offerings and support are still evolving.

GET MTD-READY

MTD IT is no longer a distant policy idea. The start date, thresholds and core rules are set, and Autumn Budget 2025 has confirmed that April 2026 will go ahead, with some easing of penalties rather than a further delay.

For sole traders and landlords with qualifying income above £50,000, the rest of the 2025/26 tax year is the time to act. Checking whether you are in scope, choosing MTD-compatible software, tidying your records and planning for quarterly updates now will make the move to MTD far less stressful. If you are unsure about how these rules apply to your situation, seek tailored advice before April 2026 so you can enter the new system on the front foot.

Have any MTD questions?
We are only a call or email away.

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