FREE GUIDE · MAKING TAX DIGITAL

Making Tax Digital, without the panic

What has actually changed for sole traders, landlords and VAT-registered businesses — what you must do, by when, and what happens if you don't.

TCW Accounting Solutions

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At a glance — the dates that decide everything

£50,000
QUALIFYING INCOME IN 2024/25 — MTD FOR INCOME TAX STARTED 6 APRIL 2026

£30,000
QUALIFYING INCOME IN 2025/26 — YOU JOIN FROM 6 APRIL 2027

£20,000
QUALIFYING INCOME IN 2026/27 — YOU JOIN FROM 6 APRIL 2028

IF YOU ARE ALREADY IN

Quarterly updates for the 2026/27 tax year are due on **7 August 2026**, **7 November 2026**, **7 February 2027** and **7 May 2027**, with your final declaration by **31 January 2028**.

This guide is general information for UK sole traders, landlords and small businesses. It is not advice on any particular set of facts, and rules change. Check your own position with HMRC or with us before acting on it.

SECTION 1

What Making Tax Digital actually is

Making Tax Digital (MTD) is HMRC's programme to move tax reporting off paper and out of spreadsheets-in-isolation, into software that talks directly to HMRC.

Strip away the branding and it comes down to three obligations. Keep your records digitally. Send HMRC updates during the year using compatible software. Finalise the year in that same software rather than on a separate return.

Digital records

Your income and expenses recorded in software as you go, not reconstructed from a carrier bag of receipts in January.

Updates in-year

Quarterly summaries sent to HMRC through software, replacing one annual moment of truth.

A digital year end

A final declaration that pulls it all together, replacing the Self Assessment return you are used to.

The three regimes, and where each one stands

Regime	Status
MTD for VAT	Live. Applies to every VAT-registered business, whatever the turnover, and has done since April 2022.
MTD for Income Tax	Live from 6 April 2026 for the highest band of sole traders and landlords, phasing down to smaller businesses in 2027 and 2028.
MTD for Corporation Tax	Not going ahead. HMRC confirmed in its July 2025 Transformation Roadmap that it does not intend to introduce it.

The honest summary

MTD is more admin spread across the year, in exchange for a year end that is much less painful and numbers you can actually make decisions on. Businesses that already keep clean digital books barely notice it. Businesses that don't feel it immediately.

SECTION 2

Does MTD for Income Tax apply to you?

Three things have to be true. You are a sole trader or a landlord registered for Self Assessment; you have income from self-employment, property, or both; and your qualifying income is over the threshold for your year.

The phase-in

The threshold is tested against an earlier tax year, not the year you start. That catches people out — the decision was effectively made two years before the obligation bites.

If your qualifying income was over	In this tax year	You must use MTD from
£50,000	2024 to 2025	6 April 2026
£30,000	2025 to 2026	6 April 2027
£20,000	2026 to 2027	6 April 2028

What you need before you can sign up

- ✓ You must be registered for Self Assessment
- ✓ You must have submitted a tax return in the last two years
- ✓ You need compatible software, or an agent who has it

Partnerships

Partnerships are not in yet. HMRC has confirmed they will need to use MTD for Income Tax in future but has not published a timeline. If you trade through a partnership, nothing changes for the partnership return for now — but see section 3, because your personal property or sole trade income is a separate question.

What to do

Work out your qualifying income for 2024/25, 2025/26 and 2026/27 now, and note which of the three start dates applies to you. If you are close to a threshold, assume you are in and prepare accordingly — it is far cheaper than reacting late.

SECTION 3

Working out your qualifying income

THE SINGLE MOST MISUNDERSTOOD POINT

Qualifying income is your **total income from self-employment and property before expenses** — your turnover, not your profit. A landlord with £55,000 of rent and £40,000 of costs has qualifying income of £55,000, not £15,000.

What counts

- Turnover from every self-employment you run
- Rental income from every property business you have
- Both added together, if you have both
- Foreign property income as well as UK, if you are UK resident. Non-residents count UK property income only
- Self-employment or property income you receive personally, even if you are also a partner in a partnership

What does not count

- Employment income taxed under PAYE
- Your share of profit from a partnership, as an individual partner
- Dividends, including from your own company
- State Pension and private pensions
- Transition profits from basis period reform
- Qualifying care relief received by eligible carers
- Income from REITs or PAIFs
- A one-off UK land transaction, in that single tax year

Two situations worth checking carefully

Jointly owned property	Only your share counts. A property producing £50,000 of rent, owned equally by two people, gives each of them £25,000 of qualifying income — not £50,000.
A part year of trading	If your accounting period is not twelve months, the income is annualised to work out whether you are over the threshold.

Not sure which side of the line you are on?

This is exactly the kind of calculation worth ten minutes of someone else's time. Send us last year's figures and we will tell you which year you join, and what it means in practice.

SECTION 4

What you send every quarter

Four updates a year, each a summary of income and expenses by category for that three-month period. Not a tax calculation, not a return, not a list of transactions.

The four deadlines, and the two ways to hit them

Standard periods follow the tax year and are the default. You can instead elect to report on calendar quarters, which suits businesses whose bookkeeping already runs to month ends. Either way the deadlines are the same four dates.

Update due by	Standard period	Calendar quarter option
7 August	6 April to 5 July	1 April to 30 June
7 November	6 July to 5 October	1 July to 30 September
7 February	6 October to 5 January	1 October to 31 December
7 May	6 January to 5 April	1 January to 31 March

What goes in an update

- ✓ For a trade: total turnover, and expenses grouped into HMRC's categories
- ✓ For property: rental income, and allowable expenses by category
- ✓ A separate update for each business — two trades and a rental property means three each quarter

What you do *not* have to do quarterly

No accounting adjustments, no reliefs, no capital allowances, no tax calculation. Those belong at the year end. A quarterly update is a summary of what has happened, not a mini tax return — which is why it is manageable once the bookkeeping is in order.

SECTION 5

Digital records — what that really means

“Digital” does not mean a photo of a receipt in a phone folder, and it does not mean a bank statement PDF. It means each transaction recorded in software, as it happens, with enough detail to build the update from.

What good looks like

Recorded promptly

Income and expenses entered close to when they happen, not batched into a heroic session before a deadline.

Categorised correctly

Each item allocated to the right expense category from the outset, so the quarterly update is a report rather than a reconstruction.

Backed by evidence

Receipts and invoices retained — digital copies are fine — and matched to the entries they support.

Reconciled

The records agreed to the bank, so errors surface in weeks rather than at the year end.

Bank feeds are the single biggest time-saver

A bank feed pulls transactions into your software automatically and, once the rules are set up, categorises most of them without you touching anything. For a small business this is usually the difference between MTD costing an hour a quarter and costing a day.

A spreadsheet is not automatically out

You can keep records in a spreadsheet and still comply, provided bridging software carries the figures to HMRC and the connection between the two is a digital link. See section 9 — this is where most compliance failures happen.

What to do

If your records currently live in a notebook, a shoebox or an unconnected spreadsheet, changing that is the real work of MTD. The filing is the easy part. Start with the bank feed and the categories, and the rest follows.

SECTION 6

Choosing software

HMRC does not supply software. It publishes a list of products that meet the standard, and you choose from it. The right answer depends less on features than on how you actually work.

What the software has to be able to do

- ✓ Record and preserve your digital records
- ✓ Send HMRC your updates and returns from those records, through HMRC's API
- ✓ Receive information back from HMRC through the same route

Three routes, and who each suits

Full accounting software

Xero, QuickBooks and similar. Best if you invoice customers, want bank feeds and would like real-time visibility of the business.

A simple app

Lighter tools built for sole traders and landlords with straightforward affairs and few transactions.

Spreadsheet plus bridging

Keeps a spreadsheet you already trust and adds software to file from it. Workable, but the digital link rules must be respected.

Questions worth asking before you commit

- Does it handle **both** your trade and your property income, if you have both?
- Will it connect to your bank, and to the other tools you already use?
- Can your accountant see it, so you are not emailing exports back and forth?
- What does it cost per year, and what happens to your data if you leave?

We will not push you towards the priciest option

TCW works across Xero, QuickBooks and the main bridging tools. We would rather you paid for the system that fits the business than the one with the longest feature list. If a simple app covers it, we will say so.

SECTION 7

The year end — final declaration and payment

The quarterly updates are provisional. The year end is where the tax is actually settled, and it replaces the Self Assessment return you have been filing.

The final declaration

After the fourth quarterly update you finalise each business — making the accounting adjustments, claiming reliefs and allowances, and correcting anything the quarterly figures got wrong. You then add everything else HMRC needs to see: employment income, dividends, savings interest, pension income and the rest.

The deadline is **31 January following the end of the tax year** — the same date you are used to. For the 2026/27 tax year, that is 31 January 2028.

Payment dates have not changed

This is the reassuring part. MTD changes how you report, not when you pay. Balancing payments and payments on account fall due on the same dates as before. Quarterly updates do not create quarterly tax bills.

A genuine upside

Because HMRC receives figures through the year, your estimated tax position updates as you go. Used properly, that is a much better basis for setting money aside than a bill that lands twenty-two months after the income was earned.

Your year now looks like this

When	What happens
Each quarter	Update sent within roughly five weeks of the period ending
After 5 April	Adjustments, reliefs and allowances applied to each business
By 31 January	Final declaration submitted and the balancing payment made

SECTION 8

MTD for VAT — what already applies

If you are VAT registered, you are already in MTD — every VAT-registered business has been since April 2022, regardless of turnover. What is worth checking is whether you are complying properly, or just filing successfully.

The records you must keep digitally

Category	What must be held
Business details	Your business name, the address of your principal place of business, your VAT registration number, and any VAT accounting schemes you use.
Supplies you make	For each supply: the time of supply (tax point), the net value excluding VAT, and the rate of VAT charged.
Supplies you receive	For each supply: the time of supply (tax point), the value of the supply, and the amount of input tax you will claim.
Summary totals	Output tax owed on sales, tax owed on acquisitions, tax payable on behalf of suppliers under a reverse charge, and input tax you are entitled to claim.

Functional compatible software

HMRC's term for software that can record and preserve your digital records, send returns and information to HMRC from those records through its API, and receive information back the same way. A product that only submits a figure you have typed in does not meet the standard.

WORTH AN HONEST SELF-CHECK

Plenty of businesses file their VAT returns through MTD-compatible software while still moving the underlying numbers by hand. The return goes through, so nothing appears wrong — but the digital record and digital link requirements are not being met. Section 9 explains why that matters.

SECTION 9

Digital links — the rule people get wrong

Where your figures pass between two pieces of software on their way to HMRC, that handover has to be a digital link. HMRC defines one as a transfer or exchange of data made electronically between programs, products or applications, needing no manual intervention.

These count as digital links

- Linked cells in spreadsheets, including formulas that pull from another sheet
- Emailing a spreadsheet containing digital records
- Putting a set of digital records onto a portable device and handing it over
- XML or CSV import and export, and uploading or downloading files
- Automated data transfer between systems
- API transfer

THESE DO NOT

HMRC's position is explicit: *"Manually transferring data within or between software programs, products or applications is not acceptable under Making Tax Digital,"* and it *"does not consider the use of 'cut and paste' or 'copy and paste' to select and move information, as a digital link."* Retyping a total from one screen into another is the same failure.

Where the breaks usually are

- A till or booking system total typed by hand into the bookkeeping software each week
- A summary copied from a sales spreadsheet and pasted into the VAT working paper
- A partial exemption or margin scheme calculation done on paper and keyed back in
- An adjustment worked out on a calculator and typed straight into the return

None of these will stop a return being accepted. All of them are breaches, and they only come to light in an enquiry — which is the worst moment to discover them.

What to do

Map the journey your figures take, from the first place a sale is recorded to the box on the return. Every handover in that chain needs to be digital. Where one is not, either link it properly or move the step into the software.

SECTION 10

Penalties and interest

Late filing is handled by penalty points, so an isolated slip costs nothing. Late payment is charged in percentages, and starts biting quickly.

Late submission — the points system

- One point for each missed deadline.
- The threshold for quarterly filers is **four points**. Reach it and you get a **£200** penalty, then a further £200 for each late submission while you stay at the threshold.
- Below the threshold, points expire after **24 months** of compliance.
- At the threshold, points clear only once everything outstanding is filed and you have stayed compliant for a further 12 to 24 months.

VAT works the same way, with the threshold set by filing frequency: **two points** for annual returns, **four** for quarterly, **five** for monthly.

A concession for your first year

No penalty points are issued for late quarterly updates in your first tax year in MTD for Income Tax. That is breathing space for the filing rhythm, not a holiday from the rules — record-keeping, submission and payment obligations all still apply, and interest still runs from the original due date.

Late payment — the percentages

How late	What is charged
Up to 15 days	No penalty. Interest accrues from the day after the due date.
At day 15	A first penalty of 3% of the tax outstanding.
At day 30	A further 3% of whatever is still outstanding — up to 6% in total.
From day 31	A second penalty accrues daily at an annualised rate until the balance is cleared.

Interest runs alongside the penalties at the Bank of England base rate plus four percentage points. It moves with the base rate, cannot be appealed, and runs even under a Time to Pay arrangement.

The practical lesson

If you cannot pay in full, pay what you can and talk to HMRC about Time to Pay before day 15. Penalties are charged on what is still outstanding at each milestone, so an early part payment costs materially less than paying the whole thing late.

SECTION 11

Exemptions, and what to do if you can't go digital

Exemptions exist and they are real, but they are granted on your circumstances rather than your preference. Finding software inconvenient is not a ground.

MTD for Income Tax

There are two things you can apply for:

Temporary exemption	Runs until at least April 2027.
Digitally excluded exemption	May be permanent, depending on your circumstances.

You apply by telephoning or writing to HMRC, either for yourself or through an agent. You will need your National Insurance number, name and address, and an explanation of why you believe you should be exempt, with anything that supports it. HMRC aims to respond within **28 calendar days**.

MTD for VAT

HMRC may agree an exemption where:

- it is not practical for you to use digital tools to keep records or file returns — for reasons such as age, disability or location
- you or your business are subject to an insolvency procedure
- your business is run entirely by practising members of a religious society or order whose beliefs are incompatible with using electronic communications or keeping electronic records
- you are already exempt from filing VAT returns online

APPLY EARLY, AND KEEP COMPLYING MEANWHILE

An application is not a pause button. Until HMRC agrees an exemption, the obligations continue and so do the penalties. If you think you have grounds, start the conversation well before your first deadline.

SECTION 12

Corporation Tax and what comes next

Limited companies

MTD for Corporation Tax is not happening. HMRC confirmed in its July 2025 Transformation Roadmap that it does not intend to introduce it, and will instead modernise its own systems first. In practice that means:

- Companies continue to file an annual CT600 as before
- No quarterly digital updates for Corporation Tax
- No MTD digital record-keeping obligation for Corporation Tax purposes

Two caveats worth holding onto. If your company is VAT registered, MTD for VAT applies to it in full. And if you draw income personally from self-employment or property alongside the company, that income is assessed for MTD for Income Tax in its own right.

Still to come

Partnerships

Confirmed as in scope eventually. HMRC has said it will set out the timeline at a later date.

The £20,000 band

From April 2028 this brings in a very large number of small landlords and part-time sole traders who have never used accounting software.

If you are below the thresholds today

You will almost certainly be brought in eventually, and moving voluntarily at a quiet moment is far easier than being compelled at a busy one. Businesses that adopted digital bookkeeping ahead of MTD for VAT found the mandate a non-event. The same is true here.

SECTION 13

Your MTD checklist

Work through this in order. Most of the effort sits in the first four steps; once those are done the filing looks after itself.

1. **Work out your qualifying income** for 2024/25, 2025/26 and 2026/27 — turnover before expenses, trade and property combined — and note which start date applies.
2. **Check whether you can sign up:** registered for Self Assessment, and a return filed in the last two years.
3. **Choose software** that covers every business you have, connects to your bank, and can be shared with your accountant.
4. **Get the records right.** Set up the bank feed, agree the expense categories, and start recording as you go rather than in arrears.
5. **Decide your quarters** — standard tax-year periods, or the calendar quarter election if your bookkeeping already runs to month ends.
6. **Put the four deadlines in the diary** with a reminder two weeks before each one.
7. **Check your VAT chain for broken digital links** if you are VAT registered. Look for anything retyped, copied or pasted.
8. **Apply for an exemption now** if you have genuine grounds, and keep complying until HMRC agrees it.
9. **Plan the year end** — the final declaration by 31 January, with adjustments and reliefs applied before it.
10. **Set money aside as you go,** using the in-year estimates the new system gives you.

Not sure where you stand?

Send us your last set of figures and we will tell you which year you join, what software would suit, and what it would cost to have us handle the quarterly updates for you. If MTD does not apply to you yet, we will say that too.

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