

Making Tax Digital for Income Tax

Frequently Asked Questions

1. What do we mean when we say making tax digital?

Ans: Making Tax Digital (MTD) for Income Tax will require self-employed individuals and landlords to keep digital records and send simple quarterly updates to HMRC.

In a nutshell, MTD for income tax means:

- Businesses keep digital records;
- Quarterly updates of income and expenses sent to HMRC using software;
- Simplified end of year process supported by increased auto population.

The new MTD regime becomes mandatory at the following times:

1. Self-employed (SE) or Landlords (LL) with annual income over £50,000 in 2024/25 tax year: from **April 2026**
2. SE or LL with annual income over £30,000 in 2025/26 from **April 2027**
3. SE or LL with annual income over £20,000 in 2026/27 from **April 2029**

2. Why is HMRC making these changes?

Ans: The business case for MTD for income tax is that a significant share of the tax gap* comes from error and poor record keeping. Research suggests that income tax gap for small businesses comes from faulty and poor record keeping. The aim of Making Tax Digital is to improve record keeping and to assist closing the tax gap, which is estimated to be £5bn annually. ****(amount of income tax potentially under recovered by the Treasury)***

3. What does the change to MTD mean for you a self-employed individual with annual income over £50,000?

Under the old regime, you had up to 10 months after end of the tax year to prepare accounts, compile and file your tax return for the tax year. With MTD ITSA, you will be required to maintain digital accounting records, summarise income and expenses from your records every three-month period (quarter periods) and submit that data to HMRC by specified dates.

This means that you will be submitting income and expenses data to HMRC once a very quarter for four times in the tax year. A final submission will then be made by 31 January the following year (that is 10 months after end of the tax year). Altogether, you will be making five data submissions to HMRC.

In practice, this means that you will have to maintain accounting records of your financial transactions as and when they happen not after the financial year as has been the case till now.

4. What records must I maintain to comply with requirements of MTD for income tax

Ans: You must use MTD compatible software or a digitally linked set of computer software to:

- Keep digital record
- Submit quarterly updates to HMRC

On digital Record Keeping and digital Links, herewith HMRC's response to the question, can clients still use Spreadsheets?

Ans: Yes, clients can use spreadsheets to keep digital records for MTD ITSA, but they will also need digitally linked bridging software to submit information to HMRC (*We, your accountants will provide the bridging software service*)

So, yes for keeping and storing the digital records but extra linked software will be needed to enable the filing. We call this bridging software.

On keeping of supporting documents of transactions, here's HMRC's response to the question:

Do clients need to keep digital scans/copies of invoices and receipts?

Ans: No, clients don't need to keep digital images of invoices or receipts – But this can be helpful! However, they do need to digitally record and store:

1. the date,
2. the amount, and
3. tax category for each transaction.

We call this info a "digital record" of the transaction. All transactions should have a digital record in MTD.

The MTD Process

5. How will quarterly updates work under MTD for Income Tax?

Ans: Quarterly updates are simple unadjusted summaries of income and expenses. The summaries are totals per category – same as reported in Self-Assessment tax returns, e.g. Turnover, Direct cost of sales, Wages and Salary costs, Premises rent, Service Charge, Light & Heating costs, Insurance etc.

6. What are “Quarterly Updates”

Ans:

- Quarterly updates are unadjusted summaries of Income and Expenses.
- Every 3 months, MTD software will total the digital records and produce summaries for each income and expense category.
- These summaries are known as **MTD quarterly updates**.
- You’ll submit these from software each quarter with a single button click to HMRC
- You do not need to make any accounting or tax adjustments before sending quarterly updates to HMRC.

6.1 What are the periods for quarterly updates?

Ans: Tax payers can opt for a calendar quarter election with update periods aligned to month end dates:

- 1 April to 30 June,
- 1 July to 30 Sept,
- 1 Oct to 31 December
- 1 Jan to 31 March

6.2 What are the quarterly filing deadlines for MTD?

A: Quarterly updates must be filed by the:

- 5th of August,
- 5th of November,
- 5th of February and
- 5th of May.

7. What should I do to prepare for the MTD regime?

Ans: The new MTD for income tax will change fundamentally the way you keep records of transactions in your business.

So, it is imperative that we organise a series of meetings to communicate the changes to all who need to know – Business Manager, staff and third-party service providers - responsible for record keeping of transactions at the business. These individuals need to understand what the changes mean for their responsibilities and how the record keeping work they do will change.

After that we need to schedule meetings to determine the processes that need to be established for timely collation of transaction data in the business.

When the preparation work is done, we need to test operation of the new record keeping, collation and production of quarterly income and expense updates for submission to HMRC.

Impact Accountants

April 2026