Making Tax Digital for Income Tax

FAQs for SoA members

Making Tax Digital (MTD) for Income Tax is a new way for sole traders and landlords to report their income and expenses to HMRC. If you are required to sign up, you will need to keep digital records of your self-employment and property income and expenses, send quarterly updates to HMRC, and submit your year-end declaration by 31 January the following year.

This means you will need to make a total of five submissions in a tax year. This does not change when you actually pay your tax – the deadline for this will continue to be 31 January following the end of the tax year. (Bear in mind that you will also need to make a payment on account for the next tax year so in addition to paying tax on 31 January, you must make an advance payment by 31 July. Payment on account is usually half of the tax you owed the previous year.)

We hope that the FAQs below will answer members' questions, but we also recommend signing up to a MTD seminar with HMRC as there will be tax advisors present who can answer questions live.

Please get in touch if your question is not covered by the points below or HMRC.

1. Do I need to sign up for Making Tax Digital?
You need to sign up if you are an individual registered for Self-Assessment, get income from self-employment or property or both, and you have a qualifying income.
Your qualifying income is the total income you get in a tax year from self-employment and property before deducting expenses.

Income arising via PAYE or any other source is not included in the qualifying income.
If your qualifying income is:

- £50,000 for the 2024 to 2025 tax year, you will need to use MTD from 6 April 2026
- £30,000 for the 2025 to 2026 tax year, you will need to use MTD from 6 April 2027
- £20,000 for the 2026 to 2027 tax year, but note the government has set out plans to introduce legislation to lower the qualifying income threshold

2. What if I operate as a limited company?
Limited companies do not have to register for MTD, but you may already use MTD for VAT if you are VAT registered.

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3. Who is exempt?
You can apply for an exemption if you think you're digitally excluded e.g. a health condition or disability stops you from keeping digital recordings or submitting them to HMRC. Find out more here.

4. If I sometimes earn above the qualifying threshold and sometimes below, do I use MTD every year for simplicity?
Once you have been mandated to use MTD, your income will need to be below the thresholds for three consecutive years before you are no longer required to do so. However, an increase above the thresholds again will require you to once more sign up to MTD.

5. What is the best software for authors to use?
If you already use accounting software, ask your supplier about their plans for MTD.
So far, we are suggesting members consider Clear Books, Free Agent, Intuit QuickBooks, IRIS Kashflow, Taxnav, and Xero. We cannot make one recommendation as what works best will differ depending on your individual needs.

There is a live list of HMRC approved software at the following link: https://www.gov.uk/guidance/find-software-that-works-with-making-tax-digital-for-income-tax.

Please tell us if you use software that works well for MTD, and we will share members' recommendations.

6. Bridging software
Bridging software connects to existing records kept in spreadsheets or other accounting tools. This software will allow you to send quarterly updates and submit your tax returns to HMRC. So if, for example, you want to continue using spreadsheets to record income and expenses, you can still comply with MTD by using bridging software. However, it is important to be aware that some of the companies offering bridging software approved by HMRC will only do the quarterly updates and not your annual return. Of those that will do both, you need to watch out as there are some that cost around the same as the full digital accounting software, and others that might be free but there can be additional charges or you have to undertake mapping yourself (transferring data from Excel).

The key point here is to check the list of HMRC approved software, check it does both quarterly updates and annual returns, and then do a free trial to be sure it is right for you.

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7. If I am VAT registered and use software for MTD for VAT, will that also work for MTD for Income Tax?

Some packages may handle both, but you will need to check with your software provider.

8. Am I obliged to get an accountant or bookkeeper, or can I manage MTD myself?
If you use an accountant or bookkeeper, you either: send everything to them and they fill out the digital record, or you complete the digital record and send that to your accountant or bookkeeper.

Members should check that whoever they use belongs to a regulatory body. It is worth bearing in mind that not only accountants, but well qualified accounting technicians and bookkeepers can supply the services our members require.

Both the Institute of Certified Bookkeepers https://www.bookkeepers.org.uk/ and the Association of Accounting Technicians https://www.aat.org.uk/businesses-employers will have members qualified to do tax, VAT etc.

Their rates will be considerably cheaper than an accountant's and you can search via the websites above for someone who meets your needs.

The DIY approach: you can do everything yourself but you will want to consider how much of your time it will take versus the cost of paying someone to help you. If you are going to do it yourself, we recommend you have digital software that connects with HMRC (see point 5 above) and that downloads from your bank account to make it easier to allocate transactions. You will want to be sure you have a separate business bank account to make this manageable.

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9. What are the deadlines for quarterly updates and the annual returns?

Date	Event
31 January 2026	Deadline to submit a Self-Assessment tax return for 2024-2025
6 April 2026	Start keeping records using MTD for Income Tax software (if you meet the qualifying income)
7 August 2026 (covers 6 April to 5 July)	Deadline to send your first quarterly update
7 November 2026 (covers 6 July to 5 October)	Deadline to send your second quarterly update
31 January 2027	Deadline to submit a Self-Assessment tax return the usual way for 2025-2026
7 February 2027 (covers 6 October to 5 January)	Deadline to send your third quarterly update
7 May 2027 (covers 6 January to 5 April)	Deadline to send your fourth quarterly update
7 August 2027 (covers 6 April to 5 July)	Deadline to send your first quarterly update
7 November 2027 (covers 6 July to 5 October)	Deadline to end your second quarterly update
31 January 2028	Deadline to submit your tax return straight from MTD for Income Tax software for 2026-2027
7 February 2028 (covers 6 October to 5 January)	Deadline to send your third quarterly update
7 May 2028 (covers 6 January to 5 April)	Deadline to send your fourth quarterly update

10. What happens if I am late filing a quarterly update?
There is a points based system for late filing of due MTD submissions, with each late submission earning one penalty point. A £200 penalty is then due if you accrue 4 points (2 points if filing on the annual scheme).

Points expire after two years if you stay below the penalty threshold.

If you reach the threshold, all points reset to zero after a period of compliance with all filing obligations.

For those voluntarily already participating in the MTD for ITSA test phase, late submission penalties only apply to annual obligations.

There are still other penalties for late payment of tax, which for the foreseeable future remains linked to the annual return (final declaration).

11. Are there any benefits to signing up ahead of the deadline, or benefits to signing up even if you are not obliged to do so?

If you meet the qualifying income threshold, we do suggest signing up before it is mandated. This is because if you sign up early, you will have access to a dedicated HMRC support team who can help with all tax matters. There may be teething problems at HMRC's end so earlier sign up will give you time to deal with any issues. However, note that you cannot sign up early voluntarily if you use Authors Averaging, even if you must comply with MTD from April 2026. For further information on those excluded from voluntary sign up, see HMRC.

HMRC say there are many benefits to MTD. But it is probably not worth signing up if you don't have to or we suggest you at least wait until HMRC has worked through any initial issues that may arise when MTD goes live.

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12. How do I record income and outgoings when royalties arrive via a literary agent who has already taken off their commission?
If you work on the cash basis, which is the default for tax returns since April 2024, you record income and outgoings on the date they are received or paid. However the turnover is your income before commission is deducted and so you will need to show these as separate transactions.

You will therefore need to record the gross income (i.e. income before your agent's commission has been deducted) as sales income and the commission as a sales cost, and then record both transactions when allocating bank payments as received. Depending on the software you use, it might make sense to set up your agent as a customer and record the gross income as a sale and the agent's commission as a sales credit. Together the transactions will equal the gross amount.

Note that if you wish to claim Authors Averaging you must disapply the cash basis and record income and expenses on the arising (accrual) basis, which essentially means the date the income or expense is originally due, rather than when it is actually paid.

12. Is it better to use the cash basis or accrual basis?
HMRC has made cash basis the default to make it easier for everyone to use software as this can connect to your bank and use receipts and payments. Issues can arise when companies sit on invoices for months asking for changes etc before they make payment. The cash basis makes accounting simpler as it avoids getting into debtors and writing off bad debts.
You can claim relief for trading losses under both the cash and accrual basis. Under both, losses can either be offset against other forms of income (such as employment income or rental profits), in the same or previous tax year - known as sideways loss relief - or they can be carried forward to a future tax year to be offset against the first available trading profits.
As mentioned above, Authors Averaging can only be claimed by sole traders who have prepared their trading accounts under the accruals basis.
Whether cash basis or accruals is best for you will depend on your individual circumstances.

Thank you to HW Fisher for their help with the preparation of this guidance. Last updated 3 December 2025.