BOURNER BULLOCK
Chartered Accountants

Making Tax Digital (MTD) for Income Tax (September 2025)

Overview

HMRC have introduced Making Tax Digital (MTD) as a new mechanism to disclose income and expenses throughout the relevant tax year. You or your tax agent (Bourner Bullock) will create and store digital records of your self-employment and property income and expenses, send quarterly updates to HMRC, and submit your annual tax return by 31 January of the following year. HMRC have therefore introduced additional disclosure requirements on a quarterly basis during the relevant tax year.

MTD for Income Tax will apply from April 2026 to those who receive income from self-employment and/or property where turnover or gross income from these sources combined exceeds £50,000. Those with turnover from these sources combined exceeding £30,000 will be mandated to join MTD for Income Tax from April 2027. Those with turnover from these sources combined exceeding £20,000 will be mandated to join MTD for Income Tax from April 2028.

Who Is Affected?

MTD will apply to individuals with gross (before expenses) income from self-employment and/or property that exceeds the thresholds below:

MTD Start Date	Income Threshold	Based on income in Tax Year
06 April 2026 (2026/27)	Over £50,000	2024/25
06 April 2027 (2027/28)	Over £30,000	2025/26
06 April 2028 (2028/29)	Over £20,000	2026/27

Exclusions (for now):

- Partnership income of partners of general partnerships and LLPs;
- Trusts, estates, non-resident companies;
- Digitally excluded individuals (by exemption);
- Individuals who do not have a National Insurance Number; and
- Specific roles (e.g. ministers of religion, Lloyd's underwriters).

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Exemptions

You may apply for exemption from MTD obligations if you are unable to comply due to:

- Age or disability;
- Remote location (no broadband access);
- Religious grounds; and
- Other valid reasons.

Each case will be assessed individually. HMRC will publish details of how to apply closer to the start date.

Grace Period for New Businesses Under MTD

New self-employment or property businesses have a **grace period of up to two years** before they are required to comply with Making Tax Digital (MTD) for Income Tax, even if their qualifying income exceeds the threshold during that time.

During this two-year grace period, taxpayers can choose to:

- **Voluntarily join MTD early**, submitting quarterly updates and keeping digital records; or
- **Remain outside of MTD for the new business**, continuing with the standard annual Self-Assessment filing after the year-end as usual. If they are already mandated to comply with MTD for other sources of income, they will continue with MTD for those sources.

This flexibility offers welcome time to adapt systems and processes without facing penalties immediately.

What Will Be Required

From your MTD start date, you will be required to:

- Maintain digital accounting records using compatible software or spreadsheets;
- Submit quarterly updates for each trade or property business; and
- Submit a year-end final declaration.

Paper records will no longer be compliant. Submissions must be made through software that can access HMRC's APIs.

Making Tax Digital (MTD) for Income Tax cont'd

Quarterly updates will be required for 3 different types of business:

- A trade, profession or vocation;
- A UK property business; and
- An overseas property business.

Digital Record-Keeping Requirements

Digital records must include:

- Transaction-level amounts and dates;
- Categories aligned with HMRC requirements; and
- Grouping by business or property type (not property-by-property unless required).

Joint property owners must report their share of income and expenditure individually.

Quarterly Reporting Deadlines

Quarter	**Period Covered**	**Submission Deadline**
Q1	6 April – 5 July	7 August
Q2	6 July – 5 October	7 November
Q3	6 October – 5 January	7 February
Q4	6 January – 5 April	7 May

Quarterly updates will include totals for income and expenses by HMRC-defined categories. A separate update is required for each trade, and for UK and overseas property businesses.

As with the current Self-Assessment system, late filing penalties will apply if quarterly returns are filed after the submission deadline.

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Year-End Final Declaration

This is due by 31 January following the end of the tax year.

After the final quarterly update is submitted and is final, the year-end tax return can be completed.

This includes:

- Adjustments for tax and accounting adjustments;
- Claiming reliefs or allowances, such as rent a room relief or capital allowances;
- Elections, such as using the trading income allowance instead of deducting actual expenses;
- Entering the individual's other income such as savings, dividends and employment income; and
- Final legal declaration equivalent to the current SA return.

Opting Out or Exiting MTD

You may stop complying with MTD if:

- Your income falls below the threshold for three consecutive tax years, or
- You permanently cease your business or rental activity.

Penalties

Record keeping penalties

There will be new record keeping penalties. If digital records are not maintained by the quarterly update filing deadline, this is a record-keeping failure and HMRC can issue penalties of up to £3,000 per quarter.

Late submission penalties

The new late submission penalties are points based.

Once a taxpayer is mandated to use MTD income tax and is required to make quarterly submissions, a £200 penalty is applied once they have received four points.

Points are only issued for mandatory submission obligations. Points are reset to zero if:

- all submissions have been made on or before the due date for the following periods:
    - 24 months for taxpayers with an annual filing obligation; or
    - 12 months for taxpayers with a quarterly filing obligation; and
- all submissions that were due in the preceding 24 months have been received by HMRC.

Making Tax Digital (MTD) for Income Tax cont'd

The penalty points for income tax are separate from the penalty points for VAT. The late submission penalty rules in the new regime are generally less harsh as they allow at least one deadline to be missed before a financial penalty is incurred.

Late payment penalties

A first late payment penalty will be payable 15 days after the payment due date, based on a percentage of the balance outstanding. The rates shown below are those applicable from April 2025, as announced in the Spring Statement.

- No penalty will be payable if the tax is paid within 15 days of the due date.
- Tax unpaid after day 15 will attract a 3% penalty.
- Where tax remains unpaid by day 30, there is a further penalty at 3%.
- From day 31, an additional late payment penalty is charged at 10% per annum, accruing on a daily basis based on amounts outstanding.

Please note that the tax payment dates have not changed, with the tax due by 31 January following the end of the tax year and payments on account due by 31 January and 31 July, if applicable.

How We Can Help

We offer full support to ensure you meet your MTD obligations:

- Provide MTD registration and setup.
- Provide Bookkeeping and management accounting services using MTD compliant software. Or provide support for you to manage the quarterly reporting process.
- Acting as your tax agents, we will provide quarterly reminders to help you meet filing deadlines, prepare and submit your quarterly returns, complete your year-end tax return, reconcile your tax calculation with HMRC's, and advise you on payments.
- Identifying any variances in the quarterly reporting and discussing this with you to minimize risk of HMRC enquiries.
- Ongoing updates and compliance advice.

Contact us should you require advice and assistance - Viraj Mehta, Tax Partner— viraj.mehta@bournerbullock.co.uk