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CHARTERED ACCOUNTANTS

Fact Sheet

21 MAY 2025

Making tax digital for income tax self-assessment

What is making tax digital for income tax self-assessment?

Making tax digital for income tax self-assessment (MTD for ITSA) will require individuals who are subject to income tax on their business or property profits to:

- keep electronic accounting records, either using suitable software or spreadsheets; and
- use MTD-compatible software to submit quarterly updates and a final declaration for each tax year.

The MTD for ITSA rules are complex and the following information provides an overview.

Key dates

Here is what we know about the roll-out dates at present:

- it now seems certain that from April 2026, MTD for ITSA will be mandated for sole traders and landlords who had total property and business income of over £50,000 in 2024-25;
- those with total property and business income of over £30,000 in 2025-26 will be mandated to use MTD for ITSA from April 2027;
- those with total property and business income of over £20,000 in 2026-27 will use the system from April 2028;
- no date has yet been set for those with relevant income of £20,000 and below, or partnerships, to use MTD for ITSA, although it is intended that both groups will eventually do so.

How to calculate total relevant income to decide a taxpayer's commencement date

The above figures are based on turnover (before deduction of expenses); and for UK residents, on income from overseas as well as the UK. Those with jointly-held property will be required to include their share of rental income.

Where there is an accounting period longer or shorter than 12 months for example, when a business commences part of the way through a tax year the income must be scaled up or down to represent the equivalent for a full year (e.g, doubling a 6-month accounting period).

Certain income is not included when determining the level of a taxpayer's total property and business income. The main categories to exclude are as follows:

- partnership income;
- so-called 'transition profits', on which some individuals may be taxed over the years from 2024-25 to 2028-29. These profits were a tax adjustment which arose during the process of basis period reform, which ensured that business profits are now taxed on the amount arising during the tax year, regardless of the date to which the business prepares accounts; and
- income which does not need to be reported on the tax return. Hence, property or business income of below £1,000, which fall within the tax-free 'trading allowance' and / or 'property allowance', and income within the 'rent-a-room' exemption (£7,500, or £3,750 for jointly held properties), are not included.

Exemptions from MTD for ITSA

The main exemptions are listed below.

Income exemptions

The MTD for ITSA requirements will not apply to individuals who fall within one of the following two income-based exemptions:

(i) if (a) they were **not** required to use MTD for ITSA for the previous tax year, **and** (b) their relevant total income, for the last tax year for which a return was filed before the start of the tax year concerned, was below a certain threshold. To explain: provided in each case that they did not need to use MTD for ITSA in the previous tax year,

- taxpayers with relevant income of £30,000 or below in 2025-26 will not need to use MTD for ITSA in 2027-28;
- taxpayers with relevant income of £20,000 or below in 2026-27 will not need to use MTD for ITSA in 2028-29; and
- taxpayers with relevant income of £20,000 or below in 2027-28 will not need to use MTD for ITSA in 2029-30 and so forth (with the limit remaining £20,000 for the foreseeable future).

(ii) If they **were** required to use MTD for ITSA for all of the three previous tax years, **and** for each of those years, their income was not more than £30,000 (note that this limit will decrease to £20,000 from April 2028 onwards).

Digital exclusion exemption

If HMRC are satisfied that the person is digitally excluded either because of religious beliefs or because it is not reasonably practicable for the person to use MTD for ITSA due to age, disability, location or any other reason, the person will not have to use MTD for ITSA. Taxpayers must apply to HMRC for this exemption.

Other exemptions

The MTD for ITSA requirements do not apply:

- to taxpayers who cannot obtain a National Insurance Number (NINO), The exemption ceases if and when a NINO is obtained;
- to foster carers in relation to income from qualifying care;
- to Lloyds members in relation to their underwriting business (and it has recently been announced that Lloyds members will not need to operate MTD for ITSA at all until at least April 2029);
- to trustees of charitable trusts or the trustees of exempt unauthorised unit trusts;

- to trusts, estates, and non-resident companies;
- in respect of a person's froreign businesses if the person is not domiciled in the UK;
- to Ministers of Religion until at least April 2029; and
- to recipients of the Married Couples Allowance or Blind Person's Allowance until at least April 2029.

In some cases, the taxpayer can elect into MTD for ITSA even if they fall within one of the exempt categories.

Record-keeping

The MTD for ITSA record-keeping requirements are in addition to, rather than replacing, existing self-assessment record-keeping rules.

Taxpayers required to use MTD for ITSA must keep digital records for each relevant sole trade and property business. For this purpose, all UK properties are a single UK property business, and all overseas properties form a single overseas property business. The records may be kept in MTD-compatible software, or using spreadsheets with 'bridging' software to export the information into a suitable package.

The digital record of each transaction (income or expense) must include the date and amount of the transaction, as well as the category into which it falls. HMRC have confirmed that the categories to be used will generally be the same as those currently used in self-assessment tax returns, although there are simplified requirements in some cases (for example, retailers and those with income below the VAT threshold currently £90,000).

The record for each transaction must be created at the latest - by the submission deadline for the quarterly period in which the transaction falls (see below); and it must be kept for 5 years after the deadline for submitting the tax return for the year in question (so for example, the tax return for 2026-27 must be submitted by 31 January 2028, and so digital records for that year must be kept until 31 January 2033).

Reporting requirements

Quarterly updates

Individuals will have to provide HMRC with quarterly updates of their income and expenses, based on their digital records, for each trade or property business carried on. These are cumulative and hence cover the tax year to date. They must be provided by the following deadlines:

Quarterly update period	Period covered from 6 April to:	Submission deadline
1	5 July	5 August
2	5 October	5 November
3	5 January	5 February
4	5 April	5 May

If a person makes a 'calendar quarters election', updates are instead required as follows:

Quarterly update period	Period covered from 1 April to:	Submission deadline
1	30 June	5 August
2	30 September	5 November
3	31 December	5 February
4	31 March	5 May

There is no requirement to make any adjustments, for tax or accounting purposes, in quarterly updates, although taxpayers may do so if they want a more accurate estimate of their tax bill. Similarly, although taxpayers are not required to submit details of income which is not relevant to MTD for ITSA (e.g. dividends) in their quarterly updates, some software does allow this to be included, to provide a more accurate picture of the tax liability.

After the submission of the final quarterly update

- Once all updates have been submitted, HMRC will have a full record of all the business transactions in the tax year. These must then be adjusted to correct errors, make any accounting adjustments, exclude any nontaxable income and expenses which are not allowable for tax purposes, and to claim any reliefs (such as for example any capital allowances, if relevant).
- The taxpayer will also need to provide information on income which is not relevant to MTD for ITSA e.g. employment, dividends, and interest.
- Finally, the taxpayer can submit their tax return using MTD-compatible software, which incorporates a final declaration that the information provided is complete and correct, and that the income tax position for the year has been finalised. The filing deadline is 31 January following the end of the tax year.

Penalties

Late submission of quarterly updates and returns

Taxpayers will receive a penalty point every time they miss a MTD for ITSA filing deadline. Note that although a separate quarterly submission may be required for each business they operate, there will be only one penalty point across all their businesses each time the quarterly returns are submitted late (not one point for each business).

Once they have reached four penalty points (for quarterly submission deadlines) or two points (for the annual final declaration deadline), they will be charged a penalty of £200 for each failure to file on time.

Provided the taxpayer remains below the two or four-point thresholds, points will expire after 24 months.

However, if they do not remain below the thresholds, the points will be reset to zero only once they have submitted all returns due within the last 24 months, and have complied with filing deadlines for 24 months (for annual returns) or 12 months (for quarterly returns).

Penalties will not be charged where there is a reasonable excuse (but this would only apply in limited circumstances - it does not include taxpayers not understanding the rules, or failure by an agent). There is also a right of appeal.

Late payment of tax

- If tax is not paid within 15 days of the due date, the penalty is 3% of the tax not paid within 15 days.
- If tax is not paid within 30 days of the due date, the penalty is 3% of the tax outstanding at the end of day 15 plus 3% of the tax outstanding at the end of day 30.
- For amounts due as at day 31 onwards, a further penalty is charged at 10% per annum, charged on a daily basis on amounts outstanding at that time.

Penalties must be paid (or appealed) within 30 days of being assessed.

For taxpayers having difficulty paying their tax liabilities, it may be possible to arrange a Time to Pay arrangement: this will prevent further penalties from accruing, so it is important to approach HMRC quickly.

BGM can help you identify whether these Making Tax Digital requirements may apply to your business and the relevant steps you will need to take. For further information, please contact Mark Speed at markspeed@bgm.co.uk or your usual BGM advisor.

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