Making Tax Digital - February 2026

Making Tax Digital (MTD) is a UK government programme that means businesses and landlords must keep digital records and submit tax information to His Majesty's Revenue and Customs (HMRC) using MTD-compatible software.

If you've seen the HMRC ads on TV about MTD you'll have heard a small business owner, say he's worried about making mistakes. The accountants, bookkeepers and software companies have your back. They will make sure you don't make mistakes and that the transition is much easier than you expect.

The following information has been provided to us by ACCA member Accountant **Eriona Bajrakurtaj, ACCA ACPA MSc LLM who is a**n expert in helping businesses understand and manage their tax affairs.

She and we will keep you updated on any additional information you need to know as time goes on and if you want to talk to someone go to your own bookkeeper, accountant or accounting software company. If you don't already have the help of any of these, you can find your nearest ACCA registered accountant here. (Can we link to the ACCA Find an ACCA firm | ACCA Global)

I was amazed to discover not so long ago that people who aren't qualified can call themselves Accountant. If you do decide to get help, ask to see their credentials.

Eriona says:

The main goal of MTD is to reduce the burden of tax compliance and to make the tax system more efficient and effective. The burden on businesses, particularly small and micro businesses is likely to fall at the beginning as they adopt MTD but later on it should make the whole process of record keeping and submission to HMRC easier and give business owners a clearer and more 'real time' view of their business finances.

MTD is being rolled out in phases, with the first phase, focusing on VAT-registered businesses with a taxable turnover above the VAT threshold (currently £90,000) , already in place. Those businesses are already using the system.

Those businesses are required to keep digital records of their VAT transactions and to use MTD-compatible software to submit their VAT returns.

The next phase is for smaller businesses and comes into operation in April 2026.

Smaller businesses with income of more than £50,000 will be brought into the system in the next couple of months. The smallest businesses with income of more than £30.000 will have until April 2027 to get ready.

The introduction of MTD has raised some concerns among businesses and individuals.

Some questioned whether they will be able to comply with the new requirements, particularly if they are not familiar with digital record-keeping or if they do not have access to suitable software.

Others raised concerns about the cost of implementing MTD, and the potential impact on small businesses.

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Accountants and accounting software firms have stepped up to the plate and are fully ready to help any business move to MTD.

The government is now extending the digital record-keeping and submission requirements to other taxes, such as income tax and corporation tax.

Making Tax Digital (MTD) is a government scheme designed to modernise how individuals and businesses manage and report their taxes. For sole traders and landlords, it means moving away from the traditional once-a-year self-assessment tax return and switching to a more **digital, real-time** way of keeping records and submitting information to HMRC.

Who Does MTD Apply to and When?

- From **April 2026**, if you're a **sole trader or landlord earning more than £50,000** a year, MTD for Income Tax will apply to you.
- From **April 2027**, that threshold drops to **£30,000**, bringing more people into the scheme.
- Eventually, HMRC's aim is to have **all self-employed individuals and landlords** report digitally.

To comply with MTD, Individuals and businesses will be required to keep records of their tax-related transactions electronically and use digital/online tools to submit their tax returns to HMRC.

Is MTD Compulsory?

Yes, Making Tax Digital (MTD) will become mandatory for most businesses, individuals, and organisations.

Penalties have been scrapped (for now) but there will be a penalty points system instead. Here is more info on how it will work: https://www.accountingweb.co.uk/tax/hmrc-policy/get-to-grips-with-the-new-mtd-penalties-now?amp

When is MTD Compulsory?

The government is currently rolling out MTD in stages. The first phase focusing on **VAT returns for businesses** with taxable turnover above the VAT threshold of £85,000 came into force in April 2019.

In April 2022, this was extended to all VAT registered businesses. The VAT threshold was raised in April 2-24 and is now £90,000.

This means that these businesses must keep records of their tax-related transactions electronically and have been required to use digital tools to submit their VAT returns to HMRC since April 1, 2019.

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MTD Timeline

VAT:

- **April 2019**: Most VAT-registered businesses with turnover exceeding the VAT registration threshold of £85,000 must retain digital records and submit VAT returns using "functional compatible software"
- **April 2022**: All VAT-registered businesses (including those below the threshold) must retain digital records and submit VAT returns using software unless an exemption such as digital exclusion applies.

Income Tax:

- **April 2026**, if you're a sole trader or landlord earning more than £50,000 a year, MTD for Income Tax will apply to you.

Corporation Tax:

- **April 2024:** Companies started using MTD for the Corporation Tax (CT) pilot programme, but that scheme has now been scrapped.

How does MTD apply to sole traders and self-employed?

Sole traders and the self-employed are individuals who run their own businesses and are responsible for their own tax affairs.

As of April 2022, if your business is registered for VAT, you will have been keeping digital records and will be compliant with MTD's technical standards.

Sole traders and landlords with an annual income over £50,000 must follow MTD rules from April 2026, and those with income of more than £30,000 will have to do the same from April 2027.

There are tools and software available to help you comply with the new rules. If you are earning enough to come under the scheme in April 2026, don't wait. Get onto your bookkeeper, accountant or accounting software firm now to make sure you're doing everything you need to do to comply. If you have until April 2027 to comply, don't fall into the trap of doing nothing because it feels like a long time away. Get ready well ahead of MTD day.

What Will Change?

The biggest change to business taxes after MTD's introduction is the requirement to keep records of tax-related transactions electronically.

This means quite a change in individuals' and businesses' relationships with HMRC, and the level of insight you have into your own tax affairs. Moving to a new technology might be daunting, and the jargon might be unfamiliar, but technology gives everyone power to be more in control of taxes, and to see from the figures, more often, how the business is doing.

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Another big change is the requirement for businesses to use smartphones, software, or computers to submit digital tax records.

Instead of one annual tax return, you'll need to submit 5 submissions to HMRC each year, 4 quarterly updates (every three months) to report income and expenses and finally, an end of period statement to finalise and make any necessary adjustments. That may sound onerous, but it means there's no last-minute scrabble as the end of the tax year approaches to find all the paperwork and get the full picture together

Free software is available, but the programme is likely to come at some cost for many micro and small businesses.

Some exemptions will be available, such as for businesses with very low turnover.

HMRC expects taxpayers to use apps and online resources to learn about tax deductions and to avoid interacting with HMRC by phone.

The government estimates that the programme will have an average transitional cost of £330 and an annual cost of £35 per business.

Tools for MTD

One of the biggest changes, causing apprehension for businesses, is getting used to new technologies for your tax returns.

Tools that are, in the jargon "functional compatible software" will make your transition easier:

- Spreadsheet software, such as Microsoft Excel or Google Sheets, can be used to record and manage your tax-related transactions. Google Sheets is free to use; Excel requires a paid license.
- Accounting software, such as Xero, QuickBooks, or Sage, can be used to record and manage your tax-related transactions and to prepare and submit your tax returns to HMRC.
- MTD-compliant bridging software, which can be used to transfer data from your existing accounting software to HMRC

You will need to choose the tools that suit your business and your needs best. This is where asking other businesspeople in your network what they use can be very useful. Your membership body or trade association will be able to help as will your bookkeeper or accountant.

Important:

The software you use must be MTD-compliant, meaning that it must be capable of working with HMRC's systems and able to submit your tax-related information in the required format.

You can find more information about MTD-compliant software on the gov.uk website.

How to Register for MTD

To register for Making Tax Digital (MTD), you will need to have a Government Gateway account.

If you already have one you can use this to log in and register for MTD.

If you don't have a Government Gateway account, you can create one by visiting the Government Gateway website and following the instructions.

Once you have logged in to your Government Gateway account, you can register for MTD.

What will I need to do under MTD?

Once MTD for Income Tax becomes law, you'll need to:

- Keep **digital records** of all income and expenses
- Submit **quarterly updates** to HMRC using MTD-compliant software
- Send an **End-of-Period Statement (EOPS)** to finalise your figures
- Complete a **Final Declaration** at the end of the year to confirm your total income and tax due

It's a big change from the current self-assessment system, but the goal is to make managing your tax easier, more accurate, and more up to date.

Getting help?

Accountants and bookkeepers are already helping clients make the switch to MTD with minimal fuss. From setting you up with user-friendly software, to managing your quarterly submissions and giving you real-time tax visibility, they can help you make the transition as smooth as possible. If you already use accounting software from one of the accounting software firms like, Sage, Xero or Quickbooks they will sort it all out for you. Don't wait. Get onto it asap.

Frequently Asked Questions about MTD

Is Making Tax Digital Compulsory?

Yes, the government's Making Tax Digital scheme already requires all VAT registered businesses to keep digital records and file tax returns using compatible software. All other firms with income of more than £50,000 will have to do the same from April 2026 and those with income of more than £30,000 from April 2027.

You need to make sure you're using MTD-compatible accounting software to track your finances and submit these updates. If you're still using manual records, now is the time to go digital.

Do I need to Register with HMRC for MTD?

All VAT registered businesses should have signed up with HMRC in accordance with the MTD government scheme. Smaller businesses come into the scheme in April 2026 (those with income more than £50,000) and in April 2027 (those with income above £30,000),

MTD enables business owners to submit their VAT returns with MTD-compliant software.

Can I be exempt from Making Tax Digital?

If you cannot use computers, software, or the internet to comply with the rules for Making Tax Digital for VAT, you can apply for an exemption under special circumstances.

Factors include age, disability, location, religious grounds, or any other reason why it's not reasonable or practical.

HMRC will evaluate each application individually and make a decision.

What Happens if I Don't Register for MTD?

If you should comply with the requirements from HMRC and don't, you will face penalties for late payments.

To avoid this, join the MTD scheme or contact HMRC on how to do so. You must have functional compatible software in place before you sign up.

If you fail to sign up/comply with MTD requirements, including late or non-submission of quarterly updates, that could lead to financial penalties. HMRC may apply late submission penalties and interest on any unpaid tax if deadlines are missed.

What does MTD mean for Self Employed?

Starting from 6 April 2026, sole traders and landlords with income over £50,000 must use compatible software for Making Tax Digital for Income Tax Self-Assessment (ITSA). From April 2027 the same will apply to sole traders and landlords with income over £30,000.

During this period, an End of Period Statement will need to be submitted to HMRC, along with a Final Declaration including all taxable income by 31 January each year.

For VAT-registered sole traders, MTD rules have been mandatory since April 2019 for businesses earning over £85,000, and from April 2022, all VAT registered businesses must use MTD software for submitting VAT returns. The VAT Threshold went up in April 2-24 to £90,000.

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