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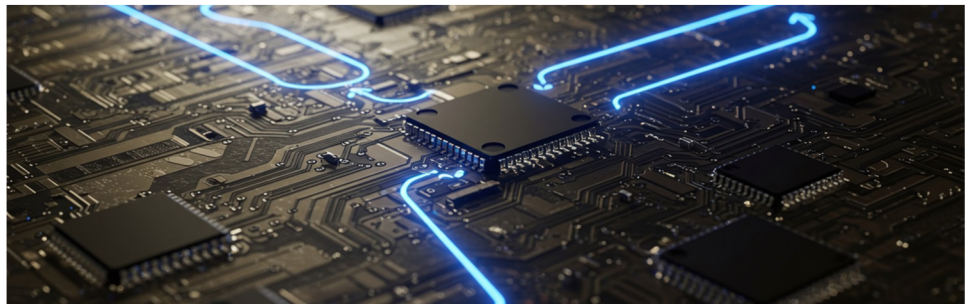
MAKING TAX DIGITAL FOR INCOME TAX

Timeline

Sole Traders and Landlords need to assess their Gross Turnover (income before expenses) to determine the date they need to comply with the new rules.

The schedule works as below

Turnover	Enrolment Date
Over £50,000	6 April 2026
Over £30,000	6 April 2027
Over £20,000	6 April 2028



Overview

Making Tax Digital (MTD) is a government scheme introduced by HMRC to make the recording and paying of taxes more modern by moving to a fully digital system. MTD was first introduced solely for VAT, and has been devised to move away from a single end-of-year tax return and towards a more fluid system.

MTD for VAT was introduced in **April 2022**, and now all VAT-registered businesses will be automatically enrolled (the threshold for VAT registration for UK businesses is currently £90,000).

The next stage of MTD, **MTD for Income Tax Self Assessment**, is set to become mandatory in **April 2026** for all sole traders and landlords whose gross turnover exceeds £50,000 per year.

This will drop to £30,000 in 2027, and then £20,000 in 2028. (See timeline to left)

Key Points

Once mandated into the new system, sole traders and landlords will need to comply with a new set of rules and regulation on record keeping and tax submissions compared to the current self-assessment system.

The key aspects of this new system are

- **HMRC-compliant software:** you must use compliant MTD-ready software or bridging software. HMRC are not providing any systems so these must be acquired commercially.
- **Digital-record keeping:** you will be required to keep digital copies of all your business and/or property income and expenses. This is a non-negotiable, so no more records kept in physical journals.
- **Quarterly-updates:** instead of the Self Assessment tax return, you will need to send tax updates to HMRC every three months, and then an end-of-year digital declaration.

We have gone into more detail on each of these elements further on in the newsletter as there are some elements such as digital links which are important to how your record keeping must work.



How Does it Work in Practice?

Once registered to file under the new system, you'll get set up with some **MTD for ITSA** compliant software.

This needs to be obtained commercially as HMRC are providing no in-house software.

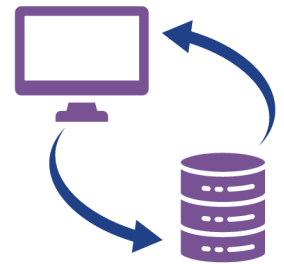


You'll use this software to record your income and expenses for your Sole Trader and Property businesses.

The idea is that you log your records little and often so that data is compiled as you go rather than at a year end.

Each quarter you'll submit a report to HMRC from your software, for each Sole Trader and Property business you have.

They're just simple summaries of how your business is doing, in four smaller chunks, pulled from your records.



At the end of the year, you will still have a tax return to file before 31st January.

However... this tax return also needs to be filed through MTD compliant software so cannot be filed through HMRC's own system.

The deadlines for paying your taxes remain the same so there aren't quarterly payments to make. You still have until 31st January following the year end to pay your liability.

What Steps to Take Now?

HMRC and many software providers are trying to make the process seem very straight forward, but there is quite a bit to think about ahead of April. Especially when this could mean a complete overhaul of your business's existing bookkeeping and accounting systems.

To make things a little easier, we have detailed step by step the process to take ahead of April along with our recommendations and tips to make the new system as painless as possible.

The **key** here is to treat this as an **opportunity** rather than additional paperwork and bureaucracy.

With the right systems put in place, you could significantly reduce your admin workload.



Step 1 - Check your eligibility



The first step to take will be to assess your eligibility and when you expect you will need to comply with these new rules. The steps to do so are below.

For clients of TidyCloud, we will be reviewing your eligibility and will be in touch as to when we believe you will be mandated into the new system.

The assessment of eligibility is done on your prior years turnover so you will need your self assessment returns at hand to obtain the correct figures.

For the **first phase** (6 April 2026), sole traders and landlords with gross turnover over £50,000 will be mandated into the scheme.

You will need to add up your gross self-employment turnover and gross property turnover from your **2024/25 tax return**. If that exceeds £50,000 then you will need to enrol into the new system for 6 April 2026.

KEY NOTE - You must add together the Gross turnover from all self-employment and property income. This is your income before any expenses.

E.g. If you have gross self-employment turnover of £35,000 and gross rental turnover (rents before any deductions) of £17,000 then overall your turnover would be £52,000 and you need to enrol.

If your gross turnover in the **2024/25 tax year** is below £50,000 then **generally** you do not need to enrol for 6 April 2026. (SEE BELOW)

TURNOVER COMPLICATIONS - ANNUALISED TURNOVER

The reason we have highlighted **generally** above is that this rule doesn't apply in the same way if you have started a new business during the tax year. If that is the case, HMRC will use Annualised Turnover as the qualifying criteria.

For example:

If you first became a sole trader in 2024/25, say on 1st October 2024, and your turnover for that tax year (1st October to 31st March) was £30,000, you might assume that as you didn't reach the threshold of £50,000 you won't be required to use MTD ITSA from April 2026.

But... you'd be wrong. You would be required to join MTD ITSA from 6 April 2026 because the turnover is measured for a full year's trading.

So HMRC would say, you turned over £30,000 over 6 months (October - March), so your **annualised turnover** (what they would expect for a full year) is £60,000

In the **second phase** (6 April 2027), sole traders and landlords with gross turnover over £30,000 will be mandated into the scheme.

You will need to add up your gross self-employment turnover and gross property turnover from your **2025/26 tax return**. If that exceeds £30,000 then you will need to enrol into the new system for 6 April 2027.

In the **final phase** (6 April 2028), sole traders and landlords with gross turnover over £20,000 will be mandated into the scheme.

You will need to add up your gross self-employment turnover and gross property turnover from your **2026/27 tax return**. If that exceeds £20,000 then you will need to enrol into the new system for 6 April 2028.

If at that point, your gross turnover is **still below** the thresholds, you would continue to file a standard self-assessment as you do now. However, this may change in future depending on the success of the scheme.

Step 2 - Audit your current system

Once you know when you will be required to operate under the new system, the next step will be to review your current processes to determine what may need to change.

For many businesses, especially those still using pen and paper, this could mean a complete overhaul of how your accounts and bookkeeping system currently works.

Things to consider will be

ePos systems

- Are these digital?
- Do you record daily takings?
- Can the ePos system link to any accounting softwares?



Sales invoices

- Do you currently issue these digitally or are they hand-written/duplicate books?
- Do they contain all of the details required of an invoice?
- Are they recorded in an organised digital format with all the correct details?

Customer receipts

- Are a lot of your sales paid cash?
- Do you have card or online payment systems?
- Are payments allocated to sales invoices?



Bills and receipts

- Is most paperwork received hard copy or emailed/digital documents?
- Are they recorded in an organised digital format with all the correct details?
- Are copies of the documents kept digitally or filed hard copy?

Bank accounts

- Do you have a business bank account (an account used solely for business)?
- Do you have online banking?
- Does your bank have good online systems that link with accounting softwares?



Mileage Claims

- How do you currently log and record mileage claims?
- Does your mileage record include all of the details required by HMRC?
- If using an app, does that integrate with any accounting softwares?

Payroll

- How are wages processed and filed to HMRC?
- Are wages journals posted to your accounts regularly?
- How are payments to employees and HMRC made?



VAT

- Are you registered for VAT and already complying with MTD for VAT rules?
- Will your existing accounting software offer MTD for ITSA submissions?
- Do your VAT quarters align with your MTD for ITSA quarters?

Accountant/bookkeeper

- Are your bookkeeping records kept by yourself/an employee or do you have an accountant assisting?
- Are they going to assist with or be responsible for MTD for ITSA submissions?



Step 3 - Determine system changes required

After completing your audit of your existing systems, you should have a good idea of how everything currently operates. The task now is to determine how you may need to change your existing systems so that you meet the new requirements of digital record keeping.

At a minimum, HMRC are expecting you to keep the following in a compliant MTD software or spreadsheet

- **Sales information**

- Date of invoice
- Customer name
- Description/details
- Amount
- VAT (If applicable)
- Account/category

The retail scheme still applies so for businesses such as a shop, you wouldn't need to record every individual sale. It would just need to be the daily totals from your till system.

NOTE - You should still keep the full till reports/details as evidence of the daily figures you are recording.

- **Expenses/Bills information**

- Date of invoice
- Supplier name
- Description
- Amount
- VAT (If applicable)
- Account/category - The categories for these mirror the categories from the self-assessment pages so it will be categories such as "Cost of Goods Sold", "Wages salaries and other staff costs", "Car, van and travel expenses", "Rent, rates, power and insurance" etc...

KEY POINT TO CONSIDER - DIGITAL LINKS

This is a key tenet of MTD for ITSA, and it relates to the way data is transferred during the process. Digital links automatically transfer data between different programs, applications, or products. This ensures greater accuracy, as it eliminates the need to type anything out manually, and it provides a clear audit trail of the data's journey.

Once you've entered any data into the software you use, any further modification or transfer of that data has to be done by an acceptable digital link. That means no copy and pasting, or cutting and pasting, those actions are not deemed acceptable digital links by HMRC. Every piece of software in the journey needs to be digitally linked to together, like a chain.



This is where spreadsheets will come with some additional considerations. With an MTD compliant software such as Xero or QuickBooks, they will typically collate all of the data you have entered within that one system and allow you to file the information to HMRC directly from the software.

With a spreadsheet, you will need to use bridging software to file the data it contains over to HMRC. This is where the digital links rule applies in that you cannot manually enter data from your spreadsheet into another system. The spreadsheet itself will need to be digitally linked to the bridging software in order to make the submission.

ADDITIONAL CONSIDERATIONS - DIGITISATION OF PAPERWORK

Whilst it doesn't replace the core requirements of MTD for ITSA, digitising supporting documents like invoices and receipts is good practice and can help complete your accounts.

This would be storing copies of your sales invoices, bills, receipts and bank statements in a digital format. Systems such as Dext, Hubdoc and AutoEntry can be used to assist with this process.

Step 4 - Choose the right MTD Software

HMRC are not providing any software for use with MTD for ITSA so the onus is on you to research and select the right software to use.

HMRC have however produced a list of the software's that they have approved for use with MTD for ITSA. However, **one area to point out** is that the MTD filing system is broken down into two filing types. These are Quarterly Updates and Tax Return.

Some software's are only designed to handle one of these two aspects which would mean you would then need to acquire a second software to do the other aspect. The digital link rule applies then in that you would need your first software to be able to link directly to your second system which may not be the most simple process.



HMRC APPROVED MTD SOFTWARE

There are a lot of providers on the market now which offer MTD for ITSA compliance including the big three of Xero, QuickBooks and Sage.

Key Considerations When Choosing MTD for ITSA Software

HMRC Recognition

This is the "non-negotiable" element. The software must be on HMRC's list of recognised providers. Not all accounting software is ready for the start of MTD for ITSA, so ensure the version you pick is explicitly built for the new quarterly reporting rules.

Quarterly and Year End Submissions

In order to avoid using two software's, it may be more beneficial to ensure any software that you choose can handle both the quarterly submissions and the end of year tax return.

Ease of Use vs. Power

If you are a sole trader with simple requirements, you want an intuitive interface. If you have employees, high volume transactions, or multiple properties, you may need "industrial-strength" features.

Automation Capabilities

The goal of MTD is to reduce manual errors. Looking for features such as automated Bank Feeds and AI Categorisation within any software can make complying with the new rules much easier.

Landlord-Specific Features

If your income comes from property, you need software that handles "unearned income." This includes tracking deposits, repairs, and specific tax reliefs for landlords. Some general accounting software can feel clunky for property management.

Collaboration with Your Accountant

Most accountants have a preferred platform. Choosing the same software your accountant uses allows them to log in, review your quarterly updates, and make adjustments before any submissions are made to HMRC.

Well Designed Mobile App

So many things in our life now are managed our Smart Phones. Picking a system that has a well designed, user friendly mobile app can help make complying with the rules much easier and manageable on the go.

Step 5 - Register for MTD for ITSA

This is a crucial step as unlike MTD for VAT, you will not be automatically enrolled.

You need to manually register with HMRC and can do so directly through HMRC's website.

[HMRC MTD FOR ITSA SIGN UP](#)

Make sure you sign up well before the April 6th deadline so you're prepared. **Don't put this off.**

There's some information you'll need to prepare ahead of time to be ready for the process:

- The same user ID and password you got when you first signed up for Self Assessment
- Either your business start date or the date you started receiving property income (if within the last two tax years)
- Confirmation of the tax year you will begin using MTD for ITSA
- Your business name (sole traders only)
- Your business address (sole traders only)
- The trade of your business (sole traders only)

When you first login, HMRC may ask you to provide further proof of your identity. You can do this via a mobile app by taking a photo of yourself, or by answering questions that HMRC has on record about you (drivers licence or passport for example).



Step 6 - Link your software to HMRC

Within your chosen MTD software, there should be a process to link and authenticate the software with HMRC. This is an important step to link the system up to your account and HMRC and ensure that you can file the quarterly returns.

Whilst this shouldn't be needed until your first return, we'd recommend doing it sooner rather than later in case there are any teething problems.

Step 7 - Start entering data and review

Finally, don't wait until the end of the quarter to try and pull the quarterly data together in one go. Start entering data straight away.

The idea here is twofold.

- First, it is to ensure that the figures that are being recorded in the software look correct. Run some reports from your chosen system and check if the accounts match what you would expect. It will be much easier to fix something at the time, rather than correct it later when something has gone wrong.
- Secondly, it is to try and bed in the habit of entering data little and often. This may be a mindset shift for some sole traders and landlords but if you can bed in that habit, it will be much easier going forward.

Our Recommendations

We recommend the following and will be taking this approach for most of our clients:

1

Avoid spreadsheets and instead, using a **fully compliant MTD software** that can handle both Quarterly Updates and End of Year Tax Return.

We like **Xero** for ease of use and array of feature and bolt on apps. However there are a range of options to choose from that will be able to file all of the relevant MTD for ITSA submissions



2

Set up a business bank account that is used **solely** for business or rental income and expenses.

Make sure that the account is completely free of personal transactions so as to avoid any mix ups in record keeping.

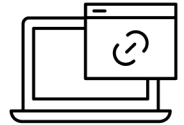
If you have self employment and rental income, set up separate bank accounts for each.



3

Link your business bank account up to your MTD for ITSA Software via a **bank feed**.

This is a massive time saver and automatically digitises your bank transactions



4

Set up a new email address for sole use of bills/expense paperwork.

Every time you buy something online or if possible in-store, use this email address to get a digital copy of your bill/receipt.

This will keep your paperwork tidy in one email box and mean everything is in a digital format.



5

Use a system such as Hubdoc or Dext for your bills and receipts.

These systems are fantastic pieces of software which can store, organise and analyse your bills and receipt paperwork.

They can be linked up to your accounting/bookkeeping software and can automate the entry of the expenses into your accounts.



6

If you use an ePOS system, look for one that **links digitally** with your chosen accounting software.

This can automate the entry of your daily sales and helps with the digital links rules.



MOST IMPORTANTLY



Don't put it off - get set up early and familiarise yourself with the new system

Train yourself you do little and often, don't leave everything until the end of the quarter



FAQ's

1. Does MTD change how I pay tax or the deadlines?

No, the payment deadlines remain unchanged. You will not pay tax quarterly – only submit quarterly updates.

2. Does HMRC get record of all of the entries made?

No, HMRC will get quarterly cumulative summaries (totals) so won't receive details of all transactions in the quarter. However, if they inspect your records, they would expect to see detailed transaction listings that match the submissions made.

3. What if my income drops below the threshold after I have enrolled?

Once you are in MTD, you generally remain in it even if your income later falls below the threshold – unless you cease self-employment or property activity.

However, if your income remains under the threshold for three consecutive years in a row, you can exit the scheme.

4. Are there any exemptions?

Yes. Exemptions may apply for people who cannot reasonably use digital tools (e.g. due to disability, location, or age).

However, exemptions from MTD must be applied for and approved by HMRC; it is not the individual's choice to decide whether they qualify.

5. Are companies required to join MTD ITSA?

No. Limited companies are not currently within MTD for Income Tax. They fall under Corporation Tax rules instead.

6. Are partnerships required to join?

Not yet. MTD for partnerships and LLPs has no confirmed start date, so they are automatically exempt for now.

7. Can I join MTD voluntarily?

Yes. You may voluntarily register before reaching the threshold if you want to prepare early.

8. Do I need a business bank account?

No. You just need a separate account in your own name.

A business bank account would be ideal however business accounts often come with fees, so a simple current account is fine.

9. Why can't I use my personal account?

Each quarter, transactions in your self-employed account must be reconciled.

Using a personal account mixes business and personal transactions, making reconciliation slower, more complicated and increasing the chance of errors.. A dedicated account keeps everything in one place and makes quarterly submissions easier.

10. How do I take money out and put money into my business account?

For money taken from your business account over to your personal account (to pay personal bills etc...), simply reference the transfer as 'DRAWINGS'.

If you need to put money back into the business account for something like cashflow purposes, reference it as 'FUNDS INTRODUCED'. This keeps it separate to your sales.

11. When should I have the separate bank account set up?

The sooner the better. Having a dedicated account must be in place before 1st April 2026.

12. If I have multiple businesses will I have to make multiple quarterly updates?

Yes, each self-employment business (or rental business) requires its own quarterly update. For example, if you have a self-employment business and a UK rental business you will be required to submit:

- 4 quarterly updates for your self-employed business
- 4 quarterly updates for your UK rental business
- 1 end-of-year declaration

FAQ's Continued

13. If a property is jointly owned, does the landlord report only their share of the expenses or the total expenses?

Landlords will only need to keep digital records and submit quarterly updates in respect of their share of income and expenses relating to jointly owned properties.

14. Do I have to file under MTD ITSA for my side hustle?

If you're required to join MTD because you had, say, £55,000 of rental income but also had £700 of trading income from a side hustle, you will not need to comply with MTD for the side hustle as long as it was not reported on your last tax return (i.e. because the £1000 trading allowance applied automatically). You would just need to keep digital records and comply with MTD for your rental income.

But if the side hustle income had been £1200, and a claim had been made via your tax return to offset the £1000 trading allowance against it, then you would need to comply with MTD for both the rental income and the side hustle.

15. Will there be penalties for not registering?

Penalties for late submissions and late payment for taxpayers within MTD will be based on a points based system, similar to the rules for VAT.

Taxpayers in MTD will receive a point each time they miss a submission deadline (quarterly updates and year end submission). Points accumulate until a threshold is reached, at which point a £200 penalty will be issued. From that point onwards, any further late submissions will result in an immediate £200 penalty.

To 'reset' the penalty position, the taxpayer will need a set period of compliance (4 quarterly updates, or 2 end of year returns) and to have submitted all returns required for the previous 24 months

16. What if I make a mistake on a quarterly submission?

Quarterly updates will be cumulative, so if an error is discovered in a previous submission, it can be corrected the following quarter. You will also need to correct the underlying digital records.

17. Do retail businesses need to record every single sale?

No, retailers can include in their digital records a single daily gross takings figure, rather than recording each transaction individually.

18. Can I just type my spreadsheet totals into the tax software?

No, data must flow through "digital links." If you use a spreadsheet for bookkeeping and a different app for submission, they must be linked (e.g. via a formula or a CSV upload). Manual re-typing is a compliance breach

19. What counts as a digital link?

Permitted digital transfer methods include emailing, importing data and use of memory sticks. We are expecting further guidance from HMRC on permitted practices, but copying and pasting or manually retyping entries will **not** be allowed.

20. Can my accountant handle MTD ITSA for me?

Taxpayers can engage an agent to help them handle MTD, just as they can appoint an agent to look after their other tax affairs.

For taxpayers within MTD, HMRC have introduced a 'multiple agents' system to allow more than one agent to help them with their MTD compliance obligations. Taxpayers who are not in MTD can only have one agent.

21. When should I register for MTD?

You must be registered for MTD by the April it first applies to you.

The registration deadline depends on whether you use tax year quarters (6 April) or calendar year quarters (1 April). You can register in advance, and agents can also sign up clients early; check software compatibility if using calendar quarters.

Contact us to find out how we can
support your business with MTD ITSA

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