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EXTENSION OF MTD PENALTY SOFT LANDING

Representation by Association of Taxation Technicians in respect of Autumn Budget 2026

1 Introduction

1.1 Making Tax Digital for Income Tax (MTD) represents a significant change in how affected taxpayers keep their business records and interact with HMRC. In acknowledgement of this, a limited late filing penalty easement or 'soft landing' has been introduced for those taxpayers required to join MTD in tax year 2026/27.

1.2 In the interests of fairness, this soft landing needs to be extended to also cover those taxpayers required to join MTD for the first time in tax year 2027/28.

1.3 The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This representation is written with that background.

2 Our recommendations

2.1 The penalty easement for late filing of quarterly updates during 2026/27 should be extended to those taxpayers who are required to join MTD for the first time in April 2027.

2.2 This would allow over 1 million lower income taxpayers expected to join MTD[1] for the first time in 2027/28, many of whom are unrepresented and not currently using software, much needed time to get to grips with the complexity of the new regime or appoint an agent to support them, without having to worry about penalties. It would also bring the soft landing for late filing penalties in line with that which applies for the new late payment penalties.

3 Background to our recommendation

3.1 Making Tax Digital for Income Tax became compulsory for the first group of taxpayers in April 2026. It requires those sole traders and landlords in scope to use third party software to keep digital accounting

[1] https://www.gov.uk/government/statistics/making-tax-digital-for-income-tax-business-population-statistics

records, file quarterly updates with HMRC and submit their tax return. The move to quarterly reporting and requirement to use third party software are significant changes compared to the self-assessment regime.

3.2 MTD is being rolled out in phases based on the level of a taxpayer's 'qualifying income' (broadly, combined income from self-employment and property, before expenses):

- Those with qualifying income over £50,000 were the first to be brought into MTD, and were required to join from April 2026 (i.e. for tax year 2026/27 onwards).
- Those with qualifying income over £30,000 will be required to join in April 2027 (i.e. for tax year 2027/28 onwards).
- Those with qualifying income over £20,000 will be required to join in April 2028 (i.e. for tax year 2028/29 onwards).

3.3 As taxpayers move into MTD, they also become subject to a new penalty regime for late filing of returns and late payment of income tax. The new late filing penalties are points based – instead of receiving an immediate financial penalty, late filing of either a quarterly update or the tax return results in the taxpayer being awarded a penalty point. Only when penalty points reach a certain threshold is a £200 penalty charged.

Whilst the new penalty regimes for late filing and late payment are expected to apply to all Self-Assessment taxpayers from April 2027, the impact of the revised late filing penalties is arguably more significant for taxpayers moving into MTD due to the scale and nature of the changes they face.

3.4 At the 2025 Budget, a limited easement or 'soft landing' was announced for those becoming subject to the new penalty regime as a result of joining MTD:

- For 2026/27 only, no penalty points will be awarded for late filing of quarterly updates.
- The initial day 15 late payment penalty will not apply to any taxpayer in their first year in the new regime.

3.5 The first quarterly update filing deadline for those taxpayers required to join MTD this year was 7 August 2026. HMRC statistics published shortly afterwards[2] indicate that, out of an estimated 864,000 taxpayers[3], only around 436,000 had successfully submitted an update.

3.6 An estimated further 1,077,000 taxpayers are due to join MTD in April 2027. HMRC statistics show that this cohort is less likely to be supported by a tax agent than those joining this year (63% of the April 2027 cohort have an agent, vs 75% of the April 2026 cohort). They are also less likely to be using software already (63% of those in the 2026 cohort used software already to submit their return, falling to 49% for the 2027 cohort).[4] Those taxpayers joining MTD in April 2027 are therefore likely to find it more difficult to adapt to MTD than those who joined this year.

3.7 Even though MTD will have been up and running for one year by the time the second cohort join in April 2027, it will still be new to those taxpayers. As a result, they will need time to adjust to digital record keeping and quarterly reporting, as well as learning how to use software. Extending the soft landing for 2026/27 to those

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[2] https://www.gov.uk/government/news/436000-sole-traders-and-landlords-make-their-tax-digital

[3] https://www.gov.uk/government/statistics/making-tax-digital-for-income-tax-business-population-statistics/making-tax-digital-for-income-tax-business-population-statistics-commentary

[4] https://www.gov.uk/government/statistics/making-tax-digital-for-income-tax-business-population-statistics/making-tax-digital-for-income-tax-business-population-statistics-commentary

joining MTD for the first time in April 2027 would ensure they have the opportunity to do this without the threat of penalties hanging over them.

3.8 An extension would also bring the soft landing for late filing penalties in line with that for late payment, which applies not just to 2026/27, but to any taxpayer's first year under the new rules.

4 Contact details

4.1 We would be pleased to join in any discussion relating to this representation. Should you wish to discuss any aspect of this representation, please contact us at atttechnical@att.org.uk.

The Association of Taxation Technicians

6 August 2026

5 Note

5.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government, and academia.

The Association has more than 10,000 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.