

Making Tax Digital for Income Tax

an agents' guide on how to get ready

What is Making Tax Digital for Income Tax?

Making Tax Digital for Income Tax Self-Assessment (MTD ITSA) will require many landlords and self-employed individuals to keep digital records of income and expenditure relating to their businesses and rental properties.

Those records will form the basis of quarterly updates, which will need to be submitted digitally to HMRC. Finally, an annual 'digital tax return' will need to be filed online, similar to the current Self-Assessment regime, but with some differences.

MTD ITSA will not change the due dates for paying income tax or filing the final 'digital tax return'.

Behind the scenes at HMRC, MTD will be supported by an upgraded computer system which promises enhanced security and better connection with other HMRC systems. This should result in greater pre-population of data already held by HMRC – for instance PAYE income.

Who does MTD ITSA apply to?

MTD ITSA will ultimately encompass self-employed individuals and landlords with gross 'qualifying income' of more than £30,000. Qualifying income means sole trade and property income and is measured before deduction of expenses – see *When does MTD ITSA apply from* for more details.

Exemptions

Individuals who don't have a National Insurance number on 31 January will be exempt from MTD ITSA for the following tax year. This exemption applies automatically and does not need to be claimed.

Exemption can also be claimed by individuals who are [digitally excluded](#), but the method of applying for this exemption has not been confirmed at the time of writing.

[Other MTD ITSA exemptions](#) exist, details of which can be found on GOV.UK.

Outside the scope of MTD, for now

For the time being, sole-traders and landlords with turnover of £30,000 or less will not need to comply with the requirements of MTD ITSA, and will remain in the current Self-Assessment regime. At the Autumn Budget 2024 it was announced that those with turnover of between £20,000 and £30,000 will also be brought within MTD ITSA by the end of this Parliament, but the exact date for this is not yet known.

Similarly, partnerships (including LLPs) are not in scope of MTD ITSA for now, but are intended to be brought in at a later date. The individual members of a partnership are also not currently within the scope of MTD ITSA in respect of their partnership income, despite being treated as self-employed for most tax purposes. However, any self-employment or property income outside the partnership could bring them into MTD for those non-partnership sources only, where this exceeds the relevant thresholds (see below).

MTD ITSA does not apply to companies. It is not yet known when MTD might be extended to Corporation Tax.

When does MTD ITSA apply from?

The requirements of MTD ITSA will apply to sole traders and landlords in two phases:

Phase 1: from April 2026 – those with gross qualifying income of more than £50,000.

Phase 2: from April 2027 – those with gross qualifying income of more than £30,000.

Qualifying income is the gross income from sole trade and property businesses (ie sole trade and property income combined and measured *before* expenses). For jointly held sources of income, only the relevant share is counted – eg if a husband and wife own a rental property equally, each spouse's qualifying income would be their share of the gross rent.

When is gross income measured?

The thresholds for the two phases of MTD ITSA mandation will be assessed against the gross qualifying income reported on the most recent tax return filed prior to the mandation date (assuming all returns are filed on time).

For instance, 2024/25 tax returns will be due for submission by 31 January 2026. If that return reports gross qualifying income of more than £50,000, that individual will have to join MTD ITSA from April 2026.

If the sole trade or property income declared by an individual relates to a new source of income which started in the year, the figure reported will need to be adjusted proportionately in order to compare 12 months' worth of income against the MTD ITSA mandation threshold.

Further details of the MTD ITSA income thresholds are available on our website, together with worked examples and guidance on what happens if the qualifying income later drops below the relevant MTD ITSA threshold.

Reliefs and allowances

Sole trade or property income which is not reported on a tax return because it is covered by a relevant relief or allowance (such as Rent a Room relief, or the property or trading allowances) does not count towards the MTD ITSA thresholds.

However, if the taxpayer is required to join MTD ITSA anyway, they will need to comply with MTD requirements for *all* sources of trading and property income (including those covered by Rent a Room relief or the trading / property allowance).

Will HMRC register people for MTD ITSA?

HMRC will not register taxpayers within scope of MTD ITSA automatically. Taxpayers whose income meets the relevant threshold will need to sign up to use MTD ITSA in much the same way as taxpayers register for Self-Assessment now.

Agents will be able to sign their clients up to MTD ITSA, but there won't be a bulk sign-up service, so this will be a time-consuming exercise for larger firms. The sign up facility is not yet available, but is expected to open well in advance of April 2026 to allow plenty of time for registrations.



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What will MTD ITSA involve?

There are three key components to MTD ITSA:

- digital record keeping,
- quarterly updates, and
- a year-end summary process.

Taxpayers may need help from agents and bookkeepers to comply with some or all of these requirements.

Digital record keeping

Under MTD ITSA, individuals will have to keep digital records of the amount, category and date of income and expenses relating to their sole trade and/or property businesses. These records can be kept either in purpose-built software, or on spreadsheets.

Quarterly updates

Taxpayers within MTD ITSA will need to submit a summary to HMRC of their income and expenses each quarter, fed from their digital records. These are not 'mini tax returns' as accounting and tax adjustments are optional. Instead, they will just represent the total of each category of income and expense that quarter.

A separate quarterly update will be needed for each trade or property business – so a sole trader who also rents out a property would have eight quarterly submissions to make each year.

By default, the quarters will follow the tax year, not the accounting period of the business. Updates must be filed by the 7th of the month following the quarter-end. So, the first quarter

will run from 6 April to 5 July, and the quarterly update will need to be submitted to HMRC by 7 August.

To better align with accounting dates, taxpayers can choose to make a 'calendar quarters election'. This would result in the first quarter running from 1 April to 30 June, the second from 1 July to 30 September and so on. The due dates for filing quarterly updates aren't affected, so the first quarterly update is due by 7 August, the second by 7 November and so on.

Quarterly updates will be cumulative, so if an error is discovered in a previous submission, it can be corrected the following quarter.

Year-end declaration

After the fourth and final quarterly update has been filed, the taxpayer will need to submit a 'digital tax return'. This will have similarities with the current Self-Assessment return, but will pre-populate with the income and expenses from the quarterly updates already filed. Those entries will then need to be adjusted for accounting and tax purposes (eg disallowing elements of private use or capital expenditure).

At the same time, other (non-MTD) sources of income, such as bank interest and PAYE income, will need to be either reported or the entries pre-populated by HMRC will need to be checked, along with any capital gains being declared and relevant reliefs claimed.

Depending on how the taxpayer (or agent) keeps the digital records, this year-end process may be done in software, or via a new HMRC online service.

As with 'ordinary' Self-Assessment, the filing deadline for the year-end return will be 31 January following the end of the tax year.

Digital links

From the point where business records are created in software, all transfers of data must be made digitally. This includes submitting the quarterly updates, making any corrections, and filing the year-end declaration. It also includes transfers of business records, for instance between a client and agent, or a bookkeeper and agent.

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.



Simplification options

A number of options should be available to make MTD ITSA compliance easier for some taxpayers. Final details had not been confirmed at the time of writing, but simplification options are expected to include:

1. Three-line accounts

Where total qualifying income is below the VAT threshold, taxpayers can choose to report total income and total expenses each quarter, rather than having to record and categorise each item on a line-by-line basis.

2. Simplified expenses

Taxpayers who are sure they will use [simplified expenses](#) or will claim the property and/or trading allowance do not need to keep records of their actual expenses

3. Retail businesses

Retailers can include in their digital records a single daily gross takings figure, rather than recording each transaction individually.

4. Joint property owners

Simplification options are also planned to accommodate the range of record keeping arrangements which can exist between joint owners of rental properties.

What should agents do to prepare?

MTD ITSA represents a fundamental change to the tax compliance requirements for those affected. Many will need help from agents, but agents themselves will also need to take steps to get ready for MTD ITSA.

The amount of preparation agents need to do will depend on their client base and current working practices, but the following tips are a good starting point.

Look at your client base

- Analyse your client base to work out who is likely to be in scope of MTD ITSA, and from when.
- Consider whether any clients will be exempt, either automatically or on grounds of digital exclusion. The latter will need to be applied for, and we are awaiting details of how applications should be made.
- Remember the income threshold for the earliest mandation date (April 2026) will be based on 2024/25 tax returns. As you prepare clients' 2023/24 tax returns, think when they would need to join MTD ITSA if the same income were declared in 2024/25.
- Having identified which clients are likely to be in scope and when, think about what support they will need from you as agent, and start discussing this with them. Some clients may deal with digital record keeping themselves, some may be comfortable filing quarterly updates but need your help with the year-end filing, whilst others may need professional advice and support throughout the process. Those needing the most support might benefit from having a bookkeeper (eg to handle record keeping, and possibly quarterly updates) as well as an agent (who might take over for the year-end filing).

- Look at how clients keep records – do they use software, apps or spreadsheets already? Do they already have a separate bank account for their sole trade and/or rental property? Some simple steps taken now could pay dividends – for example, moving clients likely to be in scope of MTD ITSA away from the 'shoebox of receipts' method of record keeping and/or mixing business transactions in with personal ones in the same bank account. At a basic level, creating a simple spreadsheet for clients to complete might help move them towards digital record keeping.

Your business

- From an agent's perspective, MTD ITSA will run through the Agent Services Account – (this is the account used for VAT, CGT '60-day reporting' and the Trust Registration Service).
- If your practice hasn't already done so, you should [set up an Agent Services Account \(ASA\)](#). If your business has one already, make sure any staff who will be involved in MTD ITSA have appropriate access.
- Once you have an ASA, you can link it to your existing Government Gateway account (the service you currently use to access clients' Self-Assessment records) – your existing agent authorisations should flow through to the ASA, so you won't need to redo 64-8's or have authorisation codes resent to clients. Linking your existing Government Gateway accounts to your ASA can be done at any time – it doesn't mean you have signed clients up for MTD, nor will it prevent you from using the existing accounts in any way.

- Think about staffing – if you expect to have a lot of additional bookkeeping work or quarterly updates to file, this will create pressure on resources at times of the year which might previously have been relatively quiet. Do you have enough staff of the right levels to support your clients' MTD ITSA needs?
- When you take on new clients, consider whether they will be affected by MTD ITSA. Talk about their record-keeping and what support they will need from you. When quoting for work, be conscious of additional costs as a result of MTD – for instance, if the client will need you to keep their digital records and file quarterly updates for them.
- Engagement letters will need to be updated to reflect the additional work required under MTD ITSA. The [ATT's Engagement Letter guidance and templates](#) will be updated in due course.

Software

- HMRC will not provide MTD ITSA compatible software themselves, but most major software providers are expected to offer suitable products. HMRC have published a [list of compatible software for MTD ITSA](#), including bridging software and some free options, but the choice available is expected to grow as we get nearer to MTD going live.
- If your software provider isn't currently listed, ask them what their plans are for MTD ITSA. You may need to change supplier if they will not be MTD-compatible in time.
- For clients keeping business records on spreadsheets, 'bridging software' will be able to extract the relevant data and submit it to HMRC in order to comply with the quarterly updates element of MTD ITSA. Some bridging software is already available, with more options expected.

Testing phase

- HMRC are operating two testing phases for MTD ITSA – a 'private beta' phase is currently ongoing, allowing small scale testing for a limited range of taxpayers. From April 2025, a 'public beta' will launch, allowing a wider range of taxpayers to join testing. Both phases will be supported by a specialist team at HMRC, promising much better support than is normally available to agents.
- Enrolling suitable, willing clients in the testing phase will allow you to test your systems and understand how MTD ITSA works early, and help you understand any changes you might need to make in advance of the April 2026 mandation date.
- If you want to join, identify one or two digitally capable clients who meet the criteria for testing, and discuss the idea with them before asking for their approval to sign them up. You will also need to check with your software provider that their product is compatible. Alternatively, if you operate as a sole-trader, you could sign your own business up to the testing phase, again subject to the software you use being able to support this.
- [More details on eligibility and how to sign up for testing can be found on GOV.UK](#), and you can [confirm who can join the testing phase via an eligibility checker](#). If you're not ready to sign up yet, you can listen to a [Tax Adviser podcast where Rebecca Benneyworth shares her experience of the private beta phase](#).

Find out more

The ATT's [MTD ITSA knowledge hub](#) has more technical details and is a developing resource which will be kept updated as the mandate date for MTD ITSA gets closer. We also share relevant content via social media, so make sure you follow us on [LinkedIn](#) and [X \(formerly Twitter\)](#).

HMRC are working on a guidance portal, which we will share via the above knowledge hub in due course. They will also be stepping up their communications campaign, so [sign up for relevant HMRC email updates](#) including webinars to help you keep up to date.

Are you prepared as an agent?

- Analyse your client base to work out who is likely to be in scope of MTD ITSA, and from when.
- Think about what support your clients will need from you as agent, and start discussions with them.
- If your practice hasn't already done so, set up an Agent Services Account.
- Review staff levels and expertise for supporting your clients' MTD ITSA needs.
- When taking on new clients, consider whether they will be affected by MTD ITSA. Discuss their record-keeping and what support they will need from you, and think about fee implications.
- If your software provider isn't currently listed, ask them what their plans are for MTD ITSA. You may need to change supplier if they will not be MTD-ready in time.