Making Tax Digital (MTD) for Income Tax, Disguised Investment Management Fees (DIMF) and Income-Based Carried Interest (IBCI)

What's changed about IBCI?

From 6 April 2026, the tax treatment of carried interest changed[1]. Under the new rules, carried interest is taxed under the income tax rules and treated as either qualifying carried interest (QCI) or non-qualifying carried interest (NQCI).

As a result of these changes, any deemed trade resulting from income that was IBCI ceased on 5 April 2026. Instead, carried interest arising from 6 April 2026 is treated as a new trading income source, rather than a continuation of the earlier IBCI source.

How does this impact MTD for Income Tax?

IBCI and DIMF contribute to a customer's qualifying income for MTD for Income Tax. In some cases, the cessation of the IBCI source will impact when a customer needs to start using MTD for Income Tax.

Where a customer has no other sources of self-employment income (including deemed sources such as DIMF) or property income, then the cessation of their IBCI income source will mean that the customer is not required to use MTD for Income Tax from 6 April 2026.

Carried interest taxed under the new rules will only contribute to a customer's qualifying income at a later point, once:

- the customer has reported QCI and/or NQCI income under the new rules on a Self Assessment tax return, and
- the income from this and any other self-employment and property income meets the relevant MTD for Income Tax qualifying income thresholds.

The first Self Assessment tax return on which such income would be reported is the 2026/27 return which has a filing date of 31 January 2028. Therefore, the earliest they will need to sign up is from 6 April 2028.

What if the customer has DIMF which continues in 2026/27?

Where a customer has DIMF income (including IBCI[2]) in 2025/26, and that source continues in 2026/27 (which may often be the case), the customer will remain

[1] *Under the previous rules, carried interest was subject to capital gains (CG) tax unless it was treated as income-based carried interest (IBCI) in which case it was taxed as deemed trading income under the disguised investment management fee (DIMF) rules. The previous carried interest CG & IBCI based rules are repealed and replaced by a new regime where, from 6 April 2026, carried interest is taxed under the income tax rules as a deemed trade under Chapter 2, Part 2 of ITTOIA 2005.*

[2] *Charged to tax as DIMF source income until 05 April 2026.*

mandated for MTD for Income Tax. However, the income from that continuing DIMF source must be returned separately because it constitutes a different income source from any QCI or NQCI income.

What if the customer has any other business income?

If the customer has other business income (for example from self-employment or property), MTD for Income Tax may still apply to those sources separately from 6 April 2026 if the total income from those income sources, reported in the 2024/25 tax return, is over £50,000.

Does the customer/agent need to take any action?

Customer has a continuing DIMF income source, or other sources of self-employment income or property income.

If a customer reported IBCI on their 2024/25 tax return, their qualifying income exceeds £50k and they have a continuing DIMF income source, or any other sources of self-employment income or property income , then they will still need to use MTD for Income Tax. They will also need to report the cessation of their IBCI income source on their 25/26 tax return.

Customer does not have a continuing DIMF income source, nor any other sources of self-employment income or property income.

If a customer reported IBCI on their 2024/25 tax return but does not have a continuing DIMF income source, or any other sources of self-employment income or property income, then they will not need to use MTD for Income Tax. The action they need to take will depend on:

- **If they have not signed up and started using MTD for Income Tax or HMRC has not signed them up**, then they should contact HMRC to confirm all of their relevant income sources for have now ceased. Otherwise, they will be signed up to use MTD for Income Tax by HMRC.

  They will still need to report the cessation of their IBCI income source on their 25/26 Self Assessment tax return. Guidance is available here under 'Ceasing all sources of self-employment or property income'.

- **If they already signed up and started using MTD for Income Tax**, then they should use their HMRC online services account, or agent services account to confirm the cessation date.

  They will not then have any MTD for Income Tax obligations for 26/27 but they will still need to report the cessation of their IBCI income source on their 25/26 Self Assessment tax return.

- **If HMRC has signed them up**, then they can confirm the cessation using this guidance: Check what to do if HMRC has signed you up for Making Tax Digital for Income Tax - GOV.UK

How is DIMF income assessed for MTD qualifying income?

Where an individual declares a receipt of DIMF income on their Self Assessment tax return, that income counts toward the customer's qualifying income. It will normally be treated as forming part of a continuing income source that spans more than one tax year (but see below regarding a one-off receipt).

However, DIMF income will be treated as arising from a one-off receipt where there is no reasonable expectation that any arrangements to which the individual is party could give rise to future DIMF source income. In these cases, customers should be recording the cessation of the income source on their tax return and will then not be required to use MTD for Income Tax because of this receipt, alone.

Where such a customer has already started using MTD for Income Tax, then they can declare the cessation using their HMRC online account as per: Use Making Tax Digital for Income Tax - Add or cease income sources - Guidance - GOV.UK