

MAKING TAX DIGITAL A GENERAL OVERVIEW AND WHAT IT MEANS FOR YOU



Making Tax Digital, commonly referred to as MTD, is HMRC's long-term programme to modernise the UK tax system. Its aim is to make tax reporting more accurate, reduce errors and bring the tax system fully into the digital age.

For taxpayers, this means a move away from annual, paper-based reporting and towards keeping digital records and submitting information to HMRC more regularly using approved software. While the changes may feel significant, MTD is being introduced in stages to allow individuals and businesses time to prepare.

WHO DOES MAKING TAX DIGITAL APPLY TO?

MTD for Income Tax will be introduced gradually:

- From 6 April 2026, it will apply to sole traders and landlords with annual gross income over £50,000
- From 6 April 2027, the threshold will reduce to £30,000
- From 6 April 2028, it will reduce further to £20,000
- If your combined income from self-employment and/or UK property exceeds these thresholds, you will be required to comply with Making Tax Digital.

KEEPING DIGITAL RECORDS

Under MTD, you must keep digital records of your income and expenses using HMRC compatible software. Paper records alone will no longer meet the requirements.

The software must be capable of maintaining your records and submitting information directly to HMRC.

This allows data to flow digitally, reducing the risk of errors and omissions.

WHAT ARE QUARTERLY UPDATES?

Instead of submitting one annual Self Assessment tax return, MTD requires **four quarterly updates** each year. These updates summarise your income and expenses for each three-month period.

For example:

- Records covering 6 April to 5 July must be submitted by 7 August

Similar deadlines apply throughout the tax year. These quarterly updates **do not calculate the tax you owe**. Instead, they provide HMRC with a more up-to-date picture of your tax position and help reduce last-minute issues at the year end.



END OF PERIOD STATEMENTS AND FINAL DECLARATIONS

Earlier versions of MTD included plans for an **End of Period Statement (EPS)**. HMRC has since confirmed that the EPS will not be introduced as part of MTD for Income Tax.

After your fourth quarterly update, you will instead complete a final declaration. This confirms your total income for the year and includes any adjustments, allowances and reliefs. The deadline for the final declaration remains 31 January following the end of the tax year.

THE NEW PENALTY SYSTEM

Making Tax Digital introduces a **points-based penalty system** for late submissions. Each missed deadline results in a penalty point and points remain on your record for up to **24 months**.

For quarterly reporting, once you reach **four points**, HMRC will issue a **£200 penalty**. Any further late submissions while you remain at the threshold will result in additional £200 penalties.

Separate **late payment penalties and interest** apply if tax is not paid on time. While there is a short grace period, interest begins to accrue from the due date until payment is made in full.

STEPS YOU NEED TO TAKE

To prepare for Making Tax Digital, you should:

1. Check whether MTD applies to you based on your income
2. Choose and set up HMRCapproved digital software
3. Begin keeping accurate digital records from the start of your MTD period
4. Plan ahead for quarterly submission deadlines
5. Speak to us at Nunn Hayward for guidance and ongoing support

HOW NUNN HAYWARD CAN HELP

Here at Nunn Hayward, we are already helping clients prepare for and transition to Making Tax Digital. Whether you need support assessing whether MTD applies to you, selecting suitable software, or managing quarterly reporting, we're here to help.

To arrange an initial discussion regarding your current position with MTD, please contact us on **01753 888 211** or email info@nhllp.com

Early preparation is key and we'd be happy to support you through the changes with confidence.