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Pay Less Tax
MTD 2026

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Pay Less Tax
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For some taxpayers, Making Tax Digital for Income Tax (MTD), may well be the biggest tax compliance event in their lifetime.

If you are a sole trader or a property landlord then you may have to register for MTD from as early as April 2026 if your turnover (gross income pre expenses) from self-employment or rental properties exceeded £50,000 during the 2024/25 tax year. Even if your turnover subsequently falls below £50,000 in this present tax year (2025/26) you may still need to be MTD compliant from April 2026.

If you are both a sole trader and a property landlord then you have to combine the turnovers together to see if the £50,000 threshold has been breached.

Likewise if you commenced your property or self-employed business part way through the 2024/25 tax year you will need to annualise that turnover figure when applying the MTD threshold test.

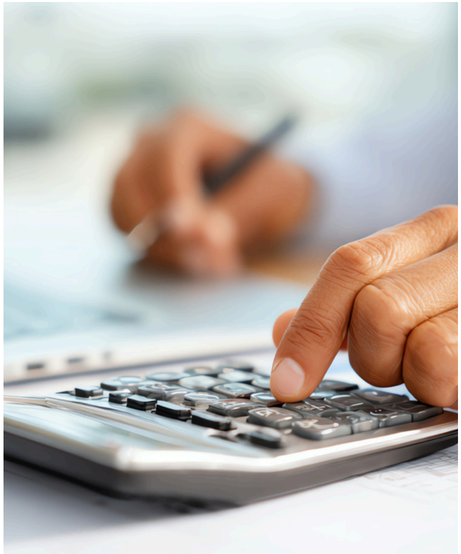
For example:

- Mary commenced her sole trader business half way through the 2024/25 tax year.
- Her actual turnover to 5th April 2025 was £30,000.
- However, Mary's annualised turnover is £60,000, twice the actual figure.
- She will need to register for MTD by April 2026.

HMRC have already been forewarning taxpayers who may be caught by the new rules and will continue to do so as the MTD commencement date looms. However, the onus is still on the taxpayer to check to see if they are caught by Making Tax Digital and to register in time.

Failure to comply with the MTD rules will result in severe penalties being imposed.

You may breathe a sigh of relief if your turnover in 2024/25 did not exceed £50,000. However you could find this reprieve short lived.



TIP

Bearing in mind all the complexities surrounding Making Tax Digital, why not have a meeting with us to see if you could be affected by the new rules

The Commitment

Presently, each tax year, if you are a sole trader or a property landlord, you complete your business or rental accounts and then declare those details on your self-assessment return along with details of any capital gains disposals made and any other income you received during the course of that particular tax year.

This return is submitted usually by 31st January following the end of the tax year in question. **It is a one off commitment**. A painful once a year job to do.

How you keep your records and, if you have an accountant, in what state you provide them to said accountant, is not a problem, as long as the records are complete and truly reflect the income received and expenditure incurred, so that it can be properly shown on the self-assessment return.

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However that is all about to radically change from as early as April 2026 with the introduction of Making Tax Digital.

- **If caught by the MTD rules you will need to maintain your trading and rental records in a digital format.**
- **That software has to be compatible with HMRC's software,** as you will be required to make digital quarterly submissions to HMRC, in part during the course of the tax year itself, and, in part, beyond the end of the tax year.
- **These quarterly submissions will need to be made for each business that you have**. For example, if you are a sole trader plus have rental property then quarterly submissions will need to be made for both businesses. In this example 8 submissions in all.
- The good news is that you will not have to submit a self-assessment tax return any more. **The bad news is that you will have to submit a finalisation statement also by 31st January following the end of the tax year** in order to factor in any accounting adjustments plus details of any other income, capital gains disposals and claims for reliefs such as pension contributions and charitable gift aid payments for example.
- If, for example, you become MTD compliant from April 2026 you will have to deal with the painful transitional year where you will be submitting quarterly statements as regards the 2026/27 tax year whilst at the same time completing accounts and the self-assessment tax return for the previous 2025/26 tax year. Almost double the work!!
- **Failure to do all of this in a timely manner comes with a whole new raft of penalty provisions.**

Questions you should ask yourself are:

a) Are you caught by MTD and if so by what date?

b) Will you be submitting your quarterly returns and finalisation statement yourself or will you need help?

c) Is your software MTD compatible with HMRCs?

d) Do you need any help in sourcing software and any training relating to it?

e) Are you ready for the MTD transitional year where effectively you are dealing with two tax years in one?

f) Will you need the assistance of an accountant to help you comply with MTD?

TIP

It is imperative to prepare for MTD as soon as possible otherwise the new rules could catch you out. We can help you tackle MTD whilst exploring the tax opportunities which may arise as a result of real time submissions.

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Penalties aplenty

Once you are on board the MTD train you will be greeted by two new penalty regimes as HMRC strive to keep you compliant with the new rules.

The first one is the late submission penalty. This is based upon a points system. Each late submission will result in a penalty point until you reach the penalty threshold. For quarterly submissions that will be four points and for the finalisation statement two points.

Once that threshold has been reached, no further points are added but a penalty amounting to £200 will be imposed. Every late submission thereafter will result in a further £200 penalty.

For example

- Sajid has missed the deadline for submitting two of his quarterly submissions as regards the 2026/27 tax year. He has racked up two penalty points.
- Sadly he misses the first two 2027/28 quarterly submission deadlines. He has now amassed four penalty points and is issued with a £200 penalty.
- To make matters worse Sajid then submits his 2027/28 third quarterly submission late and is immediately hit with a further £200 penalty.

If you haven't reached the penalty threshold, the points will expire after two years. However if you have hit the threshold, you will be required to be MTD compliant for 24 months (quarterly submissions) and 12 months (finalisation statement) ensuring that all the returns are submitted in that period on time.

On top of all of this is the late payment penalty. If you are 15 days late in paying your tax on time you will be charged with a penalty of 3% of the tax outstanding. A further 3% penalty will be imposed if the tax is still not paid after 30 days. Any further delay will result in a penalty accruing on a daily basis at a rate of 10% per annum.

You can enter into an agreed time to pay arrangement with HMRC which will stop penalties accruing from that day onwards, as long as you honour the agreement.

For example

- Nathan owes £10,000 in tax and fails to pay by the due date and has still not paid 40 days on from there.
- On day 40 he enters into a time to pay arrangement with HMRC.
- Nathan has already incurred the 6% first penalty of £600
- He has already incurred the second penalty, at a daily rate of 10% per annum, for the 10 days which has accrued up to day 40. In his case a further £27 (approx.).
- This second penalty stops accruing at this point as Nathan has entered into a time to pay agreement.

Interest will also be charged at a rate of 4% above the Bank of England base rate on the outstanding tax from the due date until it is finally paid. This is on top of the late payment penalty.

TIP

If you think you are going to struggle to meet the tax payment on time, it is wise to contact HMRC in advance of the due date to enter into a time to pay arrangement.

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Can MTD be avoided?

Other than not exceeding the Making Tax Digital threshold limits, there are presently three ways a taxpayer can avoid having to be MTD compliant.

Firstly, the following taxpayers can be automatically exempt from MTD :
a) Those claiming qualifying care relief, for example, foster carers, but only in respect of that source of income.

b) Trustees, personal representatives of deceased estates and non-resident companies.

c) Taxpayers who do not have a national insurance number on 31st January will be exempt from MTD for the following tax year.

Secondly, certain taxpayers will need to apply to HMRC to be exempt. Those who fall within this category are:

- The digitally excluded such as those taxpayers who do not use a computer for religious reasons and those who are unable to comply because of their age, disability or location or for any other reasons acceptable to HMRC.
- Individuals who are subject to insolvency proceedings.
- Taxpayers who have a power of attorney
- Non-UK resident foreign entertainers and sportspeople provided they have no other income caught by MTD.

These taxpayers or their accountants will have to apply to HMRC to claim the exemption, with the Revenue having 28 days to either grant or deny the application.

Finally, certain taxpayers will presently have a stay of execution from MTD until sometime in the future when HMRC will bring them into the Making Tax Digital net at a date yet to be stipulated. Those who are deferred from being MTD compliant include partnerships, corporates, Lloyds underwriters, ministers of religions and taxpayers who claim married couples allowance or blind persons allowance.

So incorporating a sole trader business or bringing in a partner can push back the date of needing to register for MTD. However, it would be wise not to carry out this type of restructuring of a business simply to avoid MTD as there are many other factors to bring into the equation before making such a decision, from a tax, commercial and legal perspective. Only after due consideration of all of these factors of which MTD is one, should a decision then be made one way or the other.

Simply jointly owning properties does not, in the eyes of HMRC, mean a partnership has been formed, thereby avoiding MTD. For a rental partnership to be in existence, HMRC would expect to see a degree of organisation similar to that required in an ordinary commercial business.

TIP

Please contact us to see if you may possibly be exempt from MTD or look at the feasibility of restructuring your business, which in turn may result in Making Tax Digital being deferred.

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