

RECORDS & SYSTEMS

Making Tax Digital: What to Expect

How Making Tax Digital works for VAT and for Income Tax Self Assessment, who it applies to, and how to prepare your records and software.

FOR: VAT-REGISTERED BUSINESSES, SOLE TRADERS AND LANDLORDS • SOME EXPERIENCE

What Making Tax Digital is

Making Tax Digital, usually shortened to MTD, is HMRC's programme to move tax reporting online. Instead of filling in a return once a year from records you may have assembled at the last minute, you keep digital records through the year and send summaries to HMRC from software. The aim is to reduce errors and to make the tax you owe clearer sooner. It has already applied to VAT for several years, and it is now being phased in for Income Tax Self Assessment.

MTD for VAT

All VAT-registered businesses must keep their VAT records digitally and file their returns through compatible software. You cannot type figures into the HMRC website. Most cloud accounting software is compatible, and spreadsheets can be used if they are linked to HMRC through bridging software. If you are VAT-registered and still using paper, you are already out of line, and it is worth fixing.

MTD for Income Tax

Sole traders and landlords whose qualifying income is above a threshold have to follow MTD for Income Tax, with the requirement being phased in by income level. The thresholds and start dates are set by HMRC, and are lower in later years, so check which date applies to you. If you are caught, you will need to:

1. **Keep digital records** of your business and property income and costs.
2. **Send quarterly updates** to HMRC from compatible software, summarising your income and expenses.
3. **Send a final declaration** after the end of the tax year, which replaces the Self Assessment return, with any adjustments, and pay any tax due.

Some people are exempt, for example because of age, disability or lack of internet access, and some types of income are outside the rules. Ask your accountant whether you qualify.

Who this is for

- VAT-registered businesses
- Sole traders and landlords with higher income
- Anyone still using paper records or spreadsheets

Key points

- VAT already requires digital records and software.
- Income Tax MTD is phased in by income level.
- Quarterly updates are summaries, not full returns.
- Compatible software is essential.
- Start early. Habits take time to build.

Quarterly updates are not quarterly tax payments

The updates tell HMRC your income and costs so far. They are not a payment date, but they give you an earlier picture of what you might owe, which helps you set money aside. Payment deadlines for Self Assessment remain as they are for now, so check the current rules.

Choosing software

Look for software that is recognised by HMRC for MTD, that fits your income, and that works with your accountant. Many products combine bookkeeping, VAT and income tax updates. Make sure the software can handle the particular features of your business, such as multiple properties or a partnership, and that your accountant can see your records and help you submit.

Getting ready

- **Check whether and when you are caught**, using your income figures.
- **Move to digital records** if you are not there already.
- **Choose software** and connect your bank feeds.
- **Make a routine**: record transactions weekly, review each quarter, and send your update on time.
- **Talk to your accountant** about who submits what, and who is responsible for each deadline.

Penalties

HMRC has a points-based penalty system for late submissions, with financial penalties after a threshold, and separate penalties for late payment. Keeping your records current and submitting on time avoids all of it.

What it means for your bookkeeping

The benefit of MTD, for most people, is that it forces regular bookkeeping, which is good practice anyway. If your records are already up to date, MTD will add little work. If they are not, it is a good reason to fix them.

Related guides

If this is useful, you may also want:

- [Cloud accounting software](#)
- [Bookkeeping basics](#)
- [VAT](#)

Before MTD starts for you

- Do I know my start date?
- Are my records digital?
- Is my software compatible?
- Is my bank connected?
- Who sends the updates?
- Are the dates in my calendar?

How King Street can help

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We tell you whether and when Making Tax Digital applies to you, set up compatible software and bank feeds, train you in a simple quarterly routine, and submit updates and the final declaration on your behalf if you prefer.

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