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# Your guide to Making Tax Digital

**Making Tax Digital (or MTD) is a government initiative that aims to make tax more effective and efficient while making it easier for taxpayers to get their tax right.** HMRC's plans involve getting small businesses and the self-employed to complete digital tax records and returns, with the goal of going completely paperless.

## Background

The government has reported that avoidable mistakes in tax reporting cost the Exchequer £8.5 billion in 2018 to 2019. It is anticipated that the improved accuracy that digital records will provide, the help built into many software products and the fact that information is sent directly to HMRC avoiding transposition errors, will reduce the amount of tax lost to these avoidable errors.

## What are the pros and cons?

Whatever the size of your business, transferring your accounting to a digital package could deliver several benefits, including:

- Giving a clear picture of your current financial position in real time as your bank feeds your data directly into your accounts daily
- Automatic updates mean you can see your financial results, who owes you money, who you owe and your business bank balance 24/7, 365 from your smart phone
- Your accounts are 100% online, so there's no software to install and everything is backed up automatically. Updates are free and instantly available.
- All your tax information will be in one place (your digital account), and you will be able to pay tax based on your business activity during the year. You will be able to upload and update your tax account in real time.

However, a key requirement is that you have the correct software and hardware, and that you know how to use both. For those using spreadsheets or who do their accounting manually, there will undoubtedly be additional costs to incur. These may include:

- Purchasing a computer and/or smartphone
- Investing in the appropriate software package which will be billed on a monthly or yearly contract. This is because remote updates will be essential to keep the software working smoothly

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## Making Tax Digital for VAT

Introduced on 1 April 2019, this first phase involves keeping digital records and using accounting software to complete VAT tax returns. As such, it has affected nearly all VAT-registered businesses with a taxable turnover over the VAT threshold of £85,000.

From 1 April 2022, this will have affected all VAT registered businesses. VAT-registered businesses with a taxable turnover below £85,000 will be required to follow Making Tax digital rules for their first return starting on or after April 2022.

## Making Tax Digital for Income Tax Self Assessment (ITSA)

Further to a government announcement in December 2022, MTD for Income Tax Self Assessment (ITSA), will apply from April 2026 (delayed from April 2024) to those individuals whose total gross income from self-employment and/or property exceeds £50,000 in a tax year. Most businesses will have two years to prepare and [test the service voluntarily](#) prior to its introduction.

MTD for ITSA will apply to:

- People who are self-employed
- Partnerships
- Those who receive income from property, with a gross income above £50,000 per year

## Making Tax Digital for Corporation Tax

MTD for Corporation Tax, previously mandated to commence 1st April 2026, was not covered by the December 2022 Treasury announcement, but is likely to also be put back. We will confirm the arrangements once they become clear.

Under the requirements of MTD for corporation tax, companies will need to:

- maintain digital records of their income and expenditure;
- provide quarterly updates of income and expenditure to HMRC using MTD compatible software; and
- file their annual corporation tax return using MTD compatible software.

The consultation on MTD for corporation tax proposes that companies will need to keep a digital record of all transactions they undertake. For each transaction, the date and amount will have to be recorded and a category assigned.

In addition to this transactional data, it is proposed that the digital records will also need to include some non-financial data, such as company type, industry classification, addresses of properties and a group structure, with entities in the charge to corporation tax clearly identified.

## The Making Tax digital timeline

**April 2022:** Making Tax Digital for VAT applies to all VAT-registered businesses.

**April 2026:** Making Tax Digital for Income Tax Self Assessment applies to self-employed businesses and landlords with annual business or property income above £50,000.

**April 2027:** Making Tax Digital for Income Tax Self Assessment applies to those with an income of between £30,000 and £50,000.

**Note:**

In December 2022 the government announced that it will not extend MTD for ITSA to general partnerships in 2025 as was previously planned, though there is still a commitment to do this.

## Help and support

[To find software that's compatible with Making Tax Digital for VAT](#)

[A full overview of Making Tax Digital initiative](#)

We have a selection of other articles and resources in our [Making Tax Digital Hub](#) as well as a Support Helpline should you require assistance on a specific issue.