



LEWISBROWNLEE

Making Tax Digital Income Tax



A GUIDE TO PREPARE, COMPLY, SUCCEED

xero

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WHAT IS MAKING TAX DIGITAL FOR INCOME TAX?

Making Tax Digital for income tax (MTD) is a government initiative to modernise the UK tax system. It mandates digital record-keeping and the use of compliant software to make regular electronic submissions to HM Revenue & Customs.

WHEN'S IT HAPPENING?

MTD for Income Tax is being introduced in phases, requiring individuals to comply once their combined gross self-employed business and/or property income exceeds a certain threshold at a particular date.



Individuals with combined qualifying income exceeding £50,000 will need to comply with the new rules from 6 April 2026 and whether they exceed the limit will be tested based on their 2024/25 tax return figures



A year later, this threshold is reduced to £30,000 based on an individual's 2025/26 tax return figures. Individuals that exceed this threshold must comply from 6 April 2027.



The threshold is then reduced further to £20,000 based on an individual's 2026/27 tax return figures. Individuals that exceed this threshold must comply from 6 April 2028.



WHAT IS CHANGING?

Individuals who meet the criteria for MTD will need take the following actions to be compliant with the new rules:



Keep digital records of your income and expenses for certain trades.



Submit quarterly updates of your digital records to HMRC using MTD-compatible software.



File a final declaration to HMRC to confirm any other income and make any adjustments required for your previously reported businesses.

KEEPING DIGITAL RECORDS

Under MTD, you must keep digital records of each trade's income and expense transactions.

A trade includes a self-employed business, UK property and foreign property.

If you operate multiple of these, separate digital records must be created and maintained for each of them.

For every transaction, you need to record the following details:



Amount - the exact value received or spent, including VAT if applicable.



Date when the income was received or expenses incurred - not the invoice date, but the actual payment or spend date.



Category most relevant to the transaction - such as office supplies, travel, rent, or professional fees.

ACCEPTED FORMATS & SOFTWARE



You are not required to scan and store invoices or receipts digitally - you may continue keeping them in paper form if preferred.



Digital records can be maintained using software such as Xero, QuickBooks, Hammocks, etc.



Spreadsheets are also acceptable, but they must be used alongside MTD-compatible bridging software to submit data to HMRC.



Be sure to choose an option that helps you stay accurate and consistent!

QUARTERLY UPDATES

Your digital records must be submitted to HMRC every three months using MTD-compatible software.

The deadlines are as follows:

QUARTERLY UPDATE	PERIOD	FILING DEADLINE
1	6 APRIL - 5 JULY	7 AUGUST
2	6 JULY - 5 OCTOBER	7 NOVEMBER
3	6 OCTOBER - 5 JANUARY	7 FEBRUARY
4	6 JANUARY - 5 APRIL	7 MAY

Individuals can elect to use calendar quarters instead, such as 1 April – 30 June if it helps align better to their circumstances, but the filing deadline will remain unchanged.



Set calendar reminders a week before each filing deadline to avoid penalties and last-minute stress.



Ask for advice early to stay ahead of the game...

Lewis Brownlee can help you choose software, set up processes, and avoid common pitfalls.



Choose software that suits your business...

Pick a solution that works the way you do - not all MTD software is the same.

MTD doesn't need to be taxing...

01 Lock in a monthly bookkeeping routine



Waiting until the quarter-end is a recipe for errors. Block out an hour every month to review your bank feeds, reconcile expenses and tag income. It keeps things clean and avoids panicked submissions.

02 Use bank rules to automate categorisation



Most MTD-compliant software lets you create 'rules' so common transactions are automatically tagged (e.g. petrol = travel). Set them up once and you'll save hours down the line.

Choose software that suits your business...

Pick a solution that works the way you do - not all MTD software is the same.



LEWIS BROWNLEE Getting the Most out of Making Tax Digital

Whether you're doing it yourself or working with an accountant, these six practical tips can help you stay compliant, avoid stress, and get the most from Making Tax Digital.

03 Don't mix business and personal spending



MTD doesn't ban mixed accounts, but it makes everything harder. Open a dedicated business account - even for property income - and only use it for eligible transactions. It makes record-keeping much easier.

04 Review your chart of accounts with your accountant



MTD submissions require data in HMRC's standard categories. Ask your accountant to review your chart of accounts so your records line up correctly - especially if you're using spreadsheets or older software.

05 Capture receipts on the go



While not mandatory, snapping receipts via your phone (using your accounting app or a tool like Dext) protects you during queries and helps categorise expenses later. Build it into your habits.

06 Understand what your software actually sends to HMRC



MTD updates aren't the same as your full tax return. They're summaries, and not always complete. Know what's included - and what still needs adjusting at year-end - so you don't miss anything.

Get ahead of deadlines...

preparing now saves time, stress, and penalties later.

Need help getting set up? We're here to support you every step of the way.

With the right tools and advice, it's just good digital housekeeping.

FINAL DECLARATION

Following the end of the tax year, a final declaration must be submitted to HMRC. It acts as your final confirmation of income and adjustments for the year.

This declaration will include:



Details of other income sources.



Any claims or elections you wish to make.



Any accounting and tax adjustments required for trade previously reported.

The deadline for submitting the final declaration and paying any resulting tax liabilities is 31 January following the end of the tax year

The final declaration replaces the requirement to submission a traditional self-assessment tax return to HMRC.

Depending on how you maintain your digital records, you may be able to submit the final declaration using the same software. However, separate tax software may be required.

Importantly, HMRC's have confirmed they will not be providing their own software and the current online Self-Assessment portal, and paper forms will no longer be available to taxpayers mandated to MTD.



EXEMPTIONS

Most individuals falling within the scope of MTD for Income Tax will not be able to opt out. However, certain exemptions are available.

The following individuals are automatically exempt from MTD:



Personal representatives managing a deceased person's estate.



Trustees.



Foster carers.

Some individuals may apply for an exemption depending on their circumstances:



Digitally excluded individuals (e.g., due to religious beliefs, disability, or remote location).



Individuals with a power of attorney in place.



Certain non-resident entertainers and sportspeople.



Individuals for whom HMRC cannot provide a digital service for security reasons.



WE'RE HERE TO HELP!

Unsure what exemptions apply to you?
Speak to our Tax Specialists for tailored advice.

Book your FREE Introductory meeting today!

LetsTalk@lewisbrownlee.co.uk

NEW PENALTY SYSTEM

A new penalty system is being introduced for MTD is designed to be fairer and more proportionate than the previous system. Here's a breakdown of how it works:



Late Submission Penalties: The system is points-based, meaning taxpayers will accumulate points for each late submission. Once a taxpayer reaches a certain threshold, they will be charged a £200 penalty.



Late Payment Penalties: The penalties for late payment are structured to increase over time. If tax is unpaid after 15 days, a penalty is charged. If it remains unpaid after 30 days, an additional penalty is applied.

This new approach aims to distinguish between occasional mistakes and persistent non-compliance, making it more lenient for those who generally meet their obligations while ensuring penalties for repeated failures.

COMMON MISTAKES TO AVOID

Even with the best intentions, it's easy to fall into these traps when transitioning to MTD:



Leaving submissions until the last minute: increases stress and risk of penalties.



Not maintaining digital link: Using copy and paste to transfer data is not compliant with the new rules.



Relying on outdated software: not all systems are MTD-compliant - check yours is.



Mixing personal and business finances: this creates unnecessary complexity and risk of error.

With good habits and the right support, MTD compliance can become a smooth part of your routine.

BENEFITS OF MTD FOR INDIVIDUALS:



Saves Time: Helps cuts down on paperwork and manual data entry



Better Financial Oversight: Provides real-time insights into income and expenses



Fewer Errors: Automates calculations, reducing mistakes in tax submissions

HOW LEWIS BROWNLEE CAN HELP

Navigating MTD doesn't have to be stressful - our team is here to ensure a smooth transition. We'll help you select the right software option suited to your needs and guide you through making the quarterly submissions and end of year declaration.

With the right approach, MTD can help streamline your processes reducing the amount of time spent managing your business whilst helping to provide greater financial visibility of your affairs.

Please contact us if you have any questions or require additional help in preparing for MTD.



Partners in your success



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Services we offer include:

Agricultural Accounting
Audit & Assurance
Cash Flow Forecasting
Cloud Accounting
Horticultural Accounting
Inheritance Tax Planning & IHT returns
Management Accounts
Outsourced Back Office
Payroll & Benefits-in-Kind
Probate Applications & Estate Administration
Tax Planning & Returns
Trusts and Estate work
Virtual Finance Directors
Virtual Financial Controllers
Year-End Accounts

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CHARTERED ACCOUNTANTS & TAX ADVISERS

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