RESOURCE GUIDE · HERMIT BUSINESS SOLUTIONS

Making Tax Digital for Income Tax: A Sole Trader's Checklist

*Who needs to join, when, what to record, and what happens if you miss a **deadline — explained without the jargon.***

Why this matters

MTD for Income Tax replaces the once a year Self Assessment return with quarterly digital updates sent from your bookkeeping software, followed by a year-end declaration. It's rolling out in stages by income, so the real question isn't "if", it's "when does this apply to me, and am I ready?"

When it applies to you

- Qualifying income over £50,000 (2024-25 tax year): must join from 6 April 2026
- Qualifying income over £30,000 (2025-26 tax year): must join from 6 April 2027
- Qualifying income over £20,000 (2026-27 tax year): must join from 6 April 2028
- HMRC works out whether you're in scope from the tax return you submitted for the tax year before you join, so your current year's figures decide your future start date

What counts as qualifying income

- Included: total self-employment turnover, and/or total property income, before expenses, combined if you have both
- Not included: PAYE employment income, dividends, savings interest, pension income and capital gains
- If your combined self-employment and property turnover sits under the threshold for the relevant year, you don't need to join yet, though you can opt in voluntarily

Keeping digital records and reporting quarterly

Once you're in, you keep digital records of income and expenses throughout the year in MTD-compatible software (QuickBooks, Xero and Sage all qualify) and send HMRC a summary for each business every quarter. Adjustments, reliefs and allowances aren't part of the quarterly updates, they're dealt with at year end.

The standard quarterly deadlines

- Quarter 1, 6 April to 5 July: submit by 7 August
- Quarter 2, 6 July to 5 October: submit by 7 November
- Quarter 3, 6 October to 5 January: submit by 7 February
- Quarter 4, 6 January to 5 April: submit by 7 May
- If your software supports it, you can elect to use calendar quarters instead (1 April to 30 June, and so on), which some people find easier to line up with quarterly VAT returns. The choice is made before your first submission and is not easily changed afterwards

The year end final declaration

After your fourth quarterly update, you submit a final declaration confirming your figures for the year and claiming any allowances or reliefs. This replaces the old Self Assessment return rather than adding another form on top of it.

What happens if you miss a deadline

- You get one penalty point for each quarterly update or return you miss, even if you run more than one business
- At 4 points, you get an immediate £200 penalty, then another £200 for every further missed deadline
- Points expire automatically 24 months after the missed deadline, as long as you stay under 4 points
- Once you've reached 4 points, clearing them takes 12 months of on-time submissions plus catching up anything outstanding from the previous 24 months
- Late payment penalties are separate, and start once tax is more than 15 days overdue, rising the longer it's left unpaid, with interest on top

Exemptions

- You may be exempt if you're considered digitally excluded, for example due to disability, age, location or religious grounds
- HMRC reviews your position each year based on your latest tax return, so you may move in or out of scope over time
- If you think an exemption might apply to you, you still need to apply for it rather than simply not signing up

POINT TO NOTE

The £30,000 threshold isn't as far off as it sounds. HMRC decides who joins in April 2027 from your 2025-26 figures, which is the tax year you may already be partway through. It's worth checking your position now, getting your bookkeeping into a quarterly rhythm and sorting software well before your date arrives rather than in a rush next spring.

What to do next

- Work out your qualifying income and which threshold year applies to you
- Check whether your current bookkeeping is already digital, accurate, and could be reported quarterly
- Decide between standard or calendar quarters if you have a choice
- Ask about the digitally excluded exemption if it might apply to you
- Get in touch for a free chat if you'd like a hand getting set up in good time