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SPOTLIGHT ON:

Making Tax Digital for Income Tax: Preparing for the April 2027 threshold



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A PRACTICAL GUIDE FOR SOLE TRADERS AND LANDLORDS APPROACHING £30,000 IN INCOME.

Making Tax Digital for Income Tax is a legal requirement to keep digital business records and send HMRC a short online update every three months, rather than relying on one Self Assessment return a year. It has applied since 6 April 2026 to sole traders and landlords with qualifying income over £50,000, and from 6 April 2027 it extends to anyone with combined self-employment and property income over £30,000.

For those newly affected, the change is less about the tax owed and more about how records are kept. Four quarterly updates are followed by a year-end final declaration – similar in substance to the annual tax return many people are used to, but sent through compatible software rather than HMRC's own online service. A shoebox of receipts sorted once a year is no longer enough.

More than 436,000 sole traders and landlords successfully sent their first Making Tax Digital for Income Tax quarterly update, and over 570,000 had signed up to the service, HMRC confirmed as at 12 August 2026. The next wave is expected to be considerably larger.

If your combined income from self-employment and property sits between £30,000 and £50,000, your 2025/26 tax return is the one HMRC will use to decide whether you join from 6 April 2027, so the time to prepare is now rather than next spring.

KEY TAKEAWAYS

- **Threshold:** Combined self-employment and property income over £30,000 – on a gross basis, before any expenses are deducted – means joining Making Tax Digital for Income Tax from 6 April 2027, based on your 2025/26 tax return.
- **Reporting:** Four quarterly updates plus a final declaration submitted through compatible software.
- **Joint property:** Only your own share of jointly owned rental income counts towards your qualifying income, not the total.
- **Penalties:** Unlike the first intake in 2026, there is no penalty-free grace year for quarterly updates in 2027 – points-based fines can apply from day one.
- **Scope:** Partnerships and limited companies are not yet included, and qualifying income of £20,000 or less remains automatically exempt.

WHAT IS MAKING TAX DIGITAL FOR INCOME TAX?

Making Tax Digital for Income Tax is HMRC's system for reporting self-employment and property income digitally throughout the year, alongside your annual final declaration. It does not create a new tax – Income Tax, Class 4 National Insurance and the underlying rules for calculating profit all stay the same. What changes is the reporting process.

Anyone within scope must keep digital records of self-employment and property income and expenses, send HMRC a quarterly update every three months, and submit a year-end final declaration by 31 January, through compatible software rather than HMRC's own online service. You cannot submit your final declaration for the year until all four quarterly updates have been sent.

The rules apply in the same way across England, Scotland, Wales and Northern Ireland. Scottish taxpayers pay Income Tax at different rates and bands, but that affects how much tax is due, not whether the rules apply.



THE THREE THRESHOLDS, AND WHEN THEY COME INTO EFFECT

Making Tax Digital for Income Tax is being introduced in three stages, based on qualifying income – broadly, gross self-employment and property income before expenses – declared on a specific year's tax return.

Qualifying income over	Tax year	Mandatory from
£50,000	2024/25	6 April 2026
£30,000	2025/26	6 April 2027
£20,000	2026/27	6 April 2028

HMRC reviews the relevant Self Assessment return each year and writes to anyone who has crossed a threshold, confirming they need to join from the following April. That letter is a courtesy rather than a condition – responsibility for checking your own position sits with you even if none arrives.

For the £30,000 threshold, your 2025/26 tax return, due by 31 January 2027, is the one that counts. Because that return covers income already earned, some people only discover they are affected weeks before the new rules start – working out your likely position now gives you far more useful notice.

WHAT COUNTS AS QUALIFYING INCOME?

Qualifying income is your total turnover from self-employment and property, added together, before any expenses are deducted. It is based on the tax return you submit for the relevant year, not on profit.

Suppose you earn £22,000 from self-employment as a personal trainer and receive £9,500 in gross rent from a buy-to-let flat you own outright. Your combined qualifying income is £31,500, just over the £30,000 threshold, so you would need to start using Making Tax Digital for Income Tax from 6 April 2027, based on income declared on your 2025/26 tax return.

Some income is excluded from the calculation altogether. Employment income taxed under PAYE, dividends, State Pension and private pensions, and your share of profit from a partnership as an individual partner, do not count towards qualifying income, even though they still need to be reported on your tax return.

If you are UK resident, foreign property income counts alongside UK property income. If you are not UK resident, generally only UK property income and self-employment income declared on a UK tax return counts towards the threshold.

DO JOINTLY OWNED PROPERTIES CHANGE THE CALCULATION?

Yes – only your own share of the income counts towards your qualifying income, not the total the property generates. This is relevant for couples, family members or friends who own a rental property together.

Suppose you and your partner jointly own a rental property that produces £40,000 in gross rental income a year, split equally. Your individual share is £20,000. If this is your only source of qualifying income, you would fall below the £30,000 threshold for the 2027 start date, even though the property itself generates well above it.

If you only ever get told your share of the income after expenses have already been taken off – rather than seeing the gross rent – HMRC will normally use that net figure for your qualifying income instead. Any other self-employment or property income in your own name is then added to reach your total.

WHO IS NOT AFFECTED, AT LEAST FOR NOW

Partnerships do not currently need to use Making Tax Digital for Income Tax, and HMRC has not yet confirmed a start date for them, though an individual partner with their own separate self-employment or property income may still be caught personally. Limited companies sit outside these rules entirely, since they are taxed under Corporation Tax, and trusts and estates that file an SA900 return continue to report as before.

Anyone whose qualifying income is £20,000 or less is automatically and permanently exempt, unless circumstances change. A handful of other groups qualify too, at least for now, including farmers and creative artists claiming averaging relief, foster and kinship carers, and people declaring non-UK residence, though most of these exemptions are temporary rather than permanent.



IF YOUR INCOME MOVES NEAR THE THRESHOLD

Crossing the threshold is not always permanent, and the rules allow for that. If you start a new self-employment or rental property partway through a tax year, HMRC will normally annualise the income to estimate your full-year qualifying income – this happens automatically for sole traders, while landlords need to annualise their own figures.

If your qualifying income later drops, you cannot necessarily stop straight away. Once you are using Making Tax Digital for Income Tax, you can generally only opt out once your qualifying income has stayed below the relevant threshold for three tax years running.

Selling your only rental property or closing your only self-employment can remove you from scope, but only once every source has stopped – HMRC still counts a ceased source towards your qualifying income if another self-employment or property source continues. Where all your self-employment and property income has ceased since your last tax return, you will not need to use Making Tax Digital for Income Tax, and you should tell HMRC before the start of the next tax year rather than waiting until your return is due.

HOW THE QUARTERLY UPDATES ACTUALLY WORK

Every three months, your software adds up your digital records for each business or property and sends HMRC a running total for the tax year to date, using the same income and expense categories as a Self Assessment return. These are summaries, not full tax returns, and no tax is calculated or due at this point.

The deadlines are the same whichever quarter dates you use: 7 August, 7 November, 7 February and 7 May. You must send an update even if you had no income or expenses in that period, and you can send one early, up to ten days before the quarter ends, if you know there is nothing further to add.

After each update, your software will show an estimated tax bill based on what has been submitted, though it is only as accurate as the information behind it. Adding other income, such as savings interest or dividends, during the year – rather than leaving it until your tax return – makes that running estimate more useful.

DO YOU NEED TO CATEGORISE EVERY EXPENSE?

Not necessarily. If your gross income from a self-employment or property business is below £90,000, the current VAT registration threshold, you can report a single total expenses figure for that business each quarter rather than breaking costs down by category. This is sometimes called consolidated or three-line reporting.

The main exception is residential property finance costs, chiefly mortgage interest, which must always be reported separately because of how tax relief on that cost is worked out. The £90,000 limit applies separately to each business or property source, so someone with two income streams could use the simplified approach for one and need full categories for the other, depending on the turnover of each.

FILING YOUR TAX RETURN AT THE END OF THE YEAR

After your fourth quarterly update, you submit your final declaration, due by the same 31 January deadline, but now through compatible software rather than HMRC's own online service. This draws together all four updates, adds any other income and reliefs, such as employment income, savings, dividends, Gift Aid or pension contributions, and calculates your final Income Tax and Class 4 National Insurance liability.

If you jointly let a property and chose not to include expenses in your quarterly updates, this is also the point at which you report them, by resending your fourth update before finalising your return. The payment deadline itself does not change – it remains 31 January.



WHAT SOFTWARE WILL YOU NEED?

You will need commercial software recognised by HMRC – the department does not provide its own free tool for Making Tax Digital for Income Tax, unlike the current online Self Assessment filing service. Two broad options exist: software that creates and stores your digital records directly, or bridging software that connects records kept in a spreadsheet to HMRC's systems.

Both free and paid products are available, and some cover only part of the process, such as creating records or sending updates, while others handle everything including your annual tax return. You can use more than one product if that suits how you work, though only one product can be used for each individual submission.

If you already use bookkeeping software for VAT or general record-keeping, it is worth checking whether it, or an add-on to it, already supports Making Tax Digital for Income Tax.

EXEMPTIONS WORTH KNOWING ABOUT

Beyond the £20,000 automatic floor, the main route to exemption is being digitally excluded – where age, a disability or health condition, a religious objection to digital communication, or a genuine lack of internet access makes it unreasonable to expect you to use compatible software. This must be applied for and is assessed case by case; simply preferring paper records, being unfamiliar with software, or facing extra cost and time is not enough on its own.

Some other groups – including ministers of religion, Lloyd's underwriters, and people receiving Blind Person's Allowance or Married Couple's Allowance – are automatically exempt for now if this already appeared on their 2024/25 tax return, though this is expected to change at a later date. If your position looks unusual, checking is safer than assuming either way.

If you already use bookkeeping software for VAT or general record-keeping, it is worth checking whether it, or an add-on to it, already supports Making Tax Digital for Income Tax

THE COST OF MISSING A DEADLINE

Late submission penalties are points-based. Each missed quarterly update or annual filing deadline earns one point, and reaching four points triggers a £200 penalty, with a further £200 for every deadline missed after that. Points normally expire 24 months after the deadline they relate to, provided you stay below the threshold.

The 2026 intake was given a penalty-free first year for quarterly updates, but that concession does not repeat for the 2027 wave. From 6 April 2027, the points-based system applies in full from the outset, so build the habit of meeting deadlines from your very first quarter rather than assuming a grace period exists.

Late payment works differently, and here the first-year concession applies to everyone, regardless of which wave brings them in. In your own first year under the scheme, HMRC allows 30 days rather than 15 before a late-payment penalty can apply, falling to 15 days from your second year on. Once that grace period passes, unpaid tax attracts a penalty of 3% for the 2026/27 tax year, rising to 4% from 2027/28, with a further, equal penalty after 30 days and a daily annual charge from day 31.

PRACTICAL STEPS TO TAKE BEFORE APRIL 2027

Preparing early avoids a rushed switch to new software and record-keeping habits in the weeks before your first deadline.

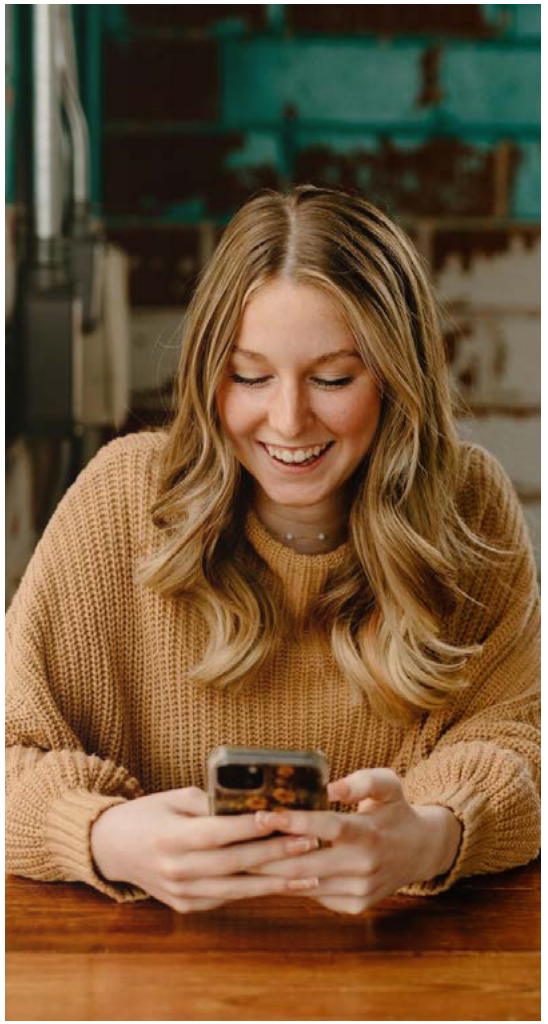
- **Check your likely 2025/26 income now:** add together expected self-employment and property turnover to see how close you are to £30,000.
- **Start comparing software:** look at providers before the run-up to April 2027 becomes crowded, and check whether your current bookkeeping or VAT software can be extended to cover Income Tax.
- **Get into a quarterly rhythm:** begin logging income and expenses as they happen rather than in a single batch at year end, even before you are legally required to.
- **Work out your true share of any jointly owned property:** this determines whether you are individually affected, and when.
- **Talk to us in good time:** we can check your qualifying income, help you choose suitable software and have a quarterly routine ready well before your start date.

FINAL THOUGHTS

Making Tax Digital for Income Tax has already changed record-keeping for sole traders and landlords earning over £50,000, and the £30,000 threshold arriving on 6 April 2027 will bring in a considerably larger group, many of whom have never had to think about digital reporting before. The tax year that decides who joins next, 2025/26, has already ended, and the return reporting it is due by 31 January 2027.

The main risk is leaving preparation until a letter arrives from HMRC, or until the first deadline is weeks away – software needs choosing and a quarterly routine takes time to settle into.

If your combined self-employment and property income is heading towards £30,000, or you are unsure how jointly owned property affects your position, contact us now. We can check your qualifying income, recommend suitable software and help you get ready well ahead of April 2027.



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