

Making Tax Digital for Income Tax: What UK Businesses Need to Know

Introduction

Making Tax Digital (MTD) is transforming how UK businesses manage their tax affairs. Introduced by HM Revenue & Customs (HMRC), Making Tax Digital aims to simplify tax reporting, making it more efficient and transparent. The next phase, Making Tax Digital for Income Tax Self Assessment (MTD for ITSA), will affect thousands of self-employed individuals and landlords across the UK.

At Flourish Advisory, we understand that navigating HMRC's Making Tax Digital rules can feel overwhelming. This guide explains the upcoming Making Tax Digital changes, who must comply, and how your business can prepare for MTD.

What is Making Tax Digital?

Making Tax Digital is a UK government initiative requiring businesses to keep digital accounting records and submit tax information to HMRC using compatible accounting software. Rather than completing a single annual tax return, businesses will send regular updates to HMRC throughout the year.

The goal of Making Tax Digital is to:

- Reduce tax return errors
- Improve the accuracy of financial reporting
- Help businesses understand their tax position throughout the year

For many businesses, this means switching to MTD-compatible accounting software and maintaining digital records of income and expenses.

Key features of Making Tax Digital

- Digital record keeping - under Making Tax Digital for Income Tax, businesses must keep digital records of income and expenses using accounting software. These records will be used to prepare quarterly updates that are sent directly to HMRC.
- Using compatible software - businesses must use MTD-compatible accounting software that communicates directly with HMRC. Popular options include cloud-based accounting platforms that automatically track income, expenses and tax estimates.
- Quarterly reporting - one of the biggest changes introduced by Making Tax Digital is quarterly reporting. Instead of submitting a single Self Assessment tax return each year, businesses will send quarterly updates to HMRC showing their income and expenses.

- Year-end finalisation - at the end of the tax year, the taxpayer will finalise their business income. This includes:
 - Any accounting adjustments
 - Claiming allowable expenses
 - Submitting a final confirmation statement to HMRC

Flourish Advisory will ensure all of your MTD submissions run smoothly, giving you more time to focus on what really matters - growing your business.

Who needs to comply with Making Tax Digital?

Making Tax Digital is already in place for VAT and is now expanding to Income Tax Self Assessment. Most VAT-registered businesses must keep digital records and submit VAT returns using Making Tax Digital software. MTD for VAT has been mandatory for most VAT-registered businesses since April 2019.

The next phase, Making Tax Digital for Income Tax, begins in April 2026.

The rules will apply to:

- Self-employed individuals
- Landlords with rental income

The income thresholds are:

- **April 2026:** gross income over £50,000
- **April 2027:** gross income over £30,000
- **April 2028:** gross income over £20,000

If you are a self-employed business owner or property landlord, preparing early for Making Tax Digital can make the transition much smoother. Flourish Advisory can help ensure you remain informed, compliant and fully prepared before these deadlines arrive.

Conclusion

Making Tax Digital represents a significant step towards modernising the UK tax system. For self-employed individuals, landlords and businesses across the UK, MTD for Income Tax will change how tax information is recorded and reported to HMRC. With the right systems and professional support, businesses can benefit from improved accuracy, better financial insight and simpler tax compliance.

At Flourish Advisory, we are committed to helping your business adapt and thrive as Making Tax Digital is introduced.

Ready to prepare for Making Tax Digital? Contact Flourish Advisory today to learn how we can support you with Making Tax Digital and help your business grow with confidence.