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Everything you need to know about Making Tax Digital for Income Tax Self Assessment

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What is Making Tax Digital for ITSA?



Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) is a new way of reporting earnings to HMRC. You'll need to use compatible software to keep digital records and send Income Tax updates to HMRC, **instead of filing a Self Assessment tax return**. This becomes mandatory from April 2026 for sole traders and **landlords** with turnover above £50,000 per year. Those earning above £30,000 annually will follow in April 2027. To comply with ITSA rules, you'll need to **submit quarterly updates to HMRC**, as well as a **Final Declaration** that includes all other taxable income by 31 January every year.

VAT-registered sole traders and landlords will already be familiar with MTD rules. From April 2019, MTD rules became mandatory for all VAT-registered businesses earning above £85,000. And from April 2022, all VAT registered businesses now need to keep digital records and submit VAT returns with MTD software.

Current Self Assessment rules	MTD for ITSA from April 2026
<ul style="list-style-type: none">• 1 annual submission• Paper filings by 31 Oct• Online filings by 31 Jan• Fine to keep paper records	<ul style="list-style-type: none">• 4 quarterly submissions per business• 1 annual "Final Declaration" submission per individual• Filing via MTD-compliant software• Keeping digital records



Who does Making Tax Digital for ITSA apply to?

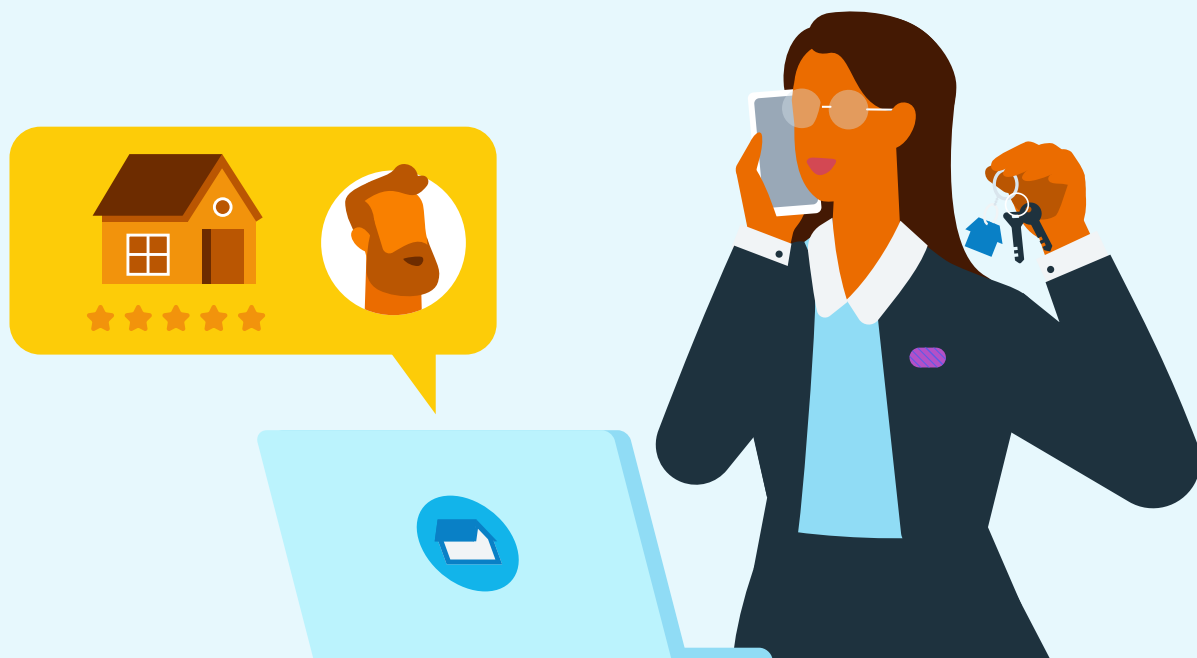


For this phase of Making Tax Digital, the rules will apply to landlords and sole traders whose total gross income from self-employment and property exceeds £50,000 in a tax year. Landlords and sole traders earning above £30,000 annually will follow in April 2027.

What are the benefits of MTD for Income Tax?

Instead of one annual submission, you'll submit **quarterly updates** over the course of the tax year. In return, you'll get a regular snapshot of your tax liability, so you can plan your budget and manage your cash flow more effectively.

Another perk of **MTD for Income Tax** is that it simplifies the **Self Assessment tax process**. Before, you might have used multiple systems to manage your records and returns — like spreadsheets, the HMRC website, or pen and paper ledgers. Now, you can spend less time preparing your returns by using compatible software to keep digital records, produce reports, and generate quarterly updates.



How to sign up for Making Tax Digital for ITSA



Make sure you have MTD for Income Tax compatible software in place, and you're signed up to MTD for ITSA before April 2026.

Unlike MTD for VAT, you can't sign up via the HMRC website, and you or your accountant or bookkeeper will need to sign up via your cloud-based software. If you're not sure how to do this, reach out to your software provider.

For a step by step guide signing up for MTD for ITSA, check out the [gov.uk website](https://www.gov.uk).



What happens after you've signed up to MTD for ITSA?

When you sign up, you'll be required by HMRC to follow [MTD for ITSA rules](#). This means keeping digital records of all your business income and expenses. You, or your accountant or bookkeeper, will need to:

- Send quarterly updates to HMRC
- Submit your Final Declaration and pay the tax owed by 31 January of the following year

Your accountant or bookkeeper will let you know if they'll manage the above obligations for you.

FAQ

Can my accountant or bookkeeper sign me up for MTD for ITSA?

Yes. Speak to your accountant about signing up for MTD for ITSA early, so you have plenty of time to familiarise yourself with the system. Some bookkeepers also provide tax services and will be able to sign you up. Check with them first to see if this is something they offer.

Your accountant (and some bookkeepers) can also submit your quarterly updates and Final Declarations using your cloud-based accounting software.

Do I need to sign up for MTD for VAT and MTD for ITSA separately?

Yes. The systems are separate, so you may need to sign up for both. Some will need to sign up for MTD for VAT and MTD for ITSA, whereas others will only need to sign up for MTD for ITSA. If you're not sure if MTD for VAT applies to you, [read this guide](#).

How to keep digital records using software

As part of MTD for ITSA you'll need to use compatible software ([like Xero](#)) to keep digital records of all your business income and expenses.

Compatible software enables you to keep digital records and submit quarterly summary reports to HMRC. You can also submit a [Final Declaration](#) annually.

You, or your accountant or bookkeeper, will need to send quarterly updates to HMRC. To ensure accurate data is sent to HMRC, you should:

- Maintain your records as close to the date of the transaction as possible
- Do this before your accountant or bookkeeper submits the quarterly update for that period

FAQ

Can I use spreadsheets for MTD?

You might have heard about [bridging software](#). It was popular during the first phase of MTD for VAT because it allowed businesses to continue using their spreadsheets for VAT returns.

With MTD for ITSA, you will need to submit quarterly statements and a Final Declaration, not just a single annual return. This makes keeping all of the relevant records in a spreadsheet more difficult. And you'll also need to keep to the [digital linking rules](#).

There's no risk of losing, deleting, or corrupting spreadsheet cells in cloud-based accounting software. [HMRC recognised software](#) acts as safe storage for all your financial records and will also help ensure compliance with MTD.



How to authorise a tax agent for MTD

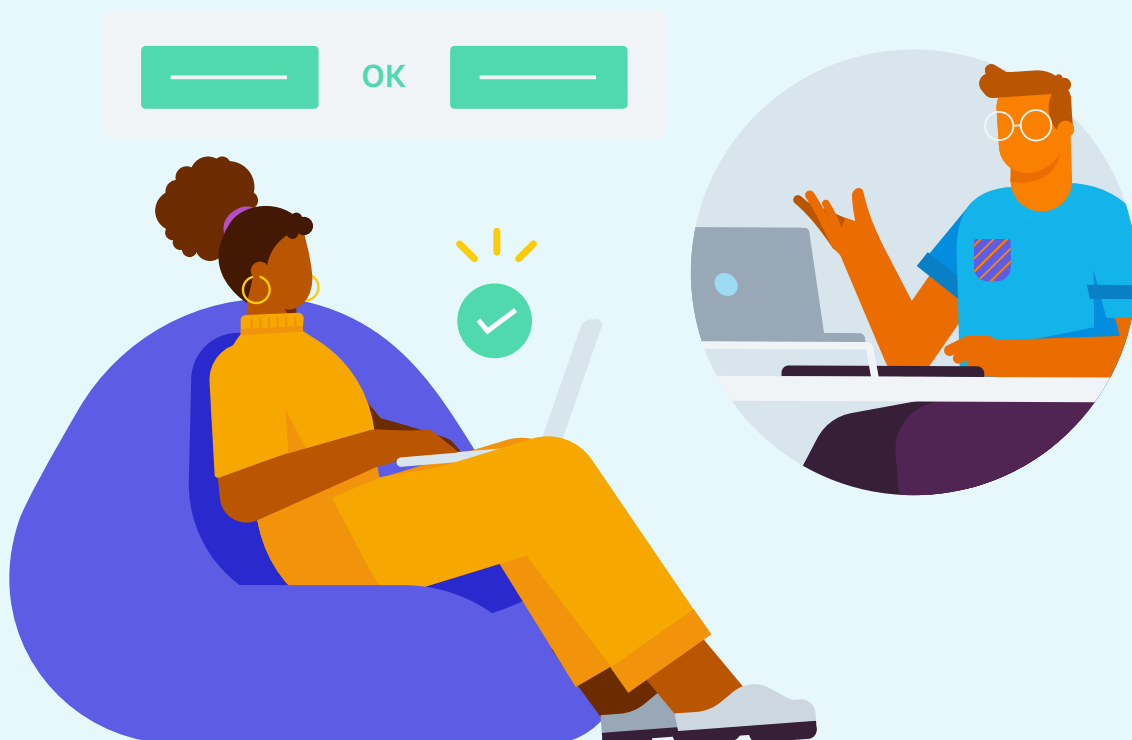
You'll need to authorise your tax agent (i.e. your accountant or bookkeeper) to deal with HMRC on your behalf for Making Tax Digital. Once authorised, an agent can [sign up your business](#) and use [MTD compliant software](#) to create, view, edit and send your data to HMRC. Your agent may also keep and maintain digital records on your behalf.

If you've previously authorised an agent to act on your behalf for Self Assessment, you won't need to re-authorise them again for Making Tax Digital for Income Tax. HMRC is working on a solution to authorise more than one tax agent to manage your account. We'll keep you posted on progress.

Keeping an eye on MTD for ITSA obligations

We'd recommend that both you and your accountant or bookkeeper connect your compatible software to your HMRC accounts and authorise it to interact with HMRC on your behalf.

To do this, you'll need your Government Gateway user ID and password. For example, in Xero software this will mean that both you and your advisor will have access to the MTD for ITSA dashboard, and see the obligations and tax estimate.



Sending HMRC quarterly updates using compatible software

After your compatible software is connected, you or your accountant or bookkeeper will send updates for your income source to HMRC every three months. **These updates** are summaries of your business income and expenses and are required for each income source. Your software will tell you when and how to send the updates.

Your accountant or bookkeeper will speak to you about who will send quarterly updates, as they may do this on your behalf.

FAQ

How do I calculate income for MTD for ITSA?

All property and business income contributes to the £50,000 threshold. For example, if you're a freelancer earning £40,000 per year from your business, and £12,000 per year from property, you'll be above the threshold and will therefore need to comply with MTD for ITSA. The same applies for the £30,000 threshold from April 2027.

If you have multiple businesses or sources of property income, you need to add up the income from all of them to work out whether you're above the threshold.

Submitting a **Final Declaration** and paying tax to HMRC

The Final Declaration brings together all the information, including personal income, that you need to provide to HMRC to reach your final tax liability for the year. It effectively replaces your Self Assessment [tax return](#).

In your Final Declaration, you'll need to:

- Tell HMRC about any personal income or gains you have
- Make claims for reliefs, allowances, and deductions
- Tell HMRC how they want to deal with any losses
- Confirm that the information sent is correct and complete

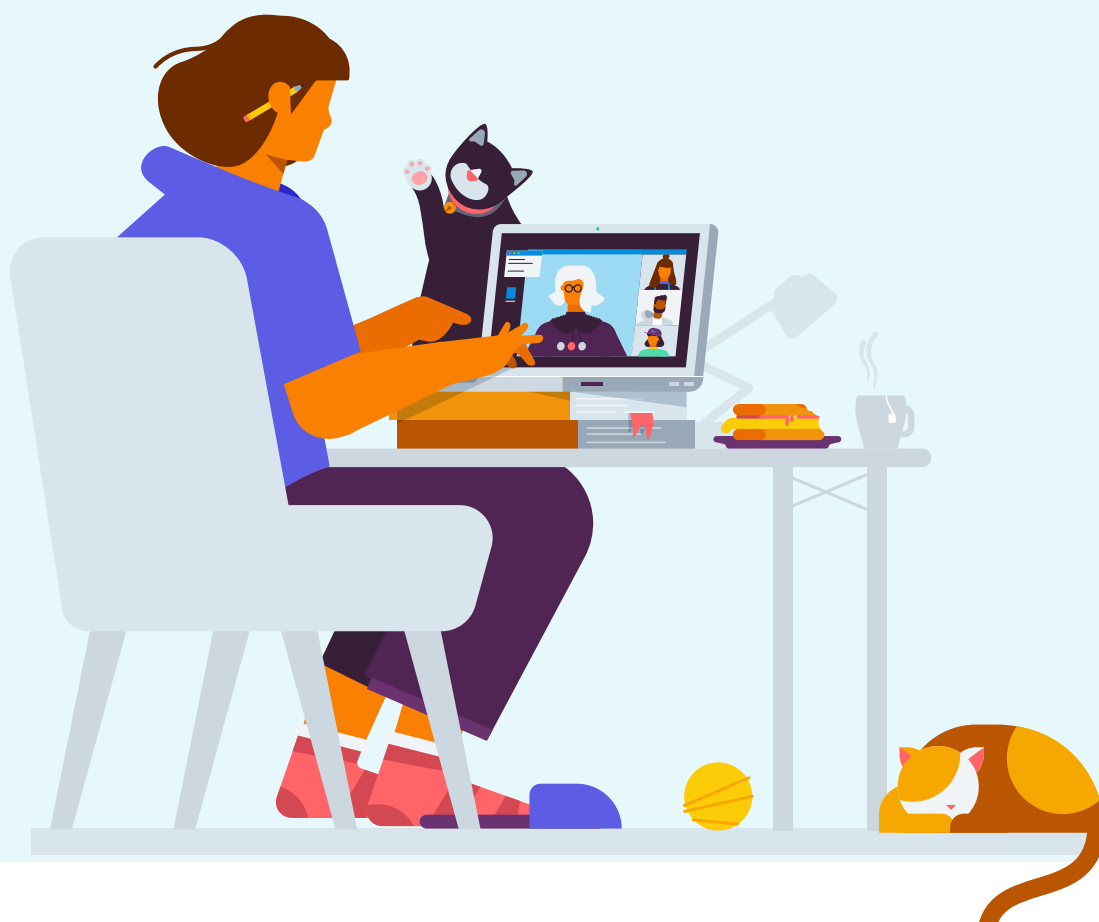
You must submit your Final Declaration and pay the tax you owe by **31 January** the following tax year.



A note on the End of Period Statement (EOPS)

When plans for MTD for ITSA were first set out, they included a third requirement – the End of Period Statement (EOPS). This part involved finalising income, making adjustments to accounting, claiming reliefs, and confirming the information provided is correct and complete.

But following the 2023 Autumn Statement, the EOPS requirement was removed. The government acknowledged that much of the information submitted in the EOPS was already covered by the Final Declaration. For more information, read our guide on what the [2023 Autumn Statement means for MTD](#).



MTD for ITSA exemptions

The following groups are not eligible to sign up for Making Tax Digital for Income Tax and do not need to follow the requirements:

- Trusts
- Estates
- Trustees of registered pension schemes
- Non-resident companies

Exemptions are also made for foster carers, people who can't get a National Insurance number, and the "digitally excluded." Please see [HMRC's guide](#) for more information.

Please note, if you already have an [exemption for MTD for VAT](#) you won't need to apply for an exemption for MTD for ITSA.



MTD for ITSA penalties

Failure to comply with MTD for ITSA rules could result in a penalty. [The new MTD penalty system](#) will replace the existing penalty system from 1 January 2023 for Making Tax Digital for VAT submissions. It will also apply from April 2024 to [Making Tax Digital for Income Tax](#), with the first penalties issued for 2026 submissions.

Penalties are charged for late submissions (like missing the new quarterly submission deadlines) and late payments.

For late submissions, £200 fine is issued if you meet a certain points threshold. That threshold depends on how many submissions you need to make in a year, and you'll receive one point for every submission deadline missed. You can [find out more about the penalty points thresholds here](#).

Late payment penalties are calculated as follows:

- Payments made up to 15 days after the payment due date will not be penalised.
- Payments made between 16 - 30 days after the payment was due are subject to a penalty of 2% of the total amount due.
- If any of the remaining tax is still unpaid on day 30, you'll be subject to a penalty of 2% of the outstanding amount on day 15, plus 2% of the outstanding amount on day 30. This usually equates to 4% of the total outstanding amount.
- And if you still have tax left unpaid from day 31 onwards, you'll be subject to a penalty of 4% of the outstanding amount, applied daily.



How should I prepare for MTD for ITSA?

Make sure you have [MTD for Income Tax compatible software](#) in place, and you're signed up to MTD for ITSA before April 2026 (if you earn above £50,000 annually) and April 27 (if you earn above £30,000 annually).

Sign up early if you can, or talk to your accountant or bookkeeper about how to prepare for MTD for ITSA. The more time you spend getting used to new digital tools, the easier you'll find the transition to Making Tax Digital.

Want more information on Making Tax Digital? You can keep up to date with the latest on MTD by bookmarking our [Making Tax Digital resource hub](#), where we share guides, FAQs and webinars on everything you need to know about the new legislation.

Fancy giving Xero a shot?

[Sign up for a free 30-day trial](#)

