# Making Tax Digital for Income Tax: looking forwards

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As the start date of Making Tax Digital for Income Tax is deferred until April 2026, we consider the other changes that have been made to the regulations.

## Key Points

**What is the issue?**
Making Tax Digital for Income Tax has formally been delayed until 6 April 2026 and easements have been made.

**What does it mean to me?**
From 6 April 2026, individuals with receipts of more than £50,000 from trading and property businesses will need to use software to maintain digital records for their business and make income tax filings with HMRC. This will replace their self-assessment obligations.

**What can I take away?**
Taxpayers and their agents will need to consider software options and prepare for the new regime. Agents may wish to join the pilot in advance of the system going live.

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The start date of Making Tax Digital for Income Tax (MTD ITSA) was officially deferred from 6 April 2024 to 6 April 2026 following the laying of regulations before the House of Commons on 22 February 2024. These amend an earlier set of regulations that had been laid on 23 September 2021. The deferral had been announced on 19 December 2022 together with other easements. These easements, together with others announced at the Autumn Statement on 22 November 2023, are also reflected in the February 2024 regulations.

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## What changes do the February 2024 regulations make?

#### Income threshold raised

Along with the deferral of the start date, one of the key changes is the increase in the qualifying income threshold. Qualifying income is the aggregate of the gross turnover and rental receipts from the individual’s trading and property businesses.

The September 2021 regulations provided an exemption from digital requirements for those with qualifying income of £10,000 per year or less (the 'income exemption'). Taxpayers with qualifying income above that threshold would have been required to enter MTD ITSA unless they were exempt for some other reason, such as digital exclusion.

The obligations will instead be introduced in two phases:

- 2026/27: Individuals with qualifying income of over £50,000 (expected to affect about 780,000 people).
- 2027/28: Individuals with qualifying income of over £30,000 (expected to affect a further 970,000 people). This threshold will be kept under review and could change in the future.

The qualifying income being measured will be based on amounts reported on the tax returns that are due on 31 January before the relevant start date. Mandation for 2026/27 will therefore be based on amounts reported on the 2024/25 return, which will be due on 31 January 2026 (i.e. just over two months before the obligations begin). An individual who qualifies for the income exemption may voluntarily opt into MTD ITSA.

A further change to the regulations was to include a disregard of amendments made to a tax return after 5 April that cause the threshold to be breached. For instance, if an individual files their 2024/25 tax return showing turnover of £49,000 and they amend this figure to £51,000 after 5 April 2026, they will continue to qualify for the income exemption in 2026/27 despite actual qualifying income for 2024/25 exceeding £50,000.

#### Carve-outs

It was confirmed in the Autumn Statement 2023 that foster carers would be given an exemption from MTD ITSA. This has been achieved by the exclusion of 'qualifying care receipts', as defined in Income Tax (Trading and Other Income) Act 2005 Part 7 Chapter 2, from the definition of qualifying income for the income exemption.

There is also a new 'qualifying care exemption' to ensure that digital requirements do not apply to 'qualifying care'. If a foster carer has MTD ITSA obligations for other reasons (e.g. a property business), they can therefore ignore their foster care activities when keeping digital records and making their quarterly updates.

As confirmed in Autumn Statement 2023, there is also an exemption from MTD ITSA for those without National Insurance numbers (the 'No NINO exemption'). It was stated at the time that this would apply to those 'who are unable to obtain a National Insurance number', which created uncertainty about cases where individuals were eligible to apply but chose not to.

The regulation is less nuanced than this, however. If the individual does not have a National Insurance number as at 31 January before the start of the tax year in which MTD ITSA obligations would otherwise apply, the exemption applies. This removes administrative difficulties faced by some groups, such as non-resident landlords, and removes the potential for under-16s to have MTD ITSA obligations.

#### Administrative changes

In terms of volume, the most substantial amendments made in the regulations related to administrative matters. These included removing the concept of an 'End of Period Statement'. The End of Period Statement was intended to confirm that the information for the relevant accounting periods was complete and correct for each of the individual's businesses. This was separate from the 'final declaration' where the individual would confirm that details of all sources of income and ;reliefs were complete and correct. This ;was seen as potentially confusing to taxpayers and created some duplication.

Changes were also made to the nature of quarterly updates. In Autumn Statement 2023, it was confirmed that quarterly updates would be cumulative for the tax year to date, rather than covering discrete three-month periods. This is intended to remove the administrative burden of amending an earlier quarter's report if missing receipts or expenses come to light in a later quarter of the same tax year.

One change reflected in the regulations that had not been anticipated at the time of Autumn Statement 2023, was a two-day shift in the deadlines for filing quarterly reports. Quarterly reports were originally intended to be due one month after the tax year quarter end date (e.g. 5 August 2026 for the quarter ended 5 July 2026). This has been put back by two days to the 7th of the relevant month to align it with quarterly reporting dates for VAT. It is worth noting that an election to use calendar quarters has no effect on filing deadlines.

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## What problems remain?

Apart from the specific changes set out above, the MTD ITSA regulations are largely as they stood in 2021. Some of the potential problems identified in the original regulations therefore remain.

#### Digital records and digital links

There is still uncertainty about what a 'digital record' is and how it starts. This leads on to further uncertainty about whether a digital link is required. For example, if a barrister's clerk records fees on the chambers' IT systems, is this the start of the digital record? If so, how ;does it get onto the barrister's MTD software?

The issue becomes even more uncertain in the case of joint receipts and expenses.

#### Accounting periods not aligned to the tax year

Where a trader draws up their accounts to 31 March or 5 April, the aggregates in the fourth quarterly update will be broadly in line with the taxable profits (although further adjustments for tax purposes may be required). This is not the case if the accounts are drawn to any other date. If the individual has a 30 November year end, the 2026/27 profit will be based on time-apportionments of the two sets of accounts running from 1 December 2025 to 30 November 2027, rather than the actual results for the period from 6 April 2026 to 5 April 2027.

Accordingly, whether a transaction in that two-year window occurred between 6 April 2026 and 5 April 2027 is ;largely irrelevant in determining the taxable profit, but this is what will be reflected in the cumulative quarterly update data. If this effectively creates a notional set of accounts running to 5 April 2027, this could be confusing for those who do not fully understand the tax year basis.

#### Deemed trades remain within MTD ITSA

With the exception of Lloyd's underwriters, sources of income that are deemed to be trading profits for tax purposes remain within MTD ITSA and therefore require quarterly updates. This would include disguised investment management fees and income-based carried interest, for example.

HMRC recognises that individuals with these deemed trades do not normally have any in-year records to keep, but it has not shown much appetite to exclude them from the regime. Instead, it is envisaged that affected individuals will need to submit blank quarterly reports and make one final adjustment to record the deemed trading profit.

#### International issues

The regulations are silent on residence issues, which potentially creates some issues for individuals with overseas property businesses who leave the UK and have profits in the overseas part of a split year.

Unlike trades, there are no deemed cessation provisions for overseas property businesses on a change of residence status. The profits arising in the overseas part are simply not chargeable. As the quarterly update requirements only stop on a cessation of the business, it therefore appears that quarterly reporting could strictly continue after the profits cease to be chargeable. Consideration will also need to be given to situations where the split year date is unclear until much later.

The regulations do include an exemption for foreign businesses of individuals who are neither domiciled nor deemed to be domiciled in the UK. There are a number of problems with this exemption, which have not been addressed to date. The expected abolition of the domicile regime, which was announced after the regulations were amended, should remove some complications, but others could well be carried over to the replacement Foreign Income and Gains regime.

Like the remittance basis, the Foreign Income and Gains regime is intended to be optional for those who qualify for it. It therefore remains the case that the taxpayer will not necessarily know during the course of the tax year whether the overseas business transactions occurring will have any relevance to their income tax position.

There is a further potential issue relating to sole trades that are carried on ;partly in the UK and partly abroad. Profits of a sole trader who is on the remittance basis are currently either taxed entirely on the remittance basis, if the trade is carried on wholly abroad, or entirely on the arising basis if there is any UK trading activity. This is because profits are only ‘relevant foreign income’ if the trade is carried on wholly abroad.

The exemption in the regulations provides that an individual trading partly in the UK and partly abroad should apply the MTD ITSA rules to the UK part of the business, even though both parts are taxed in the same way (i.e. arising basis) and therefore don’t require segregation for UK tax purposes (other than for foreign tax credits purposes).

The definition of foreign income for the Foreign Income and Gains regime is ;not yet clear, but if it is based on the current definitions of ‘relevant foreign income’, a notional splitting of the business for MTD ITSA purposes would be similarly problematic.

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## What’s next?

As MTD ITSA does not go live until 5 April 2026, HMRC still has time to iron out the issues set out above and produce further guidance. HMRC’s private beta, which it launched on 22 April 2024, is intended to test the robustness of its system and to give it the opportunity to fix problems before the system goes live. Eligibility to use the private beta is much wider than previous pilots, but there are ;still several exclusions, set out on HMRC’s sign-up page (see tinyurl.com/3fvpwn3f).

HMRC will also need to make adjustments for legislative changes including the Foreign Income and Gains regime and the abolition of the law relating to furnished holiday lets.

*For further information about HMRC’s private beta testing, please see Bill Dodwell’s article ‘Making Tax Digital for Income Tax: private beta testing’ .*