



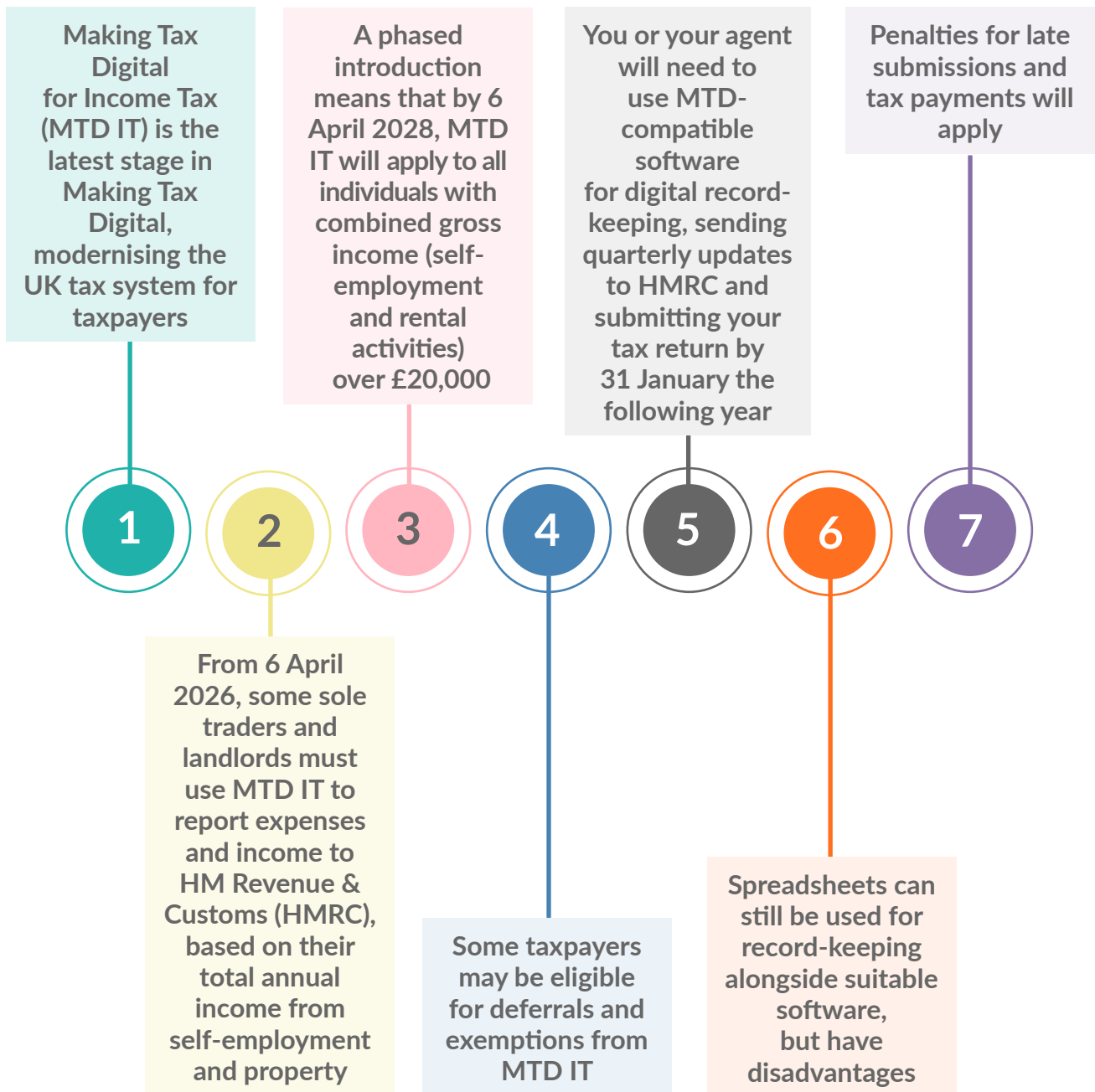
# Making Tax Digital for Income Tax

Helping you to prepare

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## Key points



In addition to your existing contacts at BKL, our experienced team of MTD IT specialists are here to support you every step of the way. We will help you to:

- Understand your requirements and plan for your submission deadlines
- Make a stress-free transition to our recommended software (Dext, Xero, Hammock)
- Choose a level of client support to suit your needs, working style and budget

This guide is your detailed introduction to all of the key points above, along with our recommended next steps and top tips. For personalised support, get in touch for a chat today about what MTD IT means for you.



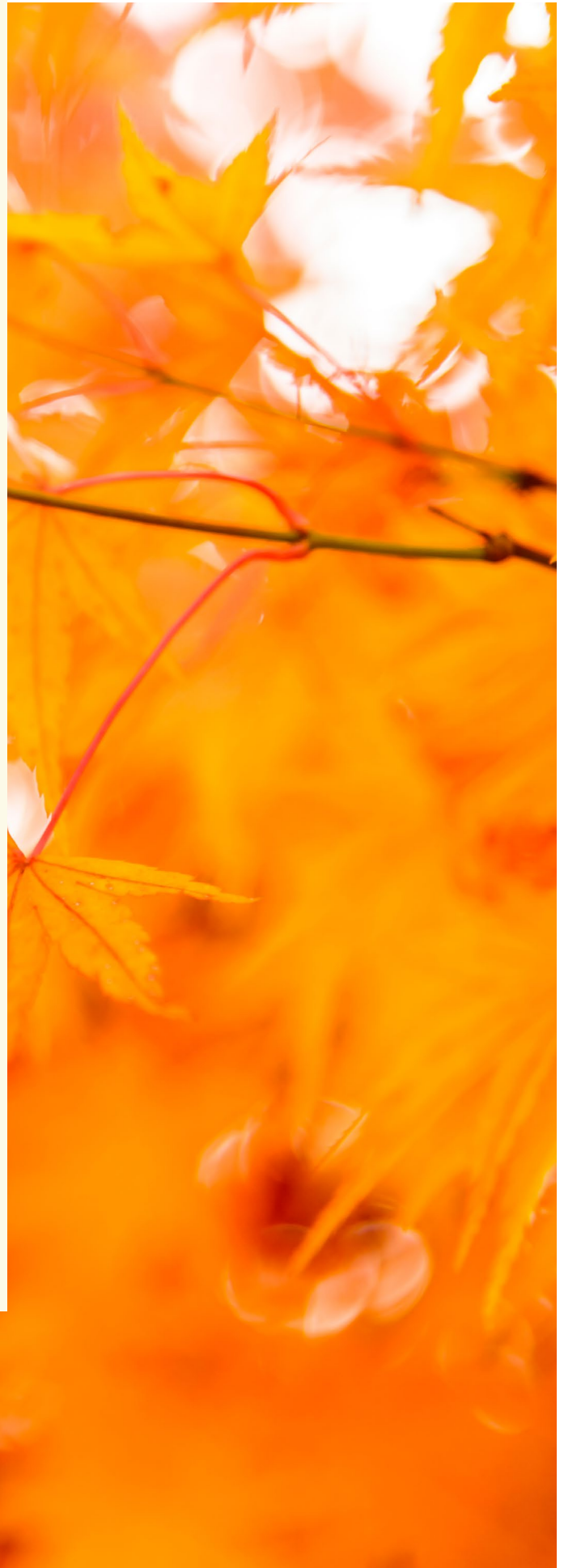
## MTD IT: recap and benefits

- MTD is the UK Government's initiative with the aim of modernising and improving the UK tax system, using digital records to ensure efficiency
- MTD's stage-by-stage roll-out started in 2019 with MTD for VAT, which now covers all UK VAT-registered businesses and organisations
- Following delays to the timetable, MTD for Income Tax will be introduced for select individuals in phases between 2026 and 2028
- HMRC plan to extend MTD IT to general partnerships and LLPs. No date has been announced for this yet
- Plans for a further stage, MTD for Corporation Tax (CT), were abandoned in July 2025. HMRC intend to develop a different approach to modernising CT services

Once you have got used to the new way of doing things, going digital with MTD will mean:

- Greater efficiency
- Fewer errors in your data, as you and HMRC share the same data
- HMRC will be able to approve refunds that currently require extra checks more quickly
- Earlier calculation of your tax liabilities, helping you plan better for eventual tax payments
- More free time

With the aid of cloud-based software, you will have convenient access to your data from anywhere. This software will also make it easier for your business to record and file your tax returns online.



## MTD IT: what is changing and when

Initially, MTD IT will apply only to individuals with self-employment and rental income (UK and overseas). While HMRC intend to bring partnerships and LLPs into the scope of MTD IT in the future, they have stated that trustees and personal representatives will not be affected.

HMRC's current timetable gives three enrolment phases for MTD IT:

6 April 2026	6 April 2027	6 April 2028
individuals with combined gross income over £50,000	individuals with combined gross income over £30,000	individuals with combined gross income over £20,000

The threshold for inclusion in MTD IT is based on an individual's combined gross income (not taxable profits) from the following sources:

- Self-employment
- Property rental businesses, both in the UK and overseas
- For private equity executives, Disguised Investment Management Fees (DIMF) or income based carry
- For beneficiaries of bare trusts or interest in possession (IIP) trusts, any property or trading income that they are entitled to (for bare trusts) or paid directly (for IIP trusts)

The threshold does not apply to income paid by other sources (e.g. employments, partnerships/LLPs, pensions or investments).

These MTD IT thresholds apply per person, not per business. For example, if you are both a landlord and self-employed, your gross income from both sources will be combined to assess whether the above thresholds are met. Where property is owned jointly, only your share of the rental income will count towards your qualifying income.

The income threshold is assessed based on your most recent tax return, with the first phase being measured against your tax returns for the 2024/25 tax year. The sooner you file your 2024/25 tax return, the more time you will have to prepare for MTD IT.

Once you are brought into the MTD IT regime, you will remain within it unless your income falls below the relevant threshold for three consecutive tax years. At that stage, you can request to be removed from MTD IT.

HMRC have announced a number of deferrals and exemptions from having to comply with MTD IT. You can find details on [page 13](#).

### Take action

File your 2024/25 tax return as soon as possible. This will determine whether you will fall within the scope of MTD IT from April 2026.



## What you will need to submit

### Quarterly submissions

If you fall within the scope of MTD IT, you will be required to submit a summary of income and expenses to HMRC four times per tax year. You can choose to report your income/expenses with reference to the calendar year or UK tax year. The quarterly deadlines will be:

Tax Year Quarters	Calendar Year Quarters	Reporting Deadline
6 April - 5 July	1 April - 30 June	7 August
6 July - 5 October	1 July - 30 September	7 November
6 October - 5 January	1 October - 31 December	7 February
6 January - 5 April	1 January - 31 March	7 May

Each business (i.e. each sole trade, UK property business and overseas property business) will be reported separately to HMRC. For example, an individual who is self-employed and has a UK rental property business will submit eight updates in a year.

The above deadlines only apply to quarterly reporting of income and expenses. Tax liabilities will not be payable in the above instalments.

### End of year submission

An end of year submission (similar to an annual tax return) is required by the standard self-assessment deadline (usually 31 January following the end of the tax year) which applies any necessary adjustments to the self-employment/rental income already reported via MTD IT, discloses any additional sources of income, claims all allowable deductions/reliefs and calculates the tax due and payable.

All submissions must be made using MTD-compatible software. On [page 8](#) you will find details of our recommended software and the levels of MTD IT support we offer to clients.



# Penalties for missing deadlines

## Late submissions

You will be subject to a penalty points system, receiving a point each time you miss a submission deadline. Four points will incur a £200 penalty. Points have a lifetime of two years, after which they will expire.

Once the penalty threshold has been met, points will be reset to zero if both of the following conditions are met:

1. **All submission obligations are met in a 12-month period**
2. **All submissions required in the preceding 24 months are submitted in full (even if these submissions were initially late)**

## Late tax payments

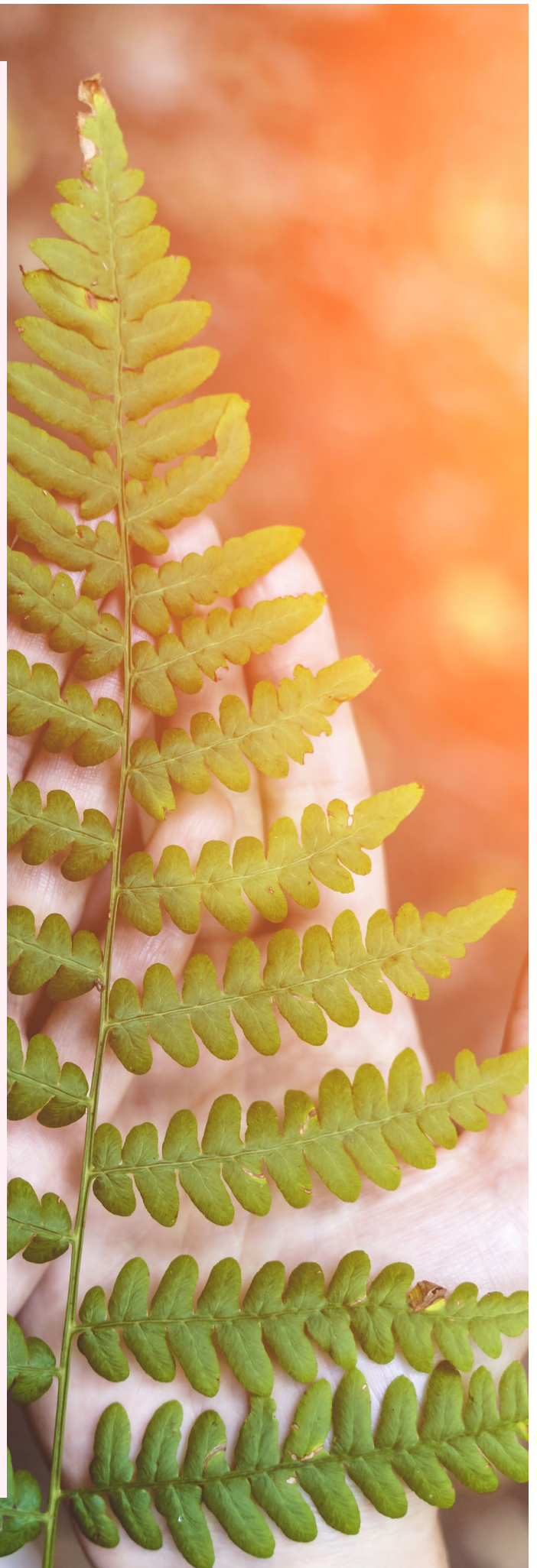
The tax liability calculated via the end of year submission will continue to be due by 31 January following the end of the tax year. In addition, payments on account for the following tax year may be due by 31 January and 31 July as usual.

For individuals within MTD IT, a new penalty system will apply to late payments of tax:

- **3% penalty charged on tax outstanding 15 days after the deadline**
- **3% penalty charged on tax outstanding 30 days after the deadline**
- **A further penalty is charged at 10% per year for every day that tax remains outstanding more than 30 days after the deadline**

In addition to the above, late payment interest will continue to accrue as usual.

While these penalties are harsher than those which are applied to individuals who do not fall within the scope of MTD IT, the quarterly filing of rental and self-employment income should ensure annual tax returns can be completed as soon as possible after the end of the tax year. This will reduce the risk of penalties applying, and increase the time you have to plan for your upcoming tax liabilities.



## How BKL can help

### MTD-compatible software through BKL

It is important to choose the right platform for your needs. Our MTD IT experts are here to make this transition as smooth and affordable as possible.

To help you stay ahead with your MTD IT requirements, BKL have partnerships with these HMRC-recognised software providers:

- **Xero:** Many BKL clients are already using Xero to manage their finances and make MTD VAT submissions. Xero remains a market leader for accountancy software and is used widely within BKL
- **Dext Solo:** For individuals who are not required to file MTD VAT submissions, Dext offers a similar MTD IT solution to Xero for a lower monthly subscription cost, while also being straightforward to use
- **Hammock:** Designed solely for landlords, Hammock seeks to ensure compliance with MTD IT whilst also providing wider property-focused metrics and tools

While Hammock is designed for landlords, Xero and Dext can be used by both sole traders and landlords. Below is a summary of the key features and what you can expect to pay.

#### All options

- **Easy to use software:** user-friendly cloud-based platforms that simplify income and expense tracking
- **Real-time bank feeds:** automatically import your transactions from your bank account, reducing manual entry and risk of errors
- **Mobile access:** capture receipts and manage invoices on the go via the app
- **Built-in reporting:** make quarterly updates easier by categorising income and expenses into MTD-compliant summaries, with automation available to categorise efficiently
- **Monthly fees:** The price will depend on your circumstances (e.g. the functionality required in Xero or the number of properties held if using Hammock) and any sales/promotions available at the time of purchase

#### Xero



Additional features include:

- **Invoices:** efficiently manage invoices and quotes within Xero's intuitive software. Send invoices, automate reminders and more
- **Quotes:** create professional online quotes and send them to your clients instantly via the software
- **Pay bills:** track and pay bills on time while accessing a clear overview of your upcoming cashflow
- **Inventory:** track stock levels by populating invoices and orders with bought and sold items

Xero's subscription costs (as of September 2025):

- The Xero Simple plan (the most basic licence compatible with MTD IT) costs £7 + VAT per month
- Xero Simple includes the ability to send quotes and up to 10 invoices per month; should you require the ability to send more than 10 invoices via Xero, an upgraded package will be required

#### Dext



Additional features include:

- **Invoices:** efficiently manage invoices and quotes within Dext's intuitive software. Send invoices, automate reminders and more
- **Document extraction:** Dext is a market leader for automated extraction of data from documents (e.g. sales invoices, rental statements, receipts, PDF bank statements) which can be uploaded in a variety of ways (via the app, web browser, email etc.)

Dext's subscription costs (as of September 2025):

- Dext Solo is £2.50 + VAT per month for up to five businesses. Multiple UK properties are treated as one business, with any overseas businesses treated as a separate business



## Hammock



Additional features include:

- **Property focused dashboard:** track rental income, tenancy agreements, mortgage payments, and property expenses in one place
- **Landlord responsibilities:** Send notifications about expiring documents and certificates (e.g. gas safety certificates) to stay on top of your compliance
- **Late payments:** Automated monitoring of rental payments and notifications when they are late/missing
- **Investment metrics:** Help you to make informed business decisions by providing property investment metrics (loan to value ratios, rental yields, profit and loss accounts, arrears balance and more)

Hammock's subscription costs (as of September 2025):

- 1-3 properties: £8 + VAT per month (discounted to £5.99 + VAT per month until April 2026)
- 4-10 properties: £15 + VAT per month (discounted to £11.99 + VAT per month until April 2026)
- 11-20 properties: £25 + VAT per month (discounted to £19.99 + VAT per month until April 2026)
- 21+ properties: bespoke package required (discounted by 13% until April 2026)

For clients who choose one of the above software providers, we will arrange dedicated training sessions to familiarise you with the software and help you become confident in using it.



### Take action

Review Xero, Dext and Hammock. If you would like to go ahead with one or more, let us know. You will then receive an invitation to begin the enrolment process.

## Using other MTD-compatible software

If you have a preferred alternative, please complete the setup and send your usual BKL contact an 'accountant's invitation' at your earliest opportunity. This will enable us to view your MTD IT submissions and prepare your end of year submission.

## What about spreadsheets?

Xero, Dext and Hammock fully comply with HMRC's requirement to 'use software that works with MTD IT to create, store and correct digital records of your self-employment and property income and expenses'. For now, the use of spreadsheets to record income/expenses is still permitted – provided the contents are summarised in a specific format before being uploaded to MTD-compliant bridging software. We are able to complete this upload via our usual tax return filing software.

While spreadsheets may be reassuringly familiar, they present a range of disadvantages for MTD IT:

- A greater admin burden in needing to collate your information manually each quarter (compared to an automated bank feed within MTD IT compliant software)
- More time analysing the income/expenses manually – this either increases the admin burden on you, or the time costs charged by us
- Greater risk of human error in inputting the data
- Increased admin in ensuring all copies of all bank statements and/or invoices are also electronically stored, in order to satisfy HMRC's requirements for digital record-keeping
- Potential increased scrutiny from HMRC should they enquire into your tax matters
- Reduced financial insights and functionality

## Flexible MTD IT support: our service options

We have designed three levels of support so you can choose the one that suits your needs, working style and budget.

### Option 1: by you

For clients who are confident with digital accounting systems or have a limited budget.

Your responsibilities	Our responsibilities	Cost*
You take full responsibility for all quarterly data entry, bank reconciliations, and quarterly submissions	We will provide: <ul style="list-style-type: none"><li>Initial software setup (if you select Xero/Dext/Hammock)</li><li>Year-end finalisation with preparation and submission of your tax return</li></ul>	No standard quarterly fee will be charged. However, there will be a time cost as appropriate where initial support is provided for software set up. While this option offers autonomy, it also carries a higher risk of basic errors, omissions, or inaccuracies.  Should you have any queries while preparing your quarterly submissions, or if we are required to correct mistakes/ rework prior submissions/ provide similar remedial services while completing your final annual submission, additional charges will apply. These additional charges will be billed on a time-cost basis using our standard hourly rates. The total cost will depend on the complexity and volume of the corrective work required

### Option 2: jointly with us

For clients who want to stay involved but would benefit from expert review and reassurance that their records are accurate and compliant.

Your responsibilities	Our responsibilities	Cost*
You take care of the initial data collection, taking photos of receipts, uploading records, and completing a first draft of the quarterly submissions	In addition to our services under Option 1, we will: <ul style="list-style-type: none"><li>Review and correct your entries each quarter</li><li>Finalise and submit quarterly filings on your behalf</li></ul>	A quarterly filing charge will apply**

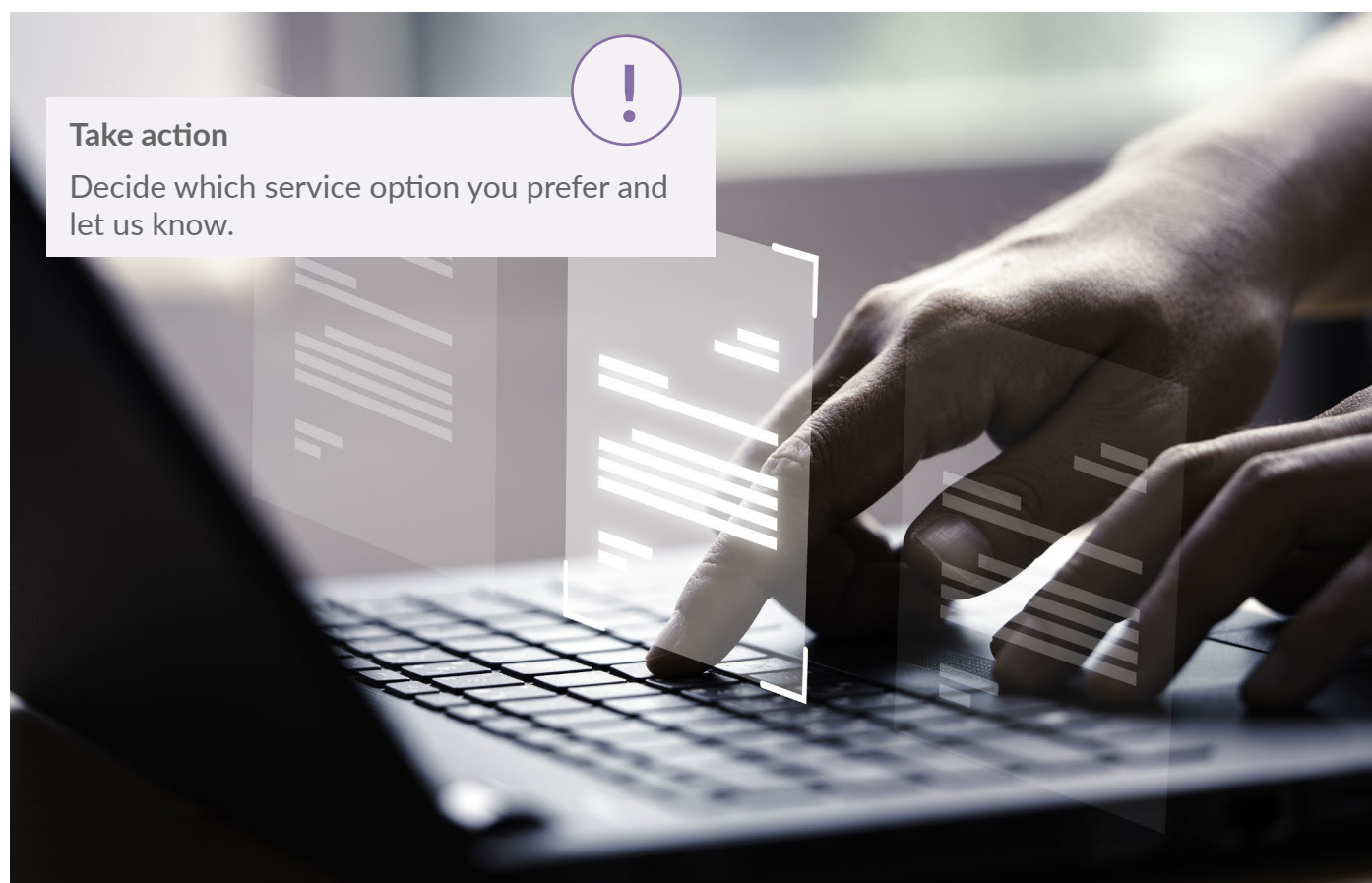
### Option 3: by us

For clients who prefer to outsource their financial admin entirely for complete convenience and peace of mind.

Your responsibilities	Our responsibilities	Cost*
You provide us with your source records, either digitally or via secure upload	We take care of everything, including: <ul style="list-style-type: none"><li>• Initial software setup (if you select Xero/Dext/Hammock)</li><li>• Quarterly bookkeeping, bank and ledger reconciliations</li><li>• Preparing and submitting all quarterly and annual filings</li></ul>	A quarterly filing charge will apply**

\* In all instances, the above costs refer only to the additional quarterly filings required. Use of Xero/Dext/Hammock will incur a monthly subscription fee. Your annual tax return will continue to be charged at our usual rates. Discounts may be available where you are also required to make quarterly filings under MTD for VAT.

\*\* As each client's circumstances are unique, we will provide you with a bespoke fee quote based on your circumstances.





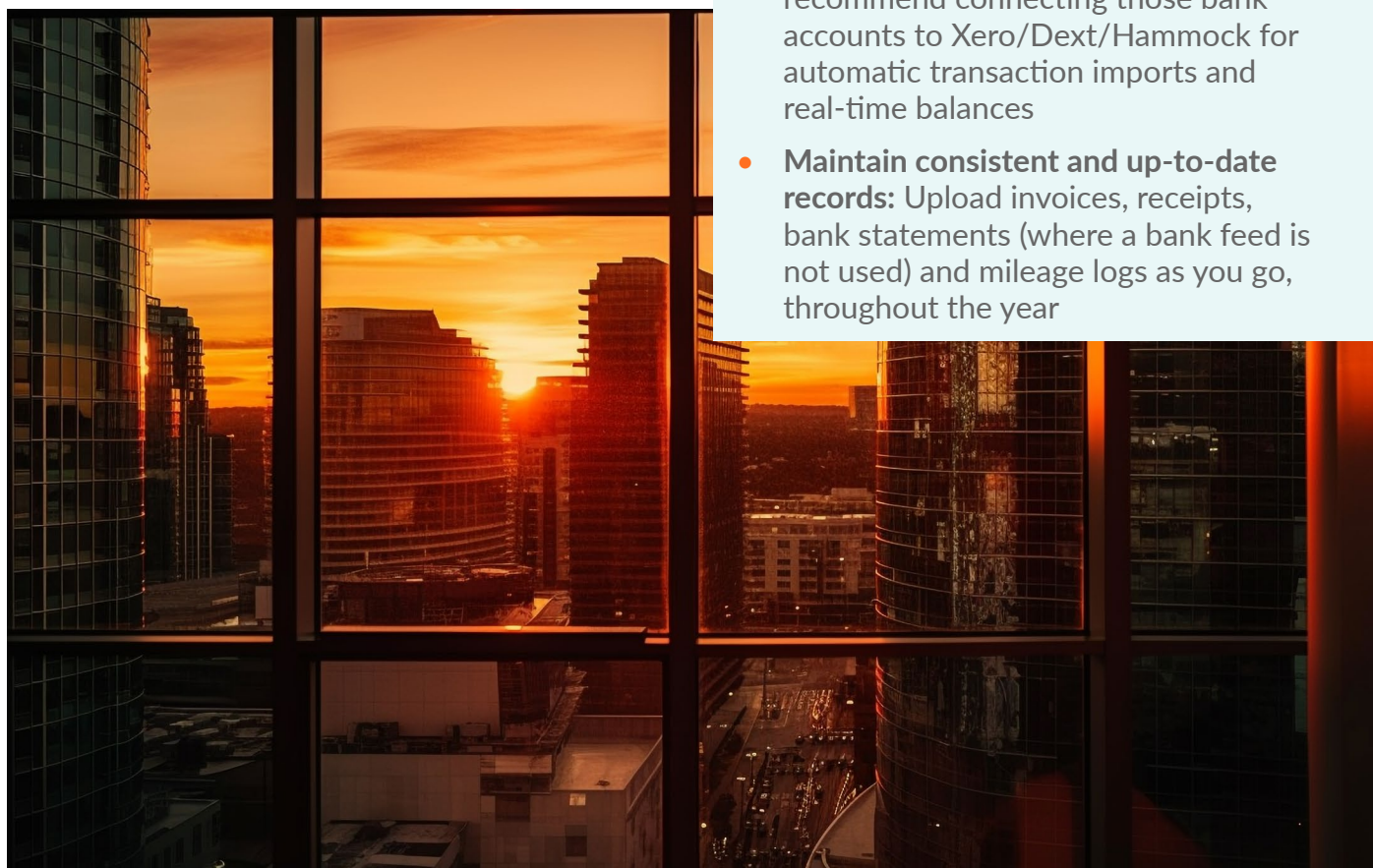
## Actions to take

- **Submit your 2024/25 tax return:** we recommend filing your 2024/25 tax return as soon as possible as this will determine whether you will fall within the scope of MTD IT from 6 April 2026. [See page 5](#)
- **Choose your MTD-compatible software option:** review Xero, Dext, Hammock and other accounting solutions which may be appropriate to you, then let us know your preferences. If you have decided to go ahead with either or both, you will receive an invitation to begin the enrolment process. [See page 8](#)
- **Select your MTD IT service option:** confirm which of the three options you would prefer (by you, jointly, by us), or get in touch if you would like to talk through them. [See page 10](#)

For any questions about what to do next and the areas covered in this guide, your usual contacts and our MTD IT specialists are here to help.

## Our top tips for staying ahead

- **Voluntarily begin to record data digitally:** You can begin to use Xero/Dext/Hammock and other accounting solutions at any time to begin getting used to digital record-keeping in advance of MTD IT. In addition, HMRC are offering a pilot scheme where you can begin to submit details of your income and expenses quarterly, ensuring you're fully prepared for 2026 and beyond
- **Align VAT quarters:** If you also make MTD VAT submissions, we recommend aligning your MTD VAT quarters to the MTD IT quarters to minimise the work required
- **Use dedicated bank accounts:** Please use separate bank accounts for each business activity and ensure all income/expenses are paid to/from the appropriate bank account. This minimises the work needed under MTD IT and ensures personal transactions are segregated
- **Link bank feeds:** Once you have enrolled with an appropriate software, we recommend connecting those bank accounts to Xero/Dext/Hammock for automatic transaction imports and real-time balances
- **Maintain consistent and up-to-date records:** Upload invoices, receipts, bank statements (where a bank feed is not used) and mileage logs as you go, throughout the year

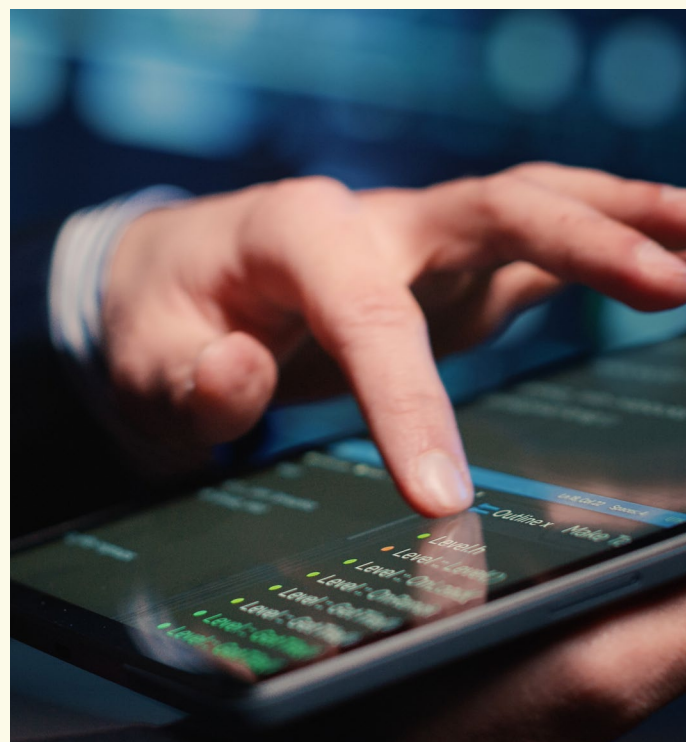


## Appendix: deferrals and exemptions from MTD IT

### Deferrals

The following groups have been granted a deferral, meaning their obligation to comply with MTD has been delayed until at least April 2029 rather than permanently waived:

- Non-residents (and any other individuals who file the SA109 as part of their annual tax return): If you meet the £50,000 threshold but need to complete the pages titled *Residence, remittance basis etc (Self Assessment SA109)* within your annual tax return, your requirement to comply with MTD IT will be delayed from April 2026 to April 2027. In light of the recent changes to the taxation of non-UK domiciled individuals, the full contents of future Forms SA109 are currently unknown. However, we expect this deferral to apply to non-UK residents, individuals who are subject to split year treatment or claiming relief under double tax treaties, and individuals in their first four years of UK residence who are claiming the Foreign Income and Gains (FIG) relief
- Ministers of religion
- Lloyd's underwriters
- Recipients of the Married Couple's Allowance or Blind Person's Allowance



### Exemptions

HMRC recognise that engaging with the digital and online world isn't practical for everyone. Exemption from MTD IT applies automatically to:

- Individuals without a National Insurance Number (NINO)

Other exemptions are available by applying to HMRC subject to HMRC's approval:

- Those who are exempt from MTD for VAT
- Taxpayers who have a Lasting Power of Attorney on behalf of someone which is actively being used
- Non-UK resident foreign entertainers and sportspersons who don't have another business that would be subject to MTD IT
- Taxpayers who HMRC cannot provide a digital service to

HMRC will also make case-by-case assessments of applications for exemption due to personal circumstances, such as:

- Physical or mental conditions which make it difficult or impossible to use digital systems
- Living in an area with poor internet connectivity
- Religious beliefs preventing the use of electronic communications or digital technology

In the earlier MTD for VAT enrolment period, only a small percentage of businesses were granted exemptions based on similar criteria. This suggests that exemptions will be reserved for genuinely exceptional circumstances, not for general reluctance to use technology.

If you believe any of the above exemptions may apply to you, get in touch with us. We can help guide you through the application process, once it becomes available.

## Who to contact

If you have any questions, please do not hesitate to get in touch with your usual BKL contacts or our specialists below.



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**Publication date: September 2025**

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