

Cleverrbook Guide to Making Tax Digital



What is Making Tax Digital?

Making Tax Digital (MTD) is HM Revenue & Customs (HMRC) initiative to digitise the UK tax system through the phasing in of new digital tax recording and reporting requirements.

This scheme aims to bring the UK's tax system into the modern era by innovating the approach that businesses use to report their affairs.

Under MTD, businesses and other taxpayers need to use HMRC-compliant software and processes to submit information digitally every quarter.

This will help to ensure that the tax information HMRC holds is accurate and up to date.

Although businesses may need to make a greater number of submissions each year, the point at which tax is due will remain unchanged.

At present, MTD has only been integrated into the VAT system, but it will eventually be phased in for all forms of taxation over the next few years.



Making Tax Digital for VAT

Almost all VAT-registered businesses must now keep their records digitally and submit their VAT returns using MTD-compatible software each quarter.

Please note, the 'soft landing period' for digital links ended in April 2021, which means that businesses face potential penalties if they do not use HMRC-compliant software or processes to report their VAT affairs.

What is MTD-compatible software?

If your accounting software is 'MTD-compatible', it has the facility for VAT Returns to be filed with HMRC and receive information back from HMRC directly, such as confirmation that a VAT Return has been received.

HMRC has published a list of accounting software providers who currently have MTD-compatible software.

However, we can help you find online accounting software that is suited to you and your business's needs.



Making Tax Digital for Income Tax

Self-employed businesses and landlords with annual business and/or property income above £50,000 will need to follow the rules for MTD for Income Tax from accounting periods starting on or after 6 April 2026. Then from April 2027, these rules will be extended to those with business and/or property income exceeding £30,000. From April 2028, this threshold will drop to £20,000. Partnerships will also need to comply with these rules at a later date, which is yet to be confirmed.

This is the next important phase of MTD and like the requirement for VAT, it will require self-employed businesses and landlords to report income using compliant software on a quarterly basis.

In some cases, businesses and their agents are already using compliant software to keep digital records, which may make this transition simpler.

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If you are a self-employed business or landlord you can voluntarily use software to keep business records digitally and send Income Tax updates to HMRC instead of filing a Self-Assessment tax return.

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HMRC is currently piloting this system with a select number of businesses to develop an effective Making Tax Digital service for Income Tax.

Making Tax Digital for Corporation Tax

At the moment, not much has been confirmed about this phase of MTD, as the Government is still consulting with businesses and their agents to help design an effective MTD for Corporate Tax system.

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The Government will also provide businesses with an opportunity to take part in a pilot for MTD for Corporation Tax before it becomes mandatory in the years ahead.

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How Cleverrbook can help

Whether you are preparing for MTD for Income Tax Self-Assessment (ITSA) or already complying with MTD for VAT, our team can guide you through the process. Our tax specialists are here to help individuals and landlords understand what MTD for ITSA means in practice, from who needs to comply to how and when to submit quarterly updates. We'll help you understand your obligations and get set up with a digital solution that meets HMRC requirements, without overcomplicating things.

For clients needing help with MTD for VAT, our cloud accounting team offers expert advice on selecting and using compliant software. We'll work with you to find the right solution based on your business size and goals, and help you get the most out of your accounting tools. Our cloud service offers a range of benefits:

- Time-saving - Access your online account in seconds, allowing you to spend more time on what is important - you and your business.
- All your records in one place - User-friendly dashboards make finding records, invoices, bills and reports easier than ever before.
- Software that suits you - We use the latest and most advanced accountancy software and apps stacks to suit your business's needs.
- Agile accounting - Access your records on-the-go from a mobile or tablet device, whenever you need them.
- Expert advice - Whether you are already an expert or just starting out, our team will ensure that your business will get the most out of online accounting.
- Safe and secure - We only use certified online software with bank-level security and 24/7 customer support.
- Real-time collaboration - Work, share and create in real-time with your accountant or another member of your team.

If you would like to find out more about our online accounting services and expertise, please contact us.