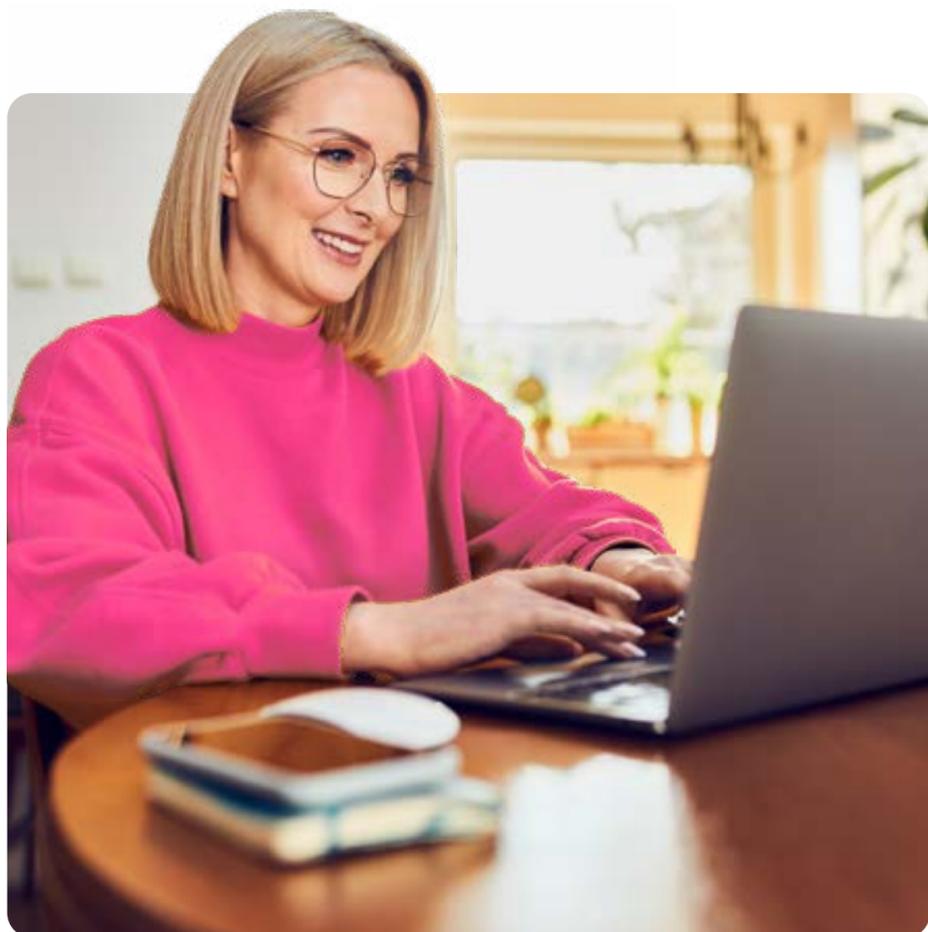


A smiling man with glasses, wearing a blue suit jacket over a blue button-down shirt, is sitting at a desk. He is looking towards the camera. In front of him is a laptop. The background is a blurred office setting.

Making Tax Digital

How to prepare for

a new tax return process



How small business owners pay income tax is set to change. From 2026, there'll be a phased switch to [Making Tax Digital](#) (MTD) – which will replace the annual Self Assessment process with quarterly tax returns.

Making Tax Digital, is a government initiative which will require small business owners and the self-employed to complete digital tax records and returns using approved software.

The government says that MTD aims “to help businesses get their tax right first time by reducing errors, making it easier for them to manage their tax affairs by going digital, and consequently helping them to grow.”

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Making Tax Digital

– 10 top tips

to get ready



Preparing for a new way of filing your tax returns may seem daunting, so here are 10 quick tips to get you started:

1. Check if and when you need to start

Use the [government's tool](#) to check if you need to use Making Tax Digital for income tax and when you need to start.

2. Get to grips with quarterly deadlines

Moving from one annual tax return to four quarterly submissions will take some getting used to. Think about the accounting changes you'll need to make to fit in with the new system.

3. Understand how to keep digital records

It's likely you're doing this already, but take a closer look at the mandatory digital records you'll need to keep and how long for.

4. Know your key dates

As well as knowing when you need to switch to Making Tax Digital, make sure you're aware of the new quarterly reporting deadlines alongside the existing 31 January deadline.

5. Learn as much as you can ahead of time

Don't leave it until the last minute to understand your Making Tax Digital obligations. The earlier you learn about what's changing, the smoother the transition will be.

6. Research software options

There are lots of MTD-compatible software options available to small businesses. Some are free while others are paid – compare different providers and think about what level of package you need.

7. Check exemptions

There may be a reason why you're exempt from Making Tax Digital. Double check the exemptions list in case you're not required to make the switch.

8. Use your existing knowledge

MTD is a new way of filing a tax return, but many of the traditional Self Assessment principles remain. Call on your experience of filing taxes to help you adapt to the new deadlines and digital record keeping.

9. Speak to other business owners

There will be plenty of other business owners thinking the same things as you. Attend events and use forums to get your questions answered and speak to like-minded people.

10. Get help if you need it

If you're unsure about what you need to do, don't delay asking for help. There's no shortage of accountants and tax professionals who can help put your mind at ease.

Making Tax Digital for income tax timeline

Here are the key dates for the phased switch to Making Tax Digital for income tax:



April 2026

for those with an annual income over £50,000

April 2027

for those with an annual income over £30,000

April 2028

for those with an annual income over £20,000

How to register for Making Tax Digital



Business owners are being encouraged to sign up for Making Tax Digital early to avoid delays in their quarterly reporting.

You can register for MTD on the government website, as long as:

- ✓ Your personal details are up to date with HMRC
- ✓ You're a UK resident
- ✓ You have a National Insurance number
- ✓ You've submitted at least one Self Assessment tax return
- ✓ You're up to date with your tax records

And you use one of the following accounting periods:

- ✓ 6 April to 5 April (tax year quarters)
- ✓ 1 April to 31 March (calendar quarters)

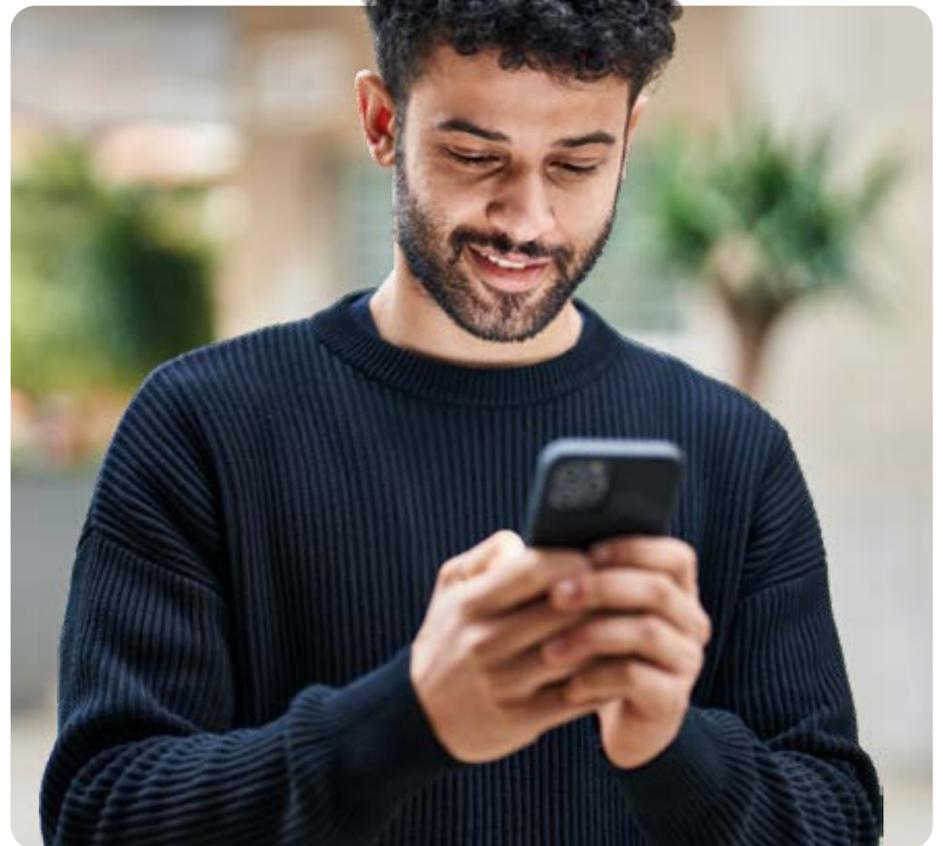
New Making Tax

Digital deadlines

Instead of submitting an annual tax return, you'll need to submit four quarterly tax returns by these dates:

- 7 May
- 7 August
- 7 November
- 7 February

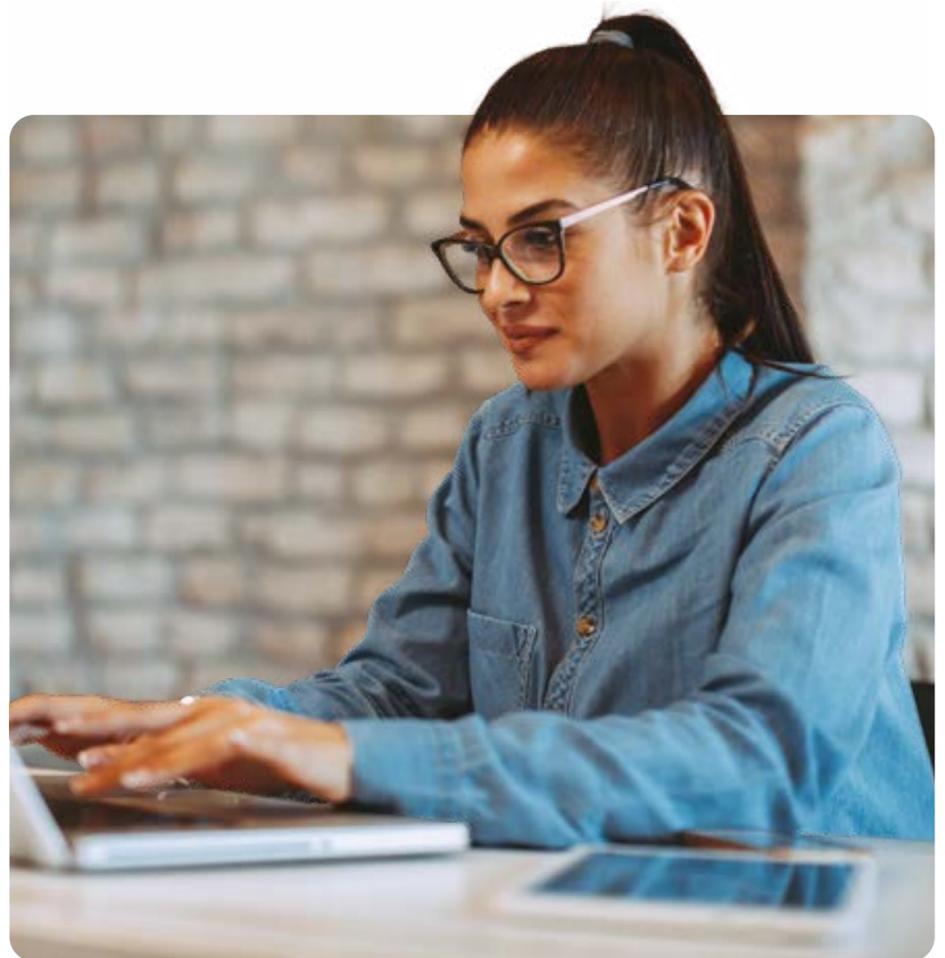
You can submit these returns up to 10 days early if you know the quarterly information won't change.



MTD deadline for final declaration

You'll then need to submit a final declaration, or year-end tax return, by 31 January each year. This final declaration will confirm that the quarterly updates were accurate. You'll also use this stage to make declarations about any other sources of income or claims.

Much like the current Self Assessment system, the tax you owe for the previous tax year will need to be paid by a [31 January deadline](#).



How to keep

Making Tax Digital

records



The mandatory digital records you'll need to keep include:

- self-employment income
- [self-employment expenses](#)

You'll need to record the amount, date, and category for each item you record. You should also try to create your digital records as close to the date of the transaction as possible to get the most accurate financial impression of your business.

On top of this, you can choose to keep digital records of:

- other income sources (such as PAYE and dividends)
- disallowable expenses (such as expenses that weren't fully for business use)
- [simplified expenses](#)

You'll need to keep any digital records for at least five years after the 31 January tax year deadline – which is the same as the way Self Assessment record keeping currently works.

Best accounting

software for

Making Tax Digital



Wondering which [accounting software](#) could work best for your business? Here's an overview of some of the key providers and their products:



If you're a sole trader or just starting out, [Quickbooks'](#) cheapest plan lets you prepare for Self Assessment and send invoices. If your business grows, you can gain more features with the more expensive plans



[FreeAgent](#) is targeted at freelancers and small businesses – so it focuses on daily admin tasks like invoicing, time tracking, and expense management.



[Xero](#) can help with invoicing, inventory, payroll, and expense claims. It can import your banking, credit card, and PayPal data – and there's an app that works on both iPhone and Android.



[FreshBooks](#) is designed for freelancers and small businesses with basic accounting needs, so it focuses on things like invoicing and expense tracking.



[Crunch](#) is a big name in the online accounting software industry. While it's mostly known for its paid version, there's a free version available.



[Sage](#) can help you with everything you'd expect – like invoicing, cash flow, and payroll. And if your business grows, you can even purchase other Sage software products such as Sage HR or Payroll.

Making Tax Digital

exemptions



There are exemptions that can mean you're "digitally excluded" from using MTD software.

HMRC defines this as when "it's not reasonable for you to use compatible software to keep digital records or submit them to HMRC."

[Digital exemptions may apply if you:](#)

- don't use computers for religious reasons
- live in an area that doesn't have access to broadband
- can't comply because of your age, disability, or location

Apply now for exemptions from 6 April 2026. HMRC will review your application and aim to process it within 28 days.

For Making Tax Digital starting in April 2027, applications open from summer 2026. Those due to sign up from April 2028 should apply for an exemption by summer 2027.

There are some reasons why you might be automatically excluded from Making Tax Digital.

If this is the case then you don't have to apply for an exemption.

[Automatic exemptions include:](#)

- trustees
- those without a National Insurance number on 31 January before the start of the tax year
- tax returns being completed on behalf of someone who's died
- members of Lloyd's for underwriting businesses
- non-resident companies

Making Tax Digital

penalties



The penalties for failing to comply with Making Tax Digital are similar to the current Self Assessment process.

You could receive a penalty or fine for:

- missing a quarterly update or final declaration deadline
- missing a tax payment deadline
- persistently missing reporting or payment deadlines

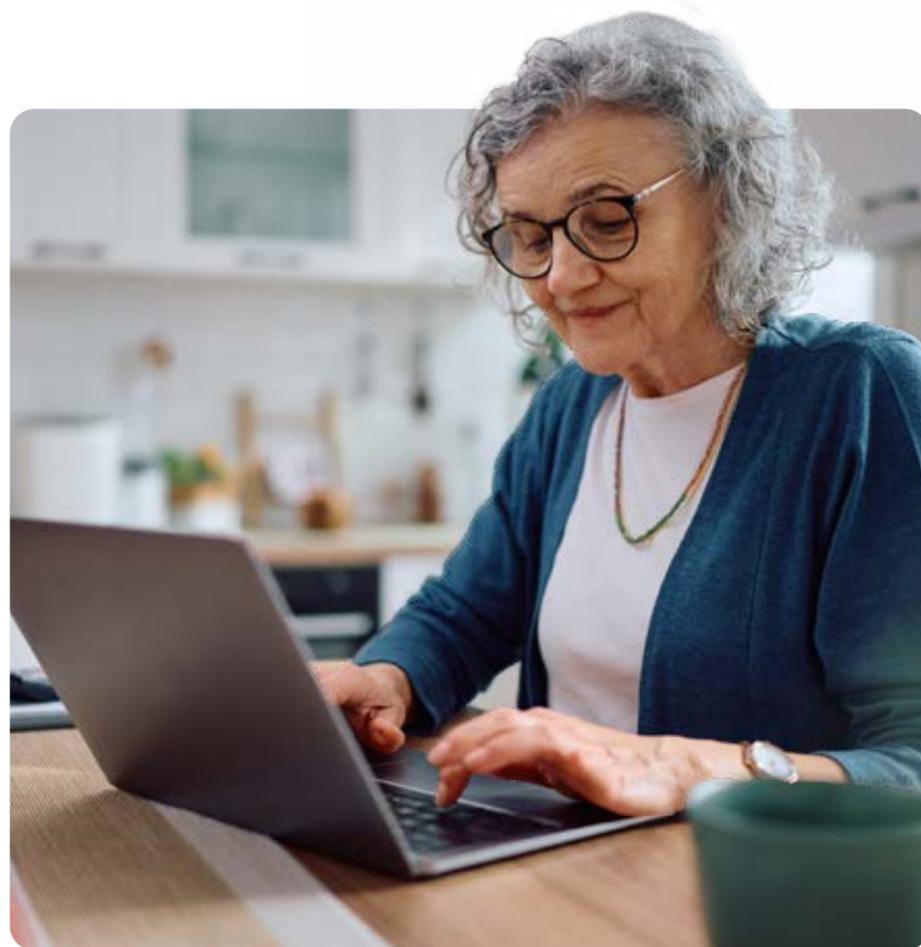
For example if you're late paying your tax bill, you could be fined:

- three per cent of the tax owed at day 15
- a further three per cent of the tax owed at day 30

There are also late filing penalties of £100 for one day after the deadline and £10 for each additional day, up to 90 days (plus the previous penalty).

Penalties in the first year

The government confirmed a 'soft-landing' for MTD. There will be no late submission penalties for the tax year 2026-27, but there will be fines for late payment.



About Simply Business

We're one of the UK's largest business insurance providers. Since we started life in 2005, we've helped three million small businesses and self-employed people find the protection that's right for them, from builders to bakers and personal trainers (we cover landlords, too).

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Answer a few questions about your business and we'll show you quotes from a range of insurers. After you buy, our Northampton-based team will be with you through every step of your cover, whether you have questions about your policy or you need to make claim.

[Get a quote](#)

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Sign up for a reminder to get your insurance with Simply Business and we'll send you a £25 gift card after you buy.

We'll then send you a link to buy insurance at the right time for you. To get your gift card, you'll need to use this link when buying your policy.

If your policy is still in place (with up to date payments) three weeks after your start date, we'll send you an email with instructions on how to redeem your reward within 45 days. [Terms and conditions apply.](#)

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