

Making Tax Digital - what does it mean for you?

Making Tax Digital (MTD) is a government initiative that sets out a bold vision for the UK to have “one of the most digitally advanced tax administrations in the world”.¹

Not sure what MTD means for you and your business? Here’s what you need to know.

What is Making Tax Digital?

The aim of the government’s Making Tax Digital initiative is to: “...make it easier for individuals and businesses to get their tax right and keep on top of their affairs”. It promises to make tax administration in the UK: “...more effective, more efficient and easier for taxpayers to get their tax right”.² Put simply, Making Tax Digital involves using compatible software to manage your tax affairs with HMRC.

What does ‘compatible software’ mean?

While it’s possible to use spreadsheets in conjunction with ‘bridging software’³, many businesses and their accountants choose to use more comprehensive software, like FreeAgent.

These tools use the data from your day-to-day business activity to build an accurate picture of your business’s tax data in real time, highlighting possible errors and offering prompts for information that might otherwise be overlooked. Once your software has compiled the relevant data, you or your accountant submit it directly to HMRC, via a computer or smartphone.

HMRC has stated that: “...users will get the maximum benefits from MTD – fewer errors, increased productivity and better financial planning – by using dedicated MTD software”.⁴

1. [‘Overview of Making Tax Digital’](#). Accessed 15th October 2020.
2. [‘Overview of Making Tax Digital’](#). Accessed 15th October 2020.
3. [‘Overview of Making Tax Digital’](#). Accessed 15th October 2020.
4. [‘Making Tax Digital - mythbuster’](#). Accessed 15th October 2020.

Making Tax Digital: the story so far

The first major stage of MTD was rolled out on 1st April 2019. This required all VAT-registered businesses in the UK with a turnover above the VAT threshold to file VAT returns using MTD-compatible software and to store financial records relating to VAT digitally.⁵

The scope of MTD for VAT expanded on 1st April 2022, and all VAT-registered businesses are now required to follow these rules.

Another key development is that every small business owner and individual taxpayer now has access to an online business tax account that they can use to check their HMRC records and manage their details.⁶

In its March 2020 evaluation of Making Tax Digital, the government reported that more than 1.4 million businesses had signed up for MTD for VAT and that more than 4 million VAT returns had been submitted successfully using MTD-compatible software.⁷ Elsewhere, HMRC has reported that more than 280,000 businesses with a turnover below the VAT threshold had chosen to sign up to MTD for VAT voluntarily in order to “...experience the benefits digital record-keeping has to offer”.⁸

HMRC’s evaluation reported that some business owners experienced a smooth transition to digital VAT filing following its introduction, while others - “...particularly those continuing to use spreadsheets with bridging products” - found the transition more difficult.⁹

HMRC reports that the Lloyds Bank UK Consumer Digital Index 2019 found that those who are the most digitally engaged save a day a week in administration and that businesses that fully integrate their accounting and tax software report that they spend less time on tax.¹⁰

5. [‘VAT record keeping’](#). Accessed 15th October 2020.

6. [‘Sign in to your HMRC business tax account’](#). Accessed 15th October 2020.

7. [‘Making Tax Digital review’](#). Accessed 15th October 2020.

8. [‘Making Tax Digital - mythbuster’](#). Accessed 15th October 2020.

9. [‘Making Tax Digital review’](#). Accessed 15th October 2020.

10. [‘Making Tax Digital review’](#). Accessed 15th October 2020.

What's next for Making Tax Digital?

As the rollout of Making Tax Digital continues, here's what we can expect to happen next.

Making Tax Digital for Income Tax

Making Tax Digital for Income Tax will be introduced in 2026. This will require self-employed business owners and landlords with annual business or property income above £50,000 to follow the rules for MTD for ITSA from 6th April 2026.¹¹

Your accountant will be happy to explain what the continued rollout of Making Tax Digital will mean for you and your business in further detail.

11. ['Overview of Making Tax Digital'](#). Accessed 27th January 2023.