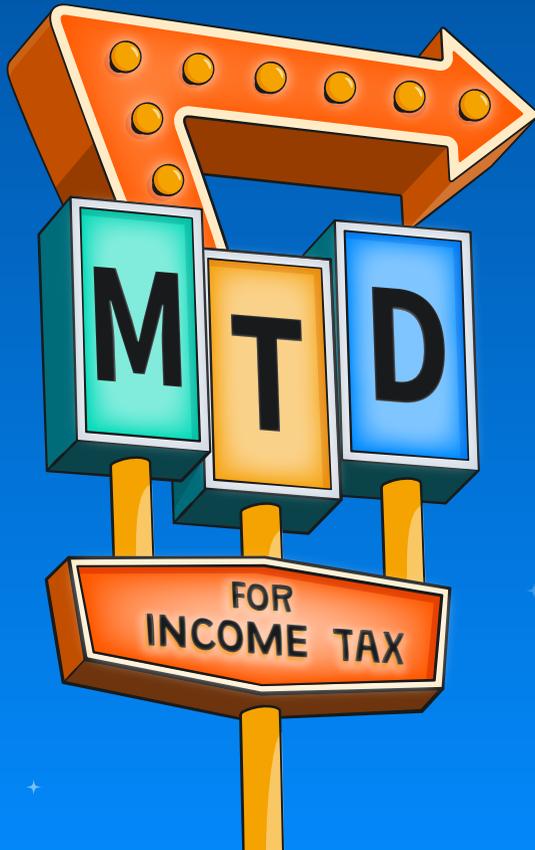


# How to prepare your practice for Making Tax Digital





Making Tax Digital (MTD) is one of the biggest issues facing accountants and bookkeepers today. With the next phase of the rollout on the horizon, FreeAgent explores the history of tax digitisation and offers some tips for how to brave the road ahead.

## Why is the government digitising tax?

One of the fundamental principles of taxation - as established by Adam Smith in his seminal book *The Wealth of Nations* - is that tax collection should be efficient, with costs for assessment and collection kept to a minimum. This applies not just to the government body collecting the tax, but to the businesses and individuals who need to pay it as well.

Back in 2007, the National Audit Office submitted a report to Parliament<sup>2</sup> about how accurately HMRC processes Income Tax. They found that in 95% of cases, it was done correctly. However, processing errors led to around a million taxpayers paying the wrong amount of tax, with £125m in underpayments and £157m in overpayments. HMRC noted: “Processing errors have a [...] wider impact as they result in anxiety, time and effort for taxpayers in putting matters right, and additional costs [...] in reworking cases.”

Today, nearly 12 million people file a Self Assessment tax return each year, according to government figures.<sup>3</sup> Some of these returns inevitably contain mistakes, whether deliberate or otherwise. The consequence is not just lost income; HMRC puts significant resources into battling tax avoidance and evasion, conducting around 300,000 investigations per year into Self Assessment tax returns alone.

During the Covid-19 pandemic, the total amount of unpaid tax in the UK rose from around £16bn to a peak of £67bn in August 2020, before falling back down to £42bn in September 2021.<sup>4</sup> HMRC faces several years of managing this tax debt, and although it made efficiencies before the pandemic, it did not improve overall levels of debt collection required.

1. [britannica.com/topic/taxation/History-of-taxation](https://www.britannica.com/topic/taxation/History-of-taxation)

2. [nao.org.uk/reports/hm-revenue-customs-accuracy-in-processing-income-tax](https://www.nao.org.uk/reports/hm-revenue-customs-accuracy-in-processing-income-tax)

3. [gov.uk/government/news/115-million-file-self-assessment-by-31-january-deadline](https://www.gov.uk/government/news/115-million-file-self-assessment-by-31-january-deadline)

4. [nao.org.uk/reports/managing-tax-debt-through-the-pandemic](https://www.nao.org.uk/reports/managing-tax-debt-through-the-pandemic)

# The Making Tax Digital initiative

Making Tax Digital (MTD) was first announced in the 2015 Budget by then-Chancellor George Osborne. The initiative aims to make tax administration more effective, more efficient and easier for taxpayers through the implementation of a fully digital tax system.<sup>5</sup> It will bring about changes for a wide range of taxpayers, including most businesses, self-employed people and landlords.

For the government, the aim of MTD is to make the tax system more resilient, more effective and more accurate.

At the same time, there's a desire to boost business productivity by reducing the administrative burden. The government believes that by using software to reduce or eliminate paper-based or manual processing, the opportunities to make certain kinds of mistakes will cease to exist. The intention is that this will close part of the 'tax gap': the difference between the amount of tax that should be paid to HMRC and the amount that's actually paid.<sup>6</sup>



## Which clients will be affected?

The phased introduction of MTD for Income Tax will begin on 6th April 2026 and will affect sole traders and landlords who earn a combined qualifying income of more than £50,000 a year from business and/or property. MTD for Income Tax will come into effect in April 2027 for self-employed individuals and landlords with total qualifying income above £30,000, and by April 2028 for those with qualifying income above £20,000 a year.

From 6th April 2026, all of your clients who are affected by the first phase of MTD for Income Tax will be required to:

- keep digital records of their business income and expenses using compatible accounting software
- send quarterly updates of their business income and expenses to HMRC for each source of income (business and property)
- finalise their income by submitting an annual final declaration for each source of income

For affected clients, this will replace the annual Self Assessment return. Clients below the qualifying income thresholds will continue following the Self Assessment process.

5. [gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital](https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital)

6. [gov.uk/government/publications/extension-of-making-tax-digital-for-vat/extension-of-making-tax-digital-for-vat](https://www.gov.uk/government/publications/extension-of-making-tax-digital-for-vat/extension-of-making-tax-digital-for-vat)

## Making Tax Digital timeline at a glance



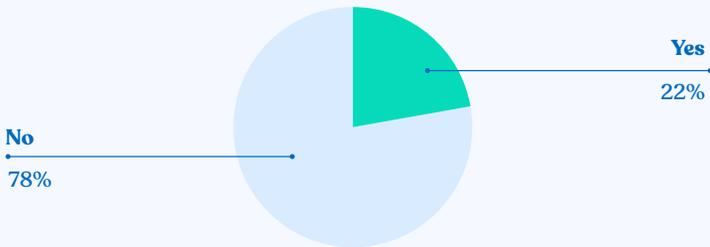
# MTD's impact on the accounting industry

A poll of FreeAgent's accountant and bookkeeper Partners in March 2025 revealed that only 22% of respondents felt their practice was ready for MTD for Income Tax, with over three quarters feeling unprepared for the changes ahead.

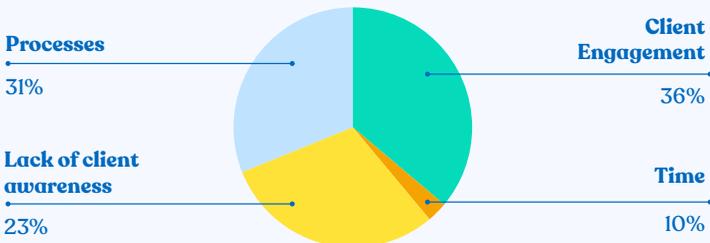
When asked about the biggest hurdles to successful MTD implementation, 36% of respondents cited client engagement as their primary challenge, with 31% pointing to difficulties in establishing the right internal processes.<sup>7</sup>

Stephen Franklin of Galloways, a FreeAgent Practice Partner, says it's important to begin with a clear understanding of the scale of impact: "I think the first thing you need to do is be aware of how many of your clients this will affect. You've got to spend time contacting them, and invest effort in getting their buy-in."

## Is your practice ready for MTD for Income Tax?



## What's the biggest challenge you face around MTD?



7. [freeagent.com/accountants/recordings/new-tax-year-digital-habits](https://freeagent.com/accountants/recordings/new-tax-year-digital-habits)

Identifying affected clients and planning accordingly is just the start. From there, practices must consider how to effectively roll out a solution and how to shift their clients' habits and mindsets: "You need a solution to roll out to them... FreeAgent can make it as easy as possible to get people who have traditionally either used an Excel spreadsheet or just given you a load of paperwork at the end of the year."

Andy Thomas of Abacus Jack echoes the importance of process, noting that standardisation is key to scaling MTD successfully across a client base: "It's about having as much of a standardised process as possible so that every client fits. What are we going to be asking for? What format do we want it in? What works best for them? What's going to make life easier?"

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**FreeAgent can make it as easy as possible for people who have traditionally used an Excel spreadsheet or just given you paperwork at the end of the year.”**

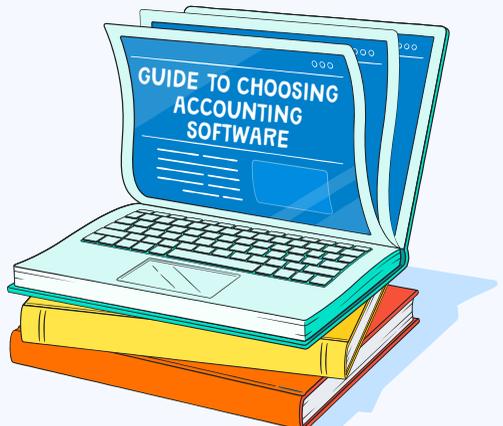
Stephen Franklin, Galloways

Despite early apprehension, the industry is beginning to recognise the strategic opportunities MTD presents. Encouragingly,

# 62.5%

**of those surveyed believe MTD will open up new revenue streams for their practice by enabling additional client services.**

Andy says he sees the potential for MTD to strengthen client relationships: "You're having to submit income and expense records to HMRC... that's where the value-add lies. You can go to these clients and say, 'Hey, we've done your MTD submission. Here's a summary of what's been happening.' That kind of proactive communication builds trust. Those are the clients who'll stay with you - and recommend you to others."



Stephen also highlights how more frequent submissions unlock powerful tax planning opportunities: “Instead of someone turning up after their year is finished... you’re building a quarter-by-quarter view. There’s more opportunity to be saying, ‘Alright, looks like you’re having a good year. Have you thought about putting some money in a pension? Do you need any new equipment?’ The client can see you’re proactively looking at their records and giving them unique recommendations on the back of it.”

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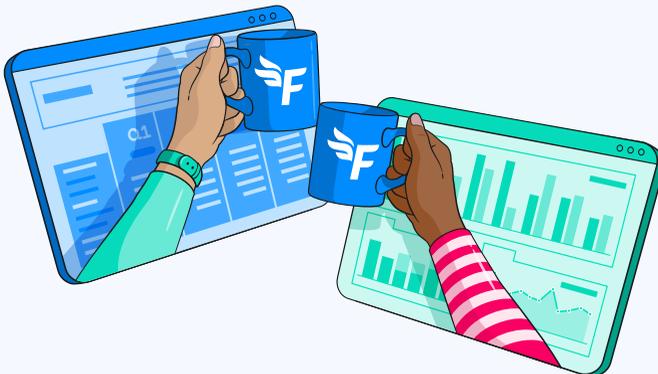
**...it’s really positive to see that many practices are viewing MTD as a beneficial change that could help them grow their businesses, increase the demand for compliance services and offer a wider range of options to their clients.”**

Stewart Hurd, Chief Sales Officer,  
FreeAgent

Stewart Hurd, Chief Sales Officer at FreeAgent, adds: “With MTD representing the biggest tax change in a generation, we know that some accountants and clients have naturally been apprehensive about the legislation - particularly in terms of potential extra work and time that may be required to comply with it.

“But despite these concerns, it’s really positive to see that many practices are viewing MTD as a beneficial change that could help them grow their businesses, increase the demand for compliance services and offer a wider range of options to their clients.

“It’s therefore important for accountants to feel they are fully on top of MTD, and that’s why we’re working hard at FreeAgent to support our Practice Partners through every stage of the legislation. By being ready for MTD now, accountants will not only be able to offer guidance and reassurance to their clients, they will also ensure their practices are best prepared for the future.”





Before you start talking to clients about MTD for Income Tax, it's a good idea to calculate exactly how much time you'll need to devote to educating them about the initiative and migrating them to suitable software. This will help you plan your workload and hopefully avoid any last-minute panic.

Think of clients as falling into one of three broad categories:

### 1. Digital natives

These are your digitally savvy clients who are already comfortable using technology in their day-to-day working life. They might be eager to embrace the new ways of working, seeing it as a natural extension of how they already operate.

### 2. Willing but uncertain

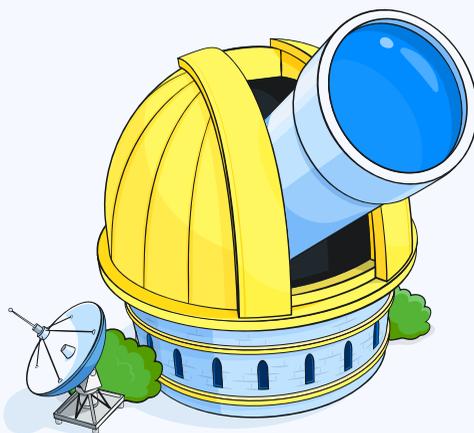
They understand the need for change but might require more hand-holding. They are more likely to need thorough guidance and training, as well as reassurance that they'll be supported throughout the transition.

### 3. Resistant to change

They're the traditionalists, the ones who prefer the familiar comfort of spreadsheets - or even pen and paper. This group might perceive digital tools as unnecessary burdens.

Next, work out how many of your existing clients are affected by the first threshold - remember, that's anyone who has a total annual income of £50,000 or more from self-employment and/or property. It's a good idea to group the affected clients into segments, which will help you adapt your approach and communications to suit each group of clients.

For example, one segment could contain landlord clients who have only ever used paper records, while another might contain sole traders who are already using accounting software, and so on.



## 2

## Choose the right software

MTD for Income Tax will require those affected to keep digital records and make submissions to HMRC through MTD-compatible accounting software, so it's vital to choose a solution that will allow you and your clients to comply with these rules. HMRC maintains a list of recognised software for MTD for Income Tax, which includes FreeAgent.<sup>8</sup>

When deciding which software to support in your practice, think about what's most appropriate for each client's needs. For example, a client in full-time employment who has some additional income from a part-time business is likely to have much simpler accounting requirements than a small business owner who employs staff.



It's important to consider not only the functionality of the software but also how user-friendly it is, particularly for clients who may be new to the concept of cloud accounting or reluctant to move away from using spreadsheets. And if you can ensure that all members of your practice staff are expert users of your chosen software, you'll be able to offer better support to clients. FreeAgent has an accreditation scheme based on simple online learning modules that can help accountants and bookkeepers master the software and feel more confident when demonstrating it to clients.

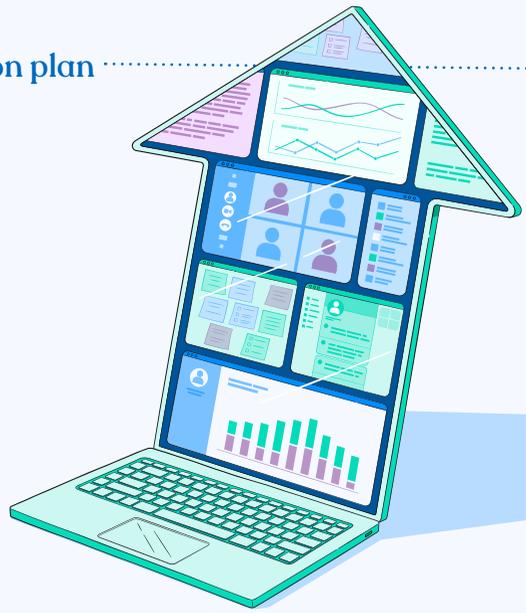
Another aspect to consider when choosing software is how easy it will make onboarding and managing multiple clients. For example, FreeAgent provides each of its accountant and bookkeeper Partners with their own Practice Dashboard, where they can see all their clients at a glance and switch between accounts easily. New clients who are added to their dashboard receive an automated email journey with useful tips to help get them started with FreeAgent.

### 3

## Develop a communication plan

With so much information for your clients to absorb, you'll need to think carefully about the best way to share it with them. A well-organised communication plan will make it easier for you to identify the key messages to share and the best way to communicate them.

Start by revisiting the segments you created when planning your workload, and think about what you need to say to each group of clients. Consider how each segment prefers to be contacted, and focus on how you can deliver your messages concisely. FreeAgent's Sales Manager, Kris Sawford, says: "It's important to establish the right communication style for your clients. Do they prefer email or WhatsApp? Have you thought about creating a Facebook group? There are even a few accountants out there using TikTok to communicate now. Not everybody reads emails."



Developing a specific communication strategy for each segment will help to ensure that every client receives the right kind of support.

“

**One size does not fit all, and what's important for one segment might not be relevant for another. You need to understand their problems and incorporate that into your messaging.”**

Ben Morley, Implementation Team Manager, FreeAgent

You may find it useful to divide the information you want to share into various themes or topics and communicate these in phases between now and April 2026, and beyond. This should help you to prioritise the key messages you want to deliver and avoid overwhelming your clients with complex information.

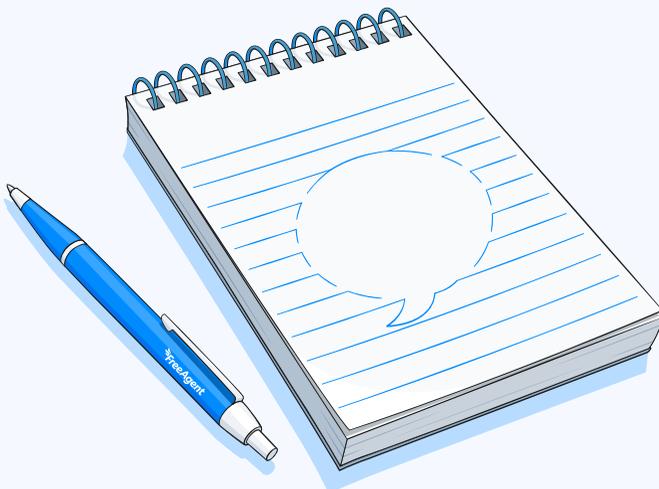
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**Start small - little and often is key. Don't overwhelm your clients. You'll lose engagement straight away if you simply pile in and say, 'this is everything that we're doing'**

Kris Sawford, Sales Manager,  
FreeAgent

Remember to tailor the level of detail you include to your clients' experience and to present the information in a clear, digestible way. For example, if the clients in one segment are new to the world of digital record keeping, the first phase of your communications could outline what MTD for Income Tax actually means, what rules are changing and how it will affect their businesses. Later phases could cover migrating to accounting software and the responsibilities your clients will have when the MTD rules come into effect. FreeAgent has email templates that can help you plan your approach.

“Educating your clients now will save you a lot of pain in the long run. It's better to invest that time now rather than when the deadline is looming and you're starting to feel stressed,” says Ben.



# An opportunity for growth

While MTD for Income Tax presents certain challenges for the accounting profession, there are opportunities for practices too. With around 2.75 million taxpayers falling within the scope of the new regulations by April 2028<sup>9</sup>, many will need to use accounting services for the first time. By planning your workload carefully, mastering the right software and educating your client base about the changes, you'll be in a strong position to capitalise on this influx of potential new clients as April 2026 nears.

To find out more about how FreeAgent can help you prepare your practice for the coming changes, and to book your free consultation with an MTD expert, visit [freeagent.com/mtd](https://freeagent.com/mtd)

