ZAZEN TAX

Making Tax Digital for Income Tax

Four updates a year instead of one return. Who is in, when, and what you need working before then.

Eight chapters. The first phase has already started.

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Chapter two decides whether the rest applies to you, and it turns on a figure most people never look at.

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1. What actually changes

The annual Self Assessment return is replaced by four quarterly updates and a year-end declaration, filed from compatible software.

	Now	Under MTD
Filing	One return	Four updates and a declaration
From	Anywhere	Compatible software only
Records	Any format	Digital, kept as you go
Payment dates	31 January and 31 July	Unchanged

The payment dates are worth saying twice, because people assume filing four times means paying four times. It does not. What changes is how often you report, not when you pay.

2. Qualifying income, and why it is not profit

This is the chapter that decides everything else, and it is the one people get wrong.

Qualifying income is your gross income from self employment and property, added together, before any allowances or expenses come off. It is not profit. It is not taxable income. It is the top line.

Two freelancers, same answer

	Freelancer A	Freelancer B
Invoiced	£64,000	£64,000
Costs	£9,000	£52,000
Profit	£55,000	£12,000
In scope from	**6 April 2026**	**6 April 2026**

> PROFIT NEVER ENTERS THE TEST
>
> Freelancer B makes £12,000 and is in scope from the first phase, because the test reads the £64,000. A business with high costs and modest profit can be brought in years before it expects to be.

Add every source. Self employment and property together, not each measured on its own. Two businesses at £30,000 each is £60,000 of qualifying income.

3. The three phases

Each phase is set by the tax year two years before it starts, so by the time it applies it has already been decided.

From	Qualifying income over	Measured on
6 April 2026	£50,000	2024/25
6 April 2027	£30,000	2025/26
6 April 2028	£20,000	2026/27

The thresholds are 'over', not 'at'. Exactly £50,000 misses the first phase, but it clears the second, so that business joins in April 2027 rather than not at all. Being under one threshold is not the same as being out.

4. Digital records

The requirement is that records are created and kept digitally, as transactions happen.

— Income and expenses recorded digitally, not typed up in a batch before each deadline.

— Categorised as you go, because updates report totals by category.

— Digital links between systems, so figures move without being retyped.

A spreadsheet can still play a part, but only if it is connected to compatible bridging software. A spreadsheet on its own does not satisfy the requirement.

What a digital link actually means

A digital link is any transfer of data between systems that happens without manual intervention. An export and import of a file is a digital link. A formula pulling from another sheet is a digital link. Reading a figure off one screen and typing it into another is not, however carefully you do it.

> THE HABIT MATTERS MORE THAN THE SOFTWARE
>
> Almost every practical difficulty with MTD comes from leaving the bookkeeping to the end of the quarter and then discovering the records were never digital in the first place. A business that categorises weekly barely notices the change. One that does a shoebox in January will find four deadlines instead of one.

What you still have to keep

Digital records do not replace the underlying evidence. Invoices, receipts, bank statements and contracts are kept as they always were, for five years after the 31 January following the tax year. What changes is that the summary of them lives in software rather than in a book.

5. The four quarterly updates

Each update is a running total for the year to date, not a self-contained quarter.

Quarter	Standard period	Due
1	6 April to 5 July	7 August
2	6 July to 5 October	7 November
3	6 October to 5 January	7 February
4	6 January to 5 April	7 May

> **AN UPDATE IS NOT A RETURN**
>
> Nothing in a quarterly update is final. Reliefs, adjustments and allowances all go in at the year end. A quarter that looks wrong in August is corrected by the cumulative figure in November rather than by amending anything.

6. Standard or calendar periods

You can report to the 5th of the month or to the month end. The deadlines are the same either way.

Quarter	Calendar period	Due
1	1 April to 30 June	7 August
2	1 July to 30 September	7 November
3	1 October to 31 December	7 February
4	1 January to 31 March	7 May

Calendar periods line up with how most people already reconcile, so if your bookkeeping runs to month ends they are usually easier. You elect for them in your software, and the election has to be made before the first update of the tax year. After that first update the choice is fixed for the year.

7. The final declaration

This is what replaces the Self Assessment return, and it is where the year is actually settled.

- Made after the fourth quarterly update.
- Adds anything outside the business: employment, dividends, interest, other income.
- Applies reliefs, allowances and adjustments.
- Due 31 January, as the return was.

Payment dates are unchanged. The balancing payment and first payment on account are due 31 January, and the second payment on account 31 July.

8. What this does not change

A good deal of the anxiety about Making Tax Digital is about things that are not changing at all.

	What happens
When you pay	31 January and 31 July, exactly as now
Payments on account	Unchanged, and on the same trigger
How profit is worked out	Unchanged
Allowable expenses	Unchanged
Capital allowances	Unchanged
The personal allowance and the bands	Unchanged
Underlying records	Still kept, still for the same period

It is a change to how and how often you report. The tax itself works the way it always has, and a quarterly update does not bring a payment with it.

> **FOUR FILINGS IS NOT FOUR BILLS**
>
> This is the single most common worry, and it is misplaced. The updates are information. The money still moves twice a year, on 31 January and 31 July, on exactly the same basis as before.

9. Getting ready

- Work out your qualifying income, gross, from every source.
- Check it against the phase that applies, and note the date.
- Choose software on HMRC's compatible list, and check it files quarterly updates and not just accounts.
- Authorise it with HMRC well before you need it.
- Start recording digitally and categorising as you go, before it is compulsory.
- Decide standard or calendar periods, and elect before the first update.
- Put 7 August, 7 November, 7 February and 7 May in the diary.

Where to go next

The MTD Quarterly Update Workbook works out whether you are in scope from your gross income and lays out both sets of quarter dates. The MTD Readiness Checklist covers chapter eight in order.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures and the same rates as the chapters here.

Zazen Tax

Accountants for people who work for themselves. If you would rather someone else did this, that is what we are for.

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General information, not advice for your circumstances. Rates are 2026/27 for the UK and change from time to time.