ISSUE 02 · UK SOLE-TRADER TAX AND COMPLIANCE

Making Tax Digital for Income Tax: who is in, when, and what it costs

HMRC's own guidance and statistics, and the National Audit Office's audit, read side by side.

Published 16 November 2026 **Sources** 7, all linked **Claims checked** 36

Method prompts 1, 3, 4, 6, 7 of our 10-prompt pack

Truth labels

VERIFIED the source states it directly

ESTIMATED the source's own estimate, projection or survey self-report

HYPOTHESISED our inference from the cited sources; test it

THE BOTTOM LINE

1. If you are a sole trader or landlord whose self-employment and property income before expenses was over £30,000 in the 2025 to 2026 tax year, HMRC says you will need to use Making Tax Digital for Income Tax from 6 April 2027. T1 T2 VERIFIED
2. That means digital records, four quarterly updates a year and a tax return through compatible software. Late quarterly updates in the 2026 to 2027 tax year carry no penalty points; later years do. T3 VERIFIED
3. The independent audit evidence is older and critical: in 2023 the NAO found the scheme at least eight years late and its costs underestimated in HMRC's business cases. No independent evaluation of the new system's first year exists yet. T7 HYPOTHESISED

WHAT THE SOURCES SAY

Findings by theme

Who has to join, and when

VERIFIED	You need to use it if you are a sole trader or landlord registered for Self Assessment, get self-employment or property income, and your qualifying income is over the threshold. T1
VERIFIED	The thresholds step down: over £50,000 in 2024 to 2025 means starting 6 April 2026; over £30,000 in 2025 to 2026 means 6 April 2027; over £20,000 in 2026 to 2027 means 6 April 2028. T1
VERIFIED	Qualifying income is total self-employment plus property income before expenses. Employment pay, dividends, pensions and a partnership profit share do not count. HMRC's example: £25,000 rent plus £27,000 self-employment gives £52,000. T2
VERIFIED	HMRC checks your previous return and writes to you, but if no letter arrives it is still your responsibility to check and sign up. T1
VERIFIED	You are automatically exempt if your qualifying income is £20,000 or less. Partnerships do not need to join yet, and people who are digitally excluded can apply for an exemption. T5

What you actually have to do

VERIFIED	Keep digital records in compatible software and send quarterly updates by 7 August, 7 November, 7 February and 7 May, then a tax return by 31 January after the tax year. T3
VERIFIED	For someone who started in April 2026, the first MTD tax return is due by 31 January 2028. You still file an ordinary Self Assessment return for the year before you join. T4 T1

Penalties under the new rules

VERIFIED	Late submissions earn points. At 4 points you get a £200 penalty, and another £200 for each further missed deadline. You only get one point per deadline, even with several businesses. T3
VERIFIED	Late payment: nothing up to 15 days late. For the 2027 to 2028 tax year, 4% of the tax owed at day 15, another 4% at day 30, then 10% a year charged daily from day 31. In your first year you get 30 days before penalties start. T3

ESTIMATED	Worked example: £2,000 of tax for 2027 to 2028 paid 20 days late, outside your first year, would mean a 4% penalty at day 15 of £80. T3

How many people this touches

ESTIMATED	HMRC counts 7.0 million people in Self Assessment with sole-trader or landlord income in 2023 to 2024. Around 2.9 million (42%) have qualifying income above £20,000. T6
ESTIMATED	On 2023 to 2024 figures: 864,000 over £50,000 (from April 2026), 1,077,000 between £30,000 and £50,000 (April 2027) and 975,000 between £20,000.01 and £30,000 (April 2028). T6
VERIFIED	Among those over £50,000, 75% had an agent and 63% already filed with software. Of those with an agent, 78% used commercial software, against 21% without one. T6

The audit record: delays and costs

VERIFIED	In June 2023 the NAO found MTD for Self Assessment at least eight years behind its original timetable, after a fourth delay in December 2022. T7
ESTIMATED	HMRC's estimated programme costs rose from £226 million in 2016 to £1.3 billion, a 400% real-terms increase. T7
ESTIMATED	HMRC's 2021 research put upfront costs at an average of £330 per business affected, and almost £1,000 for some. T7
VERIFIED	The 2017 pilot ended with only 15 participants when it closed to new entrants in 2022. T7

WHERE THEY DISAGREE

Debates and contradictions

Is MTD worth what it costs?

ONE VIEW

HMRC: it is expected to reduce the tax gap by reducing errors and failures to take reasonable care. T6 VERIFIED

THE OTHER VIEW

NAO: the business case should have shown that combined costs to HMRC and customers were greater than the extra tax expected. T7 VERIFIED

WHY THEY DIFFER

They answer different questions at different times. The NAO's 2023 analysis predates the current phased thresholds, and HMRC told the NAO it did not believe including the omitted costs would have changed its decisions. T7 HYPOTHESISED

Is software a real burden for sole traders?

ONE VIEW

For agent-represented filers over £50,000, software is already normal: 78% used it. T6 VERIFIED

THE OTHER VIEW

Without an agent the figure was 21%, and the NAO cites upfront costs averaging £330, up to almost £1,000 for some. T6 T7 ESTIMATED

WHY THEY DIFFER

The burden falls unevenly: on people without an agent, and as thresholds fall, on people with smaller incomes. This is our inference from the two sources, not a finding of either. T6 T7 HYPOTHESISED

HOW MUCH TO TRUST IT

Quality of the evidence

CLAIM	EVIDENCE	WHY
Who must join, and when	STRONG	Stated directly in current HMRC guidance, updated in 2026. T1 T5 VERIFIED
How many people are affected	MODERATE	Official statistics, but based on 2023 to 2024 returns; actual numbers depend on future years' income. T6 VERIFIED
MTD costs more than it raises	INCONCLUSIVE	The only independent estimate is a June 2023 audit of an earlier design; nothing since the launch. T7 HYPOTHESISED

WHAT NOBODY HAS MEASURED YET

Research gaps

PRACTICAL GAP

There is no published evaluation of how the first 2026 cohort coped with quarterly updates. T4 HYPOTHESISED

Open question (ours): What share of the April 2026 cohort sent each quarterly update on time, and what predicted lateness?

METHODOLOGICAL GAP

Cost-to-taxpayer figures come from HMRC's 2021 research, before the current phased design. T7 VERIFIED

Open question (ours): What do sole traders actually spend on software and agent fees in their first MTD year?

POPULATION GAP

Population counts are based on 2023 to 2024 returns, not the years that set each start date. T6 VERIFIED

Open question (ours): How many people cross the £30,000 line on their 2025 to 2026 returns?

CONTEXTUAL GAP

Partnerships' timeline is still unannounced. T1 VERIFIED

Open question (ours): When will partnerships be brought in, and on what threshold?

IF YOU RUN A SMALL BUSINESS

What this means in practice

1. Add up your 2025 to 2026 self-employment and property turnover now. If it is over £30,000, plan for a 6 April 2027 start, whether or not a letter arrives. T1 T2 HYPOTHESISED
2. Pick software before April, not after, so your records are digital from day one of your update period. T4 HYPOTHESISED
3. Put the four update dates and 31 January in your calendar. The no-points year for quarterly updates covers 2026 to 2027 only. T3 VERIFIED

Where the sources are thin. Thin spots: the only independent evaluation (NAO) dates from June 2023, the population figures use 2023 to 2024 returns, and there is no public data yet on how the April 2026 cohort is coping. Check GOV.UK before acting: the guidance pages were updated as recently as 12 November 2026.

HOW THIS BRIEF WAS MADE

We fetched 7 public sources on 16 November 2026 and saved their text. We then ran these prompts from our source-grounded prompt pack: 1. Structured literature review; 3. Debates and contradictions; 4. Research gaps; 6. Synthesis by theme; 7. Quality of the evidence. Answers use only those sources.

Before publishing, an automated check confirmed that each of the 61 claims cites a source and carries a truth label, that all 116 supporting quotes appear word for word in the saved source text, that every number in a claim appears in its quotes (or is a worked calculation that we recompute), and that every source link resolves.

SOURCES

Sources

T1 **HMRC (2026a)**. Find out if and when you need to use Making Tax Digital for Income Tax. GOV.UK. Official guidance. https://www.gov.uk/guidance/find-out-if-and-when-you-need-to-use-making-tax-digital-for-income-tax. Accessed 16 Nov 2026.

T2 **HMRC (2026b)**. Work out your qualifying income for Making Tax Digital for Income Tax. GOV.UK. Official guidance. https://www.gov.uk/guidance/work-out-your-qualifying-income-for-making-tax-digital-for-income-tax. Accessed 16 Nov 2026.

T3 **HMRC (2026c)**. Penalties for Making Tax Digital for Income Tax. GOV.UK. Official guidance. https://www.gov.uk/guidance/penalties-for-making-tax-digital-for-income-tax. Accessed 16 Nov 2026.

T4 **HMRC (2026d)**. Using Making Tax Digital for Income Tax for the first time. GOV.UK. Official guidance. https://www.gov.uk/guidance/use-making-tax-digital-for-income-tax/using-making-tax-digital-for-income-tax-for-the-first-time. Accessed 16 Nov 2026.

T5 **HMRC (2026e)**. Find out if you can get an exemption from Making Tax Digital for Income Tax. GOV.UK. Official guidance. https://www.gov.uk/guidance/find-out-if-you-can-get-an-exemption-from-making-tax-digital-for-income-tax. Accessed 16 Nov 2026.

T6 **HMRC (2025)**. Making Tax Digital for Income Tax business population statistics: commentary. GOV.UK (official statistics). Official statistics, tax year 2023 to 2024. https://www.gov.uk/government/statistics/making-tax-digital-for-income-tax-business-population-statistics/making-tax-digital-for-income-tax-business-population-statistics-commentary. Accessed 16 Nov 2026.

T7 **NAO (2023)**. Progress with Making Tax Digital (HC 1319, Session 2022-23). NAO. Independent audit report. https://www.nao.org.uk/wp-content/uploads/2023/06/progress-with-making-tax-digital.pdf. Accessed 16 Nov 2026.

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