Understanding MTD for ITSA
Frequently Asked Questions

1. What is MTD for ITSA (Making Tax Digital for Income Tax Self Assessment)?

MTD for ITSA is a new HMRC initiative requiring eligible self-employed individuals and landlords to:

- Keep their business and property income and expenses in digital form using compatible software.
- Send quarterly updates to HMRC summarising income and expenses.
- Finalise accounts at the end of the year, make necessary adjustments, and submit a final declaration.

You will still make an annual submission – MTD does not remove the need for a year-end tax return (final declaration).

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2. Who must comply and when?

- From **6 April 2026**: self-employed individuals and landlords with gross income (from self-employment and/or property) above **£50,000** must comply.
- From **6 April 2027**: the threshold reduces to **£30,000**.

"Qualifying income" is based on **gross income** (before expenses).

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3. How is "qualifying income" calculated?

- It is your total gross income from self-employment and property in a tax year (before expenses).
- Employment income, dividends and interest do not count.
- For jointly-owned property, only your share of the income is included.
- The threshold is calculated before expenses and reliefs.

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4. What software will I need?

You must use HMRC-approved, MTD-compatible software to:

- Record and maintain digital accounting records.
- Send quarterly updates.

RBP recommends Xero and can purchase and set this up for you tailored to your business needs.

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5. Does MTD change how I pay tax or the deadlines?

- Payment deadlines remain unchanged – 31 January for balancing payments and payments on account.
- You will not pay tax quarterly – only submit quarterly updates.
- Quarterly updates are summaries, not a list of every transaction.

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6. What if my income drops below the threshold after I have enrolled?
Once you are in MTD, you generally remain in it even if your income later falls below the threshold – unless you cease self-employment or property activity.

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7. Are there exemptions?
Yes. Exemptions may apply for people who cannot reasonably use digital tools (e.g. due to disability, location, or age). However, exemptions from MTD must be applied for and approved by HMRC; it is not the individual's choice to decide whether they qualify.

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8. Do I need to submit full transaction details each quarter?
No. HMRC only requires a cumulative summary of income and expenses each quarter.

Banking & Expenses

9. Do I need a business bank account for my self-employed income?
No. You just need a separate account in your own name. Business bank accounts often charge fees, so a simple current account is fine.

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10. Why can't I just use my personal current account?
Each quarter, transactions in your self-employed account must be reconciled.
Using a personal account mixes business and personal spending, making reconciliation slower and more complicated.
A dedicated account keeps everything in one place and makes quarterly submissions easier.

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11. How do I take money out of my self-employed account?
You can transfer money to your personal account whenever you like.
These transfers are treated as "**drawings"** in your accounting software (e.g. Xero).

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12. What expenses should go through my self-employed bank account?
All business-related expenses should be paid from your self-employed or rental account.
Please **click here** to our standard expense guide (for example, common costs claimed by doctors) for more detail.

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13. Some expenses (e.g. mobile phone, subscriptions) are on direct debit from my personal account – should I move them?
Yes, ideally switch them to your self-employed account.

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14. What about use of home expenses (e.g. council tax, utilities)?
These should continue to be paid from your personal account.
We will make adjustments at year-end to include allowable “use of home” expenses.

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15. What about motor expenses?

- If you pay motor costs from your self-employed account, you can disallow a percentage for personal use at quarterly updates.
- If you normally claim mileage instead, or do not put motor expenses through your account, the adjustment will be made at year-end.

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16. When should I set up my separate bank account?
The sooner the better. Having a dedicated account must be in place before 1st April 2026.

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17. Can I buy a car from my self-employed account?
No. Cars are treated as capital allowances, which are adjusted at year-end.
They should not be purchased directly through your self-employed bank account.

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18. What about PCP or lease payments?
These should be paid from your personal account.
As tax treatment depends on the type of lease, the claim will be made at year-end.