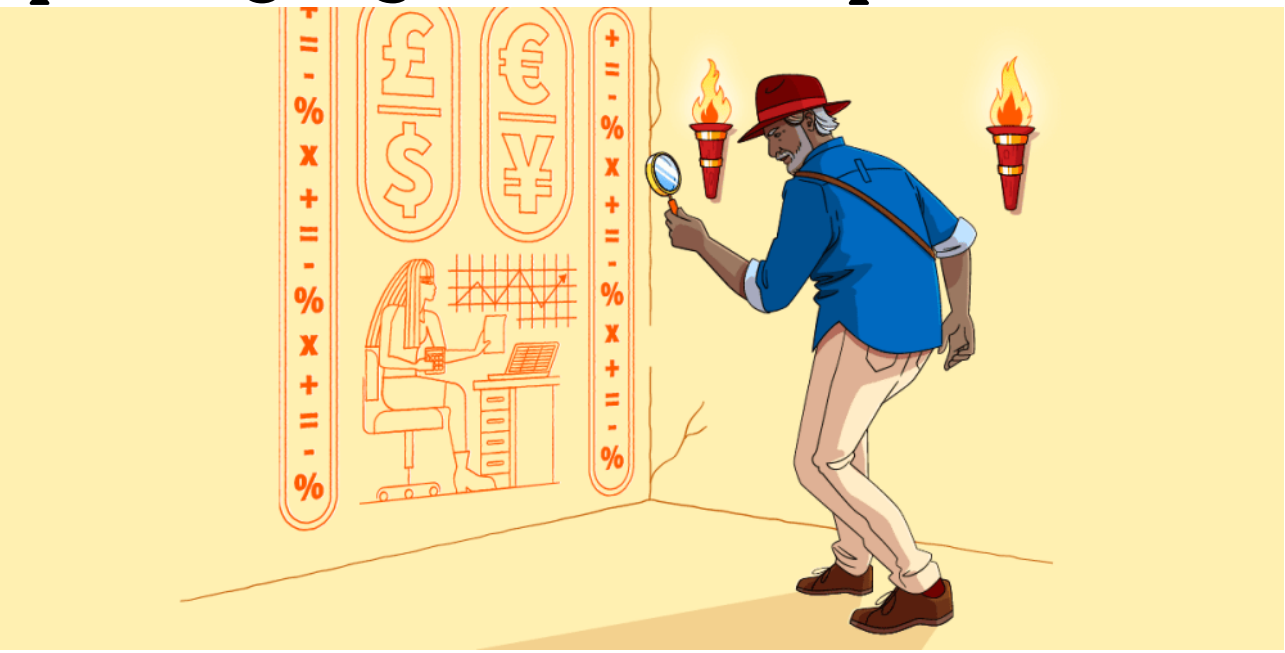
MTD for Income Tax: qualifying income explained



You might already know that Making Tax Digital (MTD) for Income Tax is coming for most self-employed business owners and landlords - and when you will have to comply depends on your qualifying income. But what exactly does that mean? With the phased rollout of the initiative beginning in April 2026, it's important to know where you stand.

This guide breaks down everything you need to know about qualifying income for MTD for Income Tax. You'll learn what counts as qualifying income and how HMRC uses it to decide whether you need to follow the new rules – and when.

- What is MTD for Income Tax?
- What does 'qualifying income' mean under MTD for Income Tax?
- How does HMRC calculate qualifying income for MTD for Income Tax?
- Which types of income don't qualify for MTD for Income Tax?

A quick recap: what is MTD for Income Tax?

MTD for Income Tax is a new way for self-employed business owners and landlords to keep their records and report their earnings to HMRC.

From April 2026 onwards, most sole traders and unincorporated landlords with qualifying income above a certain threshold will have to:

- keep records of their income and expenses in a digital format
- send quarterly updates of their income and expenses to HMRC for each qualifying income stream
- finalise their qualifying income annually by submitting a final declaration

Learn more in our guide on what Making Tax Digital for Income Tax means for you.

When will MTD for Income Tax affect me?

The phased rollout of MTD for Income Tax begins with those who earn the most from self-employment and property. Your MTD for Income Tax start date depends on how much you earn from these sources.

- If you earn more than **£50,000,** you need to use MTD for Income Tax from **April 2026.**
- If you earn more than **£30,000,** you need to use MTD for Income Tax from **April 2027.**
- If you earn more than **£20,000,** you need to start using MTD for Income Tax from **April 2028.**

If your income from self-employment and property is under £20,000, you don't need to use MTD for Income Tax and can continue reporting your income through Self Assessment.

An important note! Your eligibility for MTD for Income Tax is based on your income from qualifying sources – not your profit.

What does 'qualifying income' mean under MTD for Income Tax?

In the context of MTD for Income Tax, 'qualifying income' refers to where your income comes from and how much you earn. Let's break down what that means.

Qualifying income sources

The qualifying sources of income for MTD for Income Tax are:

- sales income (before any **costs** are deducted) - for **sole traders**
- **rental income** (before any costs are deducted) - for unincorporated landlords (i.e. those who own their property themselves, rather than having a limited company that owns the property)
  Unsure whether what you earn counts as qualifying income? You can use HMRC's tool to **check if you need to use MTD for Income Tax**.

Qualifying income from multiple sources

If you have multiple sources of income from self-employment and/or property, HMRC will look at your *combined* income from these sources to determine if and when you need to start using MTD for Income Tax.

For example, if you have income of £40,000 from self-employment and another £20,000 from property - your qualifying income total will be £60,000. You'll therefore need to start using MTD for Income Tax from April 2026.

However, if your combined income comes from a qualifying source and a non-qualifying source (for example a wage from employment), HMRC will only use your qualifying source to determine when you should start using MTD for Income Tax.

For example, if you have a combined income of £60,000, made up of £35,000 sales from self-employment and £25,000 gross wages from an employer, you won't need to start using MTD for Income Tax until April 2027.

We'll cover non-qualifying sources of income in greater detail later in the article.

Managing multiple sources of income can be tricky - **here are our expert tricks** to keep on top of them.

How does HMRC calculate qualifying income for MTD for Income Tax?

HMRC will use the previous year's Self Assessment **tax return** to evaluate whether you need to comply with the new MTD for Income Tax rules. Here's what that means.

Calculating qualifying income for the phase starting in April 2026

To work out whether to include you in the first phase of the initiative**,** HMRC will look at the income you report in your **2024/25** Self Assessment tax return.

If your combined self-employment and/or property income is **over £50,000**, you'll need to use MTD for Income Tax from **April 2026.**

This initial phase is likely to impact a significant number of taxpayers. According to HMRC figures, around 864,000 businesses will be affected. In a recent FreeAgent

webinar for accountants, 66% of attendees said they expect some of their clients to be included in the first phase of MTD for Income Tax.

Calculating qualifying income for the phase starting in April 2027

If the income you report in your 24/25 tax return is £50,000 or under, and you haven't elected to voluntarily **sign up for MTD for Income Tax**, you'll need to continue using the Self Assessment system for at least another year.

HMRC will then look at the income you report in your **2025/26** Self Assessment tax return. If your combined self-employment and/or property income is **over £30,000**, you'll need to follow the new rules from **April 2027.**

Calculating qualifying income for the phase starting in April 2028

If the income you report in your 25/26 tax return is £30,000 or under, and you have not elected to voluntarily sign up for MTD for Income Tax, you'll need to continue using the Self Assessment system for at least another year.

HMRC will then look at the income you report in your **2026/27** Self Assessment tax return. If your combined self-employment and/or property income is **over £20,000**, you'll need to follow the new rules from **April 2028.**

You can learn more about **how HMRC works out your qualifying income** on the government website.

Calculating qualifying income for new businesses

If your business or property venture is new and you haven't yet submitted a Self Assessment tax return, HMRC will use the income you report in your first Self Assessment tax return to evaluate when you need to start using MTD for Income Tax. If you don't have 12 months of income to report, HMRC will annualise your figure to determine whether you're eligible. For example, if you only have six months of income to report, HMRC will double that figure to work out your qualifying income. This means you'll need to use Self Assessment to report your self-employment and/or property income in your first tax year in business, even if you're confident your income will be over £50,000. When it's time to start using MTD for Income Tax, HMRC will tell you.

Which types of income don't qualify for MTD for Income Tax?

Currently, the following types of income don't fall within the scope of MTD for Income Tax:

- income you earn from employment (i.e. wages you receive as an employee, for which you get a payslip)
- income you earn as a **limited company director** (i.e. your salary and **dividends**)
- income you earn as an **incorporated landlord** (i.e. from property your limited company owns)

If you earn any of these income types **as well as** self-employment and/or property income, you'll need to use MTD for Income Tax to report your qualifying income when it reaches the threshold for joining.

There is currently no confirmed date for partnerships to be eligible for MTD for Income Tax. However, as MTD for Income Tax continues to roll out, we'll be keeping a close eye on the initiative and will let our readers know when it expands to include other income types. **Sign up for our email newsletter** and you'll receive the news from us directly in your inbox (be sure to check "Send me Making Tax Digital info").

Find out more about MTD for Income Tax

Starting to plan ahead for MTD for Income Tax? FreeAgent makes it easy to stay compliant. We've worked with HMRC to create simple, reliable software that meets all the new rules. **Get ready for MTD for Income Tax with FreeAgent**.

To learn more about MTD for Income Tax and the wider MTD initiative, check out FreeAgent's Making Tax Digital hub.

Disclaimer: The content included in this guide is based on our understanding of tax law at the time of publication. It may be subject to change and may not be applicable to your circumstances, so should not be relied upon. You are responsible for complying with tax law and should seek independent advice if you require further information about the content included in this guide.

6th August 2025

Say hello to FreeAgent!

Whether you make things, sell things, build things or grow things, our award-winning accounting software helps you make the moves that count.

Be crystal clear about your figures and leave admin in your wake with FreeAgent.

Try FreeAgent free

Accountant or bookkeeper? Find out more

Related articles

- MTD for Income Tax: what does it mean for you?
- How do I sign up for MTD for Income Tax?
- MTD for Income Tax: everything you need to submit your quarterly updates and final declaration

Are you an accountant or bookkeeper?

Find out more about FreeAgent for your practice.



Small businesses

For small businesses

For freelancers & contractors

For landlords

Product features

Events & webinars

Accountants & bookkeepers

For accountants & bookkeepers

Contractor-only practices

Who is FreeAgent for?

Partner Programme

Events & webinars

Business resources & guides

Guides for small businesses

Guides for accountants & bookkeepers

Accounting glossary

UK tax rates

Tools & calculators

Integrations

Community

FreeAgent API



FreeAgent is registered with the Financial Conduct Authority under the Payment Services Regulations 2017 (Firm reference number 799763) for the provision of account information services.
Registered in sunny Scotland No. SC316774 - One Edinburgh Quay, 133 Fountainbridge, Edinburgh, Scotland, UK EH3 9QG.

Copyright © 2026 by FreeAgent Central