Sheet E: As your business grows

Making Tax Digital, VAT and limited companies. For the 2025/26 tax year (6 April 2025 to 5 April 2026). Checked October 2026.

Please note: this is general information, not tax advice.
Everyone's situation is different. If you're not sure what applies to you, check GOV.UK or talk to a qualified professional.

For sole traders and landlords whose income is growing. As your takings go up, three things can change: Making Tax Digital, VAT, and whether a limited company would suit you better. Not sure which sheets in this series apply to you? Start with Sheet A.

1. Making Tax Digital for Income Tax

Making Tax Digital (MTD) changes **how** you report to HMRC, not how much tax you pay. You keep digital records, send short updates every 3 months through software, and send your yearly tax return through that software too.

Does it apply to you? It depends on your **qualifying income**: your self-employed takings plus any rent, added together, **before** costs. Wages and pensions don't count. HMRC looks at the figure on the tax return for an earlier year, called the "**qualifying year**" *(see link 1 at the end of this document)*:

You must use MTD from	If your qualifying income was over	On your tax return for
6 April 2026	£50,000	2024/25
6 April 2027	£30,000	2025/26 (the one due by 31 January 2027)
6 April 2028	£20,000	2026/27

What it involves:

- **Digital records** of your income and costs, kept in software that works with MTD *(see link 2 at the end of this document)*. Spreadsheets are allowed if they're linked to HMRC through **bridging software**. Some products are free.
- **Quarterly updates:** running totals, not tax returns, due by **7 August, 7 November, 7 February and 7 May**.
- **One yearly tax return** through the software, still by 31 January. The dates you pay your tax don't change.
- **Sign up** before your start date *(link 3)*.

Fines work on points *(link 4)*. Each missed deadline earns a point. At 4 points you pay a £200 fine, then another £200 for each deadline you miss after that. Late quarterly updates in the 2026/27 tax year earn no points, but this only covers 2026/27.

Can't reasonably use a computer? For example, because of your age, a disability or where you live. You can ask HMRC for an exemption.

2. VAT

You must register for **VAT** when your **taxable sales** go over £90,000 in any **rolling 12 months**, or you expect them to go over £90,000 in the next 30 days alone *(link 5)*. Register within 30 days of going over.

- **It's a rolling test, not your tax year.** At the end of every month, add up your sales for the last 12 months. Busy seasons can tip you over without warning.
- **It's sales, not profit.** A trade with high material costs can reach £90,000 of sales long before its profits look big.
- **Register late and HMRC can backdate it.** It can ask for the VAT you should have charged, which often comes out of your own pocket.
- **Leaving VAT:** you can usually cancel your registration if you expect your taxable sales to fall below £88,000.

Registering by choice below £90,000 can make sense if most of your customers are VAT-registered businesses, or if you buy a lot of equipment. It usually doesn't suit businesses that sell mainly to the public, because they can't claim back the VAT you add.

The Flat Rate Scheme can make VAT simpler if your sales are up to £150,000 *(link 6)*. You pay a fixed percentage of your takings (including VAT), set by your type of trade. Businesses that spend very little on goods must use 16.5%, which often makes the scheme poor value. Check before you join.

VAT-registered businesses already keep their VAT records under Making Tax Digital.

3. Sole trader or limited company?

There's no income level at which a **limited company** automatically becomes the right answer. It depends on your profits, how much you take out, the risks you run, and how much paperwork you're happy with *(link 7)*.

	Sole trader	Limited company
In law	You and the business are the same.	The company is separate from you.
If things go wrong	You're personally responsible for the business's debts.	You can usually only lose what you put in, though lenders often want a personal guarantee.
Tax	Income Tax and Class 4 National Insurance on your profit.	**Corporation Tax** (19% to 25%) on the profit, then personal tax on the salary and **dividends** you take out.
Paperwork	One Self Assessment tax return.	Yearly accounts, **Companies House** filings, a Corporation Tax return, payroll, and your own tax return.
Privacy	Your accounts stay private.	Accounts and directors' details are public at Companies House.
Running costs	Low.	Higher. Most use an accountant.

Tax on dividends went up by 2 percentage points from April 2026, which narrows the gap for many small businesses. Get advice from an accountant before switching, and ideally before your profits reach the point where you're wondering.

4. Common questions

My takings were £32,000 but my profit was only £15,000. Am I in MTD from April 2027? Yes. MTD uses income before costs, so £32,000 is over the £30,000 limit.

I have a job and a small side business. Do my wages count? No. Only self-employed income and rent count towards the MTD limits.

Can I keep using my spreadsheet? Yes, if you pair it with bridging software that sends the figures to HMRC.

Do quarterly updates mean paying tax every quarter? No. They're summaries only. You still pay on 31 January and 31 July.

My sales are getting close to £90,000. What should I do? Check your rolling 12-month total every month, and talk to an accountant about your prices and timing before you go over.

Can someone else do all this for me? Yes. A bookkeeper or accountant can keep your records and send the updates for you, as your **agent**. Sheet F in this series explains how to choose.

5. Getting help and staying safe

- **Can't afford to pay for help?** TaxAid is a charity that gives free, private tax help to people on low incomes *(link 8)*.
- **Beware of scams.** HMRC never texts or emails you about a refund or asks for your bank details. Never share your HMRC login with anyone.

Words explained

HMRC: HM Revenue and Customs, the government department that collects tax.

Qualifying income: Your self-employed takings plus rent, before costs. It decides whether MTD applies to you.

Quarterly update: A short summary of your income and costs sent to HMRC every 3 months under MTD.

Tax return: The form you send HMRC each year, usually online, showing what you earned.

Taxable sales: Sales that VAT applies to. They count towards the £90,000 VAT limit.

Flat Rate Scheme: A simpler way to work out VAT, paying a fixed percentage of your takings.

Corporation Tax: The tax a limited company pays on its profits.

Companies House: The government body where limited companies are registered and file their accounts.

Making Tax Digital (MTD): HMRC's new system of keeping digital records and sending updates every 3 months.

Qualifying year: The earlier tax year whose income decides whether MTD applies to you.

Bridging software: Software that links a spreadsheet to HMRC so you can send MTD updates from it.

VAT: Value Added Tax, added to the price of most goods and services once a business is registered.

Rolling 12 months: Any 12 months in a row, not just the tax year. You check it at the end of every month.

Limited company: A business that is legally separate from the people who own and run it.

Dividends: Money paid out of a company's profits to the people who own its shares.

Agent: Someone, such as a bookkeeper or accountant, that HMRC lets deal with your tax for you.

Useful links

1. When does Making Tax Digital start for me? (LITRG): https://www.litrg.org.uk/tax-nic/making-tax-digital-income-tax/when-does-making-tax-digital-start-me
2. Find software that works with MTD for Income Tax: https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax
3. Signing up for MTD for Income Tax: https://www.gov.uk/guidance/use-making-tax-digital-for-income-tax/signing-up
4. Penalties for MTD for Income Tax: https://www.gov.uk/guidance/penalties-for-making-tax-digital-for-income-tax
5. Register for VAT: https://www.gov.uk/register-for-vat
6. VAT Flat Rate Scheme: https://www.gov.uk/vat-flat-rate-scheme
7. Choose a legal structure for your business: https://www.gov.uk/business-legal-structures
8. TaxAid: https://taxaid.org.uk/about-us

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