EXPLANATORY MEMORANDUM TO

THE INCOME TAX (DIGITAL OBLIGATIONS) REGULATIONS 2026

2026 No. 336

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 Dan Tomlinson MP, Exchequer Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Nicholas Atkinson, Deputy Director for Making Tax Digital Policy, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 The Making Tax Digital Policy Team at HMRC can be contacted by email at the following address with any queries regarding the instrument: makingtaxdigitalconsultations@hmrc.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument brings Making Tax Digital (MTD) obligations for Income Tax into effect from 1 April 2026. Affected taxpayers (unincorporated businesses and landlords) must keep their records digitally and use MTD-compatible software to send HMRC quarterly updates of income and expenses and file their annual Self Assessment tax return.

4.2 The instrument sets when a person's digital obligations start and end. For existing businesses, obligations generally start on 6 April 2026 and end when the business ceases. Taxpayers can choose to align their quarterly updates to standard calendar quarters.

4.3 The rollout is phased by income, so the change initially applies to those with higher "qualifying income". From April 2026 it applies to those above £50,000, widening to those above £30,000 from April 2027 and above £20,000 from April 2028.

4.4 The instrument also requires errors in digital records or updates to be corrected using the software and sets out a number of exemptions, including for the digitally excluded and for certain specified categories (for example, ministers of religion, Lloyd's underwriters and individuals with a power of attorney).

Where does the legislation extend to, and apply?

4.5 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.6 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 At present, most unincorporated businesses and landlords report Income Tax through an annual Self Assessment return, and record-keeping practices can lead to avoidable error. The Government's objective is to modernise Income Tax administration so taxpayers keep digital records and interact with HMRC through software. This instrument therefore mandates the use of MTD-compatible software for quarterly updates and for filing the annual return, with detailed obligations set out in the Regulations and associated directions. The policy aims to reduce the share of the tax gap attributable to error and failure to take reasonable care and to improve the taxpayer experience.

5.2 In designing the approach, the Government has prioritised proportionality and deliverability. The instrument phases the requirement by income (see paragraph 4.3) so that those best placed to adapt move first and the market has time to scale software and support. It allows updates to align with standard calendar quarters; requires corrections to be made through software; and provides targeted exemptions where digital use is not reasonable, and for specified categories such as ministers of religion and Lloyd's underwriters. Together these choices are intended to deliver more accurate, timely information and simpler digital interaction, while managing burdens and recognising taxpayer diversity.

5.3 The change is a shift from a single annual submission to quarterly digital updates plus an annual digital return, giving taxpayers and agents more up-to-date visibility of liability. Expected benefits include fewer transposition errors, better record-keeping, and clearer software-guided journeys. The policy and instrument reflect stakeholder engagement on the July 2025 draft instrument, including responses from professional bodies.

What was the previous policy, how is this different?

5.4 Previously, most unincorporated businesses and landlords reported Income Tax once a year through Self Assessment, and MTD for Income Tax was being introduced in stages under earlier regulations laid in 2021 and amended in 2024. Those earlier regulations (which are not in force and superseded by this instrument, see paragraph 6.2) focused on encouraging digital record-keeping and quarterly updates from April 2026 for higher-income taxpayers, with easements added in 2024 to simplify processes. End of year filing through MTD-compatible software was not yet mandated for all within scope, exemptions were narrower and the timetable extended only to the £30,000 threshold from April 2027.

5.5 This instrument reflects policy changes and makes the policy more effective and clearer for taxpayers. It requires those within scope to keep digital records, send quarterly updates and file their annual return using MTD-compatible software; it phases the introduction of the obligations by income (see paragraph 4.3); and it provides practical features such as the option to align updates to calendar quarters, along with targeted exemptions where digital use would be unreasonable.

6. Legislative and Legal Context

How has the law changed?

6.1 Schedule A1 to the Taxes Management Act 1970 (inserted by section 60 of the Finance (No. 2) Act 2017 and since amended by the Finance Act 2026) provides powers for the Commissioners for HMRC to make regulations requiring certain persons to keep digital records and to report to HMRC using MTD-compatible software. This instrument exercises those powers to restate and update the MTD framework for Income Tax. It does so by (a) imposing obligations to use software to keep digital records, to provide quarterly updates, and to deliver the annual return; (b) defining when digital obligations start and end; (c) providing for correction of records and updates through software; (d) providing for certain groups to be exempted; and (e) enabling HMRC, by direction, to specify the content of quarterly updates and make further targeted exemptions.

6.2 This instrument is a freestanding set of regulations made under Schedule A1. Regulation 36 of this instrument revokes the Income Tax (Digital Requirements) Regulations 2021 (S.I. 2021/1076) and the Income Tax (Digital Requirements) (Amendment) Regulations 2024 (S.I. 2024/167), replacing them with this single, consolidated instrument (the Income Tax (Digital Obligations) Regulations 2026). The intended impact on the statute book is consolidation and modernisation of the MTD secondary legislation for Income Tax so that it aligns with the updated policy reflected in amendments to Schedule A1, and provides a clearer legal basis for new obligations, exemptions and directions.

6.3 No relevant judicial decisions have given rise to this instrument. Legislation is required because the obligation to keep records digitally and to submit quarterly updates and returns via software is required, and previous regulations must be revoked, by secondary legislation under Schedule A1; non statutory guidance cannot create or disapply these obligations.

Why was this approach taken to change the law?

6.4 Parliament has conferred regulation-making powers in Schedule A1 to the Taxes Management Act 1970, so these changes are appropriately made by secondary legislation.

7. Consultation

Summary of consultation outcome and methodology

7.1 HMRC conducted an open, technical consultation between 21 July and 16 September 2025 on the draft Income Tax (Digital Obligations) Regulations 2026. Written submissions were invited via the GOV.UK consultation webpage and a dedicated email inbox, and HMRC complemented this with targeted engagement through established stakeholder forums with professional and representative bodies, software developers and the agent community. HMRC received eight responses. The main themes were: the scope of the regulations (including risks of unintentionally capturing certain non-UK resident taxpayers); the pace and phasing of the introduction of the obligations by income; clarity on exemptions (for example, where digital use is not reasonable); and the availability of free software for taxpayers.

7.2 Following consultation, the Government responded to stakeholder feedback by providing greater certainty over who is affected and when, clearer reporting requirements and safeguards for those for whom digital use would be unreasonable.

7.3 There was no statutory requirement to consult the devolved governments because the instrument concerns HMRC's administration of Income Tax.

8. Applicable Guidance

8.1 Additional guidance and notices, which will provide information that supports this instrument, will be published on the GOV.UK website prior to 1 April 2026.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument will be published on the GOV.UK website.[1]

Impact on businesses, charities and voluntary bodies

9.1 The impact on business, charities or voluntary bodies is significant, and in total affects around 2.9 million unincorporated businesses and landlords. They will need to keep records of their income and expenditure digitally and send a quarterly summary of business and/or property income and expenses, and their end of year return, using MTD-compatible software.

9.2 Those not already using digital tools for their business may need to purchase or acquire a free version of software and become accustomed to using it. Those using an agent for all or part of their tax affairs may see increased agent charges, especially where the agent completes the quarterly update on the taxpayer's behalf.

9.3 The legislation does impact small or micro businesses.

9.4 For many small businesses, MTD will improve the quality of record keeping, reducing the likelihood of mistakes (and attendant risk of unwelcome and costly HMRC compliance interventions), helping businesses to manage their cash flow more effectively. Once familiar with the new process in this instrument, businesses' experience of dealing with HMRC is expected to improve as managing their tax affairs will be simpler.

9.5 There is no, or no significant, impact on the public sector because the instrument places obligations on taxpayers within the scope of income tax, not on other public bodies.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 HMRC will monitor the impact of the changes introduced by this instrument periodically using information collected from its internal systems and processes, as well as regular engagement with affected stakeholder groups.

10.2 The instrument does not include a statutory review clause because the legislation relates to taxes, duties, levies or other charges and falls within the exemption in section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015.

[1] Tax Information and Impact Note: http://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This instrument is made after the passing of the provisions of Schedule A1 to the Taxes Management Act 1970 under which it is made, but prior to their coming into force, in reliance on section 13 of the Interpretation Act 1978 (anticipatory exercise of powers). It is necessary for the instrument to come into force on 1 April 2026, in order to give full effect to the provisions of Schedule A1 to the Taxes Management Act 1970 at the time when they come into force. This instrument may be laid only after the Finance Act 2026 receives Royal Assent, as that Act contains amendments to provisions of Schedule A1 to the Taxes Management Act 1970 under which the instrument is made.

11.2 The instrument comes into force less than 21 days after it was laid. This is necessary as the instrument needs to come into force on 1 April 2026. The instrument is required as a consequence of the changes included in the Finance Act 2026. Therefore, it was necessary for that Act to be granted Royal Assent before the instrument could be laid. Due to the short period of time between Royal Assent of the Finance Act 2026 and 1 April 2026, it was not possible to lay the instrument for 21 days.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).