



Lloyd's Financial Q&A Column

Grantham-based tax and accountancy specialist Lloyd Stubbs gives advice on financial matters to small businesses

Do I need to sign up for Making Tax Digital?

Q: I am employed and run a side hustle selling goods that I make. My income from the craft business is about £12,000 each year, but I also have a salary of £45,000. As my total income exceeds £50,000 does this mean I need to sign up for Making Tax Digital?

A: For your craft business, you'll most likely need to ensure that you are registered for self-assessment and complete a self-assessment tax return by the deadlines.

Making Tax Digital (MTD) for Income Tax applies from April 2026 for sole traders with qualifying income above £50,000, and April 2027 for sole traders with qualifying income above £30,000.

When considering qualifying income, this does not include employment income, as tax is deducted from employment income at source through the PAYE scheme.

Therefore, based on your income you won't need to comply with Making Tax Digital.

However, there are advantages to digitising your records, including efficiencies.

The 2024 Autumn Budget mentioned that MTD will become compulsory for sole traders and landlords with income above £20,000 during this Parliament, but no timescale has been announced. It's important to keep an eye on your turnover and any Making Tax Digital updates to ensure you know what you need to do and when.

What is the 60% tax trap?

Q: Income tax rates in England, Wales and Northern Ireland are spread over three taxes. Those in the Basic Rate Band (BRB)

pay tax at 20%, while those in the higher and additional rate bands pay 40% and 45% respectively. In Scotland, the rates range from 19% to 48%. So, who is paying tax at 60%?

A: Most individuals in the UK are eligible for the personal allowance of £12,570. However, once an individual's income exceeds £100,000, their personal allowance is withdrawn by £1 for every £2 by which adjusted income exceeds £100,000. Once adjusted income reaches £125,140 there is no personal allowance left.

The 60% tax trap is applicable to individuals earning between £100,000 and £125,140 and having their personal allowance restricted. For every £100 of income between these amounts, you'll only get £40 of income in the bank as £40 is paid in income tax and £20 is lost by the reduction of the personal allowance.

Managing your income through tax planning may help to mitigate your exposure to this. For example, taking measures to reduce your adjusted net income below £100,000 will mean you keep your personal allowance.

Paying into a pension and making donations to charities may help to do this and can reduce your tax liability.

It's always worth speaking to an accountant when it comes to tax planning.

Lloyd Stubbs specialises in managing tax and accountancy affairs for small business owners and can be contacted by phone or email

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