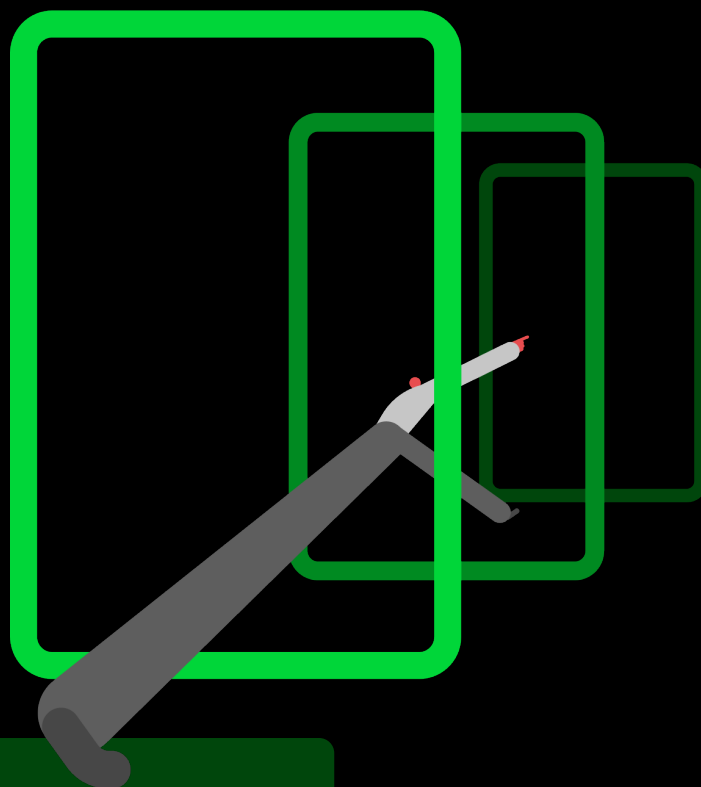




From Spreadsheets to Software: Supporting Sole Traders Through Making Tax Digital for Income Tax

Sage

ipse



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Making Tax Digital for Income Tax is coming

HMRC's Making Tax Digital for Income Tax will launch in April 2026 for sole traders and landlords earning over £50,000.

It will require them to keep digital records with HMRC-approved accounting software and submit quarterly updates on their income and expenses every three months via this software. This new digital approach is a big change but will bring significant benefits to sole traders. Managing their finances with accounting software means fewer errors with their tax return, better cash flow management, and less paperwork, all helping sole traders stay on top of their taxes and helping them grow. The first phase of MTD for Income Tax begins in April 2026 for sole traders and landlords earning over £50,000. The subsequent phases will follow from April 2027 for those earning over £30,000, and from April 2028 for those earning over £20,000.



Foreword by **Pieter Bensch,** **Managing** **Director UKI** **of Sage**

Making Tax Digital for Income Tax marks the most significant change to Self Assessment since it began in 1997. It is also a pivotal moment for the millions of sole traders who power the UK economy.

These entrepreneurs are the backbone of local communities, representing over half of all private-sector businesses. Yet, our research with IPSE, the Association of Independent Professionals and the Self-Employed, shows that most still manage their finances manually, which means they are using spreadsheets, paper records, or bank statements. Fewer than one in ten use cloud accounting software, with familiarity and habit often outweighing innovation.

The benefits of digital tools are clear and the sole traders already using accounting software report better financial visibility, stronger cash flow control and less stress when it comes to tax. Many welcome features such as quarterly tax bill estimates, giving them the clarity and confidence to plan ahead with purpose.

MTD for Income Tax will extend these benefits to all sole traders, provided awareness and readiness continue to grow. With fewer than six months remaining, only 30% show a clear understanding of the upcoming changes. By working together to boost preparation, we can ensure sole traders are ready to take full advantage of digital working.

Now is the time for every stakeholder, such as HMRC, software providers, accountants, and business networks, to act. HMRC must step up communication. Software providers must make solutions accessible and affordable. And trusted advisers must guide sole traders through the transition.

At Sage, we're proud to play our part. Our free solution, Sage Individual, ensures every sole trader can meet their obligations without cost being a barrier. We're helping them move from manual processes to effortless digital recordkeeping - giving them more time to focus on what they do best: running and growing their business.

MTD for Income Tax is more than a regulatory shift. It's an opportunity to accelerate the UK's digital economy. It can help millions of businesses work smarter, faster and with greater confidence. By embracing digital tools and AI, sole traders can unlock insights, automate routine tasks and build more resilient businesses.

Together, we can ensure every sole trader is informed, supported and ready to thrive in a digital future.

About Sage

Sage exists to knock down barriers so everyone can thrive, starting with the millions of small and mid-sized businesses served by us, our partners and accountants.

Customers trust our finance, HR and payroll software to make work and money flow. By digitising business processes and relationships with customers, suppliers, employees, banks and governments, our digital network connects SMBs, removing friction and delivering insights. Knocking down barriers also means we use our time, digital tech and expertise to tackle digital inequality, economic inequality and the climate crisis.



About IPSE

IPSE is the UK's only not-for-profit membership organisation dedicated to the self-employed.

Owned and run by its members, IPSE - The Self-Employed Association - exists to champion the sector, support freelancers and sole traders throughout their self-employment journey, and ensure their voice is heard at Westminster and beyond. Through research partnerships with leading academic institutions and industry stakeholders, IPSE provides evidence-based insights into the evolving nature of self-employment and works to shape policies that reflect the needs of the UK's flexible workforce.



Executive Summary

Sage, in partnership with IPSE, has conducted a deep dive study of 1,000 sole traders to understand their awareness and readiness for Making Tax Digital for Income Tax (MTD for Income Tax).

The study was carried out by Strand Partners and its purpose was to uncover how many sole traders are currently using digital software to help run their business and how prepared they are for the changes that MTD for Income Tax will bring. The research sample was specifically designed to reflect HMRC's MTD for Income Tax business population statistics.

Key findings

Sole traders still rely on analogue methods

- A third (33%) of sole traders still rely on pen and paper to manage their finances whilst 66% use spreadsheets and 56% use bank statements.
- Only one in 10 (10%) sole traders use cloud-based accounting software.
- Inertia is the norm with 77% of sole traders reporting that comfort with existing methods is the biggest barrier to adopting accounting software.

Digital tools deliver clear benefits

- Among sole traders using accounting software, 53% say it keeps them organised, 53% say it gives a clearer view of their finances, and 48% say it helps track cash flow.
- Four in 10 (41%) sole traders say accounting software reminds them of key deadlines like tax returns, which matters when 77% spend over two hours completing a tax return.
- Sole traders are ready for the benefits of MTD for Income Tax with 74% reporting that they would welcome quarterly tax bill estimates.

Low awareness and readiness for MTD

- Only 30% of sole traders demonstrated “true awareness” of MTD.*
- Of those, 71% feel confident about making the change, but 39% are yet to start preparing.
- 63% of sole traders reported that they knew something about MTD for Income Tax whilst 37% had never heard of it.

Based on these findings, we have outlined three policy recommendations that will help get sole traders ready for MTD for Income Tax and adopt digital technology.

1. HMRC should increase awareness of MTD for Income Tax

With only one in three sole traders truly aware of the changes, and most reporting that they have received no direct communication from HMRC, HMRC should consider expanding its awareness campaign for MTD for Income Tax.

A rapid multi-channel campaign using social media, trusted spokespeople, industry publications, and traditional media is essential to reach this diverse audience. Messaging should clearly explain what sole traders need to do, when they need to act, and direct them to GOV.UK for further guidance.

2. Software providers must make tools affordable and easy to use

Cost and complexity are seen as major barriers, with only 10% of sole traders using cloud-based accounting software and 45% of those aware of MTD citing software cost as a key concern.

To support the rollout of MTD for Income Tax, the software industry must ensure no sole trader is priced out of compliance by promoting affordable tools, simplifying onboarding, and offering practical education. These steps are essential to remove cost as a barrier and help all sole traders benefit from digital record keeping.

3. Business networks must support sole traders and agents

Business groups such as IPSE and professional bodies representing accountants and bookkeepers play a key role in the rollout of MTD for Income Tax.

These organisations should help raise awareness by creating sector-specific guidance, delivering coordinated training for advisers, and aligning messaging across networks. Their involvement will be essential to ensure sole traders and their advisers are informed, supported, and ready for the transition.

*meaning they had heard of it, understood what it involves, and knew that it requires keeping digital records using compatible software.

Section 1:

Sole traders and digitisation

What is a sole trader?

A sole trader is the simplest business structure in the UK, where an individual works for themselves, is classed as self-employed, and makes all business decisions. They keep all profits after tax and are responsible for their tax records¹.

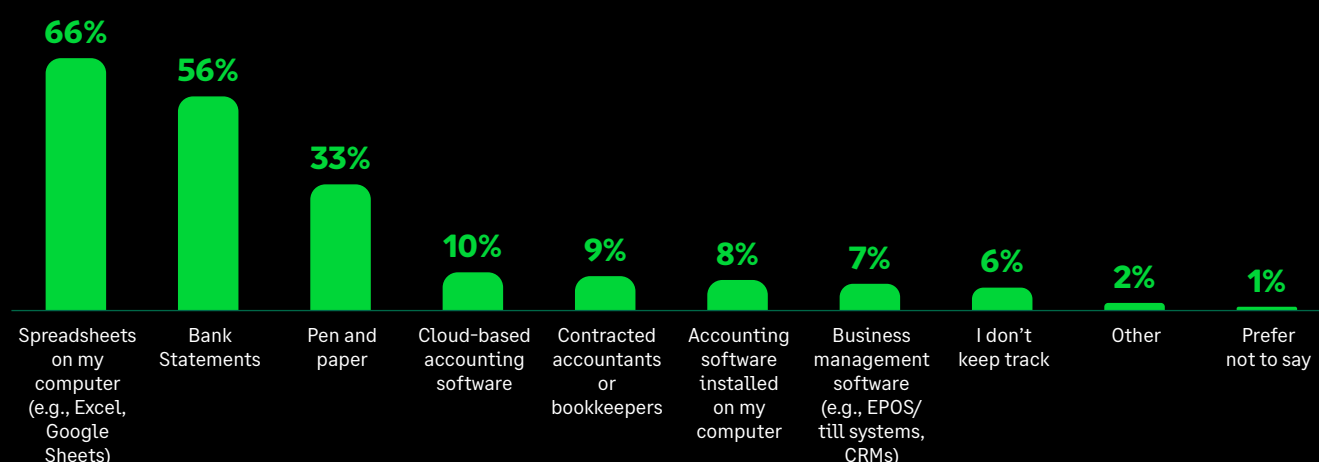
Sole traders are the backbone of the UK economy. From construction and retail, to manufacturing and the arts and everything in between, sole traders power local communities across the country. They are vital to growth and make up 56% of the UK private sector business population – that’s 3.1 million businesses².

Our research examined the extent to which these sole traders use digital software to help manage their business. Digital solutions automate time-consuming manual processes,

provide businesses with better insights to improve cash flow, and allow business owners to focus on running and growing their business. They can help businesses stay on top of their finances, track payments owed, and understand the tax that is due. Examples of productivity-enhancing digital technologies include accounting software, CRM systems, e-commerce, cloud storage systems, project management tools and more.

However, our research suggests that sole traders are yet to really embrace time saving digital technology and that they instead rely on analogue tools to keep track of sales and expenses. As of September 2025, 66% of sole traders were using spreadsheets to manage their finances, with 56% using bank statements and 33% even relying on pen and paper³. Conversely, only 10% of respondents reported using cloud-based accounting software.

Figure 1.
Methods sole traders use to track sales and expenses



Question: How do you keep track of your business sales and expenses?

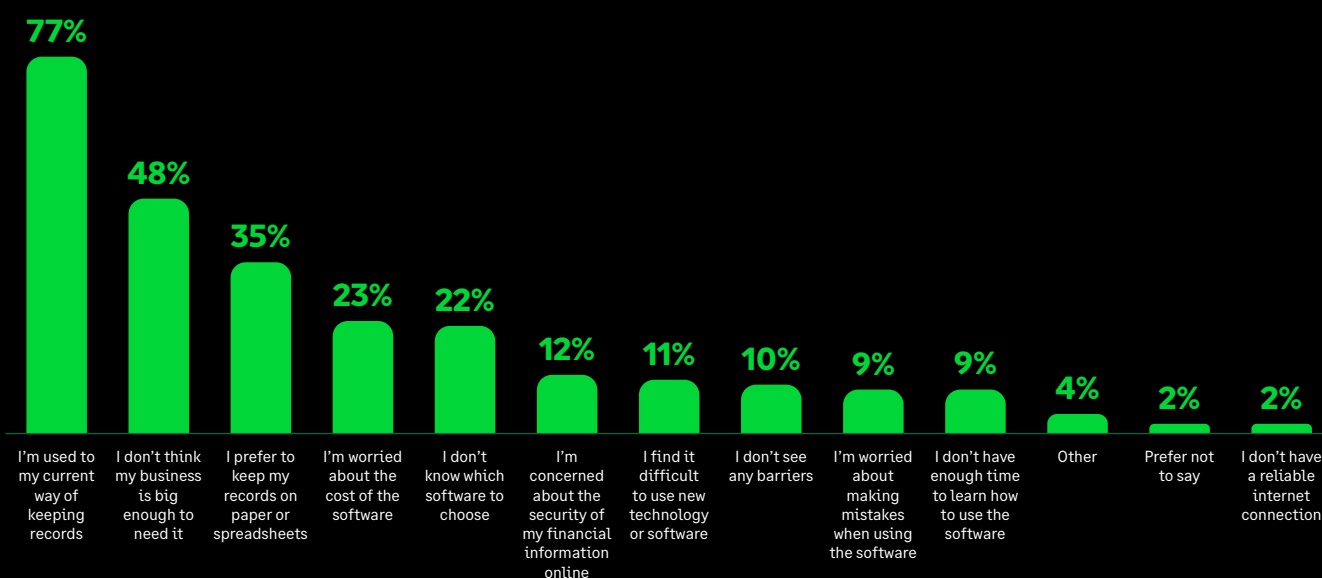
Base: 1,000 self-employed/sole traders in the UK who are not registered for VAT.

1. Become a sole trader: What a sole trader is – GOV.UK
2. Department for Business and Trade, Business population estimates for the UK and regions 2024: statistical release. Business population estimates for the UK and regions 2024: statistical release – GOV.UK
3. Sage & Strand Partners, Online Survey of sole traders, September 2025 (all references to our survey share this source).

The most common barrier to sole traders' use of accounting software is inertia. Most sole traders are comfortable with how they have always managed their finances, with 77% reporting that comfort with existing methods is the biggest barrier to adopting accounting software. Other barriers include sole traders not thinking their business size requires it (48%), preferring to keep records on paper or spreadsheets (35%), and concerns about cost (23%).

These findings are telling. Instead of adopting technology to streamline internal processes and manage their finances better, sole traders are relying on the manual processes that they have always used. The continual use of these methods risks holding back their productivity and their businesses missing out on the many benefits of digital technology.

Figure 2.
Barriers sole traders face to adopting digital accounting software



Question: Which of the following, if any, do you see as barriers in stopping you to use digital accounting software in managing your business?

Base: 641 self-employed/sole traders in the UK who are not registered for VAT and do not use digital software.

Our findings reflect the Department for Science, Innovation and Technology's study into innovation diffusion and adoption amongst UK businesses. They found only 17% of micro businesses had reported adopting the latest innovations⁴. Internationally, the UK is an outlier when it comes to low levels of tech adoption amongst private businesses like sole traders. Other countries have prioritised small businesses' tech adoption and are seeing this pay dividends with higher productivity rates. The UK is far behind the US, Germany and France when it comes to rates of productivity and also trails Ireland and Australia⁵.

Low rates of digital adoption hold back sole traders' productivity. This is bad for economic growth, and the UK Government is taking steps to tackle low rates of digital

adoption. From April 2026, Making Tax Digital for Income Tax (MTD for Income Tax) will require sole traders earning over £50,000 to keep digital records and submit quarterly updates to HMRC using compatible accounting software. Those earning over £30,000 must comply from April 2027 and those earning over £20,000 from April 2028. MTD for Income Tax aims to close the tax gap and benefit sole traders by reducing tax errors, speeding up the tax return process, and allowing for better tax guidance⁶.

4. Department for Science, Innovation & Technology, Insights from the UK innovation diffusion and adoption survey: executive summary - GOV.UK

5. OECD, OECD Dashboard of Productivity Indicators.

6. HMRC, Benefits of Making Tax Digital - GOV.UK

What is Making Tax Digital for Income Tax?

Making Tax Digital for Income Tax is a UK government initiative requiring sole traders and landlords to keep digital records and submit quarterly updates to HMRC using recognised software. It will be introduced in three phases: from 6 April 2026 for those with annual business or property income over £50,000, from 6 April 2027 for those earning over £30,000, and from 6 April 2028 for those earning over £20,000. Its objective is to reduce errors, simplify tax compliance, and provide more timely visibility of tax liabilities⁷.



Case Study

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I'm fully aware of the MTD for Income Tax changes and have joined some of HMRC's webinars to help sole traders get prepared. I believe I already manage my accounts carefully, but I know this is not the case for many of my peers.

They will likely see quarterly submissions and the requirement to use accounting software as an additional burden that they could do without. However, it should give them a better view of their business's financial performance. This will help avoid future pains like not generating the profits they thought they would or having unexpected tax bills that they didn't budget for.

Everyone needs to work together to make sure the changes are not disruptive to businesses. That includes HMRC and sole traders, but also accountants whose advice will be critical for businesses getting to grips with the new requirements and software providers whose technology must be easy to use.”

Adrian Ashton, Public Sector Enterprise Consultant and IPSE member

7. HMRC, Making Tax Digital for Income Tax Self Assessment for sole traders and landlords – GOV.UK

Section 2:

Sole traders are benefitting from digital technology

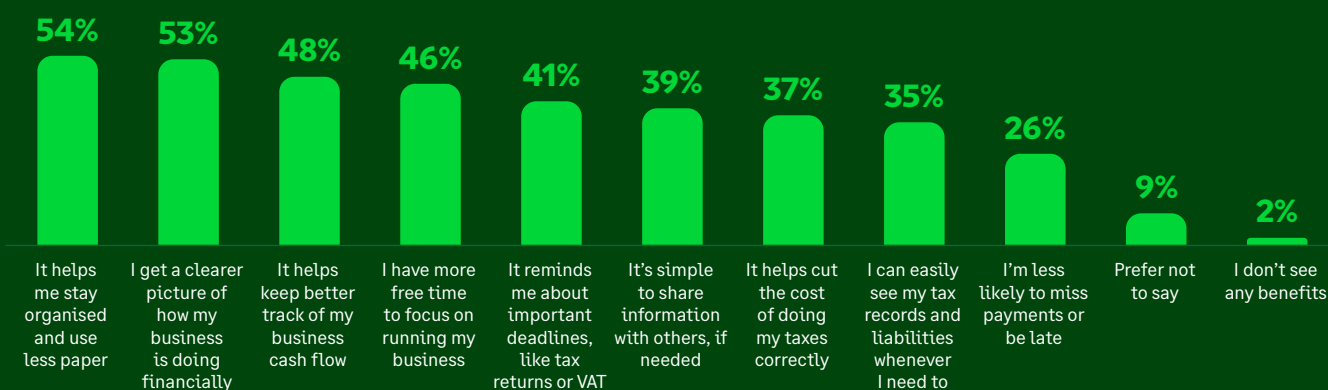
Although our research shows that sole traders have low rates of digital adoption, those that have already integrated digital technology into their business are seeing the benefits.

These sole traders understand that digital technology can remove the everyday pain points associated with running a business and help them be more productive and grow.

Our research asked sole traders who use accounting software what they considered to be its main benefits. Helping them stay organised (53%), getting a clearer picture of how their business is doing financially (53%), and helping them keep better track of their cash flow (48%) were the top three benefits. Freeing up time to focus on running their business (46%) and reminding them about important deadlines like tax returns (41%) were also frequently cited as valuable benefits.

Figure 3.

The benefits sole traders see from accounting software



Question: Which of the following, if any, do you see as benefits of using digital software in managing your business?

Base: 345 self-employed/sole traders in the UK who are not registered for VAT that use digital accounting software.

We also asked sole traders about their current approach to completing their tax returns. Whilst 77% of respondents reported spending more than 2 hours completing their tax return, including 24% spending more than 6 hours on the task, we found sole traders would welcome the benefits that accounting software and MTD for Income Tax will deliver. Three quarters (74%) of respondents to our survey said they are interested in receiving a tax bill estimation each quarter.

These findings are good news for HMRC and could support the rollout of MTD for Income Tax. Sole traders using accounting software say it improves how they manage their business, and most sole traders also recognise that their approach to their tax return could be improved. A quarterly estimation of their tax bill can give them a better picture of their financial position in preparation for the end of the tax year.

HMRC has taken important steps to raise awareness of the changes coming with MTD for Income Tax. Now, as the start date is quickly approaching, HMRC can be bolder in championing the upsides it will bring to sole traders.

This should include overcoming the stresses of the January tax return deadline and the panic to find money to pay a tax bill they had no previous sight of.

What is digital accounting software?

Digital accounting software is computer or cloud-based tools specifically designed to record, track, and manage finances. It can save small businesses time, help them get paid faster, and provide real-time financial insights to help business owners make informed decisions quickly. It can also support tax compliance by calculating deductions and helping to file accurate, timely returns. MTD for Income Tax compliant accounting software will be designed specifically for the sole trader. It will be mobile-first, on-the-go and low cost.



“

For an accountant, Self Assessment represents a massive spike in work. We spend hours reconciling our clients' accounts, categorising transactions, and simply hunting for information that's gone missing. MTD for Income Tax will change this. It will spread what we normally do just once a year over four quarters with a final mini return at the end.

Some of my clients have already signed up for the MTD testing phase which has been very helpful. My advice to other accountants is to start now by segmenting your client base and identifying those who are not yet on software. This initial work will be so helpful ahead of the launch date.”

**Bobbie Brown, Accountant,
Northumberland Accountants & Tax Advisers**

How Sage is helping sole traders prepare for Making Tax Digital for Income Tax

Sage is committed to supporting our customers' tax compliance and we are taking steps to help sole traders get ready for MTD for Income Tax.

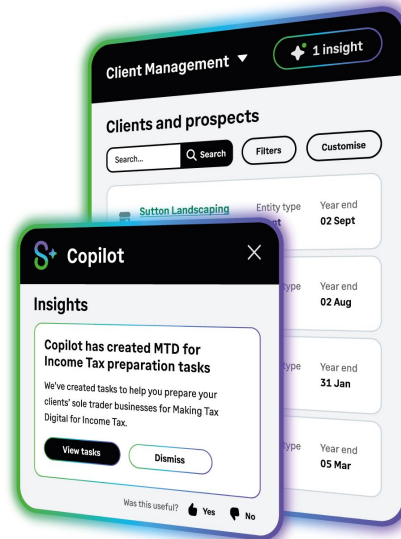
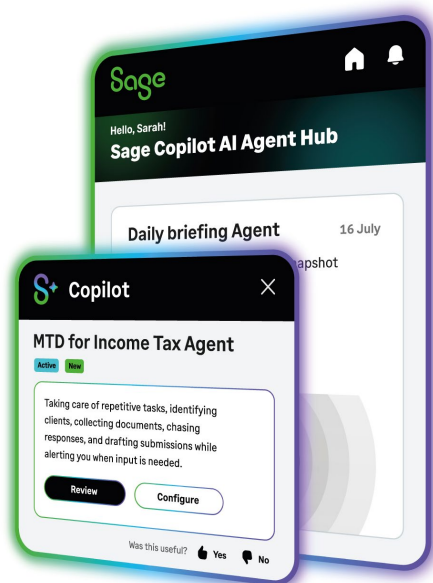
Product

Sage Individual free, a simple digital tax solution tailored for sole traders with the most simple tax needs. Our free MTD solution is designed to:

- Help sole traders transition from paper-based or spreadsheet systems to digital recordkeeping
- Automate tax submissions and simplify compliance for users with limited digital experience
- Support digitally excluded users through accessible design across web and mobile apps

Sage Individual is our AI-driven web and mobile app that reduces the administrative burden for MTD through greater automation whilst also helping sole traders to grow their business.

We have also released our **MTD AI Agent** to help accountants manage the new workload by transforming the complexity of quarterly updates into a single, end-to-end workflow, giving accountants and their clients confidence that nothing has been missed.



Sage is actively supporting the transition to MTD for sole traders by partnering with leading banks such as **Monzo** and **Tide**. Through this collaboration, Sage's tax filing technology is embedded directly within business banking platforms, enabling users to file tax returns seamlessly to HMRC without leaving their banking app. This approach not only simplifies compliance for sole traders and landlords—many of whom will be affected by upcoming MTD for Income Tax legislation—but also digitises their financial records from day one. By meeting customers where they already manage their finances, Sage is reducing administrative burdens and fostering healthy digital tax habits, while also empowering accountants to work more efficiently with clients whose records are already digitised.

Education and upskilling

Sage is **educating and upskilling** sole traders on the changes and helping them move to a digital solution for the first time. Our material supports sole traders to understand what MTD for Income Tax is, what it means, and how it benefits them and their business. It is delivered over a range of formats to meet the needs of users including online, video, and webinars.

Supporting accountants and bookkeepers

We are taking steps to support accountants and bookkeepers with the changes and helping them get ready for an influx of work. **Sage Roadshows** are full-day events held across the country giving accountants the opportunity to meet experts and gain practical advice on what they need to do to ensure a smooth set up in readiness for MTD for Income Tax.





Section 3:

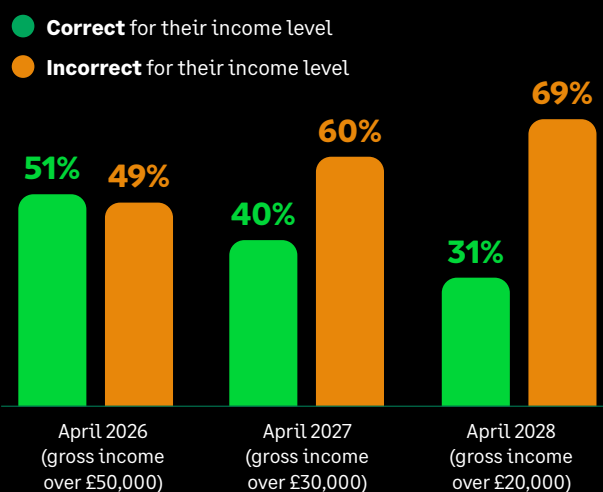
Sole traders' awareness and readiness for MTD

MTD for Income Tax should help sole traders manage their business and the launch date is fast approaching. It is now less than six months until sole traders earning over £50,000 must start keeping digital records.

However, awareness among sole traders remains low. Just 30% of respondents demonstrated “true awareness” of MTD – meaning they had heard of it, understood what it involves, and knew that it requires keeping digital records using compatible software.

Additionally, only half (52%) of those truly aware of MTD correctly understood that implementation will be phased based on income levels. Apart from those being mandated from April 2026, most sole traders were unable to identify when the rules would apply to them.

Figure 4.
Sole traders' awareness of their MTD for Income Tax eligibility



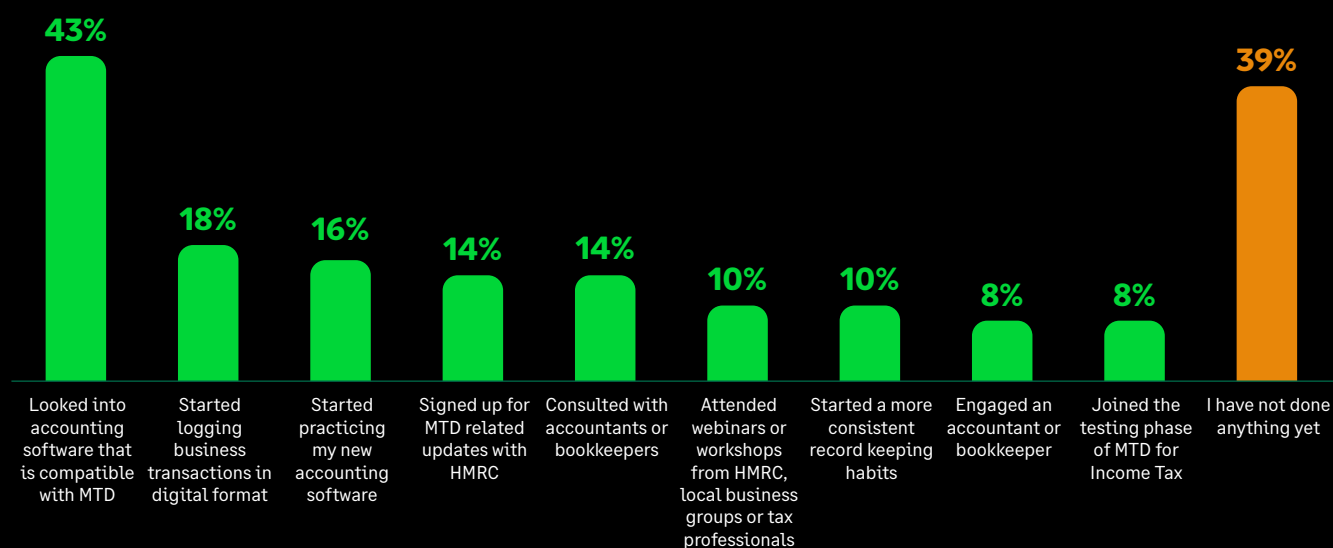
Question: Earlier you mentioned that your gross annual income is X. When do you think Making Tax Digital (MTD) for Income Tax will apply to you?
Base: 300 'true aware' self-employed/sole traders in the UK who are not registered for VAT.

While only 30% of sole traders have true awareness, 71% of those in this group describe themselves as either very or fairly confident about preparing for the transition. This suggests that confidence is concentrated among a small, informed minority rather than being widespread across the sole trader population.

This confidence, however, has not yet translated into widespread action. Only 43% of those who showed true awareness have looked into compatible accounting software, and just 16% have started logging transactions in a digital format. A further 14% have signed up for MTD-related updates with HMRC, whilst 39% have not taken any steps at all.

Figure 5.

Steps Sole Traders have taken to prepare for MTD Income Tax



Question: You said you were making the change to Making Tax Digital for Income Tax (MTD), Which of the following, if any, have you started doing ahead of this change?
Base: 300 'true aware' self-employed/sole traders in the UK who are not registered for VAT.



Amongst sole traders with true MTD awareness, the biggest concerns about the changes were the perception that it is a potential administrative burden (55%) and potential software costs (45%). This was closely followed by finding the right accounting software (44%).

Across the wider sample, 63% reported that they knew something about MTD for Income Tax, while 37% had never heard of it. Similarly, the research revealed that 26% of sole traders were unaware that it would be a legal requirement to use compatible software.

As part of efforts to increase awareness, in early 2025 HMRC sent letters out to all sole traders that will need to comply from April 2026. Whilst proactively engaging sole traders is the right approach, 73% reported that they had not received a letter from HMRC informing them of the upcoming changes.

Given the scale and significance of the change, we recommend HMRC consider what further action they could take to raise awareness and ensure sole traders understand the requirements. Without targeted communication across multiple channels, many risk being caught off guard and missing out on the benefits that digital record keeping creates. A new round of letters is due to land with sole traders in late 2025, and it is essential that HMRC consider how these could be included as part of a wider communication package.



Case Study

“

I have heard of MTD and from what I understand I'll be required to do my tax returns digitally. I know I need to find out more, but I am not that concerned as I already use digital accounting software. I have done this for some time, and it has transformed how I manage my business. I use it to submit my tax return, track when payments are due and it helps me monitor my income and expenditure.

As a sole trader with no employees to help, accounting software is great for keeping on top of my finances.”

Libby Austin, Marketing Consultant and IPSE member

Recommendations

With only 30% of sole traders demonstrating true awareness of the changes that MTD for Income Tax will bring, and many yet to take action, urgent steps are needed to raise awareness, reduce barriers, and unlock the benefits of digital record keeping. This requires a coordinated effort from all stakeholders.

1. HMRC should consider expanding its communication strategy to improve awareness and understanding of MTD for Income Tax

HMRC is taking steps to expand its MTD communications campaign across radio, social media and more, and our results show that this is the right approach.

Traditional communication channels, such as a second round of letters, will always play an important role. But, with 73% of sole traders reporting they have not received any direct communications, traditional channels are best paired with targeted outreach that reflects the diversity of sole traders across sectors and age groups.

To maximise the reach of their new multi-channel awareness campaign, HMRC should consider how they utilise the following:

- Social media: including targeted ads, short-form videos, and content tailored to different sectors.
- Spokespeople and influencers: partnering with trusted voices amongst the sole trader community to deliver key messages in reliable language.
- Industry publications: publishing articles, Q&As and advertorials in trade magazines and newsletters.
- Traditional media: use local radio, regional newspapers and community noticeboards to reach those less active online.

2. Software providers must make sure accounting software is affordable and easy to use

Cost and complexity remain major barriers to digital adoption. Only 10% of sole traders currently use

cloud-based accounting software, and 45% of those aware, cite the cost of software as one of their biggest concerns. To support the rollout the software industry must ensure that no sole trader is priced out of compliance. This should include:

- Actively promoting low-cost or free MTD-compatible software, such as the solution offered by Sage for sole traders with a single income stream.

- Simplify onboarding and design, making digital tools intuitive and accessible for those unfamiliar with accounting software.
- Working together as an industry to provide practical education on MTD and accounting software, including webinars, demos, and user guides to show how digital tools can save time, reduce stress, and improve financial visibility.

3. Business networks and trade associations must help prepare sole traders and agents

Business groups such as IPSE and the professional bodies that represent accountants and bookkeepers play a central role in the rollout of MTD for Income Tax. These organisations are trusted by sole traders and their

advisers and are well-placed to ensure the right information reaches the right people at the right time. These groups must help drive up awareness by:

- Co-develop sector-specific guidance and case studies that show what MTD means in practice for different types of sole traders, with a focus on common scenarios and practical steps.

- Deliver a coordinated training programme for agents and advisers, including webinars and downloadable toolkits, to ensure they are equipped to support clients through the transition.
- Establish a joint communications taskforce to align messaging across networks, reduce duplication, and ensure consistent, practical advice is delivered through trusted channels.



Methodology

ANNEX

This study was conducted by Strand Partners' research team on behalf of Sage and adheres to the guidelines set forth by the UK Market Research Society and ESOMAR. Strand Partners is a research, policy and communications advisory firm, specialising in insight-driven strategies. With expertise in conducting rigorous quantitative research, Strand helps organisations from global corporations to large charitable foundations make informed decisions.

Survey methodology

This report is based on an online survey of 1,000 self-employed/sole traders in the UK who are not registered for VAT carried out by Strand Partners between 8.9.25 – 15.9.25.

Survey respondents: only sole traders who are not VAT registered. Limited companies, partnerships, LLPs and landlords were screened out. Sole traders were defined as:

- Self-employed individuals
- Freelancers
- Contractors

Data collection method:

- Online survey
- Questionnaire length: 10 minutes
- Sample size: 1,000 respondents
- Fieldwork dates: September 8-15, 2025.
- Representativeness: achieved with hard quotas.

Sampling: The sample was specifically designed to reflect HMRC's MTD for Income Tax business population statistics, focusing on the sole trader segment that will be affected by the phased rollout of Making Tax Digital requirements (starting April 2026 for those earning £50,000+, then £30,000+ in 2027, and £20,000+ in 2028). Sources for representation include the Department for Business and Trade's Annual Business Population Estimates for the UK and Regions 2024, the HMRC Survey of Personal Incomes (SPI) 2022-23, and the ONS Labour Force Survey Q2 2024.



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