



MAKING TAX DIGITAL

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INSTITUTE OF FINANCIAL ACCOUNTANTS

KEEPING YOU UP TO DATE AND INFORMED

Major changes coming for landlords and the self-employed

Introduction

It is now over ten years since George Osborne, in the Spring 2015 Budget, announced his intention to make tax digital and, in the process, to "... abolish the tax return altogether".

After a number of delays, Making Tax Digital (MTD) for VAT became mandatory in 2022, although the original proposals were somewhat diluted by allowing businesses to continue keeping their business records on spreadsheets and then link them up to HMRC by using MTD-compatible bridging software, of which there are many free versions available.

Similarly, the introduction of MTD for Income Tax (MTD IT) has been delayed several times. However, the Government confirmed, at the October 2024 Budget, that MTD IT will begin being phased in from 6 April 2026. How this is being done and what the implications might be for you, if you are a sole trader or landlord, are outlined in this document. Be aware, though, that the changes for those affected are going to be very significant and will involve **a lot more reporting to HMRC** than simply filing an annual tax return.

We are here to help you navigate these changes, so please contact us if you wish to discuss how they might impact your business.

Quarterly reporting

Once within MTD IT, quarterly reporting of income and expenses will be required. These reports will be for every three months of a tax year, which may be different to your business year-end. However, taxpayers with an accounting date of 31 March will be able to operate MTD from 1 April in the first year of operating MTD. This will avoid the burden of manual adjustments at the year-end.

Each update will be a **cumulative total** of income and expenses accumulated for the tax year to date. This should avoid the need for corrections to previous updates where errors have been identified.

Finalisation statement

As well as these quarterly reports, a 'finalisation statement' will be required after the year-end, which will be the replacement for the annual tax return. This statement will include adjustments to the information in the quarterly reports (where needed), a declaration of the amounts of other sources of income and claims for allowances and reliefs.

The filing deadline for this statement will be 31 January following the tax year, the same as that for a self-assessment tax return (SATR) at the moment.

Currently, there is the option to submit a SATR using HMRC's free online filing service. From April 2026, this free service will no longer be available for those within MTD IT.



Who is affected and from when?

MTD IT will apply for sole traders and landlords with 'qualifying income' above a particular threshold (see below). Qualifying income is **gross income** (i.e. before expenses) of sole traders and landlords. All other sources of income reported through self-assessment (e.g. dividends) **do not** count towards qualifying income.

The dates from which businesses need to join the scheme will be:

- **6 April 2026**, where qualifying income exceeds **£50,000**;
- **6 April 2027**, where it exceeds **£30,000**;
- **6 April 2028**, where it exceeds **£20,000**.

Note that:

- The Government intends to continue reviewing MTD and it may subsequently extend MTD IT to those who have income below £20,000.
- No timetable has yet been introduced for partnerships to have to do digital reporting.
- MTD is not currently scheduled to apply to corporation tax, although this may change in the future.

Exemption from MTD IT

The following will be exempt from the MTD IT provisions:

- Taxpayers with a power of attorney
- Non-UK resident foreign entertainers and sportspersons with no income sources that qualify for MTD
- Taxpayers for whom a digital service cannot be provided
- Carers
- Those who do not have a National Insurance number.



HMRC has also announced a number of 'deferrals'. The following groups will not be required to join MTD over the course of this Parliament:

- Ministers of religion
- Lloyd's underwriters
- Recipients of the Married Couples' Allowance (which is only available if you are living with your spouse or civil partner and at least one of you was born before 6 April 1935)
- Recipients of the Blind Persons' Allowance.

When is qualifying income determined?

In deciding whether an individual needs to register for MTD for a tax year, HMRC will look at the tax return that should have been submitted in the January before the tax year being considered.

For 2026/27

HMRC will look at the **2024/25** tax return (which should be submitted by 31 January 2026) to check to see if qualifying income exceeds **£50,000**.

For 2027/28

HMRC will look at the **2025/26** tax return (which should be submitted by 31 January 2027) to check to see if qualifying income exceeds **£30,000**.

For 2028/29

HMRC will look at the **2026/27** tax return (which should be submitted by 31 January 2028) to check to see if qualifying income exceeds **£20,000**.

More than one source of qualifying income

Income from all relevant sources will count towards qualifying income.

Example

Graham has gross income (i.e. before expenses) declared in the 2024/25 tax return as follows::

- £23,000 from rental properties
- £31,000 from self-employment

Total qualifying income is therefore £54,000.

As his qualifying income exceeds £50,000, he will have to register for MTD IT for 2026/27 and make quarterly returns for both his rental business and self-employed business.

Landlords

Many landlords often deal with only a small number of transactions each month, or even employ the services of a management agent to deal with their affairs.

Under MTD IT, landlords will have an increased workload, as they will be expected to:

- keep their own digital records (even where properties are owned jointly); and
- submit quarterly updates online.

Jointly owned property

Where a property is owned jointly, taxpayers must include **their share** of gross property income as qualifying income.

Example

Where a property is owned jointly and generates £52,000 of rental income in a tax year, each taxpayer will include their 50% share, so £26,000. If each taxpayer has no income from self-employment and no other income from rental properties, they will both be below the threshold for MTD IT until 2028/29.

Note that, if a taxpayer has a jointly owned property and only receives notice of their share of the income after expenses have been deducted, HMRC has confirmed that they should use the net figure for qualifying income.

Information required by HMRC

Each quarterly update must be submitted by the **7th of the month following the end of the relevant quarter** (e.g. 7th August for the first quarter of 2026/27, which ends on 5 July 2026). It must include:

- the quarterly update period start date and end date; and
- totals falling within income and expenses, in the categories set out below - see 'Reporting categories'.

Relevant persons with income over the VAT registration threshold (currently £90,000) must provide totals of the amounts falling within the detailed categories that are listed.

Where **income is under the VAT threshold**:

- Self-employed individuals and landlords are only required to submit two figures (total income and total expenditure) instead of the totals of the amounts falling within each category listed.
 - This option is also available to relevant persons who jointly let property.
- If there are residential property finance costs (e.g. mortgage interest costs or arrangement fees), landlords will be required to create a separate digital record for these costs.

Reporting categories

Non-property businesses

Income

- Turnover, takings, fees, sales or money earned
- Any other business income.

Expenses

- Cost of goods bought for resale or goods used
- Construction industry: payments to subcontractors
- Wages, salaries and other staff costs
- Car, van and travel expenses
- Rent, rates, power and insurance costs
- Repairs and renewals of property and equipment
- Phone, fax, stationery and other office costs
- Advertising
- Business entertaining costs
- Interest on bank and other loans
- Bank, credit card and other financial charges
- Accountancy, legal and other professional fees
- Other business expenses.

Property businesses

NB UK and overseas businesses must be reported separately

UK Property businesses

Income

- Total rents
- Other income from property
- Premiums for the grant of a lease
- Reverse premiums and inducements.

Expenses

- Rent, rates, insurance, ground rents
- Property repairs and maintenance
- Non-residential property finance costs
- Residential property finance costs
- Residential finance costs brought forward
- Legal, management and other professional fees

- Costs of services provided, including wages
- Travel expenses
- Other allowable property expenses.

Overseas Property businesses

Income

- Total rents
- Other income from property
- Premiums for the grant of a lease.

Expenses

- Rent, rates, insurance, ground rents
- Property repairs and maintenance
- Non-residential property finance costs
- Residential property finance costs
- Unused residential property finance costs
- Legal, management and other professional fees
- Costs of services provided, including wages
- Travel expenses
- Other allowable property expenses.



Jointly let property business

Relevant persons with property income from a jointly let property may choose whether to provide the totals of amounts falling within:

- the property income and expenses categories (as outlined above); or
- the property income categories only.

Where a relevant person makes quarterly updates containing digital records of their income only, they will be required to enter a single figure for their share of the expenses at the end of the tax year.

Retail businesses

Each tax year, a relevant person can choose to submit a single record of their total daily gross retail sales, rather than each individual sale, for their retail business.

The digital record for gross daily retail sales must include:

- All payments received by the relevant person. This includes payments by cheque, debit or credit card (or similar electronic transactions and electronic cash), as well as cash received (notes and coins).
- The full value of all credit or other non-cash retail sales received by the relevant person or on the relevant person's behalf. This includes the full value of credit sales, the cash value of payment in kind for retail sales, the face value of gift, book and record vouchers received and any other payments for retail sales, including those sales completed via third-party online sales platforms.

There are various items that may be excluded when calculating the amount of daily gross takings, including:

- counterfeit notes;
- inadvertent acceptance of foreign currency; and
- void transactions.

Adjustments and claims

There is a long list of further adjustments and claims that taxpayers will need to consider in the finalisation statement. For a **non-property business**, these include:

- Annual Investment Allowance
- Capital allowances for main pool costs
- Capital allowances for special rate pool costs
- Capital allowances for single asset pool costs
- 100% and other enhanced capital allowances
- Adjustment for change of accounting practice
- Averaging adjustments (mainly available to farmers and creative artists)
- Zero-emissions car allowance
- Electric charge point allowance
- Structures and buildings allowance.

For a **property business**, the adjustments include:

- Private use adjustment
- Cost of replacing domestic items
- Loss brought forward used against this year's profits
- Rent-a-room exempt amount
- Annual Investment Allowance
- Property income allowance
- Structures and buildings allowance (non-residential properties).

Software

You will have to use commercial software that works with MTD IT once you come within this new reporting regime.

Your chosen software must enable you to:

- create, store and amend digital records of the income and expenses of your business;
- send quarterly reports to HMRC;
- submit a finalisation statement (effectively your tax return) by 31 January after the end of the tax year; and
- receive information (such as tax estimates) from HMRC.



Remember that the finalisation statement will include any other sources of income or gains that need to be declared, not just your final figures from self-employment or property letting.

You should check with the software provider that their product meets your needs.

Spreadsheets

If you decide to keep using your current spreadsheets or accounting software, you can connect them to HMRC for reporting purposes via bridging software that is compatible with MTD IT. However, unlike with MTD for VAT, it seems likely that free versions of bridging software will not be readily available.

Submissions to HMRC

As discussed earlier, when you are using MTD IT, you will need to make two types of submission to HMRC:

- quarterly updates; and
- your finalisation statement.

Some software can submit both, but other products will only do one, so it's important to check first.

Income sources

Some software will be able to report all business income sources, whilst others may focus on a specific source. For example, there are products that are designed specifically for landlords.

A list of both currently available software and that in development is available at:

<https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax>

Payment of tax

There are no plans at present to change the way that the self-employed and landlords pay their tax via self-assessment i.e. two payments on account (on 31 January in the tax year and 31 July following the tax year) plus (where needed) a final balancing payment on 31 January following the tax year. However, it is easy to imagine that, once the Government has taxpayers reporting their income quarterly, they may get them to pay their tax quarterly too.

Testing the MTD ITSA service

It is possible to sign up early for MTD IT, as it is being tested during 2025/26. This will give you the chance to get used to the system before it formally comes in, so will reduce the chances of you making errors (and incurring penalties) once you are mandated to use MTD IT.

Conclusion

These changes are hugely significant for the self-employed and landlords, as they potentially greatly increase the tax compliance burden on businesses. More reporting to HMRC means a greater chance of making errors and incurring penalties.

As we said earlier, we are here to help you make this transition to MTD IT, so please contact us if you have any questions after reading this document.